DIAKON
AND CONTROLLED AFFILIATES

Consolidated Financial Statements and Schedules

December 31, 2015 and 2014

(With Independent Auditor's Report Thereon)

Arnett Carbis Toothman llp
CPAs & Advisors

DIAKON
AND CONTROLLED AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Diakon
Middletown, Pennsylvania

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Diakon and Controlled Affiliates, which comprise the consolidated balance sheet as of December 31, 2015, 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 consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Diakon and Controlled Affiliates as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the consolidated financial statements, certain prior period amounts have been reclassified to conform with the current period consolidated financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2015 consolidating information is presented for purposes of additional analysis and is 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 2015 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The consolidated financial statements of Diakon and Controlled Affiliates as of and for the year ended December 31, 2014, were audited by other auditors whose report dated April 15, 2015, expressed an unmodified opinion on those statements.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 18, 2016

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Balance Sheets

December 31, 2015 and 2014

Assets		**2015**	**2014**
Current assets:			
Cash and cash equivalents	$	4,988,575	4,137,735
Assets limited as to use		7,047,206	10,005,898
Accounts receivable (net of allowance for doubtful accounts of $3,406,000 and $3,966,000 in 2015 and 2014, respectively):			
Patients and residents		12,582,152	11,220,716
Statewide Adoption and Permanency Network		25,432,065	3,016,607
Other client services		4,324,859	3,737,520
Estimated third-party payor settlements		374,620	380,504
Prepaid expenses and other assets		2,097,874	4,080,880
Total current assets		56,847,351	36,579,860
Investments		52,363,257	53,566,706
Assets limited as to use, less current portion:			
Statutory minimum liquid reserves		8,306,244	8,301,403
Other		78,922,493	102,799,854
Investment in joint venture		530,907	786,597
Land, buildings and equipment, net		232,856,151	234,201,084
Other assets:			
Deferred debt issuance costs, net		3,472,449	4,420,835
Receivables from charitable gift annuities		1,027,136	1,013,325
Funds held in trust by others and beneficial interest in trust		34,202,709	36,488,741
Other assets		4,882,473	5,433,576
Total assets	$	473,411,170	483,591,981

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DIAKON
AND CONTROLLED AFFILIATES

Consolidated Balance Sheets

December 31, 2015 and 2014

Liabilities and Net Assets		**2015**	**2014**
Current liabilities:			
Line of credit	$	2,723,870	2,802,072
Accounts payable and accrued expenses		36,624,524	23,282,698
Deposits – patients and residents		649,106	572,561
Estimated third-party payor settlements		519,385	138,647
Current maturities of long-term debt		9,027,920	4,434,745
Total current liabilities		49,544,805	31,230,723
Pension liability		33,727,492	35,306,719
Swap agreement		8,778,190	9,868,330
Deferred revenue – entrance agreements		58,391,432	55,253,833
Refundable entrance fee liability		36,246,618	37,843,397
Other long-term liabilities		1,777,341	1,703,425
Long-term debt, less current maturities		241,192,191	243,906,250
Total liabilities		429,658,069	415,112,677
Net assets:			
Unrestricted		(17,181,047)	5,005,494
Temporarily restricted		11,394,648	12,126,643
Permanently restricted		49,539,500	51,347,167
Total net assets		43,753,101	68,479,304
Total liabilities and net assets	$	473,411,170	483,591,981

See accompanying notes to consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2015 and 2014

	2015	2014
Operating revenues, gains and other support:		
Patient and resident service revenue, net of contractual allowances	$ 138,370,665	134,674,620
Patient and resident service revenue – nursing home assessment	3,782,662	3,865,989
Amortization of entrance fees	11,527,697	8,643,425
Contract revenue	10,123,850	10,652,713
Other fees and services	13,023,196	12,147,158
Statewide Adoption and Permanency Network revenue	52,281,800	50,094,356
Investment income, net of expenses	8,957,175	10,080,084
Income from trusts	1,582,478	1,489,788
Contributions and bequests	1,844,484	4,549,871
Net assets released from restrictions – operations	1,415,489	1,341,175
Gain on disposal of assets	284,151	—
Total operating revenues, gains and other support	243,193,647	237,539,179
Expenses:		
Salaries and wages	66,373,748	64,501,080
Employee benefits	12,413,775	13,341,869
Other expenses	74,197,136	75,450,132
Other expenses – Statewide Adoption and Permanency Network	50,921,101	48,659,524
Nursing home assessment	2,038,138	2,085,016
Interest	12,713,645	13,859,083
Depreciation and amortization	17,778,524	18,534,210
Total expenses	236,436,067	236,430,914
Operating income before impairment expense	6,757,580	1,108,265
Impairment expense	—	(3,698,990)
Operating income (loss)	6,757,580	(2,590,725)
Increase (decrease) in fair value of swap agreement	1,090,140	(1,601,358)
Equity in losses of joint venture	(255,690)	(115,408)
Loss from early extinguishment of debt	(21,027,728)	(233,372)
Deficit of operating revenues, gains and other support over expenses	(13,435,698)	(4,540,863)
Other changes:		
Pension-related changes other than net periodic pension costs	887,238	(21,880,577)
Unrealized losses on investments	(9,921,670)	(5,663,396)
Net assets released from restrictions – capital	283,589	622,961
Total other changes	(8,750,843)	(26,921,012)
Decrease in unrestricted net assets	(22,186,541)	(31,461,875)

(Continued)

DIAKON
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Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2015 and 2014

	2015	2014
Temporarily restricted net assets:		
Contributions and bequests	$ 690,724	1,725,576
Investment gains, net of expenses	2,321,565	1,419,184
Unrealized losses on investments	(2,045,206)	(541,884)
Net assets released from restrictions – operations	(1,415,489)	(1,341,175)
Net assets released from restrictions – capital	(283,589)	(622,961)
Change in beneficial interest in trust	—	(52,195)
(Decrease) increase in temporarily restricted net assets	(731,995)	586,545
Permanently restricted net assets:		
Contributions and bequests	478,365	3,990,506
Decrease in fair value of funds held in trust by others	(2,286,032)	(83,918)
(Decrease) increase in permanently restricted net assets	(1,807,667)	3,906,588
Decrease in net assets	(24,726,203)	(26,968,742)
Net assets, beginning of year	68,479,304	95,448,046
Net assets, end of year	$ 43,753,101	68,479,304

See accompanying notes to consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014

		2015	2014
Cash flows from operating activities:			
Decrease in net assets	$	(24,726,203)	(26,968,742)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Net realized gains on investments		(2,578,763)	(5,286,879)
Net unrealized losses on investments		11,966,876	6,205,280
Depreciation and amortization		17,778,524	18,534,210
Amortization of bond issuance costs		188,112	193,044
(Decrease) increase in pension liability		(1,579,227)	20,883,697
Amortization of entrance fees		(11,527,697)	(8,643,425)
Proceeds from entrance fees		15,715,271	13,912,054
Change in funds held in trust by others and beneficial interest in trust		2,286,032	175,785
(Increase) decrease in fair value of swap agreement		(1,090,140)	1,601,358
Equity in losses of joint venture		255,690	115,408
Loss on early extinguishment of debt		21,027,728	233,372
Gain on disposal of assets		(284,151)	—
Impairment of long-lived assets		—	3,698,990
Provision for bad debts		1,553,164	2,966,083
Restricted contributions and investment income		(2,075,165)	(5,794,091)
Change in assets and liabilities:			
Accounts receivable		(25,530,775)	1,423,503
Prepaid expenses and other current assets		994,458	(934,112)
Other assets		6,438	6,904
Accounts payable, accrued expenses, and other liabilities		14,357,133	349,820
Deposits – patients and residents		76,545	(129,705)
Net cash provided by operating activities		16,813,850	22,542,554
Cash flows from investing activities:			
Purchase of investments and assets limited as to use		(226,002,584)	(172,384,071)
Proceeds from sales of investments and assets limited as to use		244,649,132	156,263,031
Purchase of property and equipment		(14,740,542)	(18,507,318)
Proceeds from sale of property and equipment		1,263,481	—
Net cash provided by (used in) investing activities		5,169,487	(34,628,358)
Cash flows from financing activities:			
Payment of long-term debt		(153,928,373)	(49,464,446)
Advance refunding		(22,518,328)	—
Proceeds from debt re-financing		156,104,916	71,341,000
Net payment on line of credit		(78,202)	(8,956,292)
Payment of bond issuance costs		(1,651,521)	(1,112,331)
Proceeds from restricted contributions and investment income		3,046,577	1,743,588
Proceeds from entrance fees		3,838,471	4,756,932
Refunds of entrance fees		(5,946,037)	(5,945,486)
Net cash (used in) provided by financing activities		(21,132,497)	12,362,965
Net increase in cash and cash equivalents		850,840	277,161
Cash and cash equivalents, beginning of year		4,137,735	3,860,574
Cash and cash equivalents, end of year	$	4,988,575	4,137,735

