

Audited  
Financial  
Statements

June 30,  
2014

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Brook Lane Health  
Services, Inc.

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**BROOK LANE HEALTH SERVICES, INC.**

**LIST OF REPORT DISTRIBUTION**

**Year Ended June 30, 2014**

**No of  
Copies**

1	SSA Administrative Specialist Office of Budget and Central Services 311 West Saratoga Street, 5 <sup>th</sup> Floor Baltimore, MD 21201
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1	State of Maryland Department of Juvenile Justice Michael DiBattista, Chief Office of Financial Services 120 West Fayette Street Baltimore, MD 21201



## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Brook Lane Health Services, Inc.  
Hagerstown, Maryland

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Brook Lane Health Services, Inc. and subsidiary (Brook Lane), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Brook Lane'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 Brook Lane'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.

Board of Directors  
Brook Lane Health Services, Inc.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brook Lane Health Services, Inc. and subsidiary as of June 30, 2014 and 2013, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet, consolidating statement of operations, consolidating statement of changes in net assets, consolidating statement of cash flows, as well as the accompanying schedules of revenues and expenses, comparison of payment rate to actual rate, functional expenses, sources of funds received – residential and education, total budgeted expenses to total actual expenses, budgeted expenses to actual expenses and net cost per child care month – residential and education and accumulated retained earnings and uses for the Department of Human Resources Respite Program, and schedules of nonpublic special education school budgeted expenses to actual expenses and schedule of accumulated retained earnings and uses for Laurel Hall School (Washington County – Level 1 School and the Frederick County Level 1 School), required by the Maryland Department of Education, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Board of Directors  
Brook Lane Health Services, Inc.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014 on our consideration of Brook Lane's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Brook Lane's internal control over financial reporting and compliance.

*Smith Elliott Keenan Company, LLC*

Chambersburg, Pennsylvania  
September 23, 2014

**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATED BALANCE SHEETS**

**June 30, 2014 and 2013**

**ASSETS**

	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,894,419	\$ 1,414,091
Investments	4,059	973,808
Assets whose use is limited - current portion	441,642	-
Patient accounts receivable, net of allowance for doubtful accounts of \$ 82,118 and \$ 114,978, respectively	4,221,287	3,514,155
Amounts due from third-party payors, current portion	34,885	81,991
Group home accounts receivable	333,074	315,660
Receivable for educational services	732,689	541,154
Inventories	136,904	143,918
Prepaid expenses	296,160	239,556
Other	11,817	10,429
Total current assets	<u>8,106,936</u>	<u>7,234,762</u>
<b>BOARD DESIGNATED INVESTMENTS</b>		
Capital replacement and expansion	362,537	390,409
Special purposes	33,936	54,874
Total board designated investments	<u>396,473</u>	<u>445,283</u>
<b>ASSETS WHOSE USE IS LIMITED</b>		
Pledges receivable	293,395	-
Construction Escrow Fund	2,448,933	-
Unemployment fund collateral	191,513	191,513
Total assets whose use is limited	<u>2,933,841</u>	<u>191,513</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Land and land improvements	556,581	568,889
Buildings	8,997,661	9,121,123
Fixed equipment	970,776	922,509
Major moveable equipment	868,803	1,027,827
Construction in progress	2,692,321	412,256
	<u>14,086,142</u>	<u>12,052,604</u>
Less allowance for depreciation	5,547,457	5,390,338
	<u>8,538,685</u>	<u>6,662,266</u>
<b>OTHER ASSETS</b>		
Long-term patients accounts receivable, net of allowance for doubtful accounts of \$ 9,904 and \$ 12,240, respectively	498,033	360,555
Deferred financing costs, net of accumulated amortization of \$ 69,358 and \$ 85,432, respectively	153,487	68,413
	<u>651,520</u>	<u>428,968</u>
Total assets	<u>\$ 20,627,455</u>	<u>\$ 14,962,792</u>



**LIABILITIES AND NET ASSETS**

	<b>2014</b>	<b>2013</b>
<b>CURRENT LIABILITIES</b>		
Current portion of long term debt	\$ 449,035	\$ 291,461
Trade accounts payable and accrued expenses	565,468	525,712
Construction accounts payable	441,642	-
Accrued salaries, wages, and payroll taxes	714,889	639,094
Accrued vacation	<u>753,787</u>	<u>764,520</u>
 Total current liabilities	 <u>2,924,821</u>	 <u>2,220,787</u>
 <b>OTHER LIABILITIES</b>		
Long-term debt, net of current portion	7,201,924	3,125,894
Obligation under interest rate swap agreement	<u>280,945</u>	<u>-</u>
 Total liabilities	 <u>10,407,690</u>	 <u>5,346,681</u>
 <b>NET ASSETS</b>		
Unrestricted	9,563,833	9,252,580
Temporarily restricted	<u>655,932</u>	<u>363,531</u>
Total net assets	<u>10,219,765</u>	<u>9,616,111</u>
 Total liabilities and net assets	 <u>\$ 20,627,455</u>	 <u>\$ 14,962,792</u>

*The Notes to the Consolidated Financial Statements are an integral part of these statements.*

**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years Ended June 30, 2014 and 2013**

	2014	2013
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>		
Net patient service revenue		
Routine services	\$ 8,340,251	\$ 8,773,915
Ancillary services	9,347,906	8,464,438
Net patient service revenue	<u>17,688,157</u>	<u>17,238,353</u>
Provision for bad debts	<u>(467,825)</u>	<u>(283,260)</u>
Net patient service revenue less provision for bad debts	17,220,332	16,955,093
Educational services	4,398,791	4,184,849
Group home revenues	1,069,976	1,429,160
Other operating revenues	<u>241,546</u>	<u>247,708</u>
Total revenues, gains, and other support	<u>22,930,645</u>	<u>22,816,810</u>
 <b>EXPENSES</b>		
Salaries and wages	14,288,070	13,708,185
Employee benefits	3,033,151	3,343,744
Supplies	1,179,922	1,219,155
Contractual services	912,024	923,333
Facility expense	1,523,089	1,473,299
Depreciation and amortization	531,527	549,352
Interest	91,351	107,585
General and administrative	<u>1,404,851</u>	<u>1,233,878</u>
Total expenses	<u>22,963,985</u>	<u>22,558,531</u>
Operating income (loss)	<u>(33,340)</u>	<u>258,279</u>
 <b>OTHER INCOME</b>		
Unrestricted gifts and bequests	21,700	158,712
Investment income	7,462	67,245
Other	<u>167,563</u>	<u>8,277</u>
Total other income	<u>196,725</u>	<u>234,234</u>
Excess of revenues, gains, and other support over expenses	163,385	492,513
Unrealized gain (loss) on investments	251	(24,512)
Change in value of interest rate swap agreement	(280,945)	-
Net assets released from restriction, used to purchase property and equipment	<u>428,562</u>	<u>39,570</u>
Increase in unrestricted net assets	<u>\$ 311,253</u>	<u>\$ 507,571</u>

*The Notes to the Consolidated Financial Statements are an integral part of these statements.*

**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**Years Ended June 30, 2014 and 2013**

	2014	2013
<b>UNRESTRICTED NET ASSETS</b>		
Excess of revenues, gains, and other support over expenses	\$ 163,385	\$ 492,513
Unrealized gain (loss) on investments	251	(24,512)
Change in value of interest rate swap agreement	(280,945)	-
Net assets released from restriction, used to purchase property and equipment	<u>428,562</u>	<u>39,570</u>
Increase in unrestricted net assets	<u>311,253</u>	<u>507,571</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	720,963	14,453
Net assets released from restriction, used to purchase property and equipment	<u>(428,562)</u>	<u>(39,570)</u>
Increase (decrease) in temporarily restricted net assets	<u>292,401</u>	<u>(25,117)</u>
Increase in net assets	<u>603,654</u>	<u>482,454</u>
Net assets, beginning of year	<u>9,616,111</u>	<u>9,133,657</u>
Net assets, end of year	<u>\$ 10,219,765</u>	<u>\$ 9,616,111</u>

