DIAKON
AND CONTROLLED AFFILIATES

Consolidated Financial Statements and Schedules

December 31, 2016 and 2015

(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 and Controlled Affiliates
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 sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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 audits. We conducted our audits 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, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2016 consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies 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 consolidating 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 2016 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 17, 2017

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Balance Sheets

December 31, 2016 and 2015

Assets	**2016**	**2015**
Current assets:		
Cash and cash equivalents	$ 4,043,657	4,988,575
Assets limited as to use	9,472,075	7,047,206
Accounts receivable (net of allowance for doubtful accounts of $3,098,000 and $3,406,000 in 2016 and 2015, respectively):		
Patients and residents	13,960,937	12,582,152
Statewide Adoption and Permanency Network	4,343,065	25,432,065
Other client services	2,938,956	4,324,859
Estimated third-party payor settlements	2,023,628	374,620
Prepaid expenses and other assets	3,831,416	2,097,874
Total current assets	40,613,734	56,847,351
Investments	58,005,785	52,363,257
Assets limited as to use, less current portion:		
Statutory minimum liquid reserves	7,205,935	8,306,244
Other	86,178,931	78,922,493
Investment in joint venture	596,409	530,907
Land, buildings and equipment, net	228,535,656	232,856,151
Other assets:		
Receivables from charitable gift annuities	1,233,426	1,027,136
Funds held in trust by others and beneficial interest in trust	34,556,795	34,202,709
Other assets	5,191,850	4,882,473
Total assets	$ 462,118,521	469,938,721

(Continued)

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Balance Sheets

December 31, 2016 and 2015

Liabilities and Net Assets	**2016**	**2015**
Current liabilities:		
Lines of credit	$ 987,238	2,723,870
Accounts payable and accrued expenses	20,654,712	36,624,524
Deposits – patients and residents	625,281	649,106
Estimated third-party payor settlements	993,609	519,385
Current maturities of long-term debt	6,632,277	9,027,920
Total current liabilities	29,893,117	49,544,805
Pension liability	33,650,712	33,727,492
Swap agreement	—	8,778,190
Deferred revenue – entrance agreements	62,515,189	58,391,432
Refundable entrance fee liability	33,938,813	36,246,618
Other long-term liabilities	2,383,733	1,777,341
Long-term debt, less current maturities and debt issuance costs	247,291,528	237,719,742
Total liabilities	409,673,092	426,185,620
Net assets:		
Unrestricted	(10,569,367)	(17,181,047)
Temporarily restricted	12,632,857	11,394,648
Permanently restricted	50,381,939	49,539,500
Total net assets	52,445,429	43,753,101
Total liabilities and net assets	$ 462,118,521	469,938,721

See accompanying notes to consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2016 and 2015

	2016	2015
Operating revenues, gains and other support:		
Patient and resident service revenue, net of contractual allowances	$ 141,393,245	138,370,665
Patient and resident service revenue – nursing home assessment	3,866,533	3,782,662
Amortization of entrance fees	11,104,452	11,527,697
Contract revenue	10,824,383	10,123,850
Other fees and services	12,174,687	13,023,196
Statewide Adoption and Permanency Network revenue	57,918,104	52,281,800
Investment income, net of expenses	5,240,982	8,957,175
Income from trusts	1,501,690	1,582,478
Contributions and bequests	2,941,467	1,844,484
Net assets released from restrictions – operations	1,451,531	1,415,489
Gain on disposal of assets	20,476	284,151
Total operating revenues, gains and other support	248,437,550	243,193,647
Expenses:		
Salaries and wages	66,829,858	66,373,748
Employee benefits	14,369,071	12,413,775
Other expenses	73,569,367	74,197,136
Other expenses – Statewide Adoption and Permanency Network	57,013,588	50,921,101
Nursing home assessment	2,029,793	2,038,138
Interest	10,540,290	12,713,645
Depreciation and amortization	17,637,904	17,778,524
Total expenses	241,989,871	236,436,067
Operating income	6,447,679	6,757,580
(Decrease) increase in fair value of swap agreement	(969,810)	1,090,140
Equity in gains (losses) of joint venture	415,502	(255,690)
Loss from early extinguishment of debt	(420,807)	(21,027,728)
Excess (deficit) of operating revenues, gains and other support over expenses	5,472,564	(13,435,698)
Other changes:		
Pension-related changes other than net periodic pension costs	(52,497)	887,238
Unrealized gains (losses) on investments	1,087,336	(9,921,670)
Net assets released from restrictions – capital	104,277	283,589
Total other changes	1,139,116	(8,750,843)
Increase (decrease) in unrestricted net assets	6,611,680	(22,186,541)

(Continued)

DIAKON
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Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2016 and 2015

		2016	2015
Temporarily restricted net assets:			
Contributions and bequests	$	1,193,911	690,724
Investment gains, net of expenses		1,517,035	2,321,565
Unrealized gains (losses) on investments		83,071	(2,045,206)
Net assets released from restrictions – operations		(1,451,531)	(1,415,489)
Net assets released from restrictions – capital		(104,277)	(283,589)
Increase (decrease) in temporarily restricted net assets		1,238,209	(731,995)
Permanently restricted net assets:			
Contributions and bequests		488,353	478,365
Increase (decrease) in fair value of funds held in trust by others		354,086	(2,286,032)
Increase (decrease) in permanently restricted net assets		842,439	(1,807,667)
Increase (decrease) in net assets		8,692,328	(24,726,203)
Net assets, beginning of year		43,753,101	68,479,304
Net assets, end of year	$	52,445,429	43,753,101