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Diakon is a private, nonprofit charitable organization recognized by the Internal Revenue Service as a 501(c)(3) corporation and exempt from federal income taxation under the group exemption of the Evangelical Lutheran Church in America (ELCA). Diakon is the sole member of Diakon Lutheran Social Ministries (DLSM), Diakon Lutheran Fund (DLF), Diakon Lutheran Senior Living-Maryland LLC (DLSL-MD), Diakon Child, Family and Community Ministries (DCFCM), Diakon Home Care Services LLC (DHCS), and the sole shareholder of Institute for Strategic Management, Inc. (ISM), a for-profit corporation. DLSM is the sole member of Diakon-SWAN LLC (SWAN LLC) and is related to four U.S. Department of Housing and Urban Development (HUD) senior housing projects by appointment of the boards of Diakon Lutheran Senior Housing at Heilman House and Diakon Lutheran Senior Housing at Luther Meadows, by acting as sole member of Diakon Lutherwood Senior Housing LLC and by controlling Frostburg Heights Apartments as a division of DLSM. Diakon is affiliated with ELCA through Lutheran Services in America (LSA), the membership alliance of Lutheran social ministry organizations and church bodies. Diakon has a relationship with the following participating synods: Delaware-Maryland, Lower Susquehanna, Northeastern Pennsylvania, Southeastern Pennsylvania, and Upper Susquehanna. Through a cooperative agreement, it also serves in the Allegheny Synod (collectively, the Synods). In accordance with Diakon’s bylaws, the bishops of the Synods elect the majority of the Diakon’s board of directors. The bishops of the Synods also elect the majority of DLSM’s board of directors. The board of Diakon, in its role as sole member or shareholder, appoints the board for DLF and appoints a number of directors of the ISM board; the remaining directors of ISM are certain identified officers and directors of Diakon.

(b) Description of Controlled Affiliates

DLSM is a Pennsylvania nonprofit corporation recognized as a charitable organization under Section 501(c)(3) of the Internal Revenue Code and exempt from federal income taxation under the group exemption of ELCA. DLSM provides senior living and health services in Pennsylvania and prior to July 1, 2014, operated children and family ministry services in Pennsylvania and Maryland. Effective July 1, 2014, DLSM transferred the operations of its child, family and community related programs to DCFCM. DLSM was also the prime contractor for the Pennsylvania Statewide Adoption and Permanency Network under a contract with the Pennsylvania Department of Human Services (the SWAN Contract) until October 1, 2015, when responsibility for operating the prime contract was transferred to SWAN LLC.

DLSL-MD, a Maryland Limited Liability Company, began operations on January 1, 2012 and is the operating entity for the retirement living community in Maryland. DLSL-MD is a disregarded entity of Diakon for federal tax purposes.

DCFCM, a 501(c)(3) corporation, began operations on July 1, 2014 and is the operating entity for child, family and community ministries.

DHCS, a Pennsylvania Limited Liability Company, was previously the operating entity for home and community based hospice and home care services in Pennsylvania. Operations were discontinued in July 2012. DHCS is a disregarded entity of Diakon for federal tax purposes.

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

SWAN LLC, a Pennsylvania Limited Liability Company, began operations on October 1, 2015 and is the prime contractor for the Pennsylvania Statewide Adoption and Permanency Network under the SWAN contract. SWAN LLC is a disregarded entity of DLSM for federal tax purposes.

ISM, a Pennsylvania for-profit corporation, provides management consulting services to DLSM and other unaffiliated organizations. ISM operations were discontinued effective August 31, 2015.

(c) Basis of Consolidation

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

(d) Basis of Accounting

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as net assets released from restrictions in the consolidated statements of operations and changes in net assets.

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

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

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

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

(e) Cash and Cash Equivalents

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

The Corporation has exposure to credit risk related to cash on deposit at financial institutions in excess of FDIC insured limits. As of December 31, 2015, the amount held in excess of the FDIC insured limits at financial institutions was approximately $8,661,000.

(f) Accounts Receivable

Accounts receivable from patients and residents are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Additionally, for receivables associated with self-pay patients the Corporation routinely reviews the provision for bad debts for delinquent accounts and adjusts reserves as appropriate for such accounts where there is a reasonable likelihood the resident is unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

(g) Investments and Investment Income

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

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

Investment income and gains and losses on the sale of investments are added to or deducted from the appropriate net asset classification depending on the existence of donor-imposed restrictions.

A decline in market value of any investment below its cost basis that is deemed to be other-than-temporary results in a reduction in carrying amount to the fair value. The impairment is recognized as a loss and a new cost basis for the investment is established. No such losses were recognized in 2015 or 2014.

(h) Assets Limited as to Use

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

(i) Investment in Joint Venture

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

(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:

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

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

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

(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. Assets to be disposed of would be separately presented on the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposal group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets. No impairment was recognized in 2015. In 2014, the Corporation recognized impairment losses of $3,698,990.

(l) Deferred Debt Issuance Costs and Other Assets

Debt issuance costs are amortized over the period the obligation is outstanding. Amortization expense was $188,112 and $193,044 in 2015 and 2014, respectively. Debt issuance costs incurred and subject to amortization totaled $4,059,162 and $5,573,325 as of December 31, 2015 and 2014, respectively. Accumulated amortization as of December 31, 2015 and 2014 totaled $586,713 and $1,152,490, respectively.

Other noncurrent assets include goodwill of approximately $4,600,000 related to the acquisition of a continuing care retirement community within the senior living services line of service. Goodwill is analyzed at least annually by Management to assess whether it is more likely than not that the senior living services reporting unit goodwill is impaired based upon qualitative factors. The Corporation did not recognize an impairment loss on goodwill for the years ended December 31, 2015 or 2014.

(m) Receivables from Charitable Gift Annuities

Independent trustees maintain charitable gift annuities for which the Corporation has been named beneficiary of the corpus and will receive these funds upon the death of the annuitant.

(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 investment income.

Funds held in trust by others and the beneficial interest in trust are valued at the fair value of the underlying investments. The change in the fair value of funds held in trust by others is reported as a change in permanently restricted net assets and the change in the fair value of the beneficial interest in trust is reported as a change in temporarily restricted net assets. Lifecare residents of Twining Village requiring financial assistance have been named as the beneficiaries of a trust administered and controlled by independent trustees.

(o) Self Insurance

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

(p) Deposits – Patients and Residents

Deposits – patients and residents represents security deposits paid in advance to cover possible costs when patients and residents vacate their apartments or personal care units. These deposits are taken into income only if earned upon the termination of a residency agreement. Deposits – patients and residents also includes nursing home patients' funds held in safekeeping by the Corporation for the patients' personal use.

(q) Pension Benefits

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

The Corporation records annual amounts relating to its pension plan based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, and turnover rates. The Corporation reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded as an other change in unrestricted net assets on the consolidated statements of operations and changes in net assets. These amounts are amortized to net periodic cost over future periods using the corridor method. The Corporation believes that the assumptions utilized in recording its obligations under its plan are reasonable based on its experience and market conditions.

The net periodic costs are recognized as employees render the services necessary to earn the pension benefits. The funded status of the plan is reported in the pension liability caption on the consolidated balance sheet. The Corporation is required to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through other changes in unrestricted net assets on the consolidated statements of operations and changes in net assets to the extent those changes are not included in the net periodic cost.

(r) Derivative Instruments

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

(s) Entrance Agreement Contracts

Entrance fees paid by residents of the Corporation's independent living units, including certain cottages and apartments, are recorded as deferred revenue. A resident, upon termination of occupancy, is entitled to receive a refund of a portion of the entrance fee pursuant to the terms of the contract, which is required to be paid only upon the subsequent receipt of an entrance fee from a new resident for that independent living unit. These entrance fee agreements guarantee occupancy rights to residents for life. In certain contracts related to two of the Corporation's facilities, there are lifetime health care services.

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

The amount of entrance fees, which is refundable to residents as of December 31, 2015 and 2014 under contractual refund provisions, was approximately $57,500,000 and $57,000,000, respectively. Proceeds and refunds of refundable entrance fees are classified as financing activities on the consolidated statements of cash flows.

(t) Conditional Asset Retirements

The Corporation has evaluated its facilities to determine if it has a liability for the fair value of a conditional asset retirement obligation. The types of asset retirement obligations evaluated are those for which an entity has a legal obligation to perform an asset retirement activity; however, the timing and (or) method of settling the obligation is conditional on a future event that may or may not be within the control of the Corporation. No material conditional asset retirement obligations have been identified by the Corporation at December 31, 2015 or 2014.

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

The Corporation annually calculates the present value of the net cost of future services using a discount rate of 5% and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability would be recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. As a result of the calculation, the present value of the net cost of future services did not exceed deferred revenue; accordingly, no obligation was recorded at December 31, 2015 or 2014.

(v) Income Taxes

Diakon and its controlled affiliates, with the exception of ISM, a Pennsylvania for-profit corporation, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes 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, 2012, and thereafter remain subject to examination by federal and state taxing authorities.

(w) Patient and Resident Service Revenue

Patient and resident service revenue is reported at the estimated net realizable amount to be received from patients, residents, and others including Medicare, Medicaid, and other third-party payors for services rendered.

Skilled nursing facilities derive a significant portion of their revenues from federal and state reimbursement programs. These reimbursements are subject to audit and periodic adjustment.