*The Notes to the Consolidated Financial Statements are an integral part of these statements.*

**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2014 and 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 603,654	\$ 482,454
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	531,527	549,352
Provision for bad debts	467,825	283,260
Realized and unrealized gain on investments	(251)	(2,294)
Change in value of interest rate swap agreement	280,945	-
(Increase) decrease in:		
Patient accounts receivable	(1,312,435)	(1,056,756)
Group home accounts receivable	(17,414)	2,096
Receivable for educational services	(191,535)	(152,286)
Pledges receivable	(293,395)	-
Inventories	7,014	(1,482)
Amounts due from third-party payors	47,106	104,745
Other assets	(57,992)	(14,981)
Increase in:		
Accounts payable and accrued expenses	104,818	163,107
Net cash provided by operating activities	<u>169,867</u>	<u>357,215</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(1,959,378)	(783,742)
Proceeds from sale of investments	970,000	903,262
Purchase of investments	-	(933,362)
Net (increase) decrease in designated investments:		
Capital replacement and expansion	27,872	3,715
Special purposes	20,938	29,863
Construction escrow fund	(2,890,575)	-
Proceeds from note receivable	-	22,127
Net cash used by investing activities	<u>(3,831,143)</u>	<u>(758,137)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Financing costs	(92,000)	-
Payments on long-term debt	(366,396)	(282,762)
Proceeds from long-term debt	4,600,000	-
Net cash provided (used) by financing activities	<u>4,141,604</u>	<u>(282,762)</u>
Net increase (decrease) in cash and cash equivalents	480,328	(683,684)
Cash and cash equivalents, beginning of year	<u>1,414,091</u>	<u>2,097,775</u>
Cash and cash equivalents, end of year	<u>\$ 1,894,419</u>	<u>\$ 1,414,091</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest, net of capitalized interest of \$ 99,471 for 2014	\$ 92,079	\$ 108,285
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Construction in progress	\$ 441,642	\$ -
Construction accounts payable	441,642	-

*The Notes to the Consolidated Financial Statements are an integral part of these statements.*

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **Note 1. Organization and Summary of Significant Accounting Policies**

#### ***Organization***

Brook Lane Health Services, Inc. (Brook Lane), located in Hagerstown, Maryland, is a not-for-profit provider of mental health services established in 1949. It provides short-term hospitalization, outpatient services, Level 1 schooling, and transitional care to the residents of Washington County and surrounding areas.

In 2009, Brook Lane Foundation, Inc. (the "Foundation"), a wholly controlled subsidiary of Brook Lane, was organized for the purpose of receiving and administering funds to support Brook Lane Health Services, Inc.'s charitable and educational purposes.

#### ***Principles of Consolidation***

The consolidated financial statements for 2014 and 2013 include the accounts of Brook Lane Health Services, Inc. and its subsidiary, Brook Lane Foundation, Inc. (collectively "Brook Lane"). All significant intercompany transactions have been eliminated.

#### ***Consolidated Financial Statement Presentation***

Brook Lane follows generally accepted accounting principles for not-for-profit organizations, which require that resources be classified for reporting purposes into net asset categories as permanently restricted, temporarily restricted, and unrestricted net assets according to the existence or absence of donor-imposed restrictions.

#### ***Use of Estimates***

The preparation of the consolidated financial statements in conformity with 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, and the reported amounts of revenues and expenses during the reporting period. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were management's estimate of the allowance for doubtful accounts, reserve for contractual allowances, and amounts receivable under third party contractual agreements. Actual results could differ from those estimates.

#### ***Cash Equivalents***

For purposes of the consolidated statements of cash flows, Brook Lane has defined cash and cash equivalents as those amounts included in "cash and cash equivalents" on the consolidated balance sheets. No investments are considered cash equivalents.

#### ***Investments***

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues, gains, and other support over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses are reflected as other changes in net assets.

**Note 1. Organization and Summary of Significant Accounting Policies (Continued)**

***Patient Receivables***

Brook Lane provides credit in the normal course of its business to patients. Patient receivables are generally due 90 days after billed. An allowance for doubtful accounts is carried for patient accounts that may become uncollectible in future periods. The allowance for doubtful accounts is based on management's judgment of uncollectible accounts, historical trends, and other information. Patient receivables are charged off against the allowance when, in the judgment of management, it is unlikely they will be collected.

***Pledge Receivables***

In 2013, Brook Lane began a capital campaign to raise money for construction and expansion of the hospital and has begun receiving pledges. Pledges are recorded as receivables when a commitment is signed. No allowance has been recorded as management believes any write-offs are immaterial to the financial statements.

***Inventories***

Inventories of supplies are recorded at the lower of cost (using the first-in, first-out method) or market.

***Property, Plant, and Equipment***

Property, plant, and equipment acquisitions which exceed \$ 1,000 are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The cost and accumulated depreciation relating to capital assets sold or retired are removed from the respective accounts at the time of disposition and the resulting gain or loss is reflected in non-operating revenue. Depreciation expense was \$ 520,001 and \$ 538,210 for the years ended June 30, 2014 and 2013, respectively.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues, gains, and other support over expenses, unless explicit donor stipulations specify how the assets are to 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.

## **Note 1. Organization and Summary of Significant Accounting Policies (Continued)**

### ***Excess of Revenues, Gains, and Other Support Over Expenses***

The consolidated statements of operations include *excess of revenues, gains, and other support over expenses*. Changes in unrestricted net assets which are excluded from *excess of revenues, gains, and other support over expenses*, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, unrealized gains or losses on investments (other than trading securities), the effective portion of the change in the value of the interest rate swap agreement and contributions of long-lived assets (including assets acquired using donor restricted contributions).

### ***Donor-Restricted Gifts***

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Temporarily restricted net assets are those whose use by the Organization has been restricted by donors to a specific time period or purpose. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

### ***Advertising Costs***

Brook Lane follows the policy of charging costs of advertising to expense as incurred. Advertising expense was \$ 45,347 and \$ 41,073 for 2014 and 2013, respectively.

### ***Net Patient Service Revenue***

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered. Rates for patients' services in Maryland hospitals are subject to investigation, review, and approval by the Health Services Cost Review Commission (HSCRC), an independent commission created by a State of Maryland legislative act. All payors, except Medicare and Medicaid, are required to pay the HSCRC approved rates.

Medicare and Medicaid inpatient payments are based on a prospective payment system.

### ***Charity Care***

Brook Lane provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Brook Lane calculates charity care based on a ratio of total expenses to charges. Brook Lane's estimated annual cost of providing charity care for the years ending June 30, 2014 and 2013 were \$ 554,682 and \$ 387,619, respectively. There were no contributions or grant income received to offset the cost of charity care for the years ending June 30, 2014 and 2013.

**Note 1. Organization and Summary of Significant Accounting Policies (Continued)**

***Deferred Financing Costs***

Issuance costs related to the Town of Smithsburg Economic Development Revenue Bond, Series of 2013 and Series of 2002 (See Note 6), have been deferred and included in other non-current assets as of June 30, 2014 and 2013. Amortization is recognized over the life of the associated debt using the straight-line method. Amortization expense was \$ 11,526 and \$ 6,542 for the years ended June 30, 2014 and 2013, respectively.

In addition, a finance charge of \$ 23,000 was assessed to Brook Lane by the owner of the Frederick property for the build out of the school. This charge was amortized over a period of five years using the straight line method. Amortization expense was \$ 4,600 for the year ended June 30, 2013.

