

Audited
Financial
Statements

June 30, 2024

**Brook Lane Health
Services, Inc.**

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Brook Lane Health Services, Inc. (a nonprofit organization), which comprise the balance sheets as of June 30, 2024 and 2023, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brook Lane Health Services, Inc. as of June 30, 2024 and 2023, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Brook Lane Health Services, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Brook Lane Health Services, Inc. adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Brook Lane Health Services, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Brook Lane Health Services, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Chambersburg, Pennsylvania

DATE, 2024

BROOK LANE HEALTH SERVICES, INC.
Balance Sheets
June 30, 2024 and 2023

	2024	2023
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,385,765	\$ 3,156,811
Investments	3,428	-
Patient accounts receivable, net of allowance for credit losses of \$ 1,636,928 for 2024 and \$ 2,232,799 for 2023	5,810,205	5,715,122
Inventories	194,327	183,947
Prepaid expenses	554,856	569,515
Amounts due from affiliates	<u>2,606,093</u>	<u>129,597</u>
Total current assets	<u>11,554,674</u>	<u>9,754,992</u>
Assets Whose Use is Limited		
Unemployment fund collateral	252,315	256,238
Capital reserve funds	<u>19,721</u>	<u>2,713,622</u>
Total assets whose use is limited	<u>272,036</u>	<u>2,969,860</u>
Property, Plant and Equipment		
Land and land improvements	684,046	684,046
Buildings	19,407,985	19,353,841
Fixed equipment	5,283,861	3,699,139
Major moveable equipment	1,484,234	1,484,234
Construction in progress	<u>751,800</u>	<u>21,927</u>
	27,611,926	25,243,187
Less allowance for depreciation	<u>12,469,482</u>	<u>11,466,646</u>
	<u>15,142,444</u>	<u>13,776,541</u>
Other Assets		
Operating right-of-use assets	1,269,487	1,466,104
Financing right-of-use assets	108,222	152,000
Long-term patients accounts receivable, net of allowance for credit losses of \$ 10,705 for 2024 and \$ 9,550 for 2023	<u>12,116</u>	<u>11,781</u>
Total other assets	<u>1,389,825</u>	<u>1,629,885</u>
TOTAL ASSETS	<u>\$ 28,358,979</u>	<u>\$ 28,131,278</u>

	2024	2023
LIABILITIES AND NET ASSETS		
Current Liabilities		
Trade accounts payable and accrued expenses	\$ 957,483	\$ 375,549
Accrued salaries, wages, and payroll taxes	1,229,686	927,649
Accrued defined contribution plan	22,566	20,842
Accrued vacation	1,501,807	1,545,240
Current portion of long term debt	163,407	153,987
Current portion of lease liability - operating	486,411	491,185
Current portion of lease liability - financing	<u>44,352</u>	<u>35,664</u>
Total current liabilities	<u>4,405,712</u>	<u>3,550,116</u>
Other Liabilities		
Long-term debt, net of current portion	4,798,293	4,955,402
Long-term lease liability - operating	808,493	894,202
Long-term lease liability - financing	70,788	114,518
Deferred revenue	-	1,077,002
Total other liabilities	<u>5,677,574</u>	<u>7,041,124</u>
Total liabilities	<u>10,083,286</u>	<u>10,591,240</u>
Net Assets		
Without donor restrictions	18,255,972	17,354,059
With donor restrictions	<u>19,721</u>	<u>185,979</u>
Total net assets	<u>18,275,693</u>	<u>17,540,038</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,358,979</u>	<u>\$ 28,131,278</u>

BROOK LANE HEALTH SERVICES, INC.
Statements of Operations
Years Ended June 30, 2024 and 2023