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

(x) Contributions and Donor Restrictions

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

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

(y) Charity Care and Support of Those in Need

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

The Corporation maintains records to identify and monitor the amount of charity care it provides. These records include direct and indirect costs for services and supplies furnished under its charity care policy.

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

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

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

		2015	2014
Medical assistance cost in excess of contractual reimbursement	$	13,273,079	11,729,500
Charity care in support of those in need		3,028,329	2,159,092
Children and Family Ministries supported by DLSM and DLF (charity care):			
Children's services		649,590	1,026,265
Behavioral health		642,611	678,352
Family life and congregation		57,338	72,839
Community services		525,300	490,540
Total Children and Family Ministries supported by DLSM and DLF		1,874,839	2,267,996
Scholarships		68,614	74,347
Total	$	18,244,861	16,230,935

(z) Loss From Early Extinguishment of Debt

During the year ended December 31, 2015, the Corporation entered into a transaction that involved the issuance of the Cumberland County Municipal Revenue Bonds Series 2015 (Note 5). The proceeds from these bonds were used to fully refund the previously outstanding Series A 2007 bonds, and partially refund outstanding Series 2009 bonds and to pay for issuance costs. This transaction resulted in the recognition of a loss from early extinguishment of debt in the amount of $21,027,728 which is recorded on the consolidated statement of operations and changes in net assets for the year ended December 31, 2015.

(aa) 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 joint venture equity changes, changes in the fair value of swap agreement and loss from early extinguishment of debt.

(bb) Performance Indicator

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

(cc) Use of Estimates

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

(dd) 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 board-designated funds included within assets limited as to use. The Pennsylvania statutory reserve at December 31, 2015 and 2014 was $8,306,244 and $8,301,403, respectively.

The State of Maryland regulation 32.02.01.20 requires licensed continuing care retirement communities to maintain an operating reserve equal to fifteen percent of the facility's net operating expenses for the most recent fiscal year. The regulations allow a provider to meet the requirement at a minimum rate of 10% per year as of the date of its first initial certificate of registration up to a total of 100% as of the end of the tenth fiscal year. DLSL-MD was required to maintain a reserve of 6% of net operating expenses, or $940,749, as of December 31, 2015, its fourth year of operation, and 4.5% of net operating expenses, or $676,100, as of December 31, 2014, its third year of operation. The reserves must be maintained in a reasonably liquid form in the judgment of the provider and in accordance with the provider's investment policies.

(ee) Change in Accounting Principles

On January 1, 2015, the Corporation adopted the provisions of Accounting Standards Update (ASU) 2013-06 Services Rendered from Personnel of an Affiliate (ASU 2013-06). Prior to the adoption of ASU 2013-06, the Corporation had an established process for tracking and recording the costs of services provided from one corporate entity to another; therefore, adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements.

On January 1, 2015, the Corporation adopted the provisions of Accounting Standards Update 2014-08 Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08). None of the Corporation's transactions over the course of the fiscal years ended December 31, 2014 and December 31, 2015 represent a strategic shift that had a major effect on the Corporation's operations and financial results; therefore, the adoption of ASU 2014-08 did not have a material impact on the Corporation's consolidated financial statements.

(ff) Reclassifications

Certain prior period amounts have been reclassified to conform with the current period consolidated financial statement presentation. DLSM was the recipient of a $7.4 million charitable contribution from an estate, the details of which were documented in a settlement agreement with DLSM, as well as other charitable recipients and heirs of the estate, on November 26, 2014. Management's review of the documents related to the donor's will and trust following receipt of the contribution raised a number of questions regarding the characterization of the gift as unrestricted or permanently restricted. Accordingly, Management contacted the Commonwealth of Pennsylvania's Attorney General's (AG) office to review the documentation for the contribution to determine the permitted use of such funds. The review by the AG's office was not complete by the time DLSM completed its financial statements for the 2014 fiscal year; therefore, Management elected to record the entire contribution as permanently restricted on the financial statements for the year ended December 31, 2014, based upon Management's interpretation of certain terminology within the donor's will and trust.

More recent communication with the AG's office, completed as of November 2015, resulted in clarification on the permitted use of the charitable contribution, with the determination by the AG that fifty percent of the funds may be considered as an unrestricted gift to DLSM, and fifty percent must be retained in DLSM's permanent endowment with the income available for any unrestricted purpose of DLSM. With this newly available information, a reclassification in the amount of $3,631,282 was made on the December 31, 2014 consolidated balance sheet from permanently restricted net assets to unrestricted net assets, and a corresponding reclassification was made on the consolidated statements of operations and changes in net assets from permanently restricted contributions and bequests to unrestricted contributions and bequests included in operating revenues, gains and other support.

(2) Assets Limited as to Use and Investments

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

	2015	2014
Under bond indentures for debt service reserve fund:		
Cash and short-term investments	$ 967,350	5,444,466
U.S. & local government obligations and corporate bonds	—	11,808,151
Debt Service Sinking Fund:		
Cash and short-term investments	7,047,207	6,912,135
Under bond indentures for construction projects:		
Cash and short-term investments	31	10,006,037
Endowment funds:		
Cash and short-term investments	3,665,884	1,137,215
U.S. & local government obligations and corporate bonds	—	405,807
Fixed income funds	3,873,531	3,947,357
Equity funds	9,175,811	8,451,897
Common stock	—	1,389,189
Donor and other temporarily restricted funds:		
Cash and short-term investments	1,760,866	1,241,753
Equity funds	4,601,171	5,719,143
Fixed income funds	2,188,401	2,234,497
Common stock	6,812	—
Assets Limited to Use for HUD Replacement Reserve:		
Cash and short-term investments	1,617,773	1,594,270
By board for designated purposes:		
Funded depreciation:		
Cash and short-term investments	327,292	201,321
Equity funds	1,851,363	1,902,842
Fixed income funds	1,613,556	1,750,399
Entrance fees and other designated purposes:		
Cash and short-term investments	4,930,897	2,607,550
Equity funds	22,152,486	23,828,180
Fixed income funds	20,184,657	22,223,543
Common stock	4,611	—
Statutory minimum liquid reserves:		
Equity funds	4,419,922	4,294,532
Fixed income funds	3,886,322	4,006,871
Total assets limited as to use	94,275,943	121,107,155
Less assets limited as to use – required for current liabilities:		
Other	7,047,206	10,005,898
Assets limited as to use, less current portion	$ 87,228,737	111,101,257

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

		2015	2014
Cash and short-term investments	$	4,908,426	4,457,607
Equity funds		27,102,062	26,363,481
Fixed income funds		17,464,926	16,825,150
U.S. and local government obligations and corporate bonds		—	405,808
Common stock		—	1,389,189
Alternative investment		2,887,843	4,125,471
Investments	$	52,363,257	53,566,706

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

		2015			2014	
Cash and short-term investments	$	25,225,726	17.2%	$	33,602,354	19.2%
U.S. & local government obligations and corporate bonds		—	0.0%		12,619,766	7.2%
Equity funds		69,302,815	47.3%		70,560,075	40.4%
Fixed income funds		49,211,393	33.5%		50,987,817	29.2%
Common stock		11,423	0.0%		2,778,378	1.6%
Alternative investment		2,887,843	2.0%		4,125,471	2.4%
	$	146,639,200	100.0%	$	174,673,861	100.0%

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

	2015		
	Unrestricted	**Temporarily restricted**	**Total**
Interest and dividends, net of expenses	$ 6,916,065	1,783,912	8,699,977
Net realized gains on investments	2,041,110	537,653	2,578,763
Investment income, net of expenses	8,957,175	2,321,565	11,278,740
Unrealized losses on investments	(9,921,670)	—	(9,921,670)
Changes in unrealized losses on temporarily restricted net assets	—	(2,045,206)	(2,045,206)
Total investment return (loss)	$ (964,495)	276,359	(688,136)

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

(Continued)

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

December 31, 2015	Less than 12 months Fair value	Less than 12 months Unrealized losses	12 months or longer Fair value	12 months or longer Unrealized losses	Total Fair value	Total Unrealized losses
Description of funds:						
Fixed income funds	$ 25,817,551	768,457	12,149,387	1,004,459	37,966,938	1,772,916
Equity funds	20,944,041	3,058,601	—	—	20,944,041	3,058,601
Total temporarily impaired funds	$ 46,761,592	3,827,058	12,149,387	1,004,459	58,910,979	4,831,517

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

The Corporation monitors its investment portfolio and reviews investments that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. Such evaluations consider, among other things, the magnitude and reasons for a decline, the prospects for the fair value to recover in the near term, and the Corporation's intent and ability to retain the investment for a period of time sufficient to allow for a recovery in value. The decline in fair value as of December 31, 2015 and 2014 are considered temporary.

(3) Third-Party Reimbursement

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

Revenues from Medicare and Medicaid represent approximately 43% and 42% of patient and resident service revenue, net of contractual allowances, for the years ended December 31, 2015 and 2014, respectively. Medicare and Medicaid receivables represent approximately 53% of patient and resident accounts receivable as of December 31, 2015 and 2014.