See accompanying notes to consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Increase (decrease) in net assets	$	8,692,328	(24,726,203)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Net realized gains on investments		(1,121,597)	(2,578,763)
Net unrealized (gains) losses on investments		(1,170,407)	11,966,876
Depreciation and amortization		17,637,904	17,778,524
Amortization of debt issuance costs		175,341	188,112
Decrease in pension liability		(76,780)	(1,579,227)
Amortization of entrance fees		(11,104,452)	(11,527,697)
Proceeds from entrance fees		15,936,674	15,715,271
Change in funds held in trust by others and beneficial interest in trust		(354,086)	2,286,032
Decrease (increase) in fair value of swap agreement		969,810	(1,090,140)
Equity in (gains) losses of joint venture		(415,502)	255,690
Loss on early extinguishment of debt		420,807	21,027,728
Gain on disposal of assets		(20,476)	(284,151)
Provision for bad debts		2,043,177	1,553,164
Restricted contributions and investment income		(1,747,768)	(2,075,165)
Change in assets and liabilities:			
Accounts receivable		17,878,157	(25,530,775)
Prepaid expenses and other current assets		(1,918,365)	994,458
Other assets		—	6,438
Accounts payable, accrued expenses, and other liabilities		(15,363,421)	14,357,133
Deposits – patients and residents		(23,825)	76,545
Net cash provided by operating activities		30,437,519	16,813,850
Cash flows from investing activities:			
Purchase of investments and assets limited as to use		(30,160,547)	(226,002,584)
Proceeds from sales of investments and assets limited as to use		18,229,024	244,649,132
Purchase of property and equipment		(13,277,776)	(14,740,542)
Proceeds from sale of property and equipment		—	1,263,481
Net cash (used in) provided by investing activities		(25,209,299)	5,169,487
Cash flows from financing activities:			
Payment of long-term debt		(34,748,122)	(153,928,373)
Retirement of swap agreement		(9,748,000)	—
Advance refunding		—	(22,518,328)
Proceeds from debt refinancing		42,223,300	156,104,916
Net payment on lines of credit		(1,736,632)	(78,202)
Payment of debt issuance costs		(895,183)	(1,651,521)
Proceeds from restricted contributions and investment income		1,747,768	3,046,577
Proceeds from entrance fees		2,182,094	3,838,471
Refunds of entrance fees		(5,198,363)	(5,946,037)
Net cash used in financing activities		(6,173,138)	(21,132,497)
Net (decrease) increase in cash and cash equivalents		(944,918)	850,840
Cash and cash equivalents, beginning of year		4,988,575	4,137,735
Cash and cash equivalents, end of year	$	4,043,657	4,988,575

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) and Diakon Home Care Services LLC (DHCS). 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, and by acting as sole member of Diakon Lutherwood Senior Housing LLC and Diakon Frostburg Senior Housing, LLC (DFSH), a sole purpose entity formed in 2016 which assumed the assets and liabilities of the Frostburg Heights project, which previously operated 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 Diakon’s board of directors. The bishops of the Synods also elect the majority of DLSM’s and DCFCM’s board of directors. The board of Diakon, in its role as sole member, appoints the board for DLF.

(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.

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 operates various programs serving children, communities, and families.

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, community, and family programs.

SWAN LLC, a Pennsylvania Limited Liability Company, began operations on October 1, 2015, and provides an array of administrative and support services for the Pennsylvania Statewide Adoption and Permanency Network, a program overseen and funded by the Pennsylvania Department of Human Services. Prior to October 1, 2015, such activities were functionally part of DLSM. SWAN LLC is a disregarded entity of DLSM for federal tax purposes.

(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, 2016, the amount held in excess of the FDIC insured limits at financial institutions was approximately $5,675,000.

(f) Accounts Receivable

Accounts receivable from patients, residents, and clients 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 2016 or 2015.

(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 gains (losses) of joint venture and classified consistent with the characteristics of the joint venture's activities.

In December 2016 the joint venture entered into an agreement with the Corporation to convert additional paid in capital of $350,000 to debt in the form of a note receivable to be paid over ten years. The note receivable is included in other assets on the consolidated balance sheet.

(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.

(Continued)

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 2016 or 2015.

(l) Deferred Debt Issuance Costs and Other Assets

Debt issuance costs are amortized over the period the obligation is outstanding. Amortization expense was $175,341 and $188,112 in 2016 and 2015, respectively. Debt issuance costs incurred and subject to amortization totaled $4,534,803 and $4,059,162 as of December 31, 2016 and 2015, respectively. Accumulated amortization as of December 31, 2016 and 2015 totaled $763,319 and $586,713, 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, 2016 or 2015.

(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 sheets. 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 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. In June 2016, the Corporation terminated the swap agreement (Note 8).

(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, 2016 and 2015, under contractual refund provisions, was approximately $58,116,000 and $57,500,000, 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 as of December 31, 2016 or 2015.

(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. Periodically, the Corporation engages an actuary to perform the present value calculation, which it did in 2016. 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 as of December 31, 2016 or 2015.

(v) Income Taxes

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

The Corporation uses a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Corporation does not believe that there are any unrecognized tax benefits or liabilities that should be recorded. Generally, tax returns for years ended December 31, 2013, 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 uncollectable contributions receivable is provided based upon management’s judgment including such factors as prior collection history, type of contributions, and nature of fund-raising activity.

(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. 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 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. The total cost of charity care under these policies amounted to $3,175,172 for the year ended December 31, 2016. The cost of charity care is estimated by management based upon the cost to gross charges ratio multiplied by the gross uncompensated charges associated with providing care. The Corporation received $616,000 for the year ended December 31, 2016, to offset or subsidize charity care services provided, which is reported as an offset to amounts shown for children and family ministries.

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

		2016	2015
Medical assistance cost in excess of contractual reimbursement	$	14,912,730	13,273,079
Charity care in support of those in need		3,096,666	3,028,329
Children and Family Ministries supported by DLSM and DLF (charity care):			
Children's services		476,286	649,590
Behavioral health		372,924	642,611
Community services		361,978	582,638
Total Children and Family Ministries supported by DLSM and DLF		1,211,188	1,874,839
Scholarships		68,624	68,614
Total	$	19,289,208	18,244,861

(z) Loss from Early Extinguishment of Debt

During the year ended December 31, 2016, the Corporation entered into a transaction that involved the issuance of the Cumberland County Municipal Revenue Bonds Series 2016 (Note 5). The proceeds from these bonds were used to fully refund the previously outstanding Series 2014 B Bonds, fund a portion of the costs related to termination of the interest rate swap, fund certain capital expenditures at the DLSM facilities, and to pay for issuance costs. This transaction resulted in the recognition of a loss from early extinguishment of debt in the amount of $420,807 which is recorded on the consolidated statement of operations and changes in net assets for the year ended December 31, 2016.

