

Audited  
Financial  
Statements

June 30, 2016

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**BROOK LANE  
FOUNDATION, INC.**

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Smith Elliott Kearns & Company, LLC  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Brook Lane Foundation, Inc.  
Hagerstown, Maryland

We have audited the accompanying financial statements of Brook Lane Foundation, Inc. (the Foundation) which comprise the statements of financial position as June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Smith Elliott Peonrsi Company, LLC*

Chambersburg, Pennsylvania  
August 26, 2016

**BROOK LANE FOUNDATION, INC.**  
**Statements of Financial Position**  
**June 30, 2016 and 2015**

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	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 211,593	\$ 294,191
Investments	10,293	10,293
Pledges receivable, net of allowance of \$ 7,210 for 2016 and \$ 7,470 for 2015	95,747	205,778
Due from Brook Lane Health Services, Inc.	<u>7,717</u>	<u>-</u>
 <b>TOTAL ASSETS</b>	 <b><u>\$ 325,350</u></b>	 <b><u>\$ 510,262</u></b>
<b>LIABILITIES</b>		
Due to Brook Lane Health Services, Inc.	<u>\$ -</u>	<u>\$ 10,129</u>
<b>NET ASSETS</b>		
Unrestricted	58,500	48,261
Temporarily restricted	<u>266,850</u>	<u>451,872</u>
 <b>TOTAL NET ASSETS</b>	 <b><u>325,350</u></b>	 <b><u>500,133</u></b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b><u>\$ 325,350</u></b>	 <b><u>\$ 510,262</u></b>

**BROOK LANE FOUNDATION, INC.**  
**Statements of Activities**  
**Years Ended June 30, 2016 and 2015**

	Unrestricted	2016 Temporarily Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>			
Contributions, net of fundraising expenses	\$ 23,793	91,838	\$ 115,631
Investment income	2,000	-	2,000
Net assets released from restrictions	276,860	(276,860)	-
Total revenues, gains, and other support	<u>302,653</u>	<u>(185,022)</u>	<u>117,631</u>
<b>EXPENSES</b>			
Program expenses:			
Direct and other charitable activities	75	-	75
Administrative and general:			
Management fee	7,220	-	7,220
Other operating costs	8,259	-	8,259
Total expenses	<u>15,554</u>	<u>-</u>	<u>15,554</u>
Excess (deficit) of revenue, gains, and other support over expenses	287,099	(185,022)	102,077
<b>TRANSFER (TO) FROM PARENT ORGANIZATION</b>	<u>(276,860)</u>	<u>-</u>	<u>(276,860)</u>
Increase (decrease) in net assets	10,239	(185,022)	(174,783)
Net assets, beginning of year	<u>48,261</u>	<u>451,872</u>	<u>500,133</u>
<b>Net assets, end of year</b>	<u>\$ 58,500</u>	<u>\$ 266,850</u>	<u>\$ 325,350</u>

	<b>2015</b>		
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	
\$ 24,816	\$ 216,021	\$ 240,837	
2,000	-	2,000	
<u>420,081</u>	<u>(420,081)</u>	<u>-</u>	
<u>446,897</u>	<u>(204,060)</u>	<u>242,837</u>	
250	-	250	
7,220	-	7,220	
<u>4,973</u>	<u>-</u>	<u>4,973</u>	
<u>12,443</u>	<u>-</u>	<u>12,443</u>	
434,454	(204,060)	230,394	
<u>(420,081)</u>	<u>-</u>	<u>(420,081)</u>	
14,373	(204,060)	(189,687)	
<u>33,888</u>	<u>655,932</u>	<u>689,820</u>	
<u>\$ 48,261</u>	<u>\$ 451,872</u>	<u>\$ 500,133</u>	

**BROOK LANE FOUNDATION, INC.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

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	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (174,783)	\$ (189,687)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Transfer to parent organization	276,860	410,238
(Increase) decrease:		
Pledges Receivable	110,031	87,617
Due from Brook Lane Health Services, Inc.	(7,717)	-
Increase (decrease):		
Due to Brook Lane Health Services, Inc.	(10,129)	10,129
Net cash provided by operating activities	<u>194,262</u>	<u>318,297</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Transfer to parent organization	<u>(276,860)</u>	<u>(410,238)</u>
Net cash used by financing activities	<u>(276,860)</u>	<u>(410,238)</u>
 Net decrease in cash and cash equivalents	(82,598)	(91,941)
 Cash and cash equivalents, beginning of year	<u>294,191</u>	<u>386,132</u>
 <b>Cash and cash equivalents, end of year</b>	<u><u>\$ 211,593</u></u>	<u><u>\$ 294,191</u></u>



**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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***Organization***

In 2009, Brook Lane Foundation, Inc. (the "Foundation"), a wholly controlled subsidiary of Brook Lane Health Services, Inc. (Brook Lane), was organized for the purpose of receiving and administering funds to support Brook Lane's charitable and educational purposes. Brook Lane, located in Hagerstown, Maryland, is a not-for-profit provider of mental health services, providing short-term hospitalization, outpatient services, Level 1 schooling, and transitional care to the residents of Washington County and surrounding areas.

***Financial Statement Presentation***

The Foundation 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.

***Cash Equivalents***

For purposes of the statements of cash flows, the Foundation has defined cash and cash equivalents as those amounts included in "cash and cash equivalents" on the statements of financial position.

***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.

***Pledge Receivables***

In 2013, the Foundation began a capital campaign to raise money for construction and expansion of the hospital. Pledges received are recorded as receivables when a commitment is signed. An allowance for uncollectible pledges of \$ 7,210 and \$ 7,470 has been set up at June 30, 2016 and 2015, respectively.

***Excess (Deficit) of Revenue, Gains, and Other Support Over Expenses***

The statements of activities include *excess (deficit) of revenue, gains, and other support over expenses*. Changes in unrestricted and temporarily restricted net assets which are excluded from *excess (deficit) of revenue, 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.

**BROOKLANE FOUNDATION, INC.**  
**Notes to the Financial Statements**  
**June 30, 2016 and 2015**

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**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***Donor-Restricted Gifts***

Unconditional promises to give cash and other assets to the Foundation 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 Foundation 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 statement of activities 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 financial statements.

***Income Tax Status***

The Foundation is a not-for-profit corporation under 501(c)(3) of the Internal Revenue Code and, is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code.

The Foundation follows generally accepted accounting principles, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The Foundation's policy is to charge penalties and interest to income tax expense as incurred. The Foundation's federal and state income tax returns are subject to examination by the Internal Revenue Service and state tax authorities, generally for a period of three years after the returns are filed.

***Reclassifications***

Reclassifications were made to the amounts reported for 2015 in order for the statements to be comparable to 2016.

**NOTE 2 INVESTMENTS**

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The composition of investments in Foundation's investment portfolio at June 30, 2016 and 2015 is set forth in the following schedule:

	<b>2016</b>		<b>2015</b>	
	Cost	Fair Value	Cost	Fair Value
Equities	<u>\$ 10,293</u>	<u>\$ 10,293</u>	<u>\$ 10,293</u>	<u>\$ 10,293</u>

**BROOK LANE FOUNDATION, INC.**  
**Notes to the Financial Statements**  
**June 30, 2016 and 2015**

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**NOTE 3 TEMPORARILY RESTRICTED NET ASSETS**

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At June 30, 2016 and 2015, temporarily restricted net assets consist of funds solicited for the purchase of designated equipment, furnishings, and supplies.

**NOTE 4 FUNDRAISING EXPENSES**

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Contributions are reported net of fundraising expense of \$ 40,899 and \$ 17,931 for 2016 and 2015, respectively.

**NOTE 5 PLEDGES RECEIVABLE**

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The Foundation has been soliciting pledges for the expansion of Brook Lane's hospital. Pledges restricted for capital acquisitions are reported as temporarily restricted net assets.

The pledges receivable at June 30, 2016 are due as follows:

Receivable in less than one year	\$ 66,935
Receivable in one to five years	<u>28,812</u>
Total pledges receivable	<u>\$ 95,747</u>

**NOTE 6 FAIR VALUE MEASUREMENTS**

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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.

**BROOK LANE FOUNDATION, INC.**  
**Notes to the Financial Statements**  
**June 30, 2016 and 2015**

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**NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)**

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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.

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

All investments are considered Level 1 Investments

**NOTE 7 DUE FROM (TO) BROOK LANE HEALTH SERVICES, INC.**

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At June 30, 2016, the Brook Lane Health Services, Inc. owed the Foundation for reimbursement of expenses incurred on their behalf and the transfer of contributions.

At June 30, 2015, the Foundation owed Brook Lane Health Services, Inc. for reimbursement of expenses incurred on their behalf and the transfer of contributions.

**NOTE 8 SUBSEQUENT EVENTS**

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The Foundation has evaluated events and transactions subsequent to June 30, 2016 through August 26, 2016, the date these 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, 2016 and through August 26, 2016 that requires recognition or disclosure in the financial statements.