

Audited  
Financial  
Statements

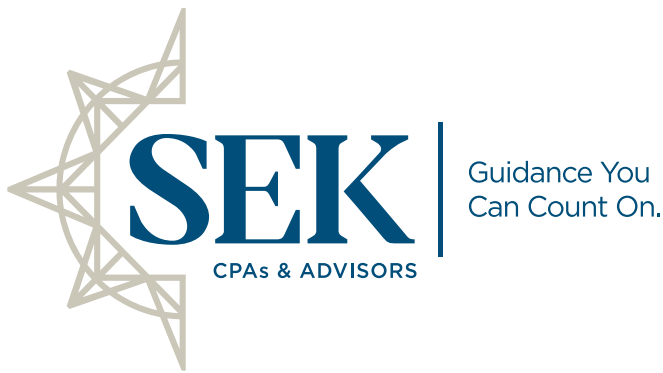
June 30, 2023

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**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, 2023 and 2022, 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, 2023 and 2022, 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 audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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.

### ***Effect of Adopting New Accounting Standards***

As discussed in Note 1 to the financial statements, Brook Lane Health Services, Inc. adopted the provisions of Accounting Standards Update 2016-02, *Leases (Topic 842)*.

Our opinion is not modified with respect to this matter.

*Smith Elliott Kearn & Company, LLC.*

Chambersburg, Pennsylvania  
September 18, 2023

**BROOK LANE HEALTH SERVICES, INC.**  
**Balance Sheets**  
**June 30, 2023 and 2022**

	2023	2022
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,156,811	\$ 3,657,834
Patient accounts receivable, net of allowance for doubtful accounts of \$ 2,232,799 for 2023 and \$ 1,069,305 for 2022	5,715,122	3,440,408
Other receivables	-	2,504
Inventories	183,947	180,011
Prepaid expenses	569,515	778,317
Amounts due from affiliates	129,597	-
Total current assets	<u>9,754,992</u>	<u>8,059,074</u>
<b>Assets Whose Use is Limited</b>		
Unemployment fund collateral	256,238	275,547
Capital reserve funds	<u>2,713,622</u>	<u>234,940</u>
Total assets whose use is limited	<u>2,969,860</u>	<u>510,487</u>
<b>Property, Plant and Equipment</b>		
Land and land improvements	684,046	688,329
Buildings	19,353,841	20,759,396
Fixed equipment	3,699,139	4,063,439
Major moveable equipment	1,484,234	2,297,803
Construction in progress	21,927	55,499
	25,243,187	27,864,466
Less allowance for depreciation	<u>11,466,646</u>	<u>12,437,508</u>
	<u>13,776,541</u>	<u>15,426,958</u>
<b>Other Assets</b>		
Operating right-of-use assets	1,466,104	-
Financing right-of-use assets	152,000	-
Long-term patients accounts receivable, net of allowance for doubtful accounts of \$ 9,550 for 2023 and \$ 17,011 for 2022	11,781	18,916
Total other assets	<u>1,629,885</u>	<u>18,916</u>
<b>TOTAL ASSETS</b>	<u>\$ 28,131,278</u>	<u>\$ 24,015,435</u>

	2023	2022
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Trade accounts payable and accrued expenses	\$ 375,549	\$ 987,163
Accrued salaries, wages, and payroll taxes	927,649	932,669
Accrued pension	20,842	18,620
Accrued vacation	1,545,240	1,420,885
Current portion of long term debt	153,987	430,543
Current portion of capital lease	-	33,432
Current portion of lease liability - operating	491,185	-
Current portion of lease liability - financing	35,664	-
Amounts due to affiliates	-	883,827
Total current liabilities	<u>3,550,116</u>	<u>4,707,139</u>
<b>Other Liabilities</b>		
Long-term debt, net of current portion	4,955,402	3,498,115
Capital lease, net of current portion	-	150,182
Long-term lease liability - operating	894,202	-
Long-term lease liability - financing	114,518	-
Deferred revenue	1,077,002	-
Obligation under interest rate swap agreement	-	92,189
Total other liabilities	<u>7,041,124</u>	<u>3,740,486</u>
Total liabilities	<u>10,591,240</u>	<u>8,447,625</u>
<b>Net Assets</b>		
Without donor restrictions	17,354,059	15,332,870
With donor restrictions	185,979	234,940
Total net assets	<u>17,540,038</u>	<u>15,567,810</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 28,131,278</u>	<u>\$ 24,015,435</u>