***Concentration of Credit Risk***

Brook Lane services patients principally living in the Washington County area. The majority of these patients have insurance through Blue Cross Blue Shield of Maryland or another insurance company, a health maintenance organization, or qualify for the Maryland Medical Assistance or Federal Medicare programs. Brook Lane grants credit without requiring collateral.

At June 30, Brook Lane's patient accounts receivable consisted of the following payors:

	2014	2013
Blue Cross Blue Shield	23.78%	17.50%
Medicare	10.07%	14.51%
Commercial Insurance	6.76%	7.38%
Health Maintenance Organizations	20.57%	17.02%
Medical Assistance	25.21%	30.33%
Self-Pay and Other	<u>13.61%</u>	<u>13.26%</u>
	<u>100.00%</u>	<u>100.00%</u>

Brook Lane's cash balances at a local financial institution periodically exceed the Federal Deposit Insurance Corporation limit. Management considers this a normal business risk.

***Income Taxes***

The Internal Revenue Service has ruled that Brook Lane and the Foundation qualify as tax-exempt entities under Section 501(c)(3) of the Internal Revenue Code and are classified as public charities.

***Uncertain Tax Positions***

The Organization follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the consolidated financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2014 and 2013 the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the Organization's consolidated financial statements. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the consolidated financial statements. No interest and penalties were recorded during the years ended June 30, 2014 and 2013. Generally, the tax years before 2011 are no longer subject to examination by federal, state or local taxing authorities.



**Note 1. Organization and Summary of Significant Accounting Policies (Continued)*****Disclosure about Fair Value of Financial Instruments***

Financial instruments include cash and cash equivalents, short-term investments, investment securities, patient accounts receivable, group home accounts receivable, educational services receivable, pledges receivable, accounts payables, long-term debt and obligation under interest rate swap agreement.

The fair value of cash and cash equivalents are deemed to be the same as their carrying value. The fair value of receivables and payables equals their carrying value. The fair value of the long-term debt approximates its carrying amount to the consolidated balance sheets as both issues are adjustable rate debt. The fair value of the interest rate swap agreement is based on valuation techniques which consider the present value of estimated expected future cash flows. Disclosure of additional fair value information is included in Notes 2, 13 and 15.

**Note 2. Investments**

The composition of investments in Brook Lane's investment portfolio at June 30, 2014 and 2013 is set forth in the following schedule:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 44	\$ 44	\$ 504,127	\$ 504,127
Equities	4,039	4,015	-	-
Fixed income	-	-	470,000	469,681
Current Investments	<u>\$ 4,083</u>	<u>\$ 4,059</u>	<u>\$ 974,127</u>	<u>\$ 973,808</u>
Board-designated investments				
Cash and cash equivalents	<u>\$ 396,473</u>	<u>\$ 396,473</u>	<u>\$ 445,283</u>	<u>\$ 445,283</u>
Unemployment fund collateral				
Certificate of deposit	<u>\$ 191,513</u>	<u>\$ 191,513</u>	<u>\$ 191,513</u>	<u>\$ 191,513</u>
		<b>2014</b>	<b>2013</b>	
<b><i>Investment Income</i></b>				
Interest and dividend income		\$ 7,462	\$ 40,439	
Realized gains		-	26,806	
		<u>\$ 7,462</u>	<u>\$ 67,245</u>	

**Note 3. Amounts Due From Third-Party Payors**

The amounts collected under the Medicare and Medicaid programs are subject to verification by fiscal intermediaries. The Medicare program is based on a prospective payment system and is no longer cost settled. The Medicaid outpatient settlements are still open for 2009 through 2014. Medicaid reimbursement for inpatient services is based on a prospective payment system and is no longer subject to a cost settlement process. An estimate for the settlement of the 2009 to 2013 Medicaid outpatient cost reports is recorded in the amount of \$ 34,885 at June 30, 2014 and \$ 81,991 at June 30, 2013. Management believes this to be a reasonable estimate at June 30, 2014 and 2013.

**Note 4. Assets Whose Use Is Limited**

Assets whose use is limited are comprised of various funds which have restrictions placed on them either by outside third-parties, or regulatory requirements. The accounts in this grouping include pledges receivable from donors designated for the hospital expansion; an escrow account to hold the proceeds of the Revenue Bond Series of 2013 (Note 6) for use in the hospital expansion and an unemployment compensation trust fund. Investment income earned on these funds is reflected in investment income in the consolidated statements of operations.

	2014	2013
Pledges receivable	\$ 293,395	\$ -
Construction escrow fund	2,890,575	-
Unemployment fund collateral	191,513	191,513
Total funds available	<u>3,375,483</u>	<u>191,513</u>
Less: Assets available to meet current liabilities	(441,642)	-
Assets whose use is limited	<u><u>\$2,933,841</u></u>	<u><u>\$ 191,513</u></u>

**Note 5. Pledges Receivable**

The Foundation has been soliciting pledges for the expansion of the hospital. Pledges restricted for capital acquisitions are reported in temporarily restricted net assets.

The remaining balance on these pledges at June 30, 2014 are due as follows:

Receivable in less than one year	\$ 133,325
Receivable in one to five years	<u>160,070</u>
Total pledges receivable	<u><u>\$ 293,395</u></u>

**Note 6. Long-Term Debt**

Long-term debt as of June 30 consists of the following:

	2014	2013
Town of Smithsburg, Economic Development Revenue Bond (Series 2002)	\$ 3,125,908	\$ 3,417,355
Town of Smithsburg, Economic Development Revenue Bond (Series 2013)	4,525,051	-
Less current portion	<u>(449,035)</u>	<u>(291,461)</u>
	<u>\$ 7,201,924</u>	<u>\$ 3,125,894</u>

On August 1, 2002, Brook Lane issued \$ 5,500,000 Town of Smithsburg, Economic Development Revenue Bond, Series of 2002 (Series of 2002). The bond issue was used to refinance the outstanding principal balance of the Washington County Economic Development Revenue Bonds, Series 1991, and finance the construction of two, two-story hospital wings totaling approximately 30,000 square feet and to renovate approximately 3,900 square feet of the facility. This Series of 2002 shall mature on April 1, 2024. The interest rate on the bond issue is based on 92% of the prime rate, not to exceed a pre-determined interest rate. The interest rate will be adjusted on various anniversary dates. The interest rate on this obligation was 2.99% at June 30, 2014 and 2013, respectively. This obligation is secured by a first lien on all property and rents and profits hereunder and cross-collateralized with the line of credit. The Series of 2002 also has several covenants that Brook Lane must comply with, such as maintaining minimum debt service coverage and tangible net worth ratios. The bond series may be prepaid after August 1, 2007 without penalty.

On December 20, 2013, Brook Lane issued \$ 4,600,000 Town of Smithsburg, Economic Development Revenue Bond, Series of 2013. The bond issue was used to finance the construction and furnishing of a 14-bed addition and physician offices totaling approximately 23,767 square feet at Brook Lanes existing hospital facility, constructing a waste water treatment facility to serve the Brook Lane campus and building out, furnishing and equipping approximately 7,664 square feet of office space leased in Frederick County Maryland. The bond matures December 15, 2033. The interest rate on this obligation is 67% of the one month London Interbank Offered Rate (LIBOR) plus 2.01%. This variable rate was 2.11% at June 30, 2014. The interest rate on the bond is hedged with a swap agreement (Note 13) to create a synthetic fixed rate of 4.43%. The Series of 2013 is secured by a lien on all property and rents and profits hereunder and cross-collateralized with the line of credit. The Series of 2013 also has several covenants that Brook Lane must comply with, such as maintaining minimum debt service coverage, tangible net worth ratios and restrictions on future borrowings. The bond series may be prepaid after December 20, 2018 without penalty.