Pennsylvania nursing providers are subject to a Nursing Home Assessment (the Assessment) which was approved by The Centers for Medicare and Medicaid Services (CMS) in September 2003. The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to the Department of Human Services (DHS) based upon all non-Medicare days. DHS makes supplemental payments back to nursing home facilities based upon a standard rate per Medicaid day claimed. Total nursing home assessment revenues and expenses were $3,782,662 and $2,038,138 for 2015, respectively, and $3,865,989 and $2,085,016 for 2014, respectively.

The Corporation's policy is to record Medicaid revenue at the proposed rates. The Commonwealth of Pennsylvania sets Medicaid rates for skilled nursing facilities on a quarterly basis as of July 1, October 1, January 1, and April 1 of each fiscal year; however, due to the budget impasse for the Commonwealth's 2015-2016 fiscal year, the Commonwealth has continued to pay skilled nursing providers at the April 1, 2015 rates, rather than the subsequent quarter's proposed rates. Medicaid payments received from the Commonwealth for services rendered during the period July 1 – December 31, 2015, which were paid at the April 1, 2015 rates, were $364,677 higher than the revenue realized by the Corporation at the proposed rates.

(4) Land, Buildings and Equipment

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

		2015	2014
Land	$	16,441,933	16,441,933
Land improvements		32,151,826	31,737,528
Buildings		338,762,783	328,145,096
Furniture and equipment		59,719,006	57,942,106
Vehicles		503,009	503,009
		447,578,557	434,769,672
Accumulated depreciation		(220,737,757)	(204,885,900)
		226,840,800	229,883,772
Construction in progress		6,015,351	4,317,312
	$	232,856,151	234,201,084

Depreciation expense for the years ended December 31, 2015 and 2014 was $17,773,047 and $18,526,193, respectively.

Construction in progress as of December 31, 2015 and 2014 is principally capitalized costs related to the repositioning of the Corporation's Senior Living Service (SLS) campuses.

Non-cash purchases of land, buildings and equipment totaled approximately $3,924,000 and $1,257,000 as of December 31, 2015 and 2014, respectively.

(5) Long-Term Debt

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

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

	2015	2014
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 range from 3.0% to 5.0% and the bonds were issued at an aggregate premium of $8,559,916, which is being amortized ratably over the life of the issue, to yield an effective interest rate of 4.25%.	$ 147,545,000	$ —
Cumberland County Municipal Authority Bonds Series A 2014, $22,728,000 of tax-exempt variable interest rate bonds with principal payable in monthly installments ranging from $35,000 to $136,000 through 2039. The Series A 2014 are direct placement notes with PNC Bank with an interest rate of 1.212%.	21,979,000	22,462,000
Cumberland County Municipal Authority Bonds Series B 2014, $29,815,000 of tax-exempt variable interest rate bonds with principal payable in annual installments ranging from $70,000 to $2,720,000 through 2039. The rate adjusts weekly and was .01% as of December 31, 2015. The bonds are collateralized by a letter of credit provided by M&T Bank expiring on April 29, 2019.	29,315,000	29,815,000
Washington County, Maryland Bonds Series C 2014, $18,798,000 of tax-exempt variable interest rate bonds with principal payable in monthly installments ranging from $43,000 to $131,000 through 2033. The Series C 2014 are direct placement notes with PNC Bank with an interest rate of 1.212%.	17,818,000	18,452,000

(Continued)

	2015	2014
Cumberland County Municipal Authority Bonds Series 2009, $123,210,000 of tax-exempt fixed interest rate bonds with post refunding principal payable in annual installments ranging from $60,000 to $1,365,000 through 2039. Interest rates post refunding range from 6.175% to 6.375%.	$ 9,690,000	$ 99,325,000
Cumberland County Municipal Authority Bonds Series A 2007, $61,955,000 of tax-exempt fixed interest rate bonds with principal payable in annual installments ranging from $1,880,000 to $11,905,000 from 2025 to 2036. The bonds bear interest at a stated rate of 5.00% and were issued at an aggregate premium of approximately $1,681,000, which was being amortized ratably over the life of the issue, to yield an effective interest rate of 4.81%.	—	61,955,000
Mortgage notes payable, U.S. Department of Housing and Urban Development (HUD) and Wells Fargo, four individual notes collateralized by the property and equipment of the HUD Senior Housing properties. The mortgages bear interest at fixed rates ranging from 4.07% to 6.79% and monthly payments, including interest, ranging from $53,233 to $70,114 through 2046.	11,678,107	12,012,951
Mortgage note payable, JP Morgan Chase Corporation, $4,500,000 nonrecourse mortgage note payable collateralized solely by the property and rental proceeds of DLSM’s Medical Arts Building. The note bears interest at a fixed rate of 3.75% and monthly payments are $26,680 until December 2016, when the remaining balance of $3,668,750 is payable.	3,833,641	4,006,491
	241,858,748	248,028,442
Less current maturities of bonds and mortgages payable	(9,027,920)	(4,434,745)
Unamortized premium	8,361,363	1,361,189
Unamortized discount	—	(1,048,636)
	$ 241,192,191	$ 243,906,250

(Continued)

All of the outstanding bonds described herein are obligations of the Obligated Group. In 2015, the Cumberland County (PA) Municipal Authority issued $147,545,000 of Series 2015 revenue bonds, which were issued in order to fully refund the previously outstanding Series A 2007 bonds, partially refund outstanding Series 2009 bonds and to pay for issuance costs.

The outstanding bonds have been issued pursuant to the terms of a 1998 Master Trust Indenture, as amended and supplemented over time. The effect of these amendments was to consolidate the entities comprising the Obligated Group and to grant all bondholders and credit providers equal standing. The master trust indenture contains certain provisions that require the Obligated Group to maintain certain cash deposits with a trustee as well as meet certain financial covenants on an annual basis. The master trust indenture also places various restrictions on the Obligated Group's ability to incur additional indebtedness. The cash deposits held with the trustee are included in assets limited as to use 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 and the County Commissioners of Washington County, MD (the Washington issuer) (issuer of the Series C 2014 bonds) a parity security interest in their gross receipts and a parity first lien mortgage on substantially all of the Obligated Group's property and equipment.

The Obligated Group is also subject to certain financial and other restrictive covenants through a Loan and Agency Agreement with the conduit issuers of the outstanding bonds.

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

The following is a summary of scheduled annual maturities of long-term debt as of December 31, 2015:

	Scheduled maturity
2016	$ 9,027,920
2017	5,972,782
2018	6,252,432
2019	6,434,545
2020	6,556,810
Thereafter	207,614,259
	$ 241,858,748

The amount of cash paid for interest (including the net cost of the interest rate swap agreement and letter of credit support fees) was $12,098,890 and $14,156,052 for the years ended December 31, 2015 and 2014, respectively. There was no capitalized interest in 2015 or 2014.

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

	2015	2014
DLSM Obligated Group	5.15%	5.86%
Obligations outside of the Obligated Group	4.46	4.53
Combined	5.11	5.77

(6) Lines of Credit

DLSM has a line of credit with Manufacturers and Traders Company (M&T) with maximum allowable borrowings of $20,000,000, which is payable on demand. The line of credit bears interest at 30-day LIBOR plus 2.75% (2.9375% as of December 31, 2015). Amounts ranging from $0 to $15,906,349 were outstanding for various periods during 2015 and 2014. Borrowings outstanding under the line of credit totaled $0 as of December 31, 2015 and 2014. The bank line of credit is secured on a parity basis with the Obligated Group's outstanding bonds. In addition to the line of credit, DLSM had unused outstanding letters of credit with M&T in the amount of $3,599,123 and $3,364,024 as of December 31, 2015 and 2014, respectively.

In 2014, DCFCM entered into a line of credit with Manufacturers and Traders Company (M&T) with maximum allowable borrowings of $3,000,000, which is payable on demand. The line of credit bears interest at one-month LIBOR plus 2.35% (2.7875% as of December 31, 2015). Amounts ranging from $0 to $2,891,376 were outstanding for various periods during 2015 and 2014. Borrowings outstanding under the line of credit totaled $2,723,870 and $2,802,072 as of December 31, 2015 and 2014, respectively. The bank line of credit is secured by DCFCM's accounts receivable and $1,000,000 guarantee by DLF's investments.

(7) Fair Value

(a) Financial Instruments

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

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

Cash and cash equivalents, accounts receivable, estimated third-party payor settlements, prepaid expenses and other assets, accounts payable and accrued expenses, deposits, and lines of credit – The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

Investments and assets limited as to use – These assets are carried at fair value, which is based primarily on quoted market prices at the reporting date. When quoted market prices in active markets are not available, the Corporation relies on a pricing service to estimate fair value. The fair value of mutual fund holdings is based on the net asset value as reported by the fund. Valuations for alternative investments are based on net asset values provided by external investment managers as a practical expedient to measure fair value as permitted under ASU 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent*). All investments are redeemable on a daily basis.

Funds held in trust by others and beneficial interest in trust – These assets are carried at fair value, which is based on quoted market prices for the underlying securities held by the trusts multiplied by the Corporation's percentage interest in the trusts. The inputs to fair value of these trusts are classified as Level 3 based upon the Corporation's inability to redeem its investment at the net asset value. The activity for the Level 3 classified input from December 31, 2014 to December 31, 2015 is the increase in the fair value of the underlying assets.