**BROOK LANE HEALTH SERVICES, INC.**  
**Statements of Operations**  
**Years Ended June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>Revenue, Gains, and Other Support</b>		
Net patient service revenue		
Routine services	\$ 18,174,770	\$ 14,721,657
Ancillary services	9,678,320	7,786,580
Net patient service revenue	<u>27,853,090</u>	<u>22,508,237</u>
Provision for bad debts	<u>(1,646,149)</u>	<u>(769,478)</u>
Net patient service revenue less provision for bad debts	<u>26,206,941</u>	<u>21,738,759</u>
Other operating revenues	<u>281,040</u>	<u>407,988</u>
Total revenue, gains and other support	<u>26,487,981</u>	<u>22,146,747</u>
<b>Expenses and Losses</b>		
Salaries and wages	14,919,802	14,416,828
Employee benefits	3,214,357	2,949,170
Supplies	1,723,675	1,901,348
Contractual services	2,619,674	2,022,798
Facility expense	1,203,665	1,390,559
Depreciation	1,117,331	1,275,133
Interest	270,469	195,300
General and administrative	<u>1,071,925</u>	<u>934,762</u>
Total expenses	<u>26,140,898</u>	<u>25,085,898</u>
Operating income (loss)	<u>347,083</u>	<u>(2,939,151)</u>
<b>Other Income</b>		
Contributions	117,962	98,831
Investment income	163,120	11,417
Grant revenues	331,872	48,792
Insurance refund distributions	357,034	-
Loss on extinguishment of debt	(60,924)	-
Other	<u>254,173</u>	<u>2,756</u>
Total other income	<u>1,163,237</u>	<u>161,796</u>
<b>Excess (deficit) of revenues, gains, and other support over expenses</b>	<u>1,510,320</u>	<u>(2,777,355)</u>
Change in value of interest rate swap agreement	92,189	281,111
Net assets released from restriction	<u>418,680</u>	<u>66,052</u>
<b>INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>\$ 2,021,189</u>	<u>\$ (2,430,192)</u>

**BROOK LANE HEALTH SERVICES, INC.**  
**Statements of Changes in Net Assets**  
**Years Ended June 30, 2023 and 2022**

	2023	2022
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Excess (deficit) of revenues, gains, and other support over expenses	\$ 1,510,320	\$ (2,777,355)
Change in value of interest rate swap agreement	92,189	281,111
Net assets released from restriction	<u>418,680</u>	<u>66,052</u>
Increase (decrease) in net assets without restrictions	<u>2,021,189</u>	<u>(2,430,192)</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions	369,719	10,575
Net assets released from restrictions	<u>(418,680)</u>	<u>(66,052)</u>
Decrease in net assets with donor restrictions	<u>(48,961)</u>	<u>(55,477)</u>
Increase (decrease) in net assets	1,972,228	(2,485,669)
Net assets, beginning	<u>15,567,810</u>	<u>18,053,479</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 17,540,038</u>	<u>\$ 15,567,810</u>