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

The consolidated statements of operations and changes in net assets include an intermediate measure of operations labeled “Operating income.” 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 “Excess (deficit) of operating revenues, gains and other support over expenses.” Changes in unrestricted net assets that are excluded from this measure include unrealized gains (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 accordance 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.

(Continued)

(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 as of December 31, 2016 and 2015, was $7,205,935 and $8,306,244, 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 7.5% of net operating expenses, or $1,184,213, as of December 31, 2016, its fifth year of operation, and 6% of net operating expenses, or $940,749, as of December 31, 2015, its fourth 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 Principle

On January 1, 2016, the Corporation adopted the provisions of Accounting Standards Update (ASU) 2015-03, Simplifying the Presentation of Debt Issuance Costs. Prior to the adoption, the Corporation's policy was to present debt issuance costs in other assets on the consolidated balance sheets. These costs are now presented as a direct deduction to the related long-term debt on the consolidated balance sheets. Details regarding amortization of these costs are included under Note 1(l) – Deferred Debt Issuance Costs and Other Assets.

(ff) Reclassifications

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

(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:

	2016	2015
Under bond indentures for debt service reserve fund:		
Cash and short-term investments	$ 967,350	967,350
Debt Service Sinking Fund:		
Cash and short-term investments	6,655,083	7,047,207
Under bond indentures for construction projects:		
Cash and short-term investments	2,640,146	31
Endowment funds:		
Cash and short-term investments	907,685	3,665,884
Fixed income funds	3,891,608	3,873,531
Equity funds	12,072,569	9,175,811
Donor and other temporarily restricted funds:		
Cash and short-term investments	760,995	1,760,866
Equity funds	6,356,675	4,601,171
Fixed income funds	2,347,110	2,188,401
Common stock	—	6,812
Assets Limited to Use for HUD Reserves:		
Cash and short-term investments	4,312,904	1,617,773
By board for designated purposes:		
Funded depreciation:		
Cash and short-term investments	235,356	327,292
Equity funds	2,195,419	1,851,363
Fixed income funds	1,541,592	1,613,556
Entrance fees and other designated purposes:		
Cash and short-term investments	3,663,173	4,930,897
Equity funds	27,551,532	22,152,486
Fixed income funds	19,551,809	20,184,657
Common stock	—	4,611
Statutory minimum liquid reserves:		
Equity funds	4,233,342	4,419,922
Fixed income funds	2,972,593	3,886,322
Total assets limited as to use	102,856,941	94,275,943
Less assets limited as to use – required for current liabilities:		
Other	9,472,075	7,047,206
Assets limited as to use, less current portion	$ 93,384,866	87,228,737

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

		2016	2015
Cash and short-term investments	$	3,467,115	4,908,426
Equity funds		32,266,536	27,102,062
Fixed income funds		17,673,815	17,464,926
Alternative investment		4,598,319	2,887,843
Investments	$	58,005,785	52,363,257

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

	2016		2015	
Cash and short-term investments	$ 23,609,807	14.7%	$ 25,225,726	17.2%
Equity funds	84,676,073	52.6%	69,302,815	47.3%
Fixed income funds	47,978,527	29.8%	49,211,393	33.5%
Common stock	—	0.0%	11,423	0.0%
Alternative investment	4,598,319	2.9%	2,887,843	2.0%
	$ 160,862,726	100.0%	$ 146,639,200	100.0%

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

	2016		
	Unrestricted	Temporarily restricted	Total
Interest and dividends, net of expenses	$ 4,405,935	1,230,485	5,636,420
Net realized gains on investments	835,047	286,550	1,121,597
Investment income, net of expenses	5,240,982	1,517,035	6,758,017
Unrealized gain on investments	1,087,336	—	1,087,336
Changes in unrealized gains on temporarily restricted net assets	—	83,071	83,071
Total investment return	$ 6,328,318	1,600,106	7,928,424

		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)

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

		Less than 12 months		12 months or longer		Total	
December 31, 2016		**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Description of funds:							
Fixed income funds	$	—	—	14,794,796	390,032	14,794,796	390,032
Equity funds		4,736,921	13,079	19,755,618	2,290,891	24,492,539	2,303,970
Total temporarily impaired funds	$	4,736,921	13,079	34,550,414	2,680,923	39,287,335	2,694,002

		Less than 12 months		12 months or longer		Total	
December 31, 2015		**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**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

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 declines in fair value as of December 31, 2016 and 2015, 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 47% and 43% of patient and resident service revenue, net of contractual allowances, for the years ended December 31, 2016 and 2015, respectively. Medicare and Medicaid receivables represent approximately 47% and 53% of patient and resident accounts receivable as of December 31, 2016 and 2015, respectively.

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 $3,866,533 and $2,029,793 for 2016, respectively, and $3,782,662 and $2,038,138 for 2015, 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 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. In 2016, the Commonwealth paid skilled nursing providers at the April 1, 2016 rates rather than the subsequent quarters rates for the time period of July 1, 2016 through October 31, 2016. Medicaid payments received from the Commonwealth for services rendered during this period were $254,196 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:

		2016	2015
Land	$	16,441,933	16,441,933
Land improvements		28,509,912	32,151,826
Buildings		347,939,753	338,762,783
Furniture and equipment		40,780,403	59,719,006
Vehicles		503,009	503,009
		434,175,010	447,578,557
Accumulated depreciation		(208,983,537)	(220,737,757)
		225,191,473	226,840,800
Construction in progress		3,344,183	6,015,351
	$	228,535,656	232,856,151

Depreciation expense for the years ended December 31, 2016 and 2015 was $17,618,747 and $17,778,524, respectively.