The aggregate future maturities of all long-term debt at June 30 are:

2015	\$ 449,035
2016	464,338
2017	481,706
2018	498,969
2019	516,879
Thereafter	<u>5,240,032</u>
	<u>\$ 7,650,959</u>

**Note 6. Long-Term Debt (Continued)**

Brook Lane has a revolving line of credit in the amount of \$ 750,000, with an interest rate of 92% of the prime rate with a floor of 3%. The interest rate was 3% at June 30, 2014 and 2013. This line of credit is secured by accounts receivable and cross-collateralized with the Series of 2002 and Series of 2013. There were no draws on this line of credit at June 30, 2014 or 2013.

Total interest costs incurred were \$ 190,822, of which \$ 99,471 was capitalized with construction, for the year ended June 30, 2014. Total interest costs incurred for 2013 were \$ 107,585.

**Note 7. Net Patient Service Revenue**

Brook Lane's routine and ancillary service revenue concentrations for the years ended June 30, 2014 and 2013 are as follows:

	<b>Net Patient Service Revenue</b>	
	<b>2014</b>	<b>2013</b>
Blue Cross Blue Shield	21.83%	22.33%
Medicare	10.79%	13.73%
Commercial Insurance	3.82%	3.14%
Health Maintenance Organizations	19.14%	17.35%
Medical Assistance	39.09%	39.67%
Self-Pay and Other	5.33%	3.78%
	<u>100.00%</u>	<u>100.00%</u>

Brook Lane's major payor sources are Blue Cross Blue Shield, Medicare, commercial insurance, health maintenance organizations, Medicaid, and self-pay individuals. Net patient service revenue, net of contractual and charity care allowance provided (but before the provision for bad debts), recognized in the consolidated statements of operations for the years ended June 30, 2014 and 2013, from these major payor sources is as follows:

	<b>2014</b>						<b>Total</b>
	<b>Blue Cross Blue Shield</b>	<b>Medicare</b>	<b>Commercial Insurance</b>	<b>Health Maintenance Organizations</b>	<b>Medical Assistance</b>	<b>Self-Pay and Other</b>	
Net patient service revenue	<u>\$ 3,860,906</u>	<u>\$ 1,909,079</u>	<u>\$ 674,894</u>	<u>\$ 3,384,860</u>	<u>\$ 6,914,057</u>	<u>\$ 944,361</u>	<u>\$ 17,688,157</u>
	<b>2013</b>						<b>Total</b>
	<b>Blue Cross Blue Shield</b>	<b>Medicare</b>	<b>Commercial Insurance</b>	<b>Health Maintenance Organizations</b>	<b>Medical Assistance</b>	<b>Self-Pay and Other</b>	
Net patient service revenue	<u>\$ 3,850,055</u>	<u>\$ 2,367,443</u>	<u>\$ 541,013</u>	<u>\$ 2,990,385</u>	<u>\$ 6,838,226</u>	<u>\$ 651,231</u>	<u>\$ 17,238,353</u>

**Note 7. Net Patient Service Revenue (Continued)**

The change in the allowance for doubtful accounts for 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Allowance for doubtful accounts at July 1	\$ 114,978	\$ 101,879
Provision for bad debts	467,825	283,260
Write off of bad debts	<u>(500,685)</u>	<u>(270,161)</u>
Allowance for doubtful accounts at June 30	<u>\$ 82,118</u>	<u>\$ 114,978</u>

**Note 8. Employee Benefit Plans**

Brook Lane has a 401(k) defined contribution plan that covers all employees who have attained the age of 21. Employees are eligible for matching contributions after completion of one year of service. An employee may contribute up to 100% of salary on a before-tax basis up to the elective deferral limit for the respective year. Brook Lane will make a 50% matching contribution up to a maximum of \$ 2,500, which is based on 5% of an eligible employee's salary up to \$ 100,000. Brook Lane may also make other discretionary contributions to the plan. All employee contributions and earnings are vested 100% immediately, as are Brook Lane's matching contributions. All discretionary employer contributions become 100% vested after three years of service.

Contribution expense of \$ 460,202 and \$ 432,656 was incurred by Brook Lane related to the 401(k) plan during 2014 and 2013, respectively.

**Note 9. Leases**

Brook Lane has entered into a long-term lease agreement for the rental of office space. Rentals paid under operating leases for 2014 and 2013 were \$ 570,346 and \$ 581,560 respectively. Minimum future annual rentals based on long-term leases are as follows at June 30, 2014:

2015	\$ 386,433
2016	395,089
2017	403,908
2018	329,963
2019	<u>134,734</u>
Total	<u>\$ 1,650,127</u>

**Note 10. Functional Expenses**

Brook Lane provides general psychiatric and school services to residents within its geographic service area. Expenses by functional category related to providing these services are as follows:

	2014	2013
Program services	\$ 19,111,201	\$ 19,213,112
General and administrative	3,748,049	3,239,966
Fundraising	<u>104,735</u>	<u>105,453</u>
	<u>\$ 22,963,985</u>	<u>\$ 22,558,531</u>

**Note 11. Maryland Health Services Cost Review Commission**

Brook Lane's charges are subject to review and approval by the Maryland Health Services Cost Review Commission. Management has filed the required forms with the Commission and believes Brook Lane to be in compliance with Commission requirements.

**Note 12. Malpractice Insurance Coverage**

Brook Lane is insured for malpractice under a claims-made policy. This type of policy covers only malpractice claims covered by the policy which are reported to the insurance carrier during the policy term. If this policy were discontinued, it would be Brook Lane's intention to obtain tail coverage. Based on management's evaluation of malpractice claims, an allowance for incurred but not reported claims is considered immaterial and not necessary.

**Note 13. Interest Rate Swap Agreement**

Brook Lane is exposed to the impact of interest rate changes on its variable rate debt, Town of Smithsburg, Economic Development Revenue Bond, Series of 2013 (Note 6). In order to manage the impact of interest rate changes on the Series of 2013, Brook Lane entered into a swap agreement with Susquehanna Bank on December 4, 2013 for a notional amount of \$ 4,600,000, effective on December 20, 2013, with a termination date of December 15, 2033. Brook Lane's intention is to pay a synthetic fixed interest rate of 4.43% and receive a floating rate of 67% of monthly LIBOR plus 2.01% on the Series of 2013.

Brook Lane does employ hedge accounting. The fair value of the interest rate swap at June 30, 2014 is \$ 280,945 and is included in Other Liabilities. The change in the value of the interest rate swap agreement is included after the excess of revenues, gains, and other support over expenses in the consolidated statements of operations at June 30, 2014.

**Note 14. Temporarily Restricted Net Assets**

At June 30, 2014 and 2013, temporarily restricted net assets consist of funds solicited for the construction of the hospital addition and purchase of designated equipment, furnishings, and supplies.

## Note 15. Fair Value Measurements

Generally accepted accounting principles define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements. The established framework includes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those assets or liabilities included in each are as follows:

- Level 1 – Represented by quoted prices available in an active market. Level 1 assets include highly liquid government bonds, treasury securities, mortgage products, and exchange traded equities.
- Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 assets would include money market funds, certificates of deposit, U.S. agency securities, mortgage-backed agency securities, obligation of states, and political subdivisions, and certain corporate asset backed securities, and internally developed values with little uncertainty. The swap agreement liability is considered Level 2.
- Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement including the reporting entity's own assumptions about the market risk. Level 3 assets would include hedge funds, private equity securities, and internally developed values with significant uncertainty.

The fair value measurements are determined as follows:

*Domestic and International Common Stocks:* Based on quoted prices in an active market.

*Interest rate swap agreement:* The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data for similar agreements.