	2024	2023
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue, Gains, and Other Support		
Net patient service revenue		
Routine services	\$ 18,282,981	\$ 18,174,770
Ancillary services	7,835,506	9,678,320
Net patient service revenue	<u>26,118,487</u>	<u>27,853,090</u>
Provision for bad debts	<u>(1,140,824)</u>	<u>(1,646,149)</u>
Net patient service revenue less provision for bad debts	<u>24,977,663</u>	<u>26,206,941</u>
Other operating revenues	<u>315,365</u>	<u>281,040</u>
Total revenue, gains and other support	<u>25,293,028</u>	<u>26,487,981</u>
Expenses and Losses		
Salaries and wages	15,116,031	14,919,802
Employee benefits	3,444,252	3,214,357
Supplies	1,596,396	1,723,675
Contractual services	2,980,315	2,619,674
Facility expense	1,243,066	1,203,665
Depreciation	1,040,836	1,117,331
Interest	304,792	270,469
General and administrative	849,863	1,071,925
Total expenses	<u>26,575,551</u>	<u>26,140,898</u>
Operating income (loss)	<u>(1,282,523)</u>	<u>347,083</u>
Other Income		
Contributions	-	117,962
Investment income	98,366	163,120
Grant income	1,866,833	331,872
Insurance refund distributions	-	357,034
Loss on extinguishment of debt	-	(60,924)
Other	61,867	254,173
Total other income	<u>2,027,066</u>	<u>1,163,237</u>
Excess of revenues, gains, and other support over expenses	<u>744,543</u>	<u>1,510,320</u>
Change in value of interest rate swap agreement	-	92,189
Net assets released from restriction	166,258	418,680
Net asset transfer to Brook Lane Foundation	<u>(8,888)</u>	<u>-</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 901,913</u>	<u>\$ 2,021,189</u>

BROOK LANE HEALTH SERVICES, INC.
Statements of Changes in Net Assets
Years Ended June 30, 2024 and 2023

	2024	2023
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess of revenues, gains, and other support over expenses	\$ 744,543	\$ 1,510,320
Change in value of interest rate swap agreement	-	92,189
Net assets released from restriction	166,258	418,680
Net asset transfer to Brook Lane Foundation	<u>(8,888)</u>	<u>-</u>
Increase in net assets without restrictions	<u>901,913</u>	<u>2,021,189</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	-	369,719
Net assets released from restrictions	<u>(166,258)</u>	<u>(418,680)</u>
Decrease in net assets with donor restrictions	<u>(166,258)</u>	<u>(48,961)</u>
Increase in net assets	735,655	1,972,228
Net assets, beginning	<u>17,540,038</u>	<u>15,567,810</u>
NET ASSETS, ENDING	<u>\$ 18,275,693</u>	<u>\$ 17,540,038</u>

BROOK LANE HEALTH SERVICES, INC.
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 735,655	\$ 1,972,228
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,085,487	1,129,018
Loss on extinguishment of debt	-	60,924
Provision for bad debts	1,140,824	1,646,149
Change in value of interest rate swap agreement	-	(92,189)
Contribution income with donor restrictions	-	(369,719)
(Increase) decrease in:		
Patient accounts receivable	(1,236,242)	(3,913,728)
Inventories	(10,380)	(3,936)
Amounts due from affiliates	(2,476,496)	(9,862)
Other assets	14,659	211,306
Increase (decrease) in:		
Accounts payable and accrued expenses	953,978	(532,774)
Restricted grant for capital projects	(1,077,002)	-
Net cash provided (used) by operating activities	<u>(869,517)</u>	<u>97,417</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,406,739)	(660,476)
Purchase of investments	(3,428)	-
Net cash used by investing activities	<u>(2,410,167)</u>	<u>(660,476)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt	-	5,310,000
Payments on long-term debt	(154,144)	(4,326,210)
Payments on financing lease	(35,042)	(38,196)
Contribution income with donor restrictions	-	369,719
Restricted grant for capital projects	-	1,077,002
Debt financing costs	-	129,094
Net cash provided (used) by financing activities	<u>(189,186)</u>	<u>2,521,409</u>
Net increase (decrease) in cash and cash equivalents	(3,468,870)	1,958,350
Cash and cash equivalents, beginning of year	<u>6,126,671</u>	<u>4,168,321</u>
Cash and cash equivalents, end of year	<u>\$ 2,657,801</u>	<u>\$ 6,126,671</u>
UNRESTRICTED AND RESTRICTED CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 2,385,765	\$ 3,156,811
Unemployment fund collateral	252,315	256,238
Capital reserve funds	19,721	2,713,622
Total unrestricted and restricted cash and cash equivalents	<u>\$ 2,657,801</u>	<u>\$ 6,126,671</u>

