

BROOK LANE HEALTH SERVICES, INC.

FINANCIAL REPORT

JUNE 30, 2012

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BROOK LANE HEALTH SERVICES, INC.

LIST OF REPORT DISTRIBUTION

Year Ended June 30, 2012

**No of
Copies**

1	State of Maryland Department of Human Resources Attn: Audit Coordinator Social Services Administration 311 West Saratoga Street, 5 th Floor Baltimore, MD 21201
1	Office of Inspector General 100 S. Charles Street, Room 1608 Baltimore, MD 21201
1	State of Maryland Department of Juvenile Justice Michael DiBattista, Chief Office of Financial Services 120 West Fayette Street Baltimore, MD 21201



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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheets of Brook Lane Health Services, Inc. and subsidiary as of June 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2012 on our consideration of Brook Lane Health Services, Inc.'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. 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 Group Home – High Intensity Program required by the State of Maryland, Department of Human Resources, 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

Board of Directors
Brook Lane Health Services, Inc.

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.

Smith Elliott Keown & Company, LLC

Chambersburg, Pennsylvania
September 4, 2012

BROOK LANE HEALTH SERVICES, INC.**CONSOLIDATED BALANCE SHEETS**

June 30, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,097,775	\$ 2,896,104
Investments	942,085	-
Patient accounts receivable, net of allowance for doubtful accounts of \$ 101,879 and \$ 100,677, respectively	2,868,542	1,946,476
Amounts due from third-party payors, current portion	186,736	150,722
Group home accounts receivable	317,756	187,561
Receivable for educational services	388,868	647,665
Note receivable - current portion	22,127	28,195
Inventories	142,436	128,232
Prepaid expenses	222,594	207,454
Other	12,410	13,405
Total current assets	<u>7,201,329</u>	<u>6,205,814</u>
BOARD DESIGNATED INVESTMENTS		
Capital replacement and expansion	394,124	380,151
Special purposes	84,737	74,483
Total board designated investments	<u>478,861</u>	<u>454,634</u>
ASSETS WHOSE USE IS LIMITED		
Unemployment fund collateral	<u>190,842</u>	<u>189,763</u>
PROPERTY, PLANT, AND EQUIPMENT		
Land and land improvements	548,929	454,865
Buildings	8,716,574	8,471,680
Fixed equipment	799,407	703,116
Major moveable equipment	827,670	712,707
Construction in progress	376,281	58,170
	<u>11,268,861</u>	<u>10,400,538</u>
Less allowance for depreciation	<u>4,852,127</u>	<u>4,391,707</u>
	<u>6,416,734</u>	<u>6,008,831</u>
OTHER ASSETS		
Long-term patients accounts receivable, net of allowance for doubtful accounts of \$ 8,595 and \$ 13,589, respectively	232,672	262,726
Note receivable - long-term portion	-	19,236
Deferred financing costs, net of accumulated amortization of \$ 74,290 for 2012 and \$ 63,148 for 2011	79,555	90,696
	<u>312,227</u>	<u>372,658</u>
Total assets	<u>\$ 14,599,993</u>	<u>\$ 13,231,700</u>

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Current portion of long term debt	\$ 282,769	\$ 274,028
Accounts payable and accrued expenses	440,392	515,378
Accrued salaries, wages, and payroll taxes	553,943	424,562
Accrued vacation	771,884	678,645
	<u>2,048,988</u>	<u>1,892,613</u>
Total current liabilities		
	<u>2,048,988</u>	<u>1,892,613</u>
OTHER LIABILITIES		
Long-term debt, net of current portion	3,417,348	3,700,114
	<u>3,417,348</u>	<u>3,700,114</u>
Total liabilities	<u>5,466,336</u>	<u>5,592,727</u>
NET ASSETS		
Unrestricted	8,745,009	7,264,719
Temporarily restricted	388,648	374,254
Total net assets	<u>9,133,657</u>	<u>7,638,973</u>
Total liabilities and net assets	<u>\$ 14,599,993</u>	<u>\$ 13,231,700</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, 2012 and 2011

	2012	2011
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Net patient service revenue		
Routine services	\$ 8,113,360	\$ 7,109,842
Ancillary services	7,384,930	6,021,993
Net patient service revenue	<u>15,498,290</u>	<u>13,131,835</u>
Educational services	4,155,599	4,093,022
Group home revenues	1,400,044	1,223,583
Other operating revenues	254,480	222,207
Total revenues, gains, and other support	<u>21,308,413</u>	<u>18,670,647</u>
EXPENSES		
Salaries and wages	12,486,427	10,824,018
Employee benefits	3,004,556	2,513,950
Supplies	1,137,833	995,222
Contractual services	810,750	672,663
Facility expense	1,361,122	1,202,708
Depreciation and amortization	471,562	481,258
Interest	116,340	124,222
Provision for bad debts	223,634	255,034
General and administrative	1,148,016	1,264,009
Total expenses	<u>20,760,240</u>	<u>18,333,084</u>
Operating income	<u>548,173</u>	<u>337,563</u>
OTHER INCOME		
Unrestricted gifts and bequests	10,791	5,145
Interest income	15,474	10,989
Health insurance settlement	791,745	995,238
Other	6,600	9,027
Total other income	<u>824,610</u>	<u>1,020,399</u>
Excess of revenues, gains, and other support over expenses	<u>1,372,783</u>	<u>1,357,962</u>
Unrealized gain on investments	42,085	-
Net assets released from restriction, used to purchase property and equipment	<u>65,422</u>	<u>56,560</u>
Increase in unrestricted net assets	<u>\$ 1,480,290</u>	<u>\$ 1,414,522</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, 2012 and 2011