**Note 15. Fair Value Measurements (Continued)**

<u>At June 30, 2014</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Financial Assets</b>				
Money market funds	\$ 44	\$ -	\$ 44	\$ -
Domestic and international common stocks:				
Energy	4,015	4,015	-	-
Total assets at fair value	<u>\$ 4,059</u>	<u>\$ 4,015</u>	<u>\$ 44</u>	<u>\$ -</u>
<b>Financial Liabilities</b>				
Interest rate swap agreement	<u>\$ 280,945</u>	<u>\$ -</u>	<u>\$ 280,945</u>	<u>\$ -</u>

<u>At June 30, 2013</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Financial Assets</b>				
Money market funds	\$ 504,127	\$ -	\$ 504,127	\$ -
Certificates of deposit	469,681	-	469,681	-
Total assets at fair value	<u>\$ 973,808</u>	<u>\$ -</u>	<u>\$ 973,808</u>	<u>\$ -</u>

**Note 16. Commitments – Construction**

At June 30, 2014, Brook Lane has a commitment outstanding for the construction and furnishing of a 14-bed addition and physician offices totaling approximately 23,767 square feet at Brook Lane’s existing hospital facility, constructing a waste water treatment facility to serve the Brook Lane campus and build out, and furnishing and equipping approximately 7,664 square feet of office space leased in Frederick County Maryland. The total amount of this commitment outstanding at June 30, 2014 was \$ 2,458,217.

**Note 17. Subsequent Events**

Brook Lane has evaluated events and transactions subsequent to June 30, 2014 through September 23, 2014, the date these consolidated financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has not identified any events that have occurred subsequent to June 30, 2014 and through September 23, 2014 that requires recognition or disclosure in the consolidated financial statements.



BROOK LANE HEALTH SERVICES, INC.

CONSOLIDATING BALANCE SHEET  
June 30, 2014

ASSETS	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 1,894,419	\$ -	\$ -	\$ 1,894,419
Investments	4,059	-	-	4,059
Assets whose use is limited - current portion	441,642	-	-	441,642
Patient accounts receivable, net of allowance for doubtful accounts of \$ 82,118	4,221,287	-	-	4,221,287
Amounts due from third-party payors, current portion	34,885	-	-	34,885
Group home accounts receivable	333,074	-	-	333,074
Receivable for educational services	732,689	-	-	732,689
Inventories	136,904	-	-	136,904
Prepaid expenses	296,160	-	-	296,160
Other	11,817	-	-	11,817
Total current assets	<u>8,106,936</u>	<u>-</u>	<u>-</u>	<u>8,106,936</u>
<b>BOARD DESIGNATED INVESTMENTS</b>				
Capital replacement and expansion	-	362,537	-	362,537
Special purposes	48	33,888	-	33,936
Total board designated investments	<u>48</u>	<u>396,425</u>	<u>-</u>	<u>396,473</u>
<b>ASSETS WHOSE USE IS LIMITED</b>				
Pledges receivable	-	293,395	-	293,395
Construction Escrow Fund	2,448,933	-	-	2,448,933
Unemployment fund collateral	191,513	-	-	191,513
Total assets whose use is limited	<u>2,640,446</u>	<u>293,395</u>	<u>-</u>	<u>2,933,841</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>				
Land and land improvements	556,581	-	-	556,581
Buildings	8,997,661	-	-	8,997,661
Fixed equipment	970,776	-	-	970,776
Major moveable equipment	868,803	-	-	868,803
Construction in progress	2,692,321	-	-	2,692,321
	14,086,142	-	-	14,086,142
Less allowance for depreciation	5,547,457	-	-	5,547,457
	<u>8,538,685</u>	<u>-</u>	<u>-</u>	<u>8,538,685</u>
<b>OTHER ASSETS</b>				
Long-term patients accounts receivable, net of allowance for doubtful accounts of \$ 9,904	498,033	-	-	498,033
Deferred financing costs, net of accumulated amortization of \$ 69,358	153,487	-	-	153,487
	<u>651,520</u>	<u>-</u>	<u>-</u>	<u>651,520</u>
Total assets	<u>\$ 19,937,635</u>	<u>\$ 689,820</u>	<u>\$ -</u>	<u>\$ 20,627,455</u>

BROOK LANE HEALTH SERVICES, INC.

CONSOLIDATING BALANCE SHEET (CONTINUED)

June 30, 2014

LIABILITIES AND NET ASSETS	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
<b>CURRENT LIABILITIES</b>				
Current portion of long term debt	\$ 449,035	\$ -	\$ -	\$ 449,035
Accounts payable and accrued expenses	565,468	-	-	565,468
Construction accounts payable	441,642	-	-	441,642
Accrued salaries, wages, and payroll taxes	714,889	-	-	714,889
Accrued vacation	753,787	-	-	753,787
Total current liabilities	<u>2,924,821</u>	<u>-</u>	<u>-</u>	<u>2,924,821</u>
<b>OTHER LIABILITIES</b>				
Long-term debt, net of current portion	7,201,924	-	-	7,201,924
Obligation under interest rate swap agreement	280,945	-	-	280,945
Total liabilities	<u>10,407,690</u>	<u>-</u>	<u>-</u>	<u>10,407,690</u>
<b>NET ASSETS</b>				
Unrestricted	9,529,945	33,888	-	9,563,833
Temporarily restricted	-	655,932	-	655,932
Total net assets	<u>9,529,945</u>	<u>689,820</u>	<u>-</u>	<u>10,219,765</u>
Total liabilities and net assets	<u>\$ 19,937,635</u>	<u>\$ 689,820</u>	<u>\$ -</u>	<u>\$ 20,627,455</u>

**BROOK LANE HEALTH SERVICES, INC.**  
**CONSOLIDATING STATEMENT OF OPERATIONS**  
Year Ended June 30, 2014

	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>				
Net patient service revenue				
Routine services	\$ 8,340,251	\$ -	\$ -	\$ 8,340,251
Ancillary services	9,347,906	-	-	9,347,906
Net patient service revenue	17,688,157	-	-	17,688,157
Provision for bad debts	(467,825)	-	-	(467,825)
Net patient service revenue less provision for bad debts	17,220,332	-	-	17,220,332
Educational services	4,398,791	-	-	4,398,791
Group home revenues	1,069,976	-	-	1,069,976
Other operating revenues	244,746	-	(3,200)	241,546
Total revenues, gains, and other support	22,933,845	-	(3,200)	22,930,645
<b>EXPENSES</b>				
Salaries and wages	14,288,070	-	-	14,288,070
Employee benefits	3,033,151	-	-	3,033,151
Supplies	1,179,867	55	-	1,179,922
Contractual services	903,274	11,950	(3,200)	912,024
Facility expense	1,523,089	-	-	1,523,089
Depreciation and amortization	531,527	-	-	531,527
Interest	91,351	-	-	91,351
General and administrative	1,393,431	11,420	-	1,404,851
Total expenses	22,943,760	23,425	(3,200)	22,963,985
Operating loss	(9,915)	(23,425)	-	(33,340)
<b>OTHER INCOME</b>				
Unrestricted gifts and bequests	-	21,700	-	21,700
Investment income	7,462	-	-	7,462
Other	167,563	-	-	167,563
Total other income	175,025	21,700	-	196,725
Excess of revenues, gains, and other support over expenses	165,110	(1,725)	-	163,385
Unrealized gain (loss) on investments	251	-	-	251
Change in value of interest rate swap agreement	(280,945)	-	-	(280,945)
Net assets released from restriction, used to purchase property and equipment	-	428,562	-	428,562
Transfer from (to) related organization	474,701	(474,701)	-	-
Increase (decrease) in unrestricted net assets	\$ 359,117	\$ (47,864)	\$ -	\$ 311,253

**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS**  
*Year Ended June 30, 2014*

	<u>Brook Lane Health Services, Inc.</u>	<u>Brook Lane Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated Balance</u>
<b>UNRESTRICTED NET ASSETS</b>				
Excess of revenues, gains, and other support over expenses	\$ 165,110	\$ (1,725)	\$ -	\$ 163,385
Unrealized loss on investments	251	-	-	251
Change in value of interest rate swap agreement	(280,945)	-	-	(280,945)
Net assets released from restriction, used to purchase property and equipment	-	428,562	-	428,562
Transfer from parent organization	474,701	(474,701)	-	-
Increase (decrease) in unrestricted net assets	<u>359,117</u>	<u>(47,864)</u>	<u>-</u>	<u>311,253</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>				
Contributions	-	720,963	-	720,963
Net assets released from restriction, used to purchase property and equipment	-	(428,562)	-	(428,562)
Increase in temporarily restricted net assets	<u>-</u>	<u>292,401</u>	<u>-</u>	<u>292,401</u>
Increase in net assets	<u>359,117</u>	<u>244,537</u>	<u>-</u>	<u>603,654</u>
Net assets, beginning of year	<u>9,170,828</u>	<u>445,283</u>	<u>-</u>	<u>9,616,111</u>
Net assets, end of year	<u>\$ 9,529,945</u>	<u>\$ 689,820</u>	<u>\$ -</u>	<u>\$ 10,219,765</u>

**BROOK LANE HEALTH SERVICES, INC.**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2014**

	<u>Brook Lane Health Services, Inc.</u>	<u>Brook Lane Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated Balance</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Change in net assets	\$ 359,117	\$ 244,537	\$ -	\$ 603,654
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	531,527	-	-	531,527
Provision for bad debts	467,825	-	-	467,825
Realized and unrealized gain on investments	(251)	-	-	(251)
Change in value of interest rate swap agreement	280,945	-	-	280,945
(Increase) decrease in:				
Patient accounts receivable	(1,312,435)	-	-	(1,312,435)
Group home accounts receivable	(17,414)	-	-	(17,414)
Receivable for educational services	(191,535)	-	-	(191,535)
Pledges receivable	-	(293,395)	-	(293,395)
Inventories	7,014	-	-	7,014
Amounts due from third-party payors	47,106	-	-	47,106
Other assets	(57,992)	-	-	(57,992)
Increase in:				
Accounts payable and accrued expenses	104,818	-	-	104,818
Net cash provided (used) by operating activities	<u>218,725</u>	<u>(48,858)</u>	<u>-</u>	<u>169,867</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of property and equipment	(1,959,378)	-	-	(1,959,378)
Proceeds from sale of investments	970,000	-	-	970,000
Purchase of investments	-	-	-	-
Net (increase) decrease in designated investments:				
Capital replacement and expansion	27,872	-	-	27,872
Special purposes	20,938	-	-	20,938
Construction escrow fund	(2,890,575)	-	-	(2,890,575)
Proceeds from note receivable	-	-	-	-
Net cash used by investing activities	<u>(3,831,143)</u>	<u>-</u>	<u>-</u>	<u>(3,831,143)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Deferred financing costs	(92,000)	-	-	(92,000)
Payments on long-term debt	(366,396)	-	-	(366,396)
Proceeds from long-term debt	4,600,000	-	-	4,600,000
Transfer of net assets	(48,858)	48,858	-	-
Net cash provided by financing activities	<u>4,092,746</u>	<u>48,858</u>	<u>-</u>	<u>4,141,604</u>
Net increase in cash and cash equivalents	480,328	-	-	480,328
Cash and cash equivalents, beginning of year	<u>1,414,091</u>	<u>-</u>	<u>-</u>	<u>1,414,091</u>
Cash and cash equivalents, end of year	<u>\$ 1,894,419</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,894,419</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>				
Cash paid for interest	\$ 92,079	\$ -	\$ -	\$ 92,079
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>				
Construction in progress	\$ 441,642	\$ -	\$ -	\$ 441,642
Construction accounts payable	441,642	-	-	441,642

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAM  
SCHEDULE OF REVENUES AND EXPENSES  
Year Ended June 30, 2014**

**REVENUES**

Respite service fees	\$ 1,030,886
Education service fees	84,695
Adjustments	<u>(3,117)</u>
Total revenue	<u>1,112,464</u>

**EXPENSES**

Salaries and wages	754,560
Payroll taxes	57,724
Fringe benefits	87,898
Contracted services	13,493
Food service	45,897
Training	1,048
Clothing	2,945
Recreation	3,639
Personal need allowance	11,319
Rent	161,661
Utilities	33,157
Repairs and maintenance	13,249
Insurance and taxes	7,083
Supplies	5,094
Printing/copying	443
Telephone	5,325
Postage	751
Memberships and subscriptions	1,406
Conferences and conventions	289
Travel and transportation	1,599
Copier rental	2,323
Depreciation/use allowance	10,140
Indirect expense	<u>107,138</u>
Total expenses	<u>1,328,181</u>
Expenses over revenues	<u><u>(\$ 215,717)</u></u>

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAM  
SCHEDULE OF COMPARISON OF PAYMENT RATE TO ACTUAL RATE  
Year Ended June 30, 2014**

	<b>Actual Cost per Child Care Month</b>	<b>Payment Rate per Child Care Month</b>
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**Residential Program**

Total Revenue		\$ 1,030,886
Child Care Months		<u>153</u>
Rate comparison	<u>\$ 7,927</u>	<u>\$ 6,738</u>

**Education Program**

Total Revenue		\$ 84,695
Child Care Months		<u>51</u>
Rate comparison	<u>\$ 2,260</u>	<u>\$ 1,661</u>

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAM  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
Year Ended June 30, 2014**

	<b>Total Expense</b>	<b>Direct Care</b>	<b>Management &amp; General</b>	<b>Educational Services</b>
Salaries and wages	\$ 754,560	\$ 609,521	\$ 74,162	\$ 70,877
Payroll taxes	57,724	46,549	5,753	5,422
Fringe benefits	87,898	69,854	8,622	9,422
Contracted services	13,493	13,493	-	-
Food service	45,897	45,897	-	-
Training	1,048	1,048	-	-
Clothing	2,945	2,945	-	-
Recreation	3,639	3,639	-	-
Personal need allowance	11,319	11,319	-	-
Rent	161,661	145,675	-	15,986
Utilities	33,157	29,878	-	3,279
Repairs and maintenance	13,249	13,249	-	-
Insurance and taxes	7,083	6,544	-	539
Supplies	5,094	4,583	-	511
Printing/copying	443	328	-	115
Telephone	5,325	5,013	-	312
Postage	751	751	-	-
Membership and subscriptions	1,406	1,406	-	-
Conferences and conventions	289	289	-	-
Travel and transportation	1,599	939	-	660
Copier rental	2,323	-	2,323	-
Depreciation/use allowance	10,140	10,140	-	-
Indirect expense	107,138	-	98,981	8,157
Total expense	<u>\$ 1,328,181</u>	<u>\$ 1,023,060</u>	<u>\$ 189,841</u>	<u>\$ 115,280</u>



**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAM  
SCHEDULE OF SOURCES OF FUNDS RECEIVED - RESIDENTIAL -  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
Year Ended June 30, 2014**

<b>Payer Source</b>	<b>Number of Days</b>	<b>Per Diem Rate</b>	<b>Total Charges</b>
Allegany County Department of Social Services	189	\$ 224.79	\$ 42,485
Baltimore County Department of Social Services	166	\$ 224.79	37,315
Frederick County Department of Social Services	657	\$ 224.79	147,687
Howard County Department of Social Services	13	\$ 224.79	2,922
Montgomery County Department of Social Services	1,802	\$ 224.79	405,072
Prince George County Department of Social Services	27	\$ 224.79	6,069
Washington County Department of Social Services	<u>1,732</u>	\$ 224.79	<u>389,335</u>
	<u>4,586</u>		<u>\$ 1,030,886</u>

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAM  
SCHEDULE OF SOURCES OF FUNDS RECEIVED - EDUCATION -  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
Year Ended June 30, 2014**