Construction in progress as of December 31, 2016 and 2015 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 $529,000 and $3,924,000 as of December 31, 2016 and 2015, 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:

	2016	2015
Cumberland County Municipal Authority Bonds Series 2016, $34,780,000 of tax exempt fixed interest rate bonds with principal payable in annual installments ranging from $640,000 to $4,430,000 through 2039. Interest rates range from 2.5% to 5.0% and the bonds were issues at an aggregate premium of $4,003,300, which is being amortized ratably over the life of the issue, to yield an effective interest rate of 3.14%.	$ 34,780,000	$ —
Cumberland County Municipal Authority Bonds Series 2015, $147,545,000 of tax-exempt fixed interest rate bonds with principal payable in annual installments ranging from $2,465,000 to $12,855,000 through 2038. Interest rates 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%.	145,080,000	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 1.45%.	21,473,000	21,979,000
Cumberland County Municipal Authority Bonds Series B 2014, $29,815,000 of tax-exempt variable interest rate bonds which were collateralized by a letter of credit provided by M&T Bank. The Series B 2014 Bonds were fully refunded with proceeds from the Series 2016 Bond issuance.	—	29,315,000

(Continued)

	2016	2015
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 1.45%.	17,153,000	17,818,000
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%.	9,420,000	9,690,000
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 3.07% to 4.22% and monthly payments, including interest, ranging from $12,144 to $30,274 through 2051.	14,328,843	11,678,107
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. Per the terms of an amendment executed November 15, 2016, the note bears interest at a floating interest rate of 30-day LIBOR plus 2.50%, plus fixed monthly premium installments of $18,500, through May 15, 2018, when the remaining balance of $3,354,250 is payable.	3,666,834	3,833,641
	245,901,677	241,858,748
Less current maturities of bonds and mortgages payable	(6,632,277)	(9,027,920)
Unamortized debt issuance costs	(3,771,484)	(3,472,449)
Unamortized premium	11,793,612	8,361,363
	$ 247,291,528	$ 237,719,742

(Continued)

All of the outstanding bonds described herein are obligations of the Obligated Group. On June 29, 2016, the Cumberland County (PA) Municipal Authority issued $34,780,000 of Series 2016 revenue bonds, the proceeds of which the Obligated Group utilized to fully refund the previously outstanding Series B 2014 Bonds, fund certain capital projects at Obligated Group facilities, and to fund a portion of the costs associated with terminating the swap.

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, with the exception of the property leased to DLSL-MD.

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.

A mortgage note totaling $3,440,000 was issued on December 28, 2016, for Diakon Frostburg Senior Housing, LLC, the proceeds of which were utilized to fully repay the outstanding balance of the loan for the Frostburg Heights affordable housing property, to fund certain building renovations and improvements at Frostburg, to fund certain reserves required by the U.S. Department of Housing and Urban Development, and to pay costs of debt issuance.

The following is a summary of scheduled annual maturities of long-term debt as of December 31, 2016:

	Scheduled maturity
2017	$ 6,632,277
2018	10,113,548
2019	6,951,986
2020	7,245,670
2021	7,568,781
Thereafter	207,389,415
	$ 245,901,677

The amount of cash paid for interest (including the net cost of the interest rate swap agreement and letter of credit support fees) was $10,956,713 and $12,098,890 for the years ended December 31, 2016 and 2015, respectively. There was no capitalized interest in 2016 or 2015.

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

	2016	**2015**
DLSM Obligated Group	4.17%	5.15%
Obligations outside of the Obligated Group	4.40	4.46
Combined	4.18	5.11

(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% (3.47% as of December 31, 2016). Amounts ranging from $0 to $3,182,532 were outstanding for various periods during 2016 and 2015. Borrowings outstanding under the line of credit totaled $0 as of December 31, 2016 and 2015. 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 $4,130,318 and $3,599,123 as of December 31, 2016 and 2015, 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 30-day LIBOR plus 2.35% (3.07% as of December 31, 2016). Amounts ranging from $0 to $2,723,870 were outstanding for various periods during 2016 and 2015. Borrowings outstanding under the line of credit totaled $987,238 and $2,723,870 as of December 31, 2016 and 2015, respectively. The bank line of credit is secured by DCFCM's accounts receivable and a $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, 2015, to December 31, 2016, 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 was $262,599,665 and $258,200,492 as of December 31, 2016 and 2015, 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, 2016			
	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	$ 23,609,807	—	—	23,609,807
Fixed income funds:				
Short term	14,148,997	—	—	14,148,997
Intermediate term	33,829,530	—	—	33,829,530
Equity funds:				
International	34,324,575	—	—	34,324,575
Large cap	43,330,661	—	—	43,330,661
Small cap	7,020,837	—	—	7,020,837
Alternative investment:				
Master Limited	—	4,517,643	—	4,517,643
Other	—	—	80,676	80,676
Funds held in trust by others and beneficial interest in trust	—	—	34,556,795	34,556,795
Total	$ 156,264,407	4,517,643	34,637,471	195,419,521

	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
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	—	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

There were no transfers between levels for the years ended December 31, 2016 or 2015.

(8) Derivative Instruments

The Obligated Group had a prior interest rate swap agreement with Wells Fargo Bank, subsequently amended in 2014 to a novation transaction with Wells Fargo Bank and PNC Bank in order to manage interest rate risk associated with $71,341,000 variable rate bonds (the issue amount of the Series 2014 variable rate bonds). On June 29, 2016, the Obligated Group terminated the swap by paying Wells Fargo $6,224,434 and PNC Bank $3,523,566.

The notional value of the swap as of December 31, 2015, was $69,112,000. Prior to the date of termination, the Obligated Group was paying a fixed rate of interest equal to 3.9309% to Wells Fargo Bank and 4.0300% to PNC Bank and receiving a variable rate of interest equal to 70% of 30-day LIBOR. The swap's fair value as of December 31, 2015, was a liability of $8,778,190.

(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	
		2016	**2015**
Change in benefit obligation:			
Benefit obligation at beginning of year	$	96,421,017	102,819,922
Interest cost		3,847,443	3,805,200
Change in assumptions		705,241	(6,279,699)
Actuarial (gain) loss		(58,754)	255,027
Benefit payments		(4,338,091)	(4,179,433)
Benefit obligation at end of year		96,576,856	96,421,017
Change in plan assets:			
Fair value of plan assets at beginning of year		62,693,525	67,513,203
Actual return on plan assets, net of expenses		4,570,710	(640,245)
Benefit payments		(4,338,091)	(4,179,433)
Fair value of plan assets at end of year		62,926,144	62,693,525
Funded status	$	(33,650,712)	(33,727,492)

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

		2016	2015
Noncurrent liabilities	$	33,650,712	33,727,492
Unrestricted net assets		(37,394,835)	(37,342,338)
Net amount recognized	$	(3,744,123)	(3,614,846)

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

		2016	2015
Net actuarial loss	$	(37,394,835)	(37,342,338)
	$	(37,394,835)	(37,342,338)

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

		2016	2015
Net estimated gain (loss)	$	(52,497)	887,238
Total recognized in unrestricted net assets	$	(52,497)	887,238

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 $1,066,814.