	2012	2011
UNRESTRICTED NET ASSETS		
Excess of revenues, gains, and other support over expenses	\$ 1,372,783	\$ 1,357,962
Unrealized gain on investments	42,085	-
Net assets released from restriction, used to purchase property and equipment	<u>65,422</u>	<u>56,560</u>
Increase in unrestricted net assets	<u>1,480,290</u>	<u>1,414,522</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	79,816	84,078
Net assets released from restriction, used to purchase property and equipment	<u>(65,422)</u>	<u>(56,560)</u>
Increase in temporarily restricted net assets	<u>14,394</u>	<u>27,518</u>
Increase in net assets	<u>1,494,684</u>	<u>1,442,040</u>
Net assets, beginning of year	<u>7,638,973</u>	<u>6,196,933</u>
Net assets, end of year	<u><u>\$ 9,133,657</u></u>	<u><u>\$ 7,638,973</u></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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,494,684	\$ 1,442,040
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	471,562	481,258
Provision for bad debts	223,634	255,034
Unrealized (gain) on investments	(42,085)	-
(Increase) decrease in:		
Patient accounts receivable	(1,115,646)	(341,736)
Group home accounts receivable	(130,195)	122,134
Receivable for educational services	258,797	102,039
Inventories	(14,204)	(4,443)
Amounts due from third-party payors	(36,014)	-
Other assets	(14,145)	11,742
Increase (decrease) in:		
Accounts payable and accrued expenses	147,634	(64,855)
Net cash provided by operating activities	<u>1,244,022</u>	<u>2,003,213</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(868,324)	(28,411)
Purchase of investments	(901,079)	(2,428)
Net (increase) decrease in designated investments:		
Capital replacement and expansion	(13,973)	(33,410)
Special purposes	(10,254)	(5,240)
Proceeds from note receivable	25,304	26,095
Net cash used by investing activities	<u>(1,768,326)</u>	<u>(43,394)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(274,025)	(266,162)
Net cash used by financing activities	<u>(274,025)</u>	<u>(266,162)</u>
Net increase (decrease) in cash and cash equivalents	(798,329)	1,693,657
Cash and cash equivalents, beginning of year	<u>2,896,104</u>	<u>1,202,447</u>
Cash and cash equivalents, end of year	<u>\$ 2,097,775</u>	<u>\$ 2,896,104</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 117,023	\$ 124,885

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's charitable and educational purposes. The Foundation was inactive until the 2012 fiscal year.

Principles of Consolidation

The consolidated financial statements for 2012 include the accounts of Brook Lane and its subsidiary, the Foundation. All significant intercompany transactions have been eliminated.

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 statements of cash flows, the Organization has defined cash and cash equivalents as those amounts included in "cash and cash equivalents" on the 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.

Inventories

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

Assets Whose Use Is Limited

Assets whose use is limited are comprised of certain funds established to be held and invested by a Trustee. These funds are related to unemployment trust funds. Interest income earned on the funds is reflected in interest income in the consolidated statements of operations.

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 \$ 460,420 and \$ 470,116 for the years ended June 30, 2012 and 2011, 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.

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 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) and contributions of long-lived assets (including assets acquired using donor restricted contributions).

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

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 \$ 39,620 and \$ 37,348 for 2012 and 2011, 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. The Organization's estimated annual cost of providing charity care for the years ending June 30, 2012 and 2011 were \$ 248,804 and \$ 256,716, respectively. There were no contributions or grant income received to offset the cost of charity care for the years ending June 30, 2012 and 2011.

Deferred Financing Costs

Issuance costs related to the Smithsburg Economic Development Revenue Bond, Series 2002 (See Note 4) and financing costs related to the Frederick facility, have been deferred and included in other non-current assets as of June 30, 2012 and 2011. Amortization is recognized over the life of the debt using the straight-line method. Amortization expense was \$ 6,542 for each of the years ended June 30, 2012 and 2011.

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 is being amortized over a period of five years using the straight line method. Amortization expense was \$ 4,600 for each of the years ended June 30, 2012 and 2011.

Note 4. Long-Term Debt (Continued)

On August 1, 2002, Brook Lane issued \$ 5,500,000 Town of Smithsburg, Economic Development Revenue Bond, Series 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 next adjustment date is August 1, 2012. The interest rate on this obligation was 2.99% at June 30, 2012 and 2011. 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.

The aggregate future maturities of long-term debt are:

2013	\$ 282,769
2014	291,461
2015	300,420
2016	309,436
2017	316,167
Thereafter	<u>2,199,864</u>
	<u>\$ 3,700,117</u>

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 3.00%. The interest rate was 3.00% at June 30, 2012. This line of credit is secured by accounts receivable and cross-collateralized with the Series of 2002. There were no draws on this line of credit at June 30, 2012 or 2011.