<b>Payer Source</b>	<b>Number of Days</b>	<b>Per Diem Rate</b>	<b>Total Charges</b>
Allegany County Department of Social Services	103	\$ 55.61	\$ 5,728
Baltimore County Department of Social Services	100	\$ 55.61	5,561
Frederick County Department of Social Services	272	\$ 55.61	15,126
Howard County Department of Social Services	7	\$ 55.61	389
Montgomery County Department of Social Services	542	\$ 55.61	30,141
Prince George County Department of Social Services	14	\$ 55.61	779
Washington County Department of Social Services	<u>485</u>	\$ 55.61	<u>26,971</u>
	<u>1,523</u>		<u>\$ 84,695</u>

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAM  
SCHEDULE OF TOTAL BUDGETED EXPENSES TO TOTAL ACTUAL EXPENSES  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
Year Ended June 30, 2014**

	<b>Annual Budget</b>	<b>Actual</b>	<b>Variance (Over)/Under</b>
Salaries and wages	\$ 736,214	\$ 754,560	\$ (18,346)
Payroll taxes	56,321	57,724	(1,403)
Fringe benefits	120,371	87,898	32,473
Staff development costs	20,000	-	20,000
Conferences and conventions	550	289	261
Contracted services	70,450	13,493	56,957
Publicity	250	-	250
Food service	83,768	45,897	37,871
Training	-	1,048	(1,048)
Clothing	3,500	2,945	555
Recreation	5,000	3,639	1,361
Personal need allowance	5,500	11,319	(5,819)
Rent	121,860	161,661	(39,801)
Utilities	37,308	33,157	4,151
Repairs and maintenance	14,500	13,249	1,251
Insurance and taxes	7,150	7,083	67
Supplies	12,400	5,094	7,306
Printing/copying	250	443	(193)
Telephone	6,032	5,325	707
Postage	700	751	(51)
Membership and subscriptions	3,800	1,406	2,394
Travel and transportation	650	1,599	(949)
Copier rental/equipment lease	3,400	2,323	1,077
Depreciation/use allowance	7,850	10,140	(2,290)
Indirect expense	95,731	107,138	(11,407)
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Total expense	\$ 1,413,555	\$ 1,328,181	\$ 85,374
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**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAM  
SCHEDULE OF BUDGETED EXPENSES TO ACTUAL EXPENSES  
AND NET COST PER CHILD CARE MONTH - RESIDENTIAL -  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
Year Ended June 30, 2014**

	<b>Annual Budget</b>	<b>Actual</b>	<b>Variance (Over)/Under</b>
Salaries and wages	\$ 649,250	\$ 683,683	\$ (34,433)
Payroll taxes	49,668	52,302	(2,634)
Fringe benefits	106,152	78,476	27,676
Staff development costs	20,000	-	20,000
Conferences and conventions	50	289	(239)
Contracted services	70,450	13,493	56,957
Publicity	250	-	250
Food service	83,768	45,897	37,871
Training	-	1,048	(1,048)
Clothing	3,500	2,945	555
Recreation	5,000	3,639	1,361
Personal need allowance	5,500	11,319	(5,819)
Rent	106,428	145,675	(39,247)
Utilities	34,175	29,878	4,297
Repairs and maintenance	13,500	13,249	251
Insurance and taxes	6,500	6,544	(44)
Supplies	4,400	4,583	(183)
Printing/copying	250	328	(78)
Telephone	5,500	5,013	487
Postage	700	751	(51)
Memberships and subscriptions	3,800	1,406	2,394
Travel and transportation	650	939	(289)
Copier rental/equipment lease	3,400	2,323	1,077
Depreciation/use allowance	7,850	10,140	(2,290)
Indirect expense	86,000	98,981	(12,981)
	<u>\$ 1,266,741</u>	<u>1,212,901</u>	<u>\$ 53,840</u>
Total expense			
Child care months		<u>153</u>	
Net cost per child care month		<u>\$ 7,927</u>	

**SCHEDULE OF BUDGETED EXPENSES TO ACTUAL EXPENSES  
AND NET COST PER CHILD CARE MONTH - EDUCATION -  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
Year Ended June 30, 2014**

	<b>Annual Budget</b>	<b>Actual</b>	<b>Variance (Over)/Under</b>
Salaries and wages	\$ 86,964	\$ 70,877	\$ 16,087
Payroll taxes	6,653	5,422	1,231
Fringe benefits	14,219	9,422	4,797
Conferences and conventions	500	-	500
Rent	15,432	15,986	(554)
Utilities	3,133	3,279	(146)
Repairs and maintenance	1,000	-	1,000
Insurance and taxes	650	539	111
Printing and copying	-	115	(115)
Supplies	8,000	511	7,489
Telephone	532	312	220
Travel and transportation	-	660	(660)
Indirect expense	9,731	8,157	1,574
	<u>146,814</u>	<u>115,280</u>	<u>31,534</u>
Total expense	<u>\$ 146,814</u>	115,280	<u>\$ 31,534</u>
Child care months		<u>51</u>	
Net cost per child care month		<u>\$ 2,260</u>	

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAMS  
SCHEDULE OF ACCUMULATED RETAINED EARNINGS AND USES  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
Year Ended June 30, 2014**

Prior Years' Income (Loss)	Residential	Education	Total
1999	\$ 26,044	\$ -	\$ 26,044
2000	(91,016)	-	(91,016)
2001	39,126	-	39,126
2002	(119,520)	86,141	(33,379)
2003	(132,903)	(27,725)	(160,628)
2004	(90,146)	(27,381)	(117,527)
2005	172,479	18,900	191,379
2006	192,239	11,114	203,353
2007	(19,302)	10,376	(8,926)
2008	(12,380)	12,302	(78)
2009	56,376	(2,328)	54,048
2010	(142,031)	(37,091)	(179,122)
2011	(177,409)	(13,793)	(191,202)
2012	(304,280)	10,924	(293,356)
2013	<u>(266,221)</u>	<u>1,014</u>	<u>(265,207)</u>
Accumulated retained earnings and (losses)	<u>\$ (868,944)</u>	<u>\$ 42,453</u>	<u>(826,491)</u>
<b>Purchases of Fixed Assets:</b>		<b>Cost</b>	
Prior year purchases of fixed assets		\$ 172,417	(172,417)
Current year retained earning and (losses)	<u>\$ (185,129)</u>	<u>\$ (30,587)</u>	<u>(215,716)</u>
Ending accumulated retained losses			<u>\$ (1,214,624)</u>

**BROOK LANE HEALTH SERVICES, INC.**

**LAUREL HALL SCHOOL  
SCHEDULE OF NONPUBLIC SPECIAL EDUCATION SCHOOL BUDGETED  
EXPENSES TO ACTUAL EXPENSES - LEVEL 1 SCHOOL (WASHINGTON COUNTY) -  
FOR THE DEPARTMENT OF EDUCATION  
Year Ended June 30, 2014**

	Approved Budget	Actual Expenditures	Variance (Over)/Under	Percentage Variance
<i>Direct Costs</i>				
Salaries:				
School administrative	\$ 84,338	\$ 68,056	\$ 16,282	19.31
Direct classroom	248,735	260,053	(11,318)	(4.55)
Related services	449,187	357,623	91,564	20.38
General support	26,373	24,867	1,506	5.71
Fringe benefits	135,866	81,493	54,373	40.02
Payroll taxes	80,174	54,361	25,813	32.20
Professional fees	-	-	-	(100.00)
Supplies and non capital equipment	19,200	31,256	(12,056)	(62.79)
Phone/fax/internet	3,250	5,380	(2,130)	(65.54)
Postage	500	884	(384)	(76.80)
Occupancy	87,282	196,972	(109,690)	(125.67)
Rental/maintenance of equipment	7,680	24,678	(16,998)	(221.33)
Printing	-	54	(54)	(100.00)
Publications	-	30	(30)	(100.00)
Transportation	2,124	1,639	485	22.83
Dues	1,500	3,618	(2,118)	(141.20)
Depreciation	14,421	22,939	(8,518)	(59.07)
Professional insurance	-	7,990	(7,990)	(100.00)
Training	-	1,388	(1,388)	(100.00)
Recruitment	2,800	559	2,241	(100.00)
<b>Total direct costs</b>	<b>\$ 1,163,430</b>	<b>\$ 1,143,840</b>	<b>\$ 19,590</b>	<b>1.68</b>