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

		2016	2015
Interest cost	$	3,847,443	3,805,200
Expected return on plan assets		(4,964,135)	(5,468,813)
Amortization of net loss		987,406	971,624
Net periodic benefit cost (benefit)	$	(129,286)	(691,989)

		2016	2015
Benefit cost (benefit)	$	(129,286)	(691,989)
Benefits paid		4,338,091	4,179,433

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

	2016	**2015**
Discount rate	3.91%	4.10%

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

	2016	**2015**
Discount rate	4.10%	3.78%
Expected long-term rate of return on plan assets	8.25	8.40

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, as of December 31, 2016 and 2015, respectively, the Corporation has invested approximately 22% and 28% of the pension plan assets into alternative investments, including a hedge fund of funds (0% and 8%), a special situations master feeder fund (6% and 6%), a core property real estate fund (12% and 11%) and an energy debt fund (4% and 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.

(Continued)

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, 2016			
	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	$ 949	949	—	—
Equity funds:				
Large cap disciplined	13,147,223	—	13,147,223	—
Small/mid cap	5,328,845	—	5,328,845	—
World Equity Ex-U.S.	8,119,779	—	8,119,779	—
Dynamic asset allocation	5,125,201	—	5,125,201	—
Emerging markets equity fund	1,842,009	—	1,842,009	—
Fixed income funds:				
High yield bond fund	1,466,673	—	1,466,673	—
Limited duration bond fund	2,863,400	—	2,863,400	—
Emerging markets debt fund	1,824,112	—	1,824,112	—
Core fixed income fund	6,576,759	—	6,576,759	—
Opportunistic income fund	2,889,465	—	2,889,465	—
Hedge funds:				
Core property collective investment trust	7,603,180	—	—	7,603,180
Collective Fund Escrow	365,327	—	—	365,327
Special situations collective fund	3,621,975	—	—	3,621,975
Energy debt fund	2,151,247	—	—	2,151,247
Total	$ 62,926,144	949	49,183,466	13,741,729

	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

There were no transfers between levels during the years ended December 31, 2016 or 2015.

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

	2016	2015
Asset category:		
Equity funds	53%	46%
Fixed income funds	25	26
Alternative investments	22	28
Total	100%	100%

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, 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
Total gains and losses included in changes in net assets:	
Net realized and unrealized gains	1,185,902
Purchases	365,327
Sales	(5,238,761)
Ending balance December 31, 2016	$ 13,741,729

The Corporation does not expect to make any contributions to its pension plan in 2017.

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

2017	$ 4,893,458
2018	5,068,488
2019	5,198,919
2020	5,256,934
2021	5,343,631
2022 – 2026	27,784,476

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

(Continued)

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. In 2016, the Corporation amended the 401(k) plan to reinstate employer matching contributions. Contributions recognized as expense for this plan were $320,095 and $22,546 for the years ended December 31, 2016 and 2015, 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 $753,300 and $451,538 as of December 31, 2016 and 2015, respectively.

(10) Temporarily Restricted Net Assets

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

	2016	2015
Beneficial interest in charitable remainder trusts and beneficial interest in trust	$ 1,582,219	1,582,219
Charitable gift annuities	1,115,283	908,993
Capital additions	493,974	210,353
DLF – Support of DCFCM programs	2,245,017	2,194,241
Accumulated gains on endowment and other purposes	7,196,364	6,498,842
Total	$ 12,632,857	11,394,648

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:

	2016	2015
Funds held in trust by others – income restricted for:		
Support of programs	$ 24,730,141	24,422,902
Staff and resident programs	148,665	150,244
DLF	8,095,770	8,047,344
Endowment and other purposes	16,894,536	16,436,865
Charitable gift annuities	118,143	118,143
DLF – Support of DCFCM programs	394,684	364,002
	$ 50,381,939	49,539,500

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, 2016 or 2015. 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.

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, 2016 or 2015. 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, 2016 and 2015. 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 $2,716,000 and $2,655,000 as of December 31, 2016 and 2015, 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 $298,000 and $1,013,000 as of December 31, 2016 and 2015, 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:

	2016	2015
Senior Living Services	$ 147,685,655	146,050,888
Services for Children, Family and Community	16,708,619	17,641,552
Statewide Adoption and Permanency Network	57,918,104	52,281,800
Ministry Support Services and Management	18,034,748	18,797,362
Fundraising	1,642,745	1,664,465
	$ 241,989,871	236,436,067

(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, 2016 totaled approximately $3,610,000.

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, 2016, which have initial or remaining terms of more than one year, are as follows:

2017	$ 1,131,998
2018	1,009,446
2019	841,517
2020	569,091
2021	366,249
	$ 3,918,301

Total lease expense was $1,801,449 and $1,710,958 for the years ended December 31, 2016 and 2015, respectively.

(16) Subsequent Events

The Corporation has evaluated subsequent events through April 17, 2017, 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.