Total interest costs incurred were \$ 116,340 and \$ 124,222 for 2012 and 2011, respectively.

Note 5. 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 \$ 411,538 and \$ 325,789 was incurred by Brook Lane related to the 401(k) plan during 2012 and 2011, respectively.

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

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:

	2012	2011
Blue Cross Blue Shield	22.57%	25.21%
Medicare	8.01%	10.62%
Commercial Insurance	7.12%	2.06%
Health Maintenance Organizations	21.83%	20.81%
Medical Assistance	31.45%	28.80%
Self-Pay and other	<u>9.02%</u>	<u>12.50%</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 qualifies as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity.

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 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, 2012 the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the Organization's financial statements. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the financial statements. No interest and penalties were recorded during the year ended June 30, 2012. Generally, the tax years before 2009 are no longer subject to examination by federal, state or local taxing authorities.

Reclassifications

Certain reclassifications were made to the previously reported amounts for 2011 in order for them to be comparative to 2012.

Note 2. Investments

The composition of investments in Brook Lane's investment portfolio at June 30, 2012 and 2011 is set forth in the following schedule:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 120,056	\$ 120,056	\$ -	\$ -
Equities	80,324	88,178	-	-
Fixed income	654,616	674,565	-	-
Mortgaged backed securities	20,032	18,878	-	-
Real estate investment trusts	39,905	40,408	-	-
Current Investments	<u>\$ 914,933</u>	<u>\$ 942,085</u>	<u>\$ -</u>	<u>\$ -</u>
Board-designated investments				
Cash and cash equivalents	<u>\$ 478,861</u>	<u>\$ 478,861</u>	<u>\$ 454,634</u>	<u>\$ 454,634</u>
Unemployment fund collateral				
Certificate of deposit	<u>\$ 190,842</u>	<u>\$ 190,842</u>	<u>\$ 189,763</u>	<u>\$ 189,763</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. Effective with the June 30, 2009 fiscal year end, Medicare is based on 100% prospective payment and is no longer cost settled. The Medicaid outpatient settlements are still open for 2009 through 2012. 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 2012 Medicaid outpatient cost reports is recorded in the amount of \$ 186,736 at June 30, 2012 and \$ 150,722 at June 30, 2011. Management believes this to be a reasonable estimate at June 30, 2012 and 2011.

Note 4. Long-Term Debt

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

	2012	2011
Town of Smithsburg, Economic Development Revenue Bond (Series 2002)	\$ 3,700,117	\$ 3,974,142
Less current portion	<u>282,769</u>	<u>274,028</u>
	<u>\$ 3,417,348</u>	<u>\$ 3,700,114</u>

Note 6. Leases

Brook Lane has entered into a long-term lease agreement for the rental of office space. Rentals paid under operating leases for 2012 and 2011 were \$ 557,348 and \$ 486,331, respectively. Minimum future annual rentals based on long-term leases are as follows at June 30, 2012:

2013	\$ 356,210
2014	267,395
2015	274,236
2016	281,209
2017	<u>288,320</u>
Total	<u>\$ 1,467,370</u>

Note 7. 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:

	2012	2011
Program services	\$ 17,536,029	\$ 14,881,758
General and administrative	3,113,740	3,350,051
Fundraising	<u>110,471</u>	<u>101,275</u>
	<u>\$ 20,760,240</u>	<u>\$ 18,333,084</u>

Note 8. 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 9. 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 10. Temporarily Restricted Net Assets

At June 30, 2012 and 2011, temporarily restricted net assets consist of funds solicited for the purchase of designated equipment, furnishings, and supplies.

Note 11. Health Insurance Settlement

During the year ended June 30, 2012 and 2011, Brook Lane received a refund of previous year's health insurance premiums in the amount of \$ 791,745 and \$ 997,940, respectively. This resulted from a revised actuary study of the required funding to cover future health insurance claims. This is reported as part of other income in the consolidated statements of operations.

Note 12. 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 investments included in each are as follows:

- Level 1 – Represented by quoted prices available in an active market. Level 1 securities 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 securities would include U.S. agency securities, mortgage-backed agency securities, obligation of states, and political subdivisions, and certain corporate asset backed securities, swap agreements and internally developed values with little uncertainty.
- 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 securities would include hedge funds, private equity securities, and internally developed values with significant uncertainty.

Note 12. Fair Value Measurements (Continued)

The fair values of the assets measured on a recurring basis as of June 30, 2012 are as follows:

<u>At June 30, 2012</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>
Money market funds	\$ 120,056	\$ -	\$ 120,056	\$ -
Domestic and international common stocks:				
Consumer staples and discretionary	12,898	12,898	-	-
Energy	32,680	32,680	-	-
Health care	12,249	12,249	-	-
Information technology	22,724	22,724	-	-
Minerals	7,627	7,627	-	-
Total domestic and international common stocks	<u>88,178</u>	<u>88,178</u>	<u>-</u>	<u>-</u>
Municipal bonds:				
Aaa credit rating	120,101	-	120,101	-
Aa1 credit rating	53,172	-	53,172	-
AA+ credit rating	65,456	-	65,456	-
AA- credit rating	47,907	-	47,907	-
Aa2 credit rating	62,479	-	62,479	-
Aa3 credit rating	70,162	-	70,162	-
A+ credit rating	56,704	-	56,704	-
A credit rating	94,744	-	94,744	-
BBB+ credit rating	50,590	-	50,590	-
Baa2 credit rating	53,250	-	53,250	-
Total municipal bonds:	<u>674,565</u>	<u>-</u>	<u>674,565</u>	<u>-</u>
Mortgage backed securities	18,878	-	18,878	-
Real estate investment trusts	40,408	40,408	-	-
	<u>\$ 942,085</u>	<u>\$ 128,586</u>	<u>\$ 813,499</u>	<u>\$ -</u>

Note 13 Subsequent Events

Brook Lane has evaluated events and transactions subsequent to June 30, 2012 through September 4, 2012 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, 2012 and through September 4, 2012 that requires recognition or disclosure in the financial statements.

BROOK LANE HEALTH SERVICES, INC.

**STONE BRIDGE TRANSITIONAL CARE PROGRAM
SCHEDULE OF REVENUES AND EXPENSES
Year Ended June 30, 2012**

REVENUES

Respite service fees	\$ 1,021,173
Education service fees	109,235
Other	<u>225</u>
Total revenue	<u>1,130,633</u>

EXPENSES

Salaries and wages	748,064
Payroll taxes	57,227
Fringe benefits	103,629
Contracted services	69,472
Food service	89,314
Training	1,034
Clothing	3,625
Recreation	4,700
Personal need allowance	5,899
Rent	143,001
Utilities	33,180
Repairs and maintenance	13,334
Insurance and taxes	6,462
Supplies	4,207
Printing/copying	247
Telephone	5,369
Postage	795
Memberships and subscriptions	3,790
Conferences and conventions	40
Travel and transportation	641
Copier rental	3,218
Depreciation/use allowance	7,815
Recruitment	26,580
Indirect expense	<u>103,939</u>
Total expense	<u>1,435,582</u>
Expenses over revenues	<u><u>(\$ 304,949)</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, 2012**

	Actual Cost per Child Care Month	Payment Rate per Child Care Month
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Residential Program

Total Revenue		\$ 1,021,173
Child Care Months		<u>157</u>
Rate comparison	<u>\$ 8,449</u>	<u>\$ 6,504</u>

Education Program

Total Revenue		\$ 109,235
Child Care Months		<u>67</u>
Rate comparison	<u>\$ 1,627</u>	<u>\$ 1,630</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, 2012**

	Total Expense	Direct Care	Management & General	Educational Services
Salaries and wages	\$ 748,064	\$ 608,150	\$ 74,186	\$ 65,728
Payroll taxes	57,227	46,457	5,742	5,028
Fringe benefits	103,629	84,126	10,398	9,105
Contracted services	69,472	69,472	-	-
Food service	89,314	89,314	-	-
Training	1,034	1,034	-	-
Clothing	3,625	3,625	-	-
Recreation	4,700	4,700	-	-
Personal need allowance	5,899	5,899	-	-
Rent	143,001	128,860	-	14,141
Utilities	33,180	29,900	-	3,280
Repairs and maintenance	13,334	13,334	-	-
Insurance and taxes	6,462	5,838	-	624
Supplies	4,207	3,555	-	652
Printing/copying	247	247	-	-
Telephone	5,369	4,941	-	428
Postage	795	795	-	-
Membership and subscriptions	3,790	3,790	-	-
Conferences and conventions	40	40	-	-
Travel and transportation	641	641	-	-
Copier rental	3,218	-	3,218	-
Depreciation/use allowance	7,815	7,815	-	-
Recruitment	26,580	26,580	-	-
Indirect expense	103,939	-	93,905	10,034
	<hr/>	<hr/>	<hr/>	<hr/>
Total expense	\$ 1,435,582	\$ 1,139,113	\$ 187,449	\$ 109,020
	<hr/>	<hr/>	<hr/>	<hr/>

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, 2012**

Payer Source	Number of Days	Per Diem Rate	Number of Days	Per Diem Rate	Total Charges
Allegany County Department of Social Services	75	217.13	44	217.14	\$ 25,839
Baltimore City Department of Social Services	63	217.13	174	217.14	51,461
Calvert County Department of Social Services	41	217.13	0	217.14	8,902
Carroll County Department of Social Services	0	217.13	19	217.14	4,126
Frederick County Department of Social Services	640	217.13	227	217.14	188,254
Harford County Department of Social Services	48	217.13	0	217.14	10,422
Montgomery County Department of Human Services	0	217.13	65	217.14	14,114
Montgomery County Department of Social Services	686	217.13	131	217.14	177,396
Somerset County Department of Social Services	0	217.13	95	217.14	20,628
Washington County Department of Social Services	1,930	217.13	445	217.14	515,688
Wicomico County Department of Social Services	20	217.13	0	217.14	4,343
	<u>3,503</u>		<u>1,200</u>		<u>\$ 1,021,173</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, 2012**

Payer Source	Number of Days	Per Diem Rate	Total Charges
Allegany County Department of Social Services	65	\$ 54.40	\$ 3,536
Baltimore City Department of Social Services	154	54.40	8,378
Calvert County Department of Social Services	29	54.40	1,578
Carroll County Department of Social Services	13	54.40	707
Frederick County Department of Social Services	501	54.40	27,254
Harford County Department of Social Services	25	54.40	1,360
Montgomery County Department of Human Services	46	54.40	2,502
Montgomery County Department of Social Services	340	54.40	18,496
Somerset County Department of Social Services	57	54.40	3,101
Washington County Department of Social Services	765	54.40	41,616
Wicomico County Department of Social Services	13	54.40	707
	<u>2,008</u>		<u>\$ 109,235</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, 2012**

	Annual Budget	Actual	Variance (Over)/Under
Salaries and wages	\$ 852,980	\$ 748,064	\$ 104,916
Payroll taxes	67,981	57,227	10,754
Fringe benefits	122,263	103,629	18,634
Staff development costs	6,000	-	6,000
Conferences and conventions	1,500	40	1,460
Contracted services	47,886	69,472	(21,586)
Publicity	250	-	250
Food service	118,032	89,314	28,718
Training	-	1,034	(1,034)
Clothing	3,586	3,625	(39)
Recreation	5,000	4,700	300
Personal need allowance	10,000	5,899	4,101
Rent	118,027	143,001	(24,974)
Utilities	27,132	33,180	(6,048)
Repairs and maintenance	16,000	13,334	2,666
Insurance and taxes	8,050	6,462	1,588
Supplies	16,400	4,207	12,193
Printing/copying	300	247	53
Telephone	5,954	5,369	585
Postage	1,200	795	405
Memberships and subscriptions	4,506	3,790	716
Travel and transportation	1,500	641	859
Copier rental/equipment lease	3,500	3,218	282
Depreciation/use allowance	19,000	7,815	11,185
Recruitment	-	26,580	(26,580)
Indirect expense	127,490	103,939	23,551
	<hr/>	<hr/>	<hr/>
Total expense	\$ 1,584,537	\$ 1,435,582	\$ 148,955
	<hr/>	<hr/>	<hr/>

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, 2012**

	Annual Budget	Actual	Variance (Over)/Under
Salaries and wages	\$ 740,140	\$ 682,336	\$ 57,804
Payroll taxes	59,349	52,199	7,150
Fringe benefits	105,958	94,524	11,434
Staff development costs	6,000	-	6,000
Conferences and conventions	1,000	40	960
Contracted services	47,886	69,472	(21,586)
Publicity	250	-	250
Food service	118,032	89,314	28,718
Training	-	1,034	(1,034)
Clothing	3,586	3,625	(39)
Recreation	5,000	4,700	300
Personal need allowance	10,000	5,899	4,101
Rent	103,428	128,860	(25,432)
Utilities	23,868	29,900	(6,032)
Repairs and maintenance	14,000	13,334	666
Insurance and taxes	7,000	5,838	1,162
Supplies	8,400	3,555	4,845
Printing/copying	300	247	53
Telephone	5,422	4,941	481
Postage	1,200	795	405
Memberships and subscriptions	3,656	3,790	(134)
Travel and transportation	1,500	641	859
Copier rental/equipment lease	3,500	3,218	282
Depreciation/use allowance	19,000	7,815	11,185
Recruitment	-	26,580	(26,580)
Indirect expense	108,848	93,905	14,943
	<hr/>	<hr/>	<hr/>
Total expense	\$ 1,397,323	1,326,562	\$ 70,761
		<hr/>	
Child care months		157	
		<hr/>	
Net cost per child care month		\$ 8,449	
		<hr/>	

BROOK LANE HEALTH SERVICES, INC.

**STONE BRIDGE TRANSITIONAL CARE PROGRAM
 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, 2012**

	Annual Budget	Actual	Variance (Over)/Under
Salaries and wages	\$ 112,840	\$ 65,728	\$ 47,112
Payroll taxes	8,632	5,028	3,604
Fringe benefits	16,305	9,105	7,200
Conferences and conventions	500	-	500
Rent	14,599	14,141	458
Utilities	3,264	3,280	(16)
Repairs and maintenance	2,000	-	2,000
Insurance and taxes	1,050	624	426
Supplies	8,000	652	7,348
Telephone	532	428	104
Memberships and subscriptions	850	-	850
Indirect expense	<u>18,642</u>	<u>10,034</u>	<u>8,608</u>
 Total expense	 <u>\$ 187,214</u>	 109,020	 <u>\$ 78,194</u>
 Child care months		 <u>67</u>	
 Net cost per child care month		 <u>\$ 1,627</u>	

BROOK LANE HEALTH SERVICES, INC.

**STONE BRIDGE TRANSITIONAL CARE PROGRAM
SCHEDULE OF ACCUMULATED RETAINED EARNINGS AND USES
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM
Year Ended June 30, 2012**

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	<u>(177,409)</u>	<u>(13,793)</u>	<u>(191,202)</u>
Accumulated retained earnings and (losses)	<u>(\$ 298,443)</u>	<u>\$ 30,515</u>	<u>(267,928)</u>
Purchases of Fixed Assets:	Date	Cost	
Prior year purchases of fixed assets		<u>\$ 165,657</u>	(165,657)
Current year retained earnings	<u>\$ (304,280)</u>	<u>\$ 10,924</u>	<u>(293,356)</u>
Ending accumulated retained earnings and (losses)			<u>(\$ 726,941)</u>

BROOK LANE HEALTH SERVICES, INC.

STONE BROOK TRANSITIONAL CARE PROGRAM
SCHEDULE OF REVENUES AND EXPENSES
Year Ended June 30, 2012

REVENUES

Group Home revenues	\$ 378,646
Total revenue	<u>378,646</u>

EXPENSES

Salaries and wages	259,720
Payroll taxes	19,869
Fringe benefits	35,979
Contracted services	507
Food service	30,348
Training	144
Clothing	1,134
Recreation	2,387
Personal need allowance	3,774
Rent	33,371
Utilities	7,746
Repairs and maintenance	8,664
Insurance and taxes	2,162
Supplies	882
Printing/copying	327
Telephone	428
Postage	264
Memberships and subscriptions	45
Conferences and conventions	10
Depreciation/use allowance	3,065
Recruitment	34,782
Indirect expense	<u>445,608</u>
Total expense	<u>(\$ 66,962)</u>
Expenses over revenues	

BROOK LANE HEALTH SERVICES, INC.

**STONE BROOK TRANSITIONAL CARE PROGRAM
SCHEDULE OF COMPARISON OF PAYMENT RATE TO ACTUAL RATE
GROUP HOME - HIGH INTENSITY PROGRAM
Year Ended June 30, 2012**

	Actual Cost per Child Care Month	Payment Rate per Child Care Month
Total Revenue		\$ 378,646
Child Care Months		<u>54</u>
Rate comparison	<u>\$ 8,252</u>	<u>\$ 7,012</u>

BROOK LANE HEALTH SERVICES, INC.

**STONE BROOK TRANSITIONAL CARE PROGRAM
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE DEPARTMENT OF HUMAN RESOURCES
GROUP HOME - HIGH INTENSITY PROGRAM
Year Ended June 30, 2012**

	Total Expense	Direct Care	Management & General
Salaries and wages	\$ 259,720	\$ 259,720	\$ -
Payroll taxes	19,869	19,869	-
Fringe benefits	35,979	35,979	-
Contracted services	507	507	-
Food service	30,348	30,348	-
Training	144	144	-
Clothing	1,134	1,134	-
Recreation	2,387	2,387	-
Personal need allowance	3,774	3,774	-
Rent	33,371	33,371	-
Utilities	7,746	7,746	-
Repairs and maintenance	8,664	8,664	-
Insurance and taxes	2,162	2,162	-
Supplies	882	882	-
Printing/copying	327	327	-
Telephone	428	428	-
Postage	264	264	-
Membership and subscriptions	45	45	-
Travel and transportation	10	10	-
Recruitment	3,065	3,065	-
Indirect expense	<u>34,782</u>	<u>-</u>	<u>34,782</u>
Total expense	<u>\$ 445,608</u>	<u>\$ 410,826</u>	<u>\$ 34,782</u>

BROOK LANE HEALTH SERVICES, INC.

**STONE BROOK TRANSITIONAL CARE PROGRAM
SCHEDULE OF SOURCES OF FUNDS RECEIVED - RESIDENTIAL -
FOR THE DEPARTMENT OF HUMAN RESOURCES
GROUP HOME - HIGH INTENSITY PROGRAM
Year Ended June 30, 2012**

Payer Source	Number of Days	Per Diem Rate	Total Charges
Baltimore City Department of Social Services	86	233.30	\$ 20,064
Frederick County Department of Social Services	197	233.30	45,960
Harford County Department of Social Services	318	233.30	74,189
Montgomery County Department of Social Services	324	233.30	75,589
Somerset County Department of Social Services	95	233.30	22,164
Washington County Department of Social Services	603	233.30	140,680
	<u>1,623</u>		<u>\$ 378,646</u>

BROOK LANE HEALTH SERVICES, INC.

**STONE BROOK TRANSITIONAL CARE PROGRAM
SCHEDULE OF TOTAL BUDGETED EXPENSES TO TOTAL ACTUAL EXPENSES
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM
GROUP HOME - HIGH INTENSITY PROGRAM
Year Ended June 30, 2012**

	Annual Budget	Actual	Variance (Over)/Under
Salaries and wages	\$ 376,473	\$ 259,720	\$ 116,753
Payroll taxes	29,638	19,869	9,769
Fringe benefits	55,591	35,979	19,612
Staff development costs	2,500	-	2,500
Conferences and conventions	300	-	300
Contracted services	20,513	507	20,006
Publicity	250	-	250
Food service	49,698	30,348	19,350
Training	-	144	(144)
Clothing	1,500	1,134	366
Recreation	3,500	2,387	1,113
Personal need allowance	3,269	3,774	(505)
Rent	26,409	33,371	(6,962)
Utilities	6,732	7,746	(1,014)
Repairs and maintenance	3,750	8,664	(4,914)
Insurance and taxes	2,750	2,162	588
Supplies	3,060	882	2,178
Printing/copying	150	327	(177)
Telephone	2,300	428	1,872
Postage	450	264	186
Memberships and subscriptions	1,675	45	1,630
Travel and transportation	650	10	640
Copier rental/equipment lease	1,700	-	1,700
Depreciation/use allowance	2,600	-	2,600
Recruitment	-	3,065	(3,065)
Indirect expense	55,131	34,782	20,349
Total expense	\$ 650,589	\$ 445,608	\$ 204,981

BROOK LANE HEALTH SERVICES, INC.

**STONE BROOK TRANSITIONAL CARE PROGRAM
SCHEDULE OF BUDGETED EXPENSES TO ACTUAL EXPENSES
AND NET COST PER CHILD CARE MONTH - RESIDENTIAL -
FOR THE DEPARTMENT OF HUMAN RESOURCES
GROUP HOME - HIGH INTENSITY PROGRAM
Year Ended June 30, 2012**

	Annual Budget	Actual	Variance (Over)/Under
Salaries and wages	\$ 376,473	\$ 259,720	\$ 116,753
Payroll taxes	29,638	19,869	9,769
Fringe benefits	55,591	35,979	19,612
Staff development costs	2,500	-	2,500
Conferences and conventions	300	-	300
Contracted services	20,513	507	20,006
Publicity	250	-	250
Food service	49,698	30,348	19,350
Training	-	144	(144)
Clothing	1,500	1,134	366
Recreation	3,500	2,387	1,113
Personal need allowance	3,269	3,774	(505)
Rent	26,409	33,371	(6,962)
Utilities	6,732	7,746	(1,014)
Repairs and maintenance	3,750	8,664	(4,914)
Insurance and taxes	2,750	2,162	588
Supplies	3,060	882	2,178
Printing/copying	150	327	(177)
Telephone	2,300	428	1,872
Postage	450	264	186
Memberships and subscriptions	1,675	45	1,630
Travel and transportation	650	10	640
Copier rental/equipment lease	1,700	-	1,700
Depreciation/use allowance	2,600	-	2,600
Recruitment	-	3,065	(3,065)
Indirect expense	55,131	34,782	20,349
	<hr/>	<hr/>	<hr/>
Total expense	\$ 650,589	445,608	\$ 204,981
	<hr/>	<hr/>	<hr/>
Child care months		54	
		<hr/>	
Net cost per child care month		\$ 8,252	
		<hr/>	

BROOK LANE HEALTH SERVICES, INC.

**STONE BROOK TRANSITIONAL CARE PROGRAM
SCHEDULE OF ACCUMULATED RETAINED EARNINGS AND USES
FOR THE DEPARTMENT OF HUMAN RESOURCES
GROUP HOME - HIGH INTENSITY PROGRAM
Year Ended June 30, 2012**

	Residential		Total
Purchases of Fixed Assets:	Date	Cost	
Furniture	5/1/2012	\$ 5,055	
Furniture	5/9/2012	<u>2,526</u>	(7,581)
Current year retained earnings	<u>\$ (66,963)</u>		<u>(66,963)</u>
Ending accumulated retained earnings and (losses)			<u>(\$ 74,544)</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, 2012**

<i>Direct Costs</i>	Approved Budget	Actual Expenditures	Variance (Over)/Under	Percentage Variance
Salaries:				
School administrative	\$ 85,342	\$ 62,633	\$ 22,709	26.61
Direct classroom	277,446	219,757	57,689	20.79
Related services	117,978	379,996	(262,018)	(222.09)
General support	-	24,978	(24,978)	(100.00)
Fringe benefits	72,448	95,296	(22,848)	(31.54)
Payroll taxes	51,683	52,583	(900)	(1.74)
Professional fees	-	5,615	(5,615)	(100.00)
Supplies and non capital equipment	14,590	22,779	(8,189)	(56.13)
Phone/fax/internet	3,600	5,393	(1,793)	(49.81)
Postage	750	998	(248)	(33.07)
Occupancy	64,713	181,258	(116,545)	(180.10)
Rental/maintenance of equipment	5,360	14,852	(9,492)	(177.09)
Public relations	2,750	-	2,750	100.00
Printing	-	364	(364)	(100.00)
Publications	250	195	55	22.00
Transportation	750	1,153	(403)	(53.73)
Educational experiences	500	-	500	100.00
Dues	1,000	4,100	(3,100)	(310.00)
Depreciation	25,516	23,071	2,445	9.58
Miscellaneous	-	445	(445)	(100.00)
Professional insurance	-	6,708	(6,708)	(100.00)
Training	-	4,576	(4,576)	(100.00)
Recruitment	-	10,181	(10,181)	(100.00)
Total direct costs	\$ 724,676	\$ 1,116,931	(\$ 392,255)	(54.13)

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, 2012

<i>Indirect Costs</i>	Approved Budget	Actual Expenditures	Variance (Over)/Under	Percentage Variance
<i>Salaries:</i>				
Administrative/Executive	\$ 28,609	\$ 57,777	(\$ 29,168)	(101.95)
Fringe benefits	7,668	13,907	(6,239)	(81.36)
Professional fees	4,500	6,552	(2,052)	(45.60)
Supplies and non capital equipment	1,000	2,116	(1,116)	(111.60)
Rental/maintenance of equipment	757	3,473	(2,716)	(358.78)
Training	-	524	(524)	(100.00)
Publications	-	251	(251)	(100.00)
Printing and duplicating	-	1,431	(1,431)	(100.00)
Transportation	-	887	(887)	(100.00)
Meetings	-	230	(230)	(100.00)
Recruitment	-	338	(338)	(100.00)
Depreciation	4,150	17,601	(13,451)	(324.12)
Miscellaneous	-	993	(993)	(100.00)
Total indirect costs	<u>46,684</u>	<u>106,080</u>	<u>(59,396)</u>	<u>(127.23)</u>
Total costs	<u>\$ 771,360</u>	<u>\$ 1,223,011</u>	<u>(\$ 451,651)</u>	<u>(58.55)</u>

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, 2012**

	Approved Budget	Actual Expenditures	Variance (Over)/Under	Percentage Variance
<i>Direct Costs</i>				
Salaries:				
School administrative	\$ 171,516	\$ 147,941	\$ 23,575	13.75
Direct classroom	656,076	341,845	314,231	47.90
Related services	224,149	465,778	(241,629)	(107.80)
General support	-	27,473	(27,473)	(100.00)
Fringe benefits	164,661	136,558	28,103	17.07
Payroll taxes	113,062	75,202	37,860	33.49
Professional fees	-	22,373	(22,373)	(100.00)
Supplies and non capital equipment	44,093	92,946	(48,853)	(110.80)
Phone/fax/internet	3,054	2,551	503	16.47
Postage	750	657	93	12.40
Occupancy	447,661	382,005	65,656	14.67
Rental/maintenance of equipment	11,000	13,376	(2,376)	(21.60)
Public relations	4,250	-	4,250	100.00
Printing	-	278	(278)	(100.00)
Publications	-	49	(49)	(100.00)
Transportation	5,000	4,951	49	0.98
Educational experiences	500	-	500	100.00
Meetings	-	196	(196)	(100.00)
Dues	2,375	200	2,175	91.58
Depreciation	36,970	39,391	(2,421)	(6.55)
Professional insurance	-	11,557	(11,557)	(100.00)
Training	-	9,968	(9,968)	(100.00)
Recruitment	-	5,939	(5,939)	(100.00)
Total direct costs	\$ 1,885,117	\$ 1,781,234	\$ 103,883	5.51

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, 2012

	Approved Budget	Actual Expenditures	Variance (Over)/Under	Percentage Variance
<i>Indirect Costs</i>				
Salaries:				
Administrative/Executive	\$ 109,177	\$ 99,551	\$ 9,626	8.82
Fringe benefits	28,137	23,962	4,175	14.84
Professional fees	6,142	11,289	(5,147)	(83.80)
Supplies and non capital equipment	-	3,596	(3,596)	(100.00)
Rental/maintenance of equipment	-	5,984	(5,984)	(100.00)
Training	-	904	(904)	(100.00)
Publications	-	432	(432)	(100.00)
Public relations	-	2,466	(2,466)	(100.00)
Transportation	-	1,527	(1,527)	(100.00)
Meetings	-	397	(397)	(100.00)
Recruitment	-	583	(583)	(100.00)
Depreciation	-	30,327	(30,327)	(100.00)
Miscellaneous	-	1,760	(1,760)	(100.00)
	<hr/>	<hr/>	<hr/>	<hr/>
Total indirect costs	143,456	182,778	(39,322)	(27.41)
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total costs</i>	<u>\$ 2,028,573</u>	<u>\$ 1,964,012</u>	<u>\$ 64,561</u>	<u>3.18</u>

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, 2012**

Prior Years' Income	Laurel Hall Level 1	Frederick Level 1	Total
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
Accumulated retained earnings and (losses)	<u>\$ 514,967</u>	<u>\$ 394,141</u>	<u>\$ 909,108</u>
Purchases of Fixed Assets:	Date	Cost	
Prior year purchase of fixed assets		\$ 324,364	
Windows	9/8/2011	2,158	
			(326,522)
Current year retained earnings	<u>\$ (48,491)</u>	<u>\$ 59,714</u>	<u>11,223</u>
Ending accumulated retained earnings and (losses)			<u>\$ 593,809</u>



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

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

We have audited the consolidated financial statements of Brook Lane Health Services, Inc. ("Brook Lane") and subsidiary as of and for the year ended June 30, 2012, and have issued our report thereon dated September 4, 2012. We conducted our audit 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Brook Lane is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Brook Lane's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Brook Lane's internal control over financial reporting.

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 the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 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.

This report is intended solely for the information and use of management, the Board of Directors, and The State of Maryland, Department of Human Resources and is not intended to be and should not be used by anyone other than these specified parties.

Smith Elliott Keown Company, LLC

Chambersburg, Pennsylvania
September 4, 2012

BROOK LANE HEALTH SERVICES, INC.

**STONE BRIDGE TRANSITIONAL CARE PROGRAM
STATUS OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2012**

No findings noted in prior year.