**BROOK LANE HEALTH SERVICES, INC.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2023 and 2022**

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,972,228	\$ (2,485,669)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,129,018	1,286,221
Loss on extinguishment of debt	60,924	-
Provision for bad debts	1,646,149	769,478
Change in value of interest rate swap agreement	(92,189)	(281,111)
Contribution income with donor restrictions	(369,719)	(10,575)
(Increase) decrease in:		
Patient accounts receivable	(3,913,728)	(641,816)
Inventories	(3,936)	(2,325)
Amounts due from third-party payors	-	128,533
Amounts due from affiliates	(9,862)	(441,139)
Other assets	211,306	(30,841)
Increase (decrease) in:		
Accounts payable and accrued expenses	(532,774)	312,116
Net cash provided (used) by operating activities	<u>97,417</u>	<u>(1,397,128)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(660,476)</u>	<u>(1,535,837)</u>
Net cash used by investing activities	<u>(660,476)</u>	<u>(1,535,837)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from debt	5,310,000	-
Payments on long-term debt	(4,326,210)	(713,920)
Payments on financing lease	(38,196)	(6,386)
Contribution income with donor restrictions	369,719	10,575
Restricted grant for capital projects	1,077,002	-
Debt financing costs	<u>129,094</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>2,521,409</u>	<u>(709,731)</u>
Net increase (decrease) in cash and cash equivalents	1,958,350	(3,642,696)
Cash and cash equivalents, beginning of year	<u>4,168,321</u>	<u>7,811,017</u>
Cash and cash equivalents, end of year	<u>\$ 6,126,671</u>	<u>\$ 4,168,321</u>
<b>UNRESTRICTED AND RESTRICTED CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents	\$ 3,156,811	\$ 3,657,834
Unemployment fund collateral	256,238	275,547
Capital reserve funds	<u>2,713,622</u>	<u>234,940</u>
Total unrestricted and restricted cash and cash equivalents	<u>\$ 6,126,671</u>	<u>\$ 4,168,321</u>

**BROOK LANE HEALTH SERVICES, INC.**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2023 and 2022**

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	2023	2022
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 259,703</u>	<u>\$ 186,023</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
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>\$ 190,000</u>	<u>-</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>\$ 183,614</u>	<u>-</u>
Transfer of property and equipment to Brook Lane Behavioral Services, Inc. through amounts due from affiliate	<u>\$ 1,003,562</u>	<u>-</u>
Equipment obtained through capital lease obligation	<u>\$ -</u>	<u>\$ 190,000</u>

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

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

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***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.

***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 doubtful accounts and reserve for contractual allowances on accounts receivable balances, functional expense allocations, and assumptions used in 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 and certificates of deposit on the balance sheets.

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

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***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 doubtful accounts. In evaluating the collectability of accounts receivable, Brook Lane analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Brook Lane analyzes contractually due amounts and provides an allowance for doubtful accounts 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 doubtful accounts.

Brook Lane has established an allowance for doubtful accounts for self-pay patients accounts receivable at June 30, 2023 and 2022. The Organization periodically reviews its charity care program and uninsured discount policy. The Organization does not maintain an allowance for doubtful accounts 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.

***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

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

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***Property, Plant, and Equipment (Continued)***

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions, and are excluded from the excess (deficit) 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 (Deficit) of Revenues, Gains, and Other Support Over Expenses***

The statements of operations includes *excess (deficit) of revenues, gains, and other support over expenses*. Changes in net assets without donor restrictions which are excluded from *excess (deficit) of revenues, gains, and other support over expenses*, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, unrealized gains or losses on investments other than trading securities, the effective portion of the change in the value of the interest rate swap agreement and contributions of long-lived assets (including assets acquired using donor restricted contributions).

***Donor-Restricted Gifts***

Unconditional promises to give cash and other assets to 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 \$ 21,068 and \$ 29,385 for the years ended June 30, 2023 and 2022, 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 payments are based on prospective payment system (PPS) rates and Medicaid payments are based on 94% of HSCRC approved rates.

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

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

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***Net Patient Service Revenue (Continued)***

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 ended June 30, 2023 and 2022 was \$ 353,765 and \$ 471,216, respectively. There were no contributions or grant income received to offset the cost of charity care for the years ended June 30, 2023 and 2022.

***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:

	<b>2023</b>	<b>2022</b>
Blue Cross Blue Shield	9.54%	14.62%
Medicare	7.70%	17.00%
Commercial Insurance	6.13%	9.20%
Health Maintenance Organizations	5.69%	7.52%
Medical Assistance	40.08%	31.25%
Self-Pay and Other	<u>30.86%</u>	<u>20.41%</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.

***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 certificate of deposit in the amount of \$ 256,238 and \$ 275,547 as of June 30, 2023 and 2022, respectively, as collateral for this requirement.

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

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

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***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, gain on extinguishment of interest rate swap, grant revenues, insurance refund distributions, 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, gain on extinguishment of interest rate swap, and grant income are recognized on the accrual basis, but these revenues are outside the scope of ASC 606.

Contract receivables for contracts with customers totaled \$ 3,715,519 at July 1, 2021, \$ 3,459,324 at June 30, 2022, and \$ 5,726,903 at June 30, 2023.