BROOK LANE HEALTH SERVICES, INC.
Statements of Cash Flows (Continued)
Years Ended June 30, 2024 and 2023

	2024	2023
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 299,016</u>	<u>\$ 259,703</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of property and equipment, net under capital leases for recognition of right-of use asset - finance leases upon adoption of Accounting Standards Codification Topic 842, <i>Leases</i>	<u>\$ -</u>	<u>190,000</u>
Transfer of capital lease obligations for recognition of lease liability - finance leases upon adoption of Accounting Standards Codification Topic 842, <i>Leases</i>	<u>\$ -</u>	<u>183,614</u>
Transfer of property and equipment to Brook Lane Behavioral Services, Inc. through amounts due from affiliate	<u>\$ -</u>	<u>1,003,562</u>
Recognition of right-of use asset for new operating leases	<u>\$ 215,060</u>	<u>\$ -</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to 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 services to the residents of Washington County and surrounding areas.

Brook Lane is a wholly controlled subsidiary of the parent organization Brook Lane, Inc. and an affiliate of Brook Lane Behavioral Services, Inc. located in Hagerstown, Maryland. These entities collectively are not-for-profit providers of mental health services and provide short-term hospitalization, Level 1 schooling, and transitional care to the residents of Washington County and surrounding areas. Brook Lane is also an affiliate of Brook Lane Foundation, which raises contributions and provides funds to Brook Lane to further its mission.

Accounting Method

Brook Lane presents its financial statements on the accrual basis of accounting, with income recognized when earned and expenses recognized when incurred.

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 net assets with donor restrictions and net assets without donor restrictions according to the existence or absence of donor-imposed restrictions. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in net assets without donor restrictions.

Use of Estimates

The preparation of the 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 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 financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimate of the allowance for credit losses and reserve for contractual allowances on accounts receivable balances, functional expense allocations, and assumptions used in the lease assets and liabilities. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the statements of cash flows, Brook Lane has defined cash and cash equivalents as those amounts included in "cash and cash equivalents" and certain restricted cash accounts, certificates of deposit, and money market funds on the balance sheets.

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

Recently Adopted Accounting Standards: Current Expected Credit Losses (CECL)

Effective July 1, 2023, Brook Lane adopted Accountant Standards Update (“ASU”) No. 2016-13 (Topic 326) *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*, which eliminated the probable initial recognition threshold for credit losses and instead requires that all financial assets (or group of financial assets) measured at amortized cost be presented at the net amount expected to be collected inclusive of the entity’s current estimate of all lifetime expected credit losses.

Brook Lane adopted ASC 326 using the modified retrospective transition approach for all financial assets measured at amortized cost. This method resulted in no change to prior periods. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of ASC 326. The Organization did not record a cumulative-effect adjustment related to accounts receivable upon adoption of ASC 326.

Patient Receivables

Brook Lane provides credit in the normal course of its business to patients. Patient receivables are generally due 90 days after billed. Accounts receivable are reduced by an allowance for credit losses. In evaluating the collectability of accounts receivable, Brook Lane analyzes factors surrounding the credit risk of specific customers, historical trends, forecasted trends, and other information for each of its major payor sources of revenue to estimate the appropriate allowance for credit losses and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for credit losses. For receivables associated with services provided to patients who have third-party coverage, Brook Lane analyzes contractually due amounts and provides an allowance for credit losses and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), Brook Lane records a provision for bad debts in the period of service on the basis of its past experience, which indicates that some patients are 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 credit losses.