**BROOK LANE HEALTH SERVICES, INC.**

**LAUREL HALL SCHOOL  
SCHEDULE OF NONPUBLIC SPECIAL EDUCATION SCHOOL BUDGETED  
EXPENSES TO ACTUAL EXPENSES - LEVEL 1 SCHOOL (WASHINGTON COUNTY) -  
FOR THE DEPARTMENT OF EDUCATION (CONTINUED)  
Year Ended June 30, 2014**

	<b>Approved Budget</b>	<b>Actual Expenditures</b>	<b>Variance (Over)/Under</b>	<b>Percentage Variance</b>
<i>Indirect Costs</i>				
Salaries:				
Administrative/Executive	\$ 38,847	\$ 66,638	\$ (27,791)	(71.54)
Fringe benefits	9,654	14,154	(4,500)	(46.61)
Professional fees	4,750	11,322	(6,572)	(138.36)
Supplies and non capital equipment	1,300	2,050	(750)	(57.69)
Rental/maintenance of equipment	-	5,387	(5,387)	(100.00)
Training	-	474	(474)	(100.00)
Publications	-	139	(139)	(100.00)
Printing and duplicating	-	1,251	(1,251)	(100.00)
Transportation	-	771	(771)	(100.00)
Meetings	-	380	(380)	(100.00)
Recruitment	-	166	(166)	(100.00)
Depreciation	4,150	14,316	(10,166)	(244.96)
Miscellaneous	-	1,902	(1,902)	(100.00)
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Total indirect costs	58,701	118,950	(60,249)	(102.64)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total costs</b>	<b>\$ 1,222,131</b>	<b>\$ 1,262,790</b>	<b>\$ (40,659)</b>	<b>(3.33)</b>
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**BROOK LANE HEALTH SERVICES, INC.**

**LAUREL HALL SCHOOL  
SCHEDULE OF NONPUBLIC SPECIAL EDUCATION SCHOOL BUDGETED  
EXPENSES TO ACTUAL EXPENSES - LEVEL 1 SCHOOL (FREDERICK COUNTY) -  
FOR THE DEPARTMENT OF EDUCATION  
Year Ended June 30, 2014**

	Approved Budget	Actual Expenditures	Variance (Over)/Under	Percentage Variance
<i>Direct Costs</i>				
Salaries:				
School administrative	\$ 136,672	\$ 156,219	\$ (19,547)	(14.30)
Direct classroom	400,481	367,086	33,395	8.34
Related services	539,646	508,386	31,260	5.79
General support	29,265	28,819	446	1.52
Fringe benefits	174,334	122,075	52,259	29.98
Payroll taxes	108,323	81,129	27,194	25.10
Professional fees	-	17,514	(17,514)	(100.00)
Supplies and non capital equipment	37,758	165,746	(127,988)	(338.97)
Phone/fax/internet	2,700	2,951	(251)	(9.30)
Postage	1,300	2,002	(702)	(54.00)
Occupancy	457,629	338,453	119,176	26.04
Rental/maintenance of equipment	14,427	22,499	(8,072)	(55.95)
Printing	-	204	(204)	(100.00)
Publications	-	576	(576)	(100.00)
Transportation	5,334	5,175	159	2.98
Meetings	500	158	342	68.40
Dues	1,375	518	857	62.33
Depreciation	36,550	19,140	17,410	47.63
Training	-	5,072	(5,072)	(100.00)
Recruitment	5,250	1,655	3,595	68.48
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Total direct costs	\$ 1,951,544	\$ 1,845,377	\$ 106,167	5.44
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**BROOK LANE HEALTH SERVICES, INC.**

**LAUREL HALL SCHOOL  
SCHEDULE OF NONPUBLIC SPECIAL EDUCATION SCHOOL BUDGETED  
EXPENSES TO ACTUAL EXPENSES - LEVEL 1 SCHOOL (FREDERICK COUNTY) -  
FOR THE DEPARTMENT OF EDUCATION (CONTINUED)  
Year Ended June 30, 2014**

	<b>Approved Budget</b>	<b>Actual Expenditures</b>	<b>Variance (Over)/Under</b>	<b>Percentage Variance</b>
<i>Indirect Costs</i>				
Salaries:				
Administrative/Executive	\$ 112,452	\$ 115,092	\$ (2,640)	(2.35)
Fringe benefits	29,965	24,446	5,519	18.42
Professional fees	6,142	19,554	(13,412)	(218.37)
Supplies and non capital equipment	-	3,541	(3,541)	(100.00)
Rental/maintenance of equipment	-	9,304	(9,304)	(100.00)
Training	-	819	(819)	(100.00)
Publications	-	241	(241)	(100.00)
Public relations	-	2,161	(2,161)	(100.00)
Transportation	-	1,330	(1,330)	(100.00)
Meetings	-	657	(657)	(100.00)
Recruitment	-	287	(287)	(100.00)
Depreciation	-	24,725	(24,725)	(100.00)
Miscellaneous	-	3,284	(3,284)	(100.00)
	<hr/>	<hr/>	<hr/>	<hr/>
Total indirect costs	148,559	205,441	(56,882)	(38.29)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total costs</b>	<b>\$ 2,100,103</b>	<b>\$ 2,050,818</b>	<b>\$ 49,285</b>	<b>2.35</b>
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**BROOK LANE HEALTH SERVICES, INC.**

**LAUREL HALL SCHOOL - LEVEL 1  
SCHEDULE OF ACCUMULATED RETAINED EARNINGS AND USES  
FOR THE DEPARTMENT OF EDUCATION  
Year Ended June 30, 2014**

<b>Prior Years' Income (Loss)</b>	<b>Laurel Hall Level 1</b>	<b>Frederick Level 1</b>	<b>Total</b>
2007	\$ 189,503	\$ -	\$ 189,503
2008	212,627	(24,195)	188,432
2009	145,399	119,720	265,119
2010	(55,033)	132,522	77,489
2011	22,471	166,094	188,565
2012	(48,491)	59,714	11,223
2013	<u>(139,484)</u>	<u>127,966</u>	<u>(11,518)</u>
Accumulated retained earnings	<u>\$ 326,992</u>	<u>\$ 581,821</u>	<u>\$ 908,813</u>
<b>Purchases of Fixed Assets:</b>	<b>Date</b>	<b>Cost</b>	
Prior year purchase of fixed assets		\$ 415,519	
Playground Mulch	9/1/2013	5,816	
5 Drawer Shelf	6/9/2014	2,064	
Total			(423,399)
Current year retained earnings	<u>(\$ 7,967)</u>	<u>\$ 116,410</u>	<u>108,443</u>
Ending accumulated retained earnings			<u>\$ 593,857</u>



Smith Elliott Kearns & Company, LLC  
Certified Public Accountants & Consultants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Brook Lane Health Services, Inc.  
Hagerstown, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Brook Lane Health Services, Inc. and subsidiary (Brook Lane), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 23, 2014.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and other Matters**

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

Board of Directors  
Brook Lane Health Services, Inc.

**Purpose of this Report**

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

*Smith Elliott Keenan & Company, LLC*

Chambersburg, Pennsylvania  
September 23, 2014

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE AND STONE BROOK TRANSITIONAL CARE PROGRAM  
AND LAUREL HALL SCHOOL  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
Year Ended June 30, 2014**

No findings noted in prior year.