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

Long-term debt (including mortgages and bonds payable) – The fair value of mortgages and fixed rate bonds payable is determined by discounting future cash flows of each instrument at rates that reflect, among other things, market interest rates and the Corporation's credit standing which are deemed to be Level 2 inputs. The carrying amounts of variable rate bonds payable included in long-term debt on the consolidated balance sheets for bonds payable approximate fair value.

The fair value of the Corporation's long-term debt approximated $258,200,492 and $274,850,000 as of December 31, 2015 and 2014, respectively.

(b) Fair Value Hierarchy

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

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

	Fair value measurements as of December 31, 2015			
	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	$ 25,225,726	—	—	25,225,726
Fixed income funds:				
Barclays Aggregate Bond Index	48,448,574	—	—	48,448,574
Intermediate term	14,345	—	—	14,345
Balanced Fund	748,474	—	—	748,474
U.S. & local government agencies	—	—	—	—
U.S. Treasury obligations	—	—	—	—
Equity funds:				
International	28,938,114	—	—	28,938,114
Large cap	35,568,642	—	—	35,568,642
Mid cap	7,944	—	—	7,944
Small cap	4,781,522	—	—	4,781,522
Other	6,593	—	—	6,593
Common stock	11,423	—	—	11,423
Alternative investment:				
Master Limited Partnership	—	2,835,898	—	2,835,898
Other	—	—	51,945	51,945
Funds held in trust by others and beneficial interest in trust	—	—	34,202,709	34,202,709
Total	$ 143,751,357	2,835,898	34,254,654	180,841,909
Liabilities:				
Interest rate swap agreement	$ —	8,778,190	—	8,778,190
Total	$ —	8,778,190	—	8,778,190

	Fair value measurements as of December 31, 2014			
	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	$ 33,602,354	—	—	33,602,354
Fixed income funds:				
Barclays Aggregate Bond Index	49,227,269	—	—	49,227,269
Intermediate term	16,345	—	—	16,345
Balanced Fund	1,744,203	—	—	1,744,203
U.S. government agencies	4,445,326	—	—	4,445,326
U.S. Treasury obligations	8,174,440	—	—	8,174,440
Equity funds:				
International	19,951,947	—	—	19,951,947
Large cap	45,696,224	—	—	45,696,224
Mid cap	9,298	—	—	9,298
Small cap	4,895,104	—	—	4,895,104
Other	7,502	—	—	7,502
Common stock	2,778,378	—	—	2,778,378
Alternative investment:				
Master Limited Partnership	—	4,097,402	—	4,097,402
Other	—	—	28,069	28,069
Funds held in trust by others and beneficial interest in trust	—	—	36,488,741	36,488,741
Total	$ 170,548,390	4,097,402	36,516,810	211,162,602
Liabilities:				
Interest rate swap agreement	$ —	9,868,330	—	9,868,330
Total	$ —	9,868,330	—	9,868,330

There were no transfers between levels for the years ended December 31, 2015 or 2014.

(8) Derivative Instruments

The Obligated Group has entered into an interest rate swap agreement (the Swap) with Wells Fargo Bank in order to manage interest rate risk associated with its variable rate bonds. In 2014, the Obligated Group amended the Swap and entered into a novation transaction with Wells Fargo Bank and PNC Bank. The amendment increased the notional value to $71,341,000, which was the issue amount of the combined Series 2014 variable rate bonds. The notional value is $69,112,000 as of December 31, 2015. The termination date was amended to May 2021 from January 2028. The Obligated Group will pay a fixed rate of interest equal to 3.9309% to Wells Fargo Bank and 4.0300% to PNC Bank and receive a variable rate of interest equal to 70% of 30-day LIBOR. The Swap's fair value as of December 31, 2015 and 2014 is a liability of $8,778,190 and $9,868,330, respectively.

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

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

(9) Pension Benefits

The Corporation has a noncontributory defined benefit pension plan covering substantially all of its employees upon their retirement. On August 17, 2011, the Corporation amended the pension plan to freeze benefit accruals, effective December 31, 2011, and to freeze participation with respect to new participants, effective January 2, 2012. The benefits are based on years of service and the employee's compensation. Contributions provide for benefits earned to date as well as benefits expected to be earned in the future. The measurement date used for the defined benefit plan is December 31.

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

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

	Pension benefits 2015	Pension benefits 2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 102,819,922	81,987,782
Interest cost	3,805,200	3,996,720
Change in assumptions	(6,279,699)	20,365,619
Actuarial loss	255,027	192,156
Benefit payments	(4,179,433)	(3,722,355)
Benefit obligation at end of year	96,421,017	102,819,922
Change in plan assets:		
Fair value of plan assets at beginning of year	67,513,203	67,564,760
Actual return on plan assets, net of expenses	(640,245)	3,670,798
Benefit payments	(4,179,433)	(3,722,355)
Fair value of plan assets at end of year	62,693,525	67,513,203
Funded status	$ (33,727,492)	(35,306,719)

Amounts recognized on the consolidated balance sheets as of December 31 consist of:

	2015	2014
Noncurrent liabilities	$ 33,727,492	35,306,719
Unrestricted net assets	(37,342,338)	(38,229,576)
Net amount recognized	$ (3,614,846)	(2,922,857)

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

	2015	2014
Net actuarial loss	$ (37,342,338)	(38,229,576)
	$ (37,342,338)	(38,229,576)

(Continued)

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

		2015	2014
Net estimated gain (loss)	$	887,238	(21,880,577)
Total recognized in unrestricted net assets	$	887,238	(21,880,577)

The net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $989,294.

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

		2015	2014
Interest cost	$	3,805,200	3,996,720
Expected return on plan assets		(5,468,813)	(5,290,857)
Amortization of net loss		971,624	297,256
Net periodic benefit cost (benefit)	$	(691,989)	(996,881)

		2015	2014
Benefit cost (benefit)	$	(691,989)	(996,881)
Benefits paid		4,179,433	3,722,355

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

	2015	2014
Discount rate	4.10%	3.78%

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

	2015	2014
Discount rate	3.78%	5.00%
Expected long-term rate of return on plan assets	8.40	8.10

(Continued)

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

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

The Corporation's investment policies and strategies for the pension benefit plan use target allocations for the individual asset categories. The Corporation's investment goals are to generate returns that are sufficient to meet the plan's obligations while preserving capital. As part of this investment strategy, the Corporation has invested approximately 28% of the pension plan assets into alternative investments, including a hedge fund of funds (8%), a special situations master feeder fund (6%), a core property real estate fund (11%) and an energy debt fund (3%). The Corporation's risk management policies permit investments in mutual funds. The Corporation addresses diversification by the use of private mutual fund investments whose underlying investments are in domestic and international fixed income securities and domestic and international equity securities. These mutual funds are only available to institutional investors and are not traded on a public exchange; however, they can be sold to fund benefit payment obligations as they become payable without restriction.

The Corporation determines the fair value of the alternative investments based on the net asset value provided by the fund manager, without adjustment, as permitted under ASU 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The Corporation determines the fair value of the mutual funds based on quoted prices from the fund managers as of December 31. While these funds are not traded in active markets, there are no lock-ups or restrictions on redemptions related to mutual funds or the hedge fund of funds. The special situations fund has an initial lock-up period of twenty-four months. The December 31 unit values reported by the fund managers approximate the exit price of the security.

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

	Fair value measurements as of December 31, 2015			
	Total	**Quoted prices in active markets for identical assets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Asset category:				
Cash and short term investments:				
SEI daily income prime obligation fund	$ 282	282	—	—
Equity funds:				
Large cap disciplined	11,863,746	—	11,863,746	—
Small/mid cap	3,542,934	—	3,542,934	—
World Equity Ex-U.S.	8,217,210	—	8,217,210	—
Dynamic asset allocation	3,875,737	—	3,875,737	—
Emerging markets equity fund	1,673,382	—	1,673,382	—
Fixed income funds:				
High yield bond fund	2,013,041	—	2,013,041	—
Limited duration bond fund	2,970,887	—	2,970,887	—
Emerging markets debt fund	1,832,389	—	1,832,389	—
Core fixed income fund	6,515,348	—	6,515,348	—
Opportunistic income fund	2,759,308	—	2,759,308	—
Hedge funds:				
Core property collective investment trust	6,884,470	—	—	6,884,470
Opportunity collective fund	5,196,615	—	—	5,196,615
Special situations collective fund	3,629,293	—	—	3,629,293
Energy debt fund	1,718,883	—	—	1,718,883
Total	$ 62,693,525	282	45,263,982	17,429,261

	Fair value measurements as of December 31, 2014			
	Total	**Quoted prices in active markets for identical assets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Asset category:				
Cash and short term investments:				
SEI daily income prime obligation fund	$ 987	987	—	—
Equity funds:				
Large cap disciplined	16,421,842	—	16,421,842	—
Small/mid cap	4,275,350	—	4,275,350	—
World Equity Ex-U.S.	9,134,431	—	9,134,431	—
Dynamic asset allocation	3,526,528	—	3,526,528	—
Fixed income funds:				
High yield bond fund	3,003,167	—	3,003,167	—
Ultra short duration bond fund	2,866,087	—	2,866,087	—
Emerging markets debt fund	1,916,104	—	1,916,104	—
Core fixed income fund	8,215,757	—	8,215,757	—
Opportunistic income fund	2,958,743	—	2,958,743	—
Hedge funds:				
Core property collective investment trust	4,608,240	—	—	4,608,240
Opportunity collective fund	6,888,798	—	—	6,888,798
Special situations collective fund	3,697,169	—	—	3,697,169
Total	$ 67,513,203	987	52,318,009	15,194,207

There were no transfers between levels during the years ended December 31, 2015 or 2014.