Brook Lane has established an allowance for credit losses for self-pay patients accounts receivable at June 30, 2024 and 2023. The Organization periodically reviews its charity care program and uninsured discount policy. The Organization does not maintain an allowance for credit losses from third-party payors, nor did it have significant write-offs from third-party payors.

Inventories

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

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

Property, Plant, and Equipment

Property, plant, and equipment acquisitions which exceed \$ 1,000 on a single item or \$ 2,000 for any two or more assets are recorded at cost and depreciated. 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.

Estimated useful lives of property, plant, and equipment are as follows:

Buildings	10 – 40 years
Fixed equipment	4 – 20 years
Major moveable equipment	5 – 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions, 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.

Excess of Revenues, Gains, and Other Support Over Expenses

The statements of operations include *excess of revenues, gains, and other support over expenses*. Changes in net assets without donor restrictions 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 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 Brook Lane 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 restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, restricted net assets are reclassified as net assets without donor restrictions and reported in the 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 contributions without donor restrictions in the accompanying financial statements.

Advertising Costs

Brook Lane follows the policy of charging costs of advertising to expense as incurred. Advertising expense was \$ 22,174 and \$ 21,068 for the years ended June 30, 2024 and 2023, respectively.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

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

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 payments are based on prospective payment system (PPS) rates and Medicaid payments are based on 94% of HSCRC approved rates.

Laws and regulations governing Medicare, Medicaid and other third-party programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

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, 2024 and 2023 was \$ 15,209 and \$ 353,765, respectively. There were no contributions or grant income received to offset the cost of charity care for the years ending June 30, 2024 and 2023.

Concentration of Credit Risk

Brook Lane services patients principally living in the Washington County area. The majority of these patients have insurance through CareFirst (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:

	2024	2023
Blue Cross Blue Shield	8.34%	9.54%
Medicare	14.03%	7.70%
Commercial Insurance	7.79%	6.13%
Health Maintenance Organizations	6.81%	5.69%
Medical Assistance	31.90%	40.08%
Self-Pay and Other	31.13%	30.86%
	<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.

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

Unemployment Compensation

Brook Lane has elected under Maryland Unemployment Compensation Law to reimburse the Maryland Department of Unemployment Insurance for unemployment insurance benefits paid to former employees rather than make quarterly unemployment insurance tax payments. Reimbursable employers are required to provide collateral as a security in the event of the employer's default on these reimbursements. Brook Lane holds a money market fund and held a certificate of deposit in the amount of \$ 252,315 and \$ 256,238 as of June 30, 2024 and 2023, respectively, as collateral for this requirement.

Income Taxes

The Internal Revenue Service has ruled that Brook Lane qualifies as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity. The entity files a Form 990, "Return of Organization Exempt from Income Tax".

Uncertain Tax Positions

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

Revenue Recognition

The sources of revenue for Brook Lane are patient service revenues, contributions, investment income, grant income, insurance refund distributions, loss on extinguishment of debt, and other income. Revenue is recognized as earned based on contractual terms, as transactions occur, or as services are provided. All revenues determined to be in the scope of ASC 606 are presented within the statements of operations and are recognized as performance obligations to patients are met.

Contributions, investment income, grant income, and loss on extinguishment of debt are recognized on the accrual basis, but these revenues are outside the scope of ASC 606.

Contract receivables for contracts with customers totaled \$ 3,459,324 at July 1, 2022, \$ 5,726,903 at June 30, 2023, and \$ 5,822,321 at June 30, 2024.

Following is further detail of the various types of revenue Brook Lane earns and when it is recognized under ASC 606:

Net patient service revenue: Net patient service revenues are earned based on patient transaction-based services for medical care. Rates are determined and monitored by the HSCRC, Maryland Medicaid, Medicare, or insurance companies and recorded net of management's estimates of any allowances for uncollectible accounts and contractual adjustments. Revenues are recognized in income when the services being provided are completed.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

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

Revenue Recognition (Continued)

Insurance refund distributions: Insurance refund distributions represent distributions from an insurance company based on amounts determined by the insurance company for participating organizations. Revenue from distributions are recognized when the distribution is received as any performance obligations have been met.

Other operating revenues and other income: Other income consists of vending sales, seminar revenues, food sales, rental income, and medical transcription fees charged to patients. This category also includes patient accounting fees, management fees, and use of facility fees charged to Brook Lane Behavioral Services, Inc. Fees charged to patients are transaction-based services for products and services offered and are recognized in income at the time of service as the performance obligation is satisfied. Fees charged to Brook Lane Behavioral Services, Inc. are based on contractually determined amounts and are recognized monthly as the performance obligation is satisfied.

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year of the balance sheet date are as follows:

	2024	2023
Financial assets at year end:		
Cash and cash equivalents	\$ 2,385,765	\$ 3,156,811
Investments	3,428	-
Accounts and other receivables	5,810,205	5,715,122
Amounts due from affiliates	<u>2,606,093</u>	<u>129,597</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 10,805,491</u>	<u>\$ 9,001,530</u>

Brook Lane's goal is to maintain 30 days of available cash. There is daily monitoring of the operating bank accounts and the CFO and CEO review the cash balances weekly. The Organization maintains a focus on timely billing and collection to maintain a steady flow of operating cash. Brook Lane, Inc. also has an available line of credit of \$ 750,000, which could be drawn on in the event of an unanticipated liquidity need. See Note 5 for details on the line of credit.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 3 ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited at June 30, 2024 and 2023 is set forth in the following schedule:

	2024		2023	
	Cost	Fair Value	Cost	Fair Value
Unemployment fund collateral				
Certificate of deposit	\$ -	\$ -	\$ 256,238	\$ 256,238
Money market funds	252,315	252,315	-	-
Capital reserve funds				
Cash and cash equivalents	19,721	19,721	2,713,622	2,713,622
Total	<u>\$ 272,036</u>	<u>\$ 272,036</u>	<u>\$ 2,969,860</u>	<u>\$ 2,969,860</u>

Assets whose use is limited are comprised of money market funds or a certificate of deposit which has restrictions placed on it by regulatory requirements for an unemployment compensation trust fund. Capital reserve funds include funds restricted for implementation of a new Electronic Health Record (EHR) system, and various construction and renovation projects. Investment income earned on these funds is reflected in investment income in the statements of operations.

NOTE 4 AMOUNTS DUE FROM/TO 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. Medicaid in-patient payments are 94% of HSCRC approved rates and are no longer subject to a cost settlement process. Brook Lane has no open Medicare or Medicaid settlements at June 30, 2024 and 2023.

NOTE 5 LONG-TERM DEBT

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

	2024	2023
Town of Smithsburg, Economic Development Revenue Bond (Series 2022)	\$ 5,081,112	\$ 5,235,256
Less net debt issuance cost	(119,412)	(125,867)
Less current portion	<u>(163,407)</u>	<u>(153,987)</u>
Long-term portion	<u>\$ 4,798,293</u>	<u>\$ 4,955,402</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 5 LONG-TERM DEBT (CONTINUED)

On December 13, 2022, Brook Lane Health Services, Inc. issued a \$ 5,310,000 The Town of Smithsburg Economic Development Revenue Bond (Brook Lane Health Services, Inc. Project) Series of 2022 through a local bank to refinance the outstanding balance of The Town of Smithsburg Economic Development Revenue Bonds Series of 2002 and 2013, the Truist Bank note, Brook Lane's obligation under its interest rate swap agreement, and additional funds for a construction project. The bond is due December 13, 2042 and has a fixed tax-exempt rate of 5.40% for five years with adjustment to a new fixed rate every five years on the anniversary date equal to 80% of the sum of the Five-Year U.S. Treasury Note on the adjustment date + 2.50%, but not less than 4.50% with respect to the tax exempt rate or 5.90% with respect to the taxable rate. The interest rate was 5.40% at June 30, 2024 and 2023. The bond is subject to a 3% of principal prepayment penalty unless prepayment is from internally generated funds and is guaranteed by Brook Lane, Inc. and Brook Lane Behavioral Services, Inc. The bond is secured by a Deed of Trust and Security agreement on the Brook Lane property, receipts revenues, and all Brook Lane assets.

The Series 2022 bonds have several covenants that Brook Lane must comply with, such as maintaining a minimum debt service coverage of 1.10 to 1.00. As of June 30, 2024, Brook Lane was in compliance with the debt service coverage ratio.

In December 2022, Brook Lane, Inc. was approved for an unsecured \$ 750,000 line of credit with interest based on the U.S. Prime Rate and a floor interest rate that cannot be less than 4.50%. The interest rate on this line of credit was 8.50% and 8.25% at June 30, 2024 and 2023, respectively, with no balances outstanding under this line of credit at June 30, 2024 and 2023. Brook Lane Health Services, Inc. and Brook Lane Behavioral Services, Inc. are both guarantors on the line of credit. In addition to the debt service coverage ratio requirement of 1.10 to 1.00, the line of credit also has a covenant requirement that no debt in excess of \$ 100,000 annually can be obtained without lender consent.

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

2025	\$ 163,407
2026	172,581
2027	182,271
2028	191,829
2029	203,274
Thereafter	4,167,750
	<u>\$ 5,081,112</u>

Total interest costs on long-term debt for the years ended June 30, 2024 and 2023 were \$ 282,732 and \$ 252,626, respectively.

Debt issuance costs incurred in connection with the issuance of the Series of 2022 bonds are being amortized on a straight-line basis over the life of the loan with these costs being amortized over 20 years. During the year ended June 30, 2023, Brook Lane also expensed unamortized financing costs of \$ 60,924 as part of extinguishment of debt related to the refinancing of previous debt.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 5 LONG-TERM DEBT (CONTINUED)

Debt issuance costs as of June 30 are as follows:

	2024	2023
Gross costs	\$ 129,094	\$ 129,094
Accumulated amortization	<u>(9,682)</u>	<u>(3,227)</u>
Unamortized costs	<u>\$ 119,412</u>	<u>\$ 125,867</u>

Amortization expense on debt issuance costs were \$ 6,455 and \$ 6,923 for the years ended June 30, 2024 and 2023, respectively.

The estimated amortization expense for the next five years and thereafter for debt issuance costs is as follows:

2025	\$	6,456
2026		6,456
2027		6,456
2028		6,456
2029		6,456
Thereafter		<u>87,132</u>
	<u>\$</u>	<u>119,412</u>

NOTE 6 NET PATIENT SERVICE REVENUE

Brook Lane's routine and ancillary service revenue concentrations for the years ended June 30, 2024 and 2023 are as follows:

	Net Patient Service Revenue	
	2024	2023
Blue Cross Blue Shield	17.56%	17.67%
Medicare	8.88%	9.01%
Commercial Insurance	6.71%	7.00%
Health Maintenance Organizations	6.45%	7.66%
Medical Assistance	54.36%	55.05%
Self-Pay and Other	<u>6.04%</u>	<u>3.61%</u>
	<u>100.00%</u>	<u>100.00%</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 6 NET PATIENT SERVICE REVENUE (CONTINUED)

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 statements of operations for the years ended June 30, 2024 and 2023 from these major payor sources is as follows:

2024						
Blue Cross Blue Shield	Medicare	Commercial Insurance	Health Maintenance Organizations	Medical Assistance	Self-Pay and Other	Total
\$ 4,586,844	\$ 2,319,640	\$ 1,752,271	\$ 1,685,277	\$ 14,199,204	\$ 1,575,252	\$ 26,118,487
2023						
Blue Cross Blue Shield	Medicare	Commercial Insurance	Health Maintenance Organizations	Medical Assistance	Self-Pay and Other	Total
\$ 4,918,935	\$ 2,510,529	\$ 1,950,923	\$ 2,132,855	\$ 15,334,207	\$ 1,005,641	\$ 27,853,090

The change in the allowance for credit losses for 2024 and 2023 is as follows:

	2024	2023
Allowance for credit losses at July 1	\$ 2,242,349	\$ 1,086,316
Provision for bad debts	1,140,824	1,646,149
Write off of bad debts	(1,735,540)	(490,116)
Allowance for credit losses at June 30	\$ 1,647,633	\$ 2,242,349

NOTE 7 EMPLOYEE BENEFIT PLANS

Brook Lane has a 401(k) defined contribution plan that covers all employees who have attained the age of 21. An employee may contribute up to 100% of salary on a before-tax basis up to the elective deferral limit for the respective year. The plan includes a 100% match up to 3% of compensation and then 50% deferral between 3% and 5% of compensation up to \$ 100,000. Brook Lane may also make other discretionary contributions, but these do not apply to elective deferrals exceeding 6% of compensation. Employees are eligible for matching contributions after completion of one year of service for discretionary contributions. 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 \$ 331,214 and \$ 358,437 was incurred by Brook Lane related to the 401(k) plan during the years ended June 30, 2024 and 2023, respectively.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 8 FUNCTIONAL EXPENSES

Brook Lane provides general psychiatric and school services to residents within its geographic service area. Expenses are allocated between program and management and general based on cost centers that are attributable to program and administrative costs. Expenses by functional category related to providing these services are as follows:

2024				
	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 12,469,045	\$ 2,646,986	\$ -	\$ 15,116,031
Employee benefits	2,805,124	639,128	-	3,444,252
Supplies	1,544,541	51,855	-	1,596,396
Contractual services	2,171,616	808,699	-	2,980,315
Facility expense	628,135	614,931	-	1,243,066
Depreciation	1,040,836	-	-	1,040,836
Interest	304,792	-	-	304,792
General and administrative	11,680	838,183	-	849,863
Total	\$ 20,975,769	\$ 5,599,782	\$ -	\$ 26,575,551

2023				
	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 11,885,483	\$ 3,034,319	\$ -	\$ 14,919,802
Employee benefits	2,560,636	653,721	-	3,214,357
Supplies	1,658,655	64,959	61	1,723,675
Contractual services	2,197,912	421,762	-	2,619,674
Facility expense	663,851	533,024	6,790	1,203,665
Depreciation	1,117,331	-	-	1,117,331
Interest	266,773	3,696	-	270,469
General and administrative	29,823	1,021,783	20,319	1,071,925
Total	\$ 20,380,464	\$ 5,733,264	\$ 27,170	\$ 26,140,898

NOTE 9 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 10 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.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2024 and 2023, net assets with donor restrictions consist of funds solicited for the construction of the hospital addition and purchase of designated equipment, furnishings, and supplies as follows:

	2024	2023
Subject to expenditure for specified purpose:		
Building projects	\$ 19,721	\$ 185,979
Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose by donors are as follows:		
Building projects	\$ 166,258	\$ 418,680

NOTE 12 FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that 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) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are quoted prices available in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- 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.

Level 3: Inputs that are unobservable for the asset or liability.

Following a description of the valuation methodologies used for instruments measured on a recurring basis at estimated fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Common equity securities: Common equity securities are valued at quoted market prices in an active market at daily closing prices.

Money market funds: These funds are held at a local financial institution and are not actively traded with the carrying value considered equivalent to the market value.

Certificates of deposit: Based on quoted prices for similar assets.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

<u>At June 30, 2024</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>
Financial Assets				
Information technology common equities	\$ 3,428	\$ 3,428	\$ -	\$ -
Money market funds	252,315	252,315	-	-
Total assets at fair value	\$ 255,743	\$ 255,743	\$ -	\$ -
At June 30, 2023				
Financial Assets				
Certificate of deposit	\$ 256,238	\$ -	\$ 256,238	\$ -
Total assets at fair value	\$ 256,238	\$ -	\$ 256,238	\$ -

NOTE 13 RELATED PARTIES

During the years ended June 30, 2024 and 2023, Brook Lane Health Services, Inc. charged Brook Lane Behavioral Health Services, Inc. a management fee of \$ 220,833 and \$ 180,000, respectively. During the year ended June 30, 2023, Brook Lane Health Services, Inc. transferred \$ 1,003,562 of property and equipment to Brook Lane Behavioral Services, Inc. through amounts due from affiliates on the balance sheets. During the year ended June 30, 2024, Brook Lane Health Services, Inc. transferred \$ 8,888 of net assets to Brook Lane Foundation.

Brook Lane Health Services, Inc. had receivable amounts of \$ 2,606,093 and \$ 129,597 from Brook Lane Behavioral Services, Inc. as of June 30, 2024 and 2023, respectively, that is recorded as amounts due from affiliates in the balance sheets.

NOTE 14 LEASES

Lease liabilities represent Brook Lane's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted based on an incremental borrowing rate at the commencement date and ranged from 3.02% to 8.25%. Right-of-use assets represent Brook Lane's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

Brook Lane has one lease for medical equipment that is considered a financing lease and operating leases consisting of six office space leases and one lease for copier machines. Certain of these leases offer the option to extend the lease term and Brook Lane has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would require incurring additional financial obligations. There are no variable or short-term lease costs for the years ended June 30, 2024 and 2023.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 14 LEASES (CONTINUED)

Lease expense at June 30 is as follows:

	2024	2023
Finance lease expense:		
Amortization of ROU assets	\$ 38,196	\$ 38,196
Interest on lease liabilities	8,493	10,920
	<u>46,689</u>	<u>49,116</u>
Operating lease expense	699,357	574,530
Total lease expense	<u>\$ 746,046</u>	<u>\$ 623,646</u>

Information related to cash flows, assets obtained, weighted-average remaining lease terms, and weighted-average discount rates are as follows at June 30:

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases (i.e., interest)	\$ 8,493	\$ 10,920
Financing cash flows from finance leases (i.e., principal portion)	35,042	38,196
Operating cash flows from operating leases	699,357	574,530
ROU assets obtained in exchange for new finance lease liabilities	-	190,000
ROU assets obtained in exchange for new operating lease liabilities	215,060	1,907,121
Weighted-average remaining lease term in years for finance leases	2.83	3.83
Weighted-average remaining lease term in years for operating leases	5.08	2.76
Weighted-average discount rate for finance leases	6.48%	6.48%
Weighted-average discount rate for operating leases	3.45%	8.25%

Future payments due under lease obligation are as follows at June 30, 2024:

	Finance	Operating
2025	\$ 44,352	\$ 486,411
2026	44,352	267,963
2027	36,960	115,924
2028	-	117,705
2029	-	121,761
Thereafter	-	314,079
Total undiscounted cash flows	\$ 125,664	\$ 1,423,843
Less: present value discount	<u>(10,524)</u>	<u>(128,939)</u>
Total lease liabilities	<u>\$ 115,140</u>	<u>\$ 1,294,904</u>

NOTE 15 COMMITMENTS

Brook Lane has entered into a construction contract for the addition of a building wing. The total construction commitment is \$ 1,800,000, of which \$ 667,228 had been paid at June 30, 2024.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 16 SUBSEQUENT EVENTS

Brook Lane has evaluated events and transactions subsequent to June 30, 2024 through **DATE**, 2024, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has identified the following subsequent event that requires recognition or disclosure in the financial statements:

On July 1, 2024, Brook Lane, Inc. entered into an affiliation agreement with Meritus Health, Inc. (Meritus) with Meritus becoming the sole corporate member of Brook Lane, Inc. and its subsidiaries. Under the terms of the agreement, Brook Lane, Inc. and subsidiaries will continue to operate as individual entities but will be controlled by the Meritus board of directors and will include representation from the current Brook Lane, Inc. board of directors on the Meritus board of directors.

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