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.

**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.

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

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

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***Revenue Recognition (Continued)***

**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.

***Changes in Accounting Principles***

**Leases**

In February 2016, the Financial Accounting Standards Board (FASB) released Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*. The Update is intended to increase transparency and comparability among organizations by recognizing right-of-use (ROU) assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of the Update is that a lessee recognizes the assets and liabilities that arise from leases, which is a change from previous GAAP that did not require lease assets and lease liabilities to be recognized on the balance sheet for operating leases.

Brook Lane implemented ASU 2016-02 and all subsequent ASUs that modified Topic 842 on July 1, 2022 using the modified retrospective approach. As allowed by ASU 2018-11, the guidance was applied on a prospective basis using the alternative transition method, which eliminates the requirement to restate periods prior to the date of implementation. As such, financial information related to June 30, 2022 and the year then ended have not been updated and the disclosures required under the new standard have not been provided for dates and periods prior to July 1, 2022. Additionally, implementation of this Update did not result in a cumulative-effect adjustment to net assets.

The standard provides for several practical expedients in transition, which have been described at Note 15. Brook Lane elected to apply the practical expedients, which, among other things, allowed it to carryforward the prior conclusions on lease identification, lease classification, initial direct costs and determination of the lease term.

**NOTE 2 LIQUIDITY AND AVAILABILITY**

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

	<b>2023</b>	<b>2022</b>
Financial assets at year end:		
Cash and cash equivalents	\$ 3,156,811	\$ 3,657,834
Accounts and other receivables	5,715,122	3,442,912
Amounts due from affiliates	<u>129,597</u>	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 9,001,530</u>	<u>\$ 7,100,746</u>



**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

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**NOTE 2 LIQUIDITY AND AVAILABILITY (CONTINUED)**

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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.

**NOTE 3 ASSETS WHOSE USE IS LIMITED**

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The composition of assets whose use is limited at June 30, 2023 and 2022 is set forth in the following schedule:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Unemployment fund collateral				
Certificate of deposit	<u>\$ 256,238</u>	<u>\$ 256,238</u>	<u>\$ 275,547</u>	<u>\$ 275,547</u>
Capital reserve funds				
Cash and cash equivalents	<u>\$ 2,713,622</u>	<u>\$ 2,713,622</u>	<u>\$ 234,940</u>	<u>\$ 234,940</u>

Assets whose use is limited are comprised of 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, construction improvements to an additional wing of the hospital, and renovations for a new outpatient behavioral health center in Cumberland. 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**

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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, 2023 and 2022.

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

**NOTE 5 LONG-TERM DEBT**

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

	<b>2023</b>	<b>2022</b>
Town of Smithsburg, Economic Development Revenue Bond (Series 2022)	\$ 5,235,256	\$ -
Town of Smithsburg, Economic Development Revenue Bond (Series 2002)	-	464,196
Town of Smithsburg, Economic Development Revenue Bond (Series 2013)	-	3,127,984
Truist Bank Note	-	401,098
Total long-term debt	5,235,256	3,993,278
Less net debt issuance cost	(125,867)	(64,620)
Less current portion	(153,987)	(430,543)
Long-term portion	<u>\$ 4,955,402</u>	<u>\$ 3,498,115</u>

On August 1, 2002, Brook Lane issued \$ 5,500,000 Town of Smithsburg, Economic Development Revenue Bond, Series of 2002 (Series of 2002). The bond issue was used to refinance the outstanding principal balance of the Washington County Economic Development Revenue Bonds, Series 1991, and finance the construction of two, two-story hospital wings totaling approximately 30,000 square feet and to renovate approximately 3,900 square feet of the facility. This Series of 2002 was scheduled to mature on August 1, 2023. The interest rate on the bond issue was based on 92% of the prime rate and adjusted on various anniversary dates. The interest rate was 2.99% at June 30, 2022. This obligation was secured by a first lien on all property and rents and profits hereunder. The Series of 2002 bonds also had several covenants that Brook Lane must comply with, such as maintaining minimum debt service coverage and tangible net worth ratios. The bonds could be prepaid without penalty.