Schedule 1

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Balance Sheet

December 31, 2016

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	Diakon Frostburg Senior Housing, LLC	Statewide Adoption Network (SWAN)	Consolidating entries	Total
Current assets:												
Cash and cash equivalents	$ 2,288,813	21,308	—	469,631	962	249,478	61,605	79,615	161,420	710,825	—	4,043,657
Assets limited as to use	9,472,075	—	—	—	—	—	—	—	—	—	—	9,472,075
Accounts receivable (net of allowance for doubtful accounts):												
Patients and residents	12,523,275	—	—	1,247,316	190,346	—	—	—	—	—	—	13,960,937
Statewide Adoption and Permanency Network	—	—	—	—	—	—	—	—	—	4,343,065	—	4,343,065
Other client services	582,646	—	—	—	2,940,818	—	—	—	—	—	(584,508)	2,938,956
Intercompany	3,393,405	(57,777)	249,994	(2,190,569)	(895,687)	(78,681)	(66,704)	(62,929)	(291,052)	—	—	—
Estimated third-party payor settlements	1,967,171	—	—	56,457	—	—	—	—	—	—	—	2,023,628
Lease receivable current	1,555,897	—	—	—	—	—	—	—	—	—	(1,555,897)	—
Prepaid expenses and other assets	3,574,587	—	—	162,020	20,998	11,591	6,675	7,364	37,856	10,325	—	3,831,416
Total current assets	35,357,869	(36,469)	249,994	(255,145)	2,257,437	182,388	1,576	24,050	(91,776)	5,064,215	(2,140,405)	40,613,734
Investments	37,017,299	1,446,771	16,668,033	2,700,348	173,334	—	—	—	—	—	—	58,005,785
Assets limited as to use, less current portion:												
Statutory minimum liquid reserves	7,205,935	—	—	—	—	—	—	—	—	—	—	7,205,935
Other	76,346,165	—	2,912,570	—	2,854,685	714,011	482,886	265,723	2,602,891	—	—	86,178,931
Investment in joint venture	506,459	89,950	—	—	—	—	—	—	—	—	—	596,409
Land, buildings and equipment, net	212,076,588	—	—	19,133,685	108,911	2,272,472	611,581	1,154,433	1,075,409	—	(7,897,423)	228,535,656
Other assets:												
Deferred debt issuance costs, net	—	—	—	—	—	—	—	—	—	—	—	—
Receivables from charitable gift annuities	1,233,426	—	—	—	—	—	—	—	—	—	—	1,233,426
Funds held in trust by others and beneficial interest in trust	26,461,025	—	8,095,770	—	—	—	—	—	—	—	—	34,556,795
Lease receivable long term	10,201,359	—	—	—	—	—	—	—	—	—	(10,201,359)	—
Other assets	5,191,850	—	—	—	—	—	—	—	—	—	—	5,191,850
Total assets	$ 411,597,975	1,500,252	27,926,367	21,578,888	5,394,367	3,168,871	1,096,043	1,444,206	3,586,524	5,064,215	(20,239,187)	462,118,521

(Continued)

Schedule 1

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Balance Sheet

December 31, 2016

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	Diakon Frostburg Senior Housing, LLC	Statewide Adoption Network (SWAN)	Consolidating entries	Total
Current liabilities:												
Lines of credit	$ —	—	—	—	987,238	—	—	—	—	—	—	987,238
Accounts payable and accrued expenses	15,148,111	152,022	—	208,502	560,852	111,427	25,242	25,125	25,593	5,064,215	(666,377)	20,654,712
Deposits – patients and residents	502,361	968	—	7,000	—	38,848	17,441	18,713	39,950	—	—	625,281
Estimated third-party payor settlements	993,609	—	—	—	—	—	—	—	—	—	—	993,609
Current obligation under capital lease	—	—	—	406,117	—	—	—	—	—	—	(406,117)	—
Current maturities of long-term debt	6,387,000	—	—	—	—	112,134	39,610	42,582	50,951	—	—	6,632,277
Total current liabilities	23,031,081	152,990	—	621,619	1,548,090	262,409	82,293	86,420	116,494	5,064,215	(1,072,494)	29,893,117
Pension liability	33,650,712	—	—	—	—	—	—	—	—	—	—	33,650,712
Swap agreement	—	—	—	—	—	—	—	—	—	—	—	—
Deferred revenue – entrance agreements	58,866,974	—	—	3,648,215	—	—	—	—	—	—	—	62,515,189
Refundable entrance fee liability	29,595,152	—	—	4,343,661	—	—	—	—	—	—	—	33,938,813
Other long-term liabilities	2,379,614	—	—	—	—	1,698	664	630	1,127	—	—	2,383,733
Long-term obligation under capital lease	—	—	—	20,585,559	—	—	—	—	—	—	(20,585,559)	—
Long-term debt, less current maturities and debt issuance costs	234,283,469	—	—	—	—	5,595,849	2,031,236	2,286,619	3,094,355	—	—	247,291,528
Total liabilities	381,807,002	152,990	—	29,199,054	1,548,090	5,859,956	2,114,193	2,373,669	3,211,976	5,064,215	(21,658,053)	409,673,092
Net assets (deficit):												
Unrestricted	(19,978,856)	1,347,262	17,190,896	(7,705,211)	1,421,826	(2,691,085)	(1,018,150)	(929,463)	374,548	—	1,418,866	(10,569,367)
Temporarily restricted	9,540,487	—	2,245,016	6,862	840,492	—	—	—	—	—	—	12,632,857
Permanently restricted	40,229,342	—	8,490,455	78,183	1,583,959	—	—	—	—	—	—	50,381,939
Total net assets (deficit)	29,790,973	1,347,262	27,926,367	(7,620,166)	3,846,277	(2,691,085)	(1,018,150)	(929,463)	374,548	—	1,418,866	52,445,429
Total liabilities and net assets (deficit)	$ 411,597,975	1,500,252	27,926,367	21,578,888	5,394,367	3,168,871	1,096,043	1,444,206	3,586,524	5,064,215	(20,239,187)	462,118,521

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, 2016

	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	Diakon Frostburg Senior Housing, LLC	Statewide Adoption Network (SWAN)	Consolidating entries	Total
Operating revenues, gains and other support:												
Patient and resident service revenue, net of contractual allowances	$ 127,448,485	—	—	13,938,940	5,820	—	—	—	—	—	—	141,393,245
Patient and resident service revenue, nursing home assessment	3,866,533	—	—	—	—	—	—	—	—	—	—	3,866,533
Amortization of entrance fees	10,657,451	—	—	447,001	—	—	—	—	—	—	—	11,104,452
Contract revenue	446,638	—	—	—	9,143,517	739,960	241,796	252,472	—	—	—	10,824,383
Grants from affiliates	—	—	—	—	1,530,000	—	—	—	—	—	(1,530,000)	—
Other fees and services	7,376,347	157,337	—	66,321	8,735,688	460,829	200,615	217,145	—	—	(5,039,595)	12,174,687
Statewide Adoption and Permanency Network revenue	—	—	—	—	—	—	—	—	—	57,918,104	—	57,918,104
Investment income, net of expenses	5,001,888	40,963	1,042,295	67,471	6,177	298	180	117	—	—	(918,407)	5,240,982
Income from trusts	1,142,539	—	359,151	—	—	—	—	—	—	—	—	1,501,690
Contributions and bequests	2,699,968	—	(29,496)	2,136	268,859	—	—	—	—	—	—	2,941,467
Net assets released from restrictions – operations	797,184	—	77,491	3,660	573,196	—	—	—	—	—	—	1,451,531
Gain on disposal of assets	16,501	—	—	3,856	119	—	—	—	—	—	—	20,476
Total operating revenues, gains and other support	159,453,534	198,300	1,449,441	14,529,385	20,263,376	1,201,087	442,591	469,734	—	57,918,104	(7,488,002)	248,437,550
Expenses:												
Salaries and wages	52,144,683	—	—	5,269,617	8,242,883	202,072	109,651	123,951	—	737,001	—	66,829,858
Employee benefits	11,140,847	—	—	1,055,671	1,921,434	35,227	24,162	24,215	—	167,515	—	14,369,071
Other expenses	61,728,225	156,516	1,297,406	7,529,726	8,574,223	504,904	171,155	176,797	—	—	(6,569,585)	73,569,367
Other expenses – Statewide Adoption and Permanency Network	—	—	—	—	—	—	—	—	—	57,013,588	—	57,013,588
Nursing home assessment	2,029,793	—	—	—	—	—	—	—	—	—	—	2,029,793
Interest	10,036,712	—	—	1,169,145	24,725	271,584	97,087	109,302	880	—	(1,169,145)	10,540,290
Depreciation and amortization	16,160,155	—	—	765,351	10,450	282,936	84,663	114,418	(14)	—	219,945	17,637,904
Total expenses	153,240,415	156,516	1,297,406	15,789,510	18,773,715	1,296,723	486,718	548,683	866	57,918,104	(7,518,785)	241,989,871
Operating income (loss)	6,213,119	41,784	152,035	(1,260,125)	1,489,661	(95,636)	(44,127)	(78,949)	(866)	—	30,783	6,447,679
Decrease in fair value of swap agreement	(969,810)	—	—	—	—	—	—	—	—	—	—	(969,810)
Equity in gains of joint venture	415,502	—	—	—	—	—	—	—	—	—	—	415,502
Loss from early extinguishment of debt	(420,807)	—	—	—	—	—	—	—	—	—	—	(420,807)
Excess (deficit) of operating revenues, gains and other support over expenses	5,238,004	41,784	152,035	(1,260,125)	1,489,661	(95,636)	(44,127)	(78,949)	(866)	—	30,783	5,472,564
Other changes:												
Pension-related changes other than net periodic pension costs	(52,497)	—	—	—	—	—	—	—	—	—	—	(52,497)
Unrealized gains (losses) on investments	1,234,140	(22,509)	(234,339)	111,077	(1,033)	—	—	—	—	—	—	1,087,336
Net assets released from restrictions – capital	81,758	—	—	7,505	15,014	—	—	—	—	—	—	104,277
Equity transfer to affiliate	(375,414)	—	—	—	—	—	—	—	375,414	—	—	—
Total other changes	887,987	(22,509)	(234,339)	118,582	13,981	—	—	—	375,414	—	—	1,139,116
(Decrease) increase in unrestricted net assets (deficit)	6,125,991	19,275	(82,304)	(1,141,543)	1,503,642	(95,636)	(44,127)	(78,949)	374,548	—	30,783	6,611,680

(Continued)

DIAKON
AND CONTROLLED AFFILIATES

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

Period ended December 31, 2016

	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	Diakon Frostburg Senior Housing, LLC	Statewide Adoption Network (SWAN)	Consolidating entries	Total
Temporarily restricted net assets:												
Contributions and bequests	$ 681,362	—	—	7,719	504,830	—	—	—	—	—	—	1,193,911
Investment gains, net of expenses	1,226,327	—	165,191	—	125,517	—	—	—	—	—	—	1,517,035
Unrealized gains (losses) on investments	108,266	—	(36,925)	—	11,730	—	—	—	—	—	—	83,071
Net assets released from restrictions – operations	(797,185)	—	(77,491)	(3,660)	(573,195)	—	—	—	—	—	—	(1,451,531)
Net assets released from restrictions – capital	(81,758)	—	—	(7,505)	(15,014)	—	—	—	—	—	—	(104,277)
Increase (decrease) in temporarily restricted net assets	1,137,012	—	50,775	(3,446)	53,868	—	—	—	—	—	—	1,238,209
Permanently restricted net assets:												
Contributions and bequests	408,628	—	30,683	49,042	—	—	—	—	—	—	—	488,353
Increase in fair value of funds held in trust by others	305,660	—	48,426	—	—	—	—	—	—	—	—	354,086
Increase in permanently restricted net assets	714,288	—	79,109	49,042	—	—	—	—	—	—	—	842,439
Increase (decrease) in net assets (deficit)	7,977,291	19,275	47,580	(1,095,947)	1,557,510	(95,636)	(44,127)	(78,949)	374,548	—	30,783	8,692,328
Net assets (deficit), beginning 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
Net assets (deficit), end of year	$ 29,790,973	1,347,262	27,926,367	(7,620,166)	3,846,277	(2,691,085)	(1,018,150)	(929,463)	374,548	—	1,418,866	52,445,429

See accompanying independent auditor's report.

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Statement of Cash Flows

Year ended December 31, 2016

	Diakon Lutheran Social Ministries	Diakon	Diakon Lutheran Fund	Diakon Lutheran Senior Living Maryland LLC	Diakon Child, Family and Community Ministries	Diakon Lutherwood Senior Housing, LLC	Diakon Lutheran Senior Housing at Luther Meadows	Diakon Lutheran Senior Housing at Heilman House	Diakon Frostburg Senior Housing, LLC	Statewide Adoption Network (SWAN)	Institute for Strategic Management, Inc.	Elimination entries	Total
Cash flows from operating activities:													
Increase (decrease) in net assets (deficit)	$ 7,977,291	19,275	47,580	(1,095,947)	1,557,510	(95,636)	(44,127)	(78,949)	374,548	—	—	30,783	8,692,328
Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash provided by (used in) operating activities:													
Net realized gains on investments	(831,941)	—	(266,822)	—	(22,834)	—	—	—	—	—	—	—	(1,121,597)
Net unrealized (gains) losses on investments	(1,342,406)	22,509	271,264	(111,077)	(10,697)	—	—	—	—	—	—	—	(1,170,407)
Depreciation and amortization	16,160,155	—	—	765,351	10,450	282,936	84,663	114,418	(14)	—	—	219,945	17,637,904
Amortization of debt issuance costs	149,021	—	—	—	—	16,308	5,476	4,536	—	—	—	—	175,341
Decrease in pension liability	(76,780)	—	—	—	—	—	—	—	—	—	—	—	(76,780)
Amortization of entrance fees	(10,657,451)	—	—	(447,001)	—	—	—	—	—	—	—	—	(11,104,452)
Proceeds from entrance fees	15,537,674	—	—	399,000	—	—	—	—	—	—	—	—	15,936,674
Change in funds held in trust by others and beneficial interest in trust	(305,660)	—	(48,426)	—	—	—	—	—	—	—	—	—	(354,086)
Equity transfer to affiliate	375,414	—	—	—	—	—	—	—	(375,414)	—	—	—	—
Decrease in fair value of swap agreement	969,810	—	—	—	—	—	—	—	—	—	—	—	969,810
Equity in gains of joint venture and subsidiaries	(415,502)	—	—	—	—	—	—	—	—	—	—	—	(415,502)
Loss on early extinguishment of debt	420,807	—	—	—	—	—	—	—	—	—	—	—	420,807
Gain on disposal of fixed assets	(16,501)	—	—	(3,856)	(119)	—	—	—	—	—	—	—	(20,476)
Provision for bad debts	1,609,042	—	—	325,952	108,183	—	—	—	—	—	—	—	2,043,177
Restricted contributions and investment income	(1,519,132)	—	(118,383)	(53,101)	(57,152)	—	—	—	—	—	—	—	(1,747,768)
Change in assets and liabilities:													
Accounts receivable and estimated third-party payor settlements	18,854,529	45,011	(222,933)	816,557	310,287	52,597	67,814	60,370	291,052	5,717,395	79	(8,114,601)	17,878,157
Prepaid expenses and other current assets	(1,907,124)	—	—	25,195	(9,624)	10,919	61	65	(37,856)	(1)	—	—	(1,918,365)
Accounts payable, accrued expenses, and other liabilities	(18,541,523)	(23,400)	—	54,007	82,072	(16,957)	(9,714)	(34,668)	26,720	(5,015,960)	—	8,116,002	(15,363,421)
Deposits – patients and residents	(73,016)	—	—	7,000	—	(262)	1,478	1,025	39,950	—	—	—	(23,825)
Net cash provided by (used in) operating activities	26,366,707	63,395	(337,720)	682,080	1,968,076	249,905	105,651	66,797	318,986	701,434	79	252,129	30,437,519
Cash flows from investing activities:													
Purchase of investments and assets limited as to use	(25,739,266)	(64,441)	(1,005,147)	(59,416)	(617,850)	(44,553)	(9,690)	(17,293)	(2,602,891)	—	—	—	(30,160,547)
Proceeds from sales of investments and assets limited as to use	16,639,712	477	1,224,484	1,267	363,084	—	—	—	—	—	—	—	18,229,024
Purchase of property and equipment	(11,788,018)	—	—	3,854	(68,837)	(43,542)	(41,357)	(12,352)	(1,075,395)	—	—	(252,129)	(13,277,776)
Proceeds from capital lease	385,349	—	—	—	—	—	—	—	—	—	—	(385,349)	—
Net cash (used in) provided by investing activities	(20,502,223)	(63,964)	219,337	(54,295)	(323,603)	(88,095)	(51,047)	(29,645)	(3,678,286)	—	—	(637,478)	(25,209,299)
Cash flows from financing activities:													
Payment of long-term debt	(34,551,924)	—	—	—	—	(107,649)	(38,022)	(40,826)	(9,701)	—	—	—	(34,748,122)
Retirement of swap agreement	(9,748,000)	—	—	—	—	—	—	—	—	—	—	—	(9,748,000)
Proceeds from debt re-financing	38,783,300	—	—	—	—	—	—	—	3,440,000	—	—	—	42,223,300
Net payment on lines of credit	—	—	—	—	(1,736,632)	—	—	—	—	—	—	—	(1,736,632)
Payment of debt issuance costs	(610,190)	—	—	—	—	—	—	—	(284,993)	—	—	—	(895,183)
Proceeds from restricted contributions and investment income	1,519,132	—	118,383	53,101	57,152	—	—	—	—	—	—	—	1,747,768
Proceeds from entrance fees	2,162,093	—	—	20,001	—	—	—	—	—	—	—	—	2,182,094
Refunds of entrance fees	(4,916,708)	—	—	(281,655)	—	—	—	—	—	—	—	—	(5,198,363)
Principal payments under capital lease obligation	—	—	—	(385,349)	—	—	—	—	—	—	—	385,349	—
Equity transfer to affiliate	(375,414)	—	—	—	—	—	—	—	375,414	—	—	—	—
Net cash (used in) provided by financing activities	(7,737,711)	—	118,383	(593,902)	(1,679,480)	(107,649)	(38,022)	(40,826)	3,520,720	—	—	385,349	(6,173,138)
Net (decrease) increase in cash and cash equivalents	(1,873,227)	(569)	—	33,883	(35,007)	54,161	16,582	(3,674)	161,420	701,434	79	—	(944,918)
Cash and cash equivalents, beginning of year	4,162,040	21,877	—	435,748	35,969	195,317	45,023	83,289	—	9,391	(79)	—	4,988,575
Cash and cash equivalents, end of year	$ 2,288,813	21,308	—	469,631	962	249,478	61,605	79,615	161,420	710,825	—	—	4,043,657

Schedule of noncash investment and financing activities:

A capital lease obligation of $286,131 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 $736,131 at the net book value of the assets.

See accompanying independent auditor's report.