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

	2015	**2014**
Asset category:		
Equity funds	46%	49%
Alternative investments	28	23
Fixed income funds	26	28
Total	100%	100%

(Continued)

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

Ending balance December 31, 2013	$	14,351,757
Total gains and losses included in changes in net assets:		
Net realized and unrealized gains		842,450
Ending balance December 31, 2014		15,194,207
Total gains and losses included in changes in net assets:		
Net realized and unrealized gains		235,054
Purchases		3,500,000
Sales		(1,500,000)
Ending balance December 31, 2015	$	17,429,261

The Corporation does not expect to make any contributions to its pension plan in 2016.

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

2016	$	4,632,250
2017		4,845,234
2018		5,009,286
2019		5,139,381
2020		5,209,802
2021 – 2025		27,471,252

The Corporation also has a defined contribution plan for certain employees. On August 17, 2011, the Corporation amended the 401(k) plan, effective January 1, 2012, to provide for discretionary profit sharing contributions to be made to the 401(k) plan on behalf of participants who earn more than 1,000 hours of service and are employed as of December 31 of any plan year. Contributions recognized as expense for this plan were $22,546 and $456,339 for the years ended December 31, 2015 and 2014, respectively.

The Corporation established a Supplemental Executive Retirement Plan (SERP), which is a nonqualified defined benefit plan under which the Corporation will pay supplemental retirement benefits to key executives in addition to amounts received under the Corporation’s pension plan. Executives receive payments of their accrued benefit every five years. These amounts are not included in the determination of net periodic pension cost shown above. The SERP is not funded, and the liability for this plan was $451,538 and $178,700 as of December 31, 2015 and 2014, respectively.

(10) Temporarily Restricted Net Assets

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

	2015	2014
Beneficial interest in charitable remainder trusts and beneficial interest in trust	$ 1,582,219	1,582,219
Charitable gift annuities – ELCA	908,993	914,067
Capital additions	210,353	343,172
DLF – Support of DCFCM programs	2,194,241	2,255,404
Accumulated gains on endowment and other purposes	6,498,842	7,031,781
Total	$ 11,394,648	12,126,643

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

(11) Permanently Restricted Net Assets

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

	2015	2014
Funds held in trust by others – income restricted for:		
Support of programs	$ 24,422,902	26,179,282
Staff and resident programs	150,244	163,202
DLF	8,047,344	8,564,038
Endowment and other purposes	16,436,865	15,981,285
Charitable gift annuities – ELCA	118,143	99,258
DLF – Support of DCFCM programs	364,002	360,102
	$ 49,539,500	51,347,167

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

The Corporation has interpreted the laws of the Commonwealth of Pennsylvania as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the 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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the laws of the Commonwealth of Pennsylvania require the Corporation to retain as a fund of perpetual duration. No such deficiencies of this nature are reported in unrestricted net assets as of December 31, 2015 or 2014. 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. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(Continued)

(12) Medical Malpractice Claims Coverage and Self Insurance

The Corporation maintains professional liability and umbrella liability coverage on a combined basis. Management has evaluated claims incurred but not reported. Based on the Corporation's claims history, Management has not recorded a liability for claims incurred but not reported as of December 31, 2015 or 2014. The Corporation believes it has adequate insurance coverage or reserves for all asserted claims and unasserted claims.

The Corporation participates in a self-insured program for its workers' compensation insurance. In the case of catastrophes or other events that would cause excessive workers' compensation claims, the Corporation is reinsured for losses in excess of $500,000 per occurrence as of December 31, 2015 and 2014. Workers' compensation costs are accrued based upon an estimated liability for reported claims and an estimated liability for claims incurred but not reported and approximated $2,655,000 and $2,794,000 as of December 31, 2015 and 2014, 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 $2,500,000 surety bond to secure future obligations under the terms of this self-insured program.

The Corporation's health insurance benefits program changed in January 2015 from a fully insured retrospectively rated cost plan whereby the Corporation's liability was subject to a range of potential exposure with an annual individual claim limitation to a self funded plan with a stop loss contract in place for catastrophic claims. Total health benefit accrued expenses approximated $1,013,000 and $948,000 as of December 31, 2015 and 2014, respectively, and are reported within the accounts payable and accrued expenses caption on the consolidated balance sheets.

(13) Functional Expenses

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

	2015	2014
Senior Living Services	$ 146,050,888	147,574,798
Services for Children, Family and Community	17,641,552	17,866,009
Statewide Adoption and Permanency Network	52,281,800	50,094,356
Ministry Support Services and Management	18,797,362	19,343,572
Fundraising	1,664,465	1,552,179
	$ 236,436,067	236,430,914

(14) Commitments and Contingencies

The Corporation has entered into various construction contracts related to campus repositioning activities at certain senior living communities. Contractual commitments as of December 31, 2015 total approximately $2,360,000.

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

(15) Operating Leases

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

The future minimum annual lease payments under noncancelable operating leases in effect as of December 31, 2015, which have initial or remaining terms of more than one year, are as follows:

2016	$ 1,189,041
2017	897,171
2018	806,492
2019	677,780
2020	459,278
	$ 4,029,762

Total rental expense approximated $1,710,958 and $1,960,849 for the years ended December 31, 2015 and 2014, respectively.

(16) Subsequent Events

The Corporation has evaluated subsequent events through April 18, 2016, the date the consolidated financial statements were available to be issued, and determined there were no additional subsequent events requiring disclosure or adjustment to the consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Balance Sheet

December 31, 2015

Assets	Diakon Lutheran Social Ministries	Diakon	Diakon Lutheran Fund	Diakon Lutheran Senior Living Maryland LLC	Diakon Child, Family & Community Ministries	Diakon Lutherwood Senior Housing, LLC	Diakon Lutheran Senior Housing at Luther Meadows	Diakon Lutheran Senior Housing at Heilman House	Statewide Adoption Network (SWAN)	Institute for Strategic Management, Inc.	Consolidating entries	Total
Current assets:												
Cash and cash equivalents	$ 4,162,040	21,877	—	435,748	35,969	195,317	45,023	83,289	9,391	(79)	—	4,988,575
Assets limited as to use	7,047,206	—	—	—	—	—	—	—	—	—	—	7,047,206
Accounts receivable (net of allowance for doubtful accounts):												
Patients and residents	11,157,458	—	—	1,282,390	142,304	—	—	—	—	—	—	12,582,152
Statewide Adoption and Permanency Network	—	—	—	—	—	—	—	—	25,432,065	—	—	25,432,065
Other client services	8,709,817	—	—	—	4,314,151	—	—	—	—	—	(8,699,109)	4,324,859
Intercompany	18,279,383	(12,766)	27,061	(1,092,111)	(1,802,508)	(26,084)	1,110	(2,559)	(15,371,605)	79	—	—
Estimated third-party payor settlements	309,186	—	—	65,434	—	—	—	—	—	—	—	374,620
Lease receivable current	1,530,898	—	—	—	—	—	—	—	—	—	(1,530,898)	—
Prepaid expenses and other assets	1,852,286	—	—	187,215	11,374	22,510	6,736	7,429	10,324	—	—	2,097,874
Total current assets	53,048,274	9,111	27,061	878,676	2,701,290	191,743	52,869	88,159	10,080,175	—	(10,230,007)	56,847,351
Investments	31,344,556	1,405,316	16,973,577	2,531,122	108,686	—	—	—	—	—	—	52,363,257
Assets limited as to use, less current portion:												
Statutory minimum liquid reserves	8,306,244	—	—	—	—	—	—	—	—	—	—	8,306,244
Other	72,069,568	—	2,830,805	—	2,631,036	669,458	473,196	248,430	—	—	—	78,922,493
Investment in joint venture	440,957	89,950	—	—	—	—	—	—	—	—	—	530,907
Land, buildings and equipment, net	216,897,059	—	—	19,612,905	50,405	2,511,865	654,887	1,256,499	—	—	(8,127,469)	232,856,151
Other assets:												
Deferred debt issuance costs, net	2,665,317	—	—	—	—	500,101	167,943	139,088	—	—	—	3,472,449
Receivables from charitable gift annuities	1,027,136	—	—	—	—	—	—	—	—	—	—	1,027,136
Funds held in trust by others and beneficial interest in trust	26,155,365	—	8,047,344	—	—	—	—	—	—	—	—	34,202,709
Lease receivable long term	10,127,716	—	—	—	—	—	—	—	—	—	(10,127,716)	—
Other assets	4,882,473	—	—	—	—	—	—	—	—	—	—	4,882,473
Total assets	$ 426,964,665	1,504,377	27,878,787	23,022,703	5,491,417	3,873,167	1,348,895	1,732,176	10,080,175	—	(28,485,192)	473,411,170

(Continued)

Schedule 1

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Balance Sheet

December 31, 2015

Liabilities and Net Assets (Deficit)	**Diakon Lutheran Social Ministries**	**Diakon**	**Diakon Lutheran Fund**	**Diakon Lutheran Senior Living Maryland LLC**	**Diakon Child, Family & Community Ministries**	**Diakon Lutherwood Senior Housing, LLC**	**Diakon Lutheran Senior Housing at Luther Meadows**	**Diakon Lutheran Senior Housing at Heilman House**	**Statewide Adoption Network (SWAN)**	**Institute for Strategic Management, Inc.**	**Consolidating entries**	**Total**
Current liabilities:												
Line of credit	$ —	—	—	—	2,723,870	—	—	—	—	—	—	2,723,870
Accounts payable and accrued expenses	34,294,898	175,422	—	154,495	478,780	128,384	34,956	59,793	10,080,175	—	(8,782,379)	36,624,524
Deposits – patients and residents	575,377	968	—	—	—	39,110	15,963	17,688	—	—	—	649,106
Estimated third-party payor settlements	519,385	—	—	—	—	—	—	—	—	—	—	519,385
Current obligation under capital lease	—	—	—	381,626	—	—	—	—	—	—	(381,626)	—
Current maturities of long-term debt	8,841,413	—	—	—	—	107,648	38,033	40,826	—	—	—	9,027,920
Total current liabilities	44,231,073	176,390	—	536,121	3,202,650	275,142	88,952	118,307	10,080,175	—	(9,164,005)	49,544,805
Pension liability	33,727,492	—	—	—	—	—	—	—	—	—	—	33,727,492
Swap agreement	8,778,190	—	—	—	—	—	—	—	—	—	—	8,778,190
Deferred revenue – entrance agreements	54,695,217	—	—	3,696,215	—	—	—	—	—	—	—	58,391,432
Refundable entrance fee liability	31,641,302	—	—	4,605,316	—	—	—	—	—	—	—	36,246,618
Other long-term liabilities	1,774,350	—	—	—	—	1,697	664	630	—	—	—	1,777,341
Long-term obligation under capital lease	—	—	—	20,709,270	—	—	—	—	—	—	(20,709,270)	—
Long-term debt, less current maturities	230,303,359	—	—	—	—	6,191,777	2,233,302	2,463,753	—	—	—	241,192,191
Total liabilities	405,150,983	176,390	—	29,546,922	3,202,650	6,468,616	2,322,918	2,582,690	10,080,175	—	(29,873,275)	429,658,069
Net assets (deficit):												
Unrestricted	(26,104,847)	1,327,987	17,273,199	(6,563,667)	(81,816)	(2,595,449)	(974,023)	(850,514)			1,388,083	(17,181,047)
Temporarily restricted	8,403,476	—	2,194,241	10,307	786,624	—	—	—	—	—	—	11,394,648
Permanently restricted	39,515,053	—	8,411,347	29,141	1,583,959	—	—	—	—	—	—	49,539,500
Total net assets (deficit)	21,813,682	1,327,987	27,878,787	(6,524,219)	2,288,767	(2,595,449)	(974,023)	(850,514)	—	—	1,388,083	43,753,101
Total liabilities and net assets (deficit)	$ 426,964,665	1,504,377	27,878,787	23,022,703	5,491,417	3,873,167	1,348,895	1,732,176	10,080,175	—	(28,485,192)	473,411,170

See accompanying independent auditor's report.

Schedule 2

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Statement of Operations and Changes in Net Assets (Deficit)

Period ended December 31, 2015

	Diakon Lutheran Social Ministries	Diakon	Diakon Lutheran Fund	Diakon Lutheran Senior Living Maryland LLC	Diakon Child, Family & Community Ministries	Diakon Lutherwood Senior Housing, LLC	Diakon Lutheran Senior Housing at Luther Meadows	Diakon Lutheran Senior Housing at Heilman House	Statewide Adoption Network (SWAN)	Institute for Strategic Management, Inc.	Consolidating entries	Total
Operating revenues, gains and other support:												
Patient and resident service revenue, net of contractual allowances	$ 124,136,564	—	—	14,231,081	3,020	—	—	—	—	—	—	138,370,665
Patient and resident service revenue, nursing home assessment	3,782,662	—	—	—	—	—	—	—	—	—	—	3,782,662
Amortization of entrance fees	10,983,286	—	—	544,411	—	—	—	—	—	—	—	11,527,697
Contract revenue	432,777	—	—	—	8,467,550	733,773	233,145	256,605	—	—	—	10,123,850
Grants from Diakon Lutheran Fund	—	—	—	—	1,500,000	—	—	—	—	—	(1,500,000)	—
Other fees and services	7,426,373	193,474	—	64,349	9,204,632	458,508	199,203	213,832	—	189,550	(4,926,725)	13,023,196
Statewide Adoption and Permanency Network revenue	39,179,655	—	—	—	—	—	—	—	13,102,145	—	—	52,281,800
Investment income, net of expenses	7,686,700	4,618	2,090,139	60,873	14,576	287	162	96	—	—	(900,276)	8,957,175
Income from trusts	1,243,576	—	338,902	—	—	—	—	—	—	—	—	1,582,478
Contributions and bequests	1,561,876	—	(28,000)	689	309,919	—	—	—	—	—	—	1,844,484
Net assets released from restrictions – operations	794,407	—	96,614	—	524,468	—	—	—	—	—	—	1,415,489
Gain (loss) on disposal of assets	310,725	—	—	—	—	—	—	—	—	(26,574)	—	284,151
Total operating revenues, gains and other support	197,538,601	198,092	2,497,655	14,901,403	20,024,165	1,192,568	432,510	470,533	13,102,145	162,976	(7,327,001)	243,193,647
Expenses:												
Salaries and wages	51,687,564	—	—	5,322,132	8,812,245	200,679	87,242	77,837	186,049	—	—	66,373,748
Employee benefits	9,577,725	—	—	961,466	1,751,647	42,745	20,067	17,334	42,791	—	—	12,413,775
Other expenses	61,083,562	181,081	1,268,613	7,473,901	9,416,574	597,782	184,657	214,565	—	203,127	(6,426,726)	74,197,136
Other expenses – Statewide Adoption and Permanency Network	38,047,796	—	—	—	—	—	—	—	12,873,305	—	—	50,921,101
Nursing home assessment	2,038,138	—	—	—	—	—	—	—	—	—	—	2,038,138
Interest	12,195,489	—	—	1,167,307	32,652	275,906	98,606	110,992	—	—	(1,167,307)	12,713,645
Depreciation and amortization	16,248,990	—	—	754,346	2,570	284,678	88,982	114,628	—	8,865	275,465	17,778,524
Total expenses	190,879,264	181,081	1,268,613	15,679,152	20,015,688	1,401,790	479,554	535,356	13,102,145	211,992	(7,318,568)	236,436,067
Operating income (loss)	6,659,337	17,011	1,229,042	(777,749)	8,477	(209,222)	(47,044)	(64,823)	—	(49,016)	(8,433)	6,757,580
Increase in fair value of swap agreement	1,090,140	—	—	—	—	—	—	—	—	—	—	1,090,140
Equity in (losses) gains of joint venture and subsidiaries	(255,690)	182,454	—	—	—	—	—	—	—	—	(182,454)	(255,690)
Loss from early extinguishment of debt	(21,027,728)	—	—	—	—	—	—	—	—	—	—	(21,027,728)
Excess (deficit) of operating revenues, gains and other support over expenses	(13,533,941)	199,465	1,229,042	(777,749)	8,477	(209,222)	(47,044)	(64,823)	—	(49,016)	(190,887)	(13,435,698)
Other changes:												
Pension-related changes other than net periodic pension costs	887,238	—	—	—	—	—	—	—	—	—	—	887,238
Unrealized gains (losses) on investments	(7,976,747)	1,375	(1,861,225)	(79,736)	(5,337)	—	—	—	—	—	—	(9,921,670)
Net assets released from restrictions – capital	247,405	—	—	—	36,184	—	—	—	—	—	—	283,589
Equity transfer to affiliate	—	(231,580)	—	—	—	—	—	—	—	231,580	—	—
Total other changes	(6,842,104)	(230,205)	(1,861,225)	(79,736)	30,847	—	—	—	—	231,580	—	(8,750,843)
Increase (decrease) in unrestricted net assets (deficit)	(20,376,045)	(30,740)	(632,183)	(857,485)	39,324	(209,222)	(47,044)	(64,823)	—	182,564	(190,887)	(22,186,541)

(Continued)

Schedule 2

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Statement of Operations and Changes in Net Assets (Deficit)

Period ended December 31, 2015

	Diakon Lutheran Social Ministries	Diakon	Diakon Lutheran Fund	Diakon Lutheran Senior Living Maryland LLC	Diakon Child, Family & Community Ministries	Diakon Lutherwood Senior Housing, LLC	Diakon Lutheran Senior Housing at Luther Meadows	Diakon Lutheran Senior Housing at Heilman House	Statewide Adoption Network (SWAN)	Institute for Strategic Management, Inc.	Consolidating entries	Total
Temporarily restricted net assets:												
Contributions and bequests	$ 143,805	—	—	7,867	539,052	—	—	—	—	—	—	690,724
Investment gains, net of expenses	1,778,935	—	323,303	—	219,327	—	—	—	—	—	—	2,321,565
Unrealized losses on investments	(1,553,792)	—	(287,852)	—	(203,562)	—	—	—	—	—	—	(2,045,206)
Net assets released from restrictions – operations	(794,407)	—	(96,614)	—	(524,468)	—	—	—	—	—	—	(1,415,489)
Net assets released from restrictions – capital	(247,405)	—	—	—	(36,184)	—	—	—	—	—	—	(283,589)
(Decrease) increase in temporarily restricted net assets	(672,864)	—	(61,163)	7,867	(5,835)	—	—	—	—	—	—	(731,995)
Permanently restricted net assets:												
Contributions and bequests	414,350	—	3,900	10,115	50,000	—	—	—	—	—	—	478,365
Decrease in fair value of funds held in trust by others	(1,769,338)	—	(516,694)	—	—	—	—	—	—	—	—	(2,286,032)
(Decrease) increase in permanently restricted net assets	(1,354,988)	—	(512,794)	10,115	50,000	—	—	—	—	—	—	(1,807,667)
(Decrease) increase in net assets (deficit)	(22,403,897)	(30,740)	(1,206,140)	(839,503)	83,489	(209,222)	(47,044)	(64,823)	—	182,564	(190,887)	(24,726,203)
Net assets (deficit), beginning of year	44,217,579	1,358,727	29,084,927	(5,684,716)	2,205,278	(2,386,227)	(926,979)	(785,691)	—	(182,564)	1,578,970	68,479,304
Net assets (deficit), end of year	$ 21,813,682	1,327,987	27,878,787	(6,524,219)	2,288,767	(2,595,449)	(974,023)	(850,514)	—	—	1,388,083	43,753,101

See accompanying independent auditor's report.

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Statement of Cash Flows

Year ended December 31, 2015

	Diakon Lutheran Social Ministries	Diakon	Diakon Lutheran Fund	Diakon Lutheran Senior Living Maryland LLC	Diakon Child, Family and Community Ministries	Diakon Home Care Services LLC	Diakon Lutherwood Senior Housing, LLC	Diakon Lutheran Senior Housing at Luther Meadows	Diakon Lutheran Senior Housing at Heilman House	Statewide Adoption Network (SWAN)	Institute for Strategic Management, Inc.	Elimination entries	Total
Cash flows from operating activities:													
Increase (decrease) in net assets (deficit)	$ (22,403,897)	(30,740)	(1,206,140)	(839,503)	83,489	—	(209,222)	(47,044)	(64,823)	—	182,564	(190,887)	(24,726,203)
Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash provided by (used in) operating activities:													
Net realized gains on investments	(1,671,741)	—	(850,922)	—	(56,100)	—	—	—	—	—	—	—	(2,578,763)
Net unrealized (gains) losses on investments	9,530,539	(1,375)	2,149,077	79,736	208,899	—	—	—	—	—	—	—	11,966,876
Depreciation and amortization	16,248,990	—	—	754,346	2,570	—	284,678	88,982	114,628	—	8,865	275,465	17,778,524
Amortization of bond issuance costs	161,792	—	—	—	—	—	16,308	5,476	4,536	—	—	—	188,112
Decrease in pension liability	(1,579,227)	—	—	—	—	—	—	—	—	—	—	—	(1,579,227)
Amortization of entrance fees	(10,983,286)	—	—	(544,411)	—	—	—	—	—	—	—	—	(11,527,697)
Proceeds from entrance fees	14,792,921	—	—	922,350	—	—	—	—	—	—	—	—	15,715,271
Change in funds held in trust by others and beneficial interest in trust	1,769,338	—	516,694	—	—	—	—	—	—	—	—	—	2,286,032
Equity transfer to affiliate	—	231,580	—	—	—	—	—	—	—	—	(231,580)	—	—
Increase in fair value of swap agreement	(1,090,140)	—	—	—	—	—	—	—	—	—	—	—	(1,090,140)
Equity in (gains) losses of joint venture and subsidiaries	255,690	(182,454)	—	—	—	—	—	—	—	—	—	182,454	255,690
Loss on early extinguishment of debt	21,027,728	—	—	—	—	—	—	—	—	—	—	—	21,027,728
(Gain) loss on disposal of fixed assets	(310,725)	—	—	—	—	—	—	—	—	—	26,574	—	(284,151)
Provision for bad debts	1,344,276	—	—	165,542	43,346	—	—	—	—	—	—	—	1,553,164
Restricted contributions and investment income	(1,542,683)	—	(230,589)	(17,982)	(283,911)	—	—	—	—	—	—	—	(2,075,165)
Change in assets and liabilities:													
Accounts receivable and estimated third-party payor settlements	(25,369,284)	1,395,684	203,496	(181,147)	(191,174)	9,694	19,869	(32,137)	(5,864)	(10,060,460)	(18,561)	8,699,109	(25,530,775)
Prepaid expenses and other current assets	1,010,419	—	3,000	(23,564)	21,020	—	(6,436)	165	178	(10,324)	—	—	994,458
Other assets	6,438	—	—	—	—	—	—	—	—	—	—	—	6,438
Accounts payable, accrued expenses, and other liabilities	13,208,206	(303,542)	—	58,476	289,122	(11,818)	78,520	(67,083)	(6)	10,080,175	(277,129)	(8,697,788)	14,357,133
Deposits – patients and residents	74,525	—	—	—	—	—	1,028	341	651	—	—	—	76,545
Net cash provided by (used in) operating activities	14,479,879	1,109,153	584,616	373,843	117,261	(2,124)	184,745	(51,300)	49,300	9,391	(309,267)	268,353	16,813,850
Cash flows from investing activities:													
(Purchase) sale of investments and assets limited as to use	(219,005,194)	(891,800)	(4,542,317)	(62,011)	(1,495,793)	—	5,059	(2,517)	(8,011)	—	—	—	(226,002,584)
Proceeds from sales of investments and assets limited as to use	239,807,409	—	3,727,112	1,263	1,113,348	—	—	—	—	—	—	—	244,649,132
Purchase of property and equipment	(14,376,880)	—	—	—	(43,153)	—	(23,363)	(18,945)	(9,848)	—	—	(268,353)	(14,740,542)
Proceeds from sale of property and equipment	1,263,481	—	—	—	—	—	—	—	—	—	—	—	1,263,481
Proceeds from capital lease	362,270	—	—	—	—	—	—	—	—	—	—	(362,270)	—
Equity transfer to affiliate	—	(231,580)	—	—	—	—	—	—	—	—	231,580	—	—
Net cash provided by (used in) investing activities	8,051,086	(1,123,380)	(815,205)	(60,748)	(425,598)	—	(18,304)	(21,462)	(17,859)	—	231,580	(630,623)	5,169,487
Cash flows from financing activities:													
Payment of long-term debt	(153,749,373)	—	—	—	—	—	(103,341)	(36,517)	(39,142)	—	—	—	(153,928,373)
Advanced refunding	(22,518,328)	—	—	—	—	—	—	—	—	—	—	—	(22,518,328)
Proceeds from debt re-financing	156,104,916	—	—	—	—	—	—	—	—	—	—	—	156,104,916
Net payment on line of credit	—	—	—	—	(78,202)	—	—	—	—	—	—	—	(78,202)
Payment of bond issuance costs	(1,651,521)	—	—	—	—	—	—	—	—	—	—	—	(1,651,521)
Proceeds from restricted contributions and investment income	2,514,095	—	230,589	17,982	283,911	—	—	—	—	—	—	—	3,046,577
Proceeds from entrance fees	3,409,687	—	—	428,784	—	—	—	—	—	—	—	—	3,838,471
Refunds of entrance fees	(5,857,297)	—	—	(88,740)	—	—	—	—	—	—	—	—	(5,946,037)
Principal payments under capital lease obligation	—	—	—	(362,270)	—	—	—	—	—	—	—	362,270	—
Net cash provided by (used in) financing activities	(21,747,821)	—	230,589	(4,244)	205,709	—	(103,341)	(36,517)	(39,142)	—	—	362,270	(21,132,497)
Net increase (decrease) in cash and cash equivalents	783,144	(14,227)	—	308,851	(102,628)	(2,124)	63,100	(109,279)	(7,701)	9,391	(77,687)	—	850,840
Cash and cash equivalents, beginning of year	3,378,896	36,104	—	126,897	138,597	2,124	132,217	154,302	90,990	—	77,608	—	4,137,735
Cash and cash equivalents, end of year	$ 4,162,040	21,877	—	435,748	35,969	—	195,317	45,023	83,289	9,391	(79)	—	4,988,575

Schedule of noncash investment and financing activities:

A capital lease obligation of $1,186,328 was incurred by DLSL-MD when it entered into a lease with DLSM for property and equipment.

DLSM recorded leased property under capital lease and a lease receivable of $1,636,328 at the net book value of the assets.

See accompanying independent auditor's report.