On December 20, 2013, Brook Lane issued \$ 4,600,000 Town of Smithsburg, Economic Development Revenue Bond, Series of 2013 (Series of 2013). The bond issue was used to finance the construction and furnishing of a 14-bed addition and physician offices totaling approximately 24,000 square feet at Brook Lane's existing hospital facility, constructing a wastewater treatment facility to serve the Brook Lane campus, and building out, furnishing, and equipping approximately 7,700 square feet of office space leased in Frederick County Maryland. The 2013 bonds were scheduled to mature on December 15, 2033. The interest rate on the bond was 67% of the one-month London Interbank Offered Rate (LIBOR) plus 2.01%. This variable rate was 3.02% at June 30, 2022. The interest rate on the bond was hedged with a swap agreement (Note 11) to create a synthetic fixed rate of 4.43%. The Series of 2013 bonds were secured by a second lien on all property and rents and profits hereunder.

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

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**NOTE 5 LONG-TERM DEBT (CONTINUED)**

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In May 2015, Brook Lane entered into a note for \$ 1,200,000 with Truist Bank (formerly BB&T) for the purchase and implementation of an electronic health records system. The note was due May 2025 and had an initial five-year fixed rate of 4.15% followed by a subsequent five-year rate based on the five-year Federal Home Loan Bank of Pittsburgh rate plus 265 basis points. The interest rate was 3.56% at June 30, 2022. This obligation was secured by a third lien on all property and rents and profits.

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, 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, 2023, 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 8.25% at June 30, 2023 with no balances outstanding under this line of credit at June 30, 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:

2024	\$	153,987
2025		163,398
2026		172,572
2027		182,261
2028		191,819
Thereafter		4,371,219
		<u>\$ 5,235,256</u>

Total interest costs on long-term debt for the years ended June 30, 2023 and 2022 were \$ 252,626 and \$ 183,206, respectively.

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

**NOTE 5 LONG-TERM DEBT (CONTINUED)**

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. During the year ended June 30, 2023, debt issuance costs of \$ 129,094 were incurred 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.

Debt issuance costs as June 30 are as follows:

	<b>2023</b>	<b>2022</b>
Gross cost	\$ 129,094	\$ 221,755
Accumulated amortization	<u>(3,227)</u>	<u>(157,135)</u>
Unamortized costs	<u>\$ 125,867</u>	<u>\$ 64,620</u>

Amortization expense on debt issuance costs were \$ 6,923 and \$ 11,088 for the years ended June 30, 2023 and 2022, respectively.

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

2024	\$ 6,456
2025	6,456
2026	6,456
2027	6,456
2028	6,456
Thereafter	<u>93,587</u>
	<u>\$ 125,867</u>

**NOTE 6 NET PATIENT SERVICE REVENUE**

Brook Lane's routine and ancillary service revenue concentrations for the years ended June 30, 2023 and 2022 are as follows:

	<b>Net Patient Service Revenue</b>	
	<b>2023</b>	<b>2022</b>
Blue Cross Blue Shield	17.67%	23.41%
Medicare	9.01%	10.32%
Commercial Insurance	7.00%	7.23%
Health Maintenance Organizations	7.66%	6.95%
Medical Assistance	55.05%	49.06%
Self-Pay and Other	<u>3.61%</u>	<u>3.03%</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, 2023 and 2022 from these major payor sources is as follows:

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
2022						
Blue Cross Blue Shield	Medicare	Commercial Insurance	Health Maintenance Organizations	Medical Assistance	Self-Pay and Other	Total
\$ 5,268,103	\$ 2,323,703	\$ 1,626,588	\$ 1,563,787	\$ 11,043,166	\$ 682,891	\$ 22,508,237

The change in the allowance for doubtful accounts for 2023 and 2022 is as follows:

	2023	2022
Allowance for doubtful accounts at July 1	\$ 1,086,316	\$ 669,201
Provision for bad debts	1,646,149	769,478
Write off of bad debts	(490,116)	(352,363)
Allowance for doubtful accounts at June 30	\$ 2,242,349	\$ 1,086,316

**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 \$ 358,437 and \$ 335,947 was incurred by Brook Lane related to the 401(k) plan during the years ended June 30, 2023 and 2022, respectively.

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

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**NOTE 8 FUNCTIONAL EXPENSES**

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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:

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
<b>Total</b>	<b>\$ 20,380,464</b>	<b>\$ 5,733,264</b>	<b>\$ 27,170</b>	<b>\$ 26,140,898</b>

2022				
	Program	Management and General	Total	
Salaries and wages	\$ 10,911,004	\$ 3,505,824	\$	14,416,828
Employee benefits	2,232,003	717,167	\$	2,949,170
Supplies	1,790,998	110,350	\$	1,901,348
Contractual services	1,484,338	538,460	\$	2,022,798
Facility expense	755,919	634,640	\$	1,390,559
Depreciation	1,275,133	-	\$	1,275,133
Interest	184,212	11,088	\$	195,300
General and administrative	73,824	860,938	\$	934,762
<b>Total</b>	<b>\$ 18,707,431</b>	<b>\$ 6,378,467</b>	<b>\$</b>	<b>\$ 25,085,898</b>

**NOTE 9 MARYLAND HEALTH SERVICES COST REVIEW COMMISSION**

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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**

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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**

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**NOTE 11 INTEREST RATE SWAP AGREEMENT**

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Brook Lane was exposed to the impact of interest rate changes on its variable rate debt, Town of Smithsburg, Economic Development Revenue Bond, Series of 2013 (Note 5). In order to manage the impact of interest rate changes on the Series of 2013, Brook Lane entered into a swap agreement with Truist Bank on December 4, 2013 for a notional amount of \$ 4,600,000, effective on December 20, 2013, with a termination date of December 15, 2033. Brook Lane's intention was to pay a synthetic fixed interest rate of 4.43% and receive a floating rate of 67% of monthly LIBOR plus 2.01% on the Series of 2013.

The fair value of the interest rate swap liability at June 30, 2022 was \$ 92,189 and is included in other liabilities on the balance sheets. The change in the value of the interest rate swap agreement of \$ 92,189 and \$ 281,111 for the years ended June 30, 2023 and 2022, respectively, is presented after the excess (deficit) of revenues, gains, and other support over expenses in the statements of operations.

The interest rate swap obligation was paid off and the agreement was cancelled in December 2022 as part of a refinancing of debt. See Note 5.

**NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS**

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At June 30, 2023 and 2022, 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:

	<b>2023</b>	<b>2022</b>
Subject to expenditure for specified purpose:		
Building projects	\$ 185,979	\$ 234,940
Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose by donors are as follows:		
Building projects	\$ 418,680	\$ 66,052
	<u>\$ 418,680</u>	<u>\$ 66,052</u>

**NOTE 13 FAIR VALUE MEASUREMENTS**

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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.

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

**NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)**

**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 inputs 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:

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

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

No	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Certificate of deposit	\$ 256,238	\$ -	\$ 256,238	\$ -
<b>Total assets at fair value</b>	<b>\$ 256,238</b>	<b>\$ -</b>	<b>\$ 256,238</b>	<b>\$ -</b>
At June 30, 2022	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Certificate of deposit	\$ 275,547	\$ -	\$ 275,547	\$ -
<b>Total assets at fair value</b>	<b>\$ 275,547</b>	<b>\$ -</b>	<b>\$ 275,547</b>	<b>\$ -</b>
<b>Financial Liabilities</b>				
Interest rate swap agreement	\$ 92,189	\$ -	\$ 92,189	\$ -

**NOTE 14 RELATED PARTIES**

During the years ended June 30, 2023 and 2022, Brook Lane Health Services, Inc. charged Brook Lane Behavioral Health Services, Inc. a management fee of \$ 180,000 and \$ 140,000, respectively. During the year ended June 30, 2022, Brook Lane Health Services, Inc. charged Brook Lane Behavioral Services, Inc. for contracted capital costs of \$ 146,635. These are included in other operating revenues in the statements of operations. 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.

Brook Lane Health Services, Inc. had a receivable amount of \$ 129,597 from Brook Lane Behavioral Services, Inc. and a payable amount of \$ 883,827 to Brook Lane Behavioral Services, Inc. as of June 30, 2023 and 2022, respectively, that is recorded as amounts due from and to affiliates in the balance sheets.



**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

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**NOTE 15 LEASES**

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On July 1, 2022, Brook Lane adopted ASU No. 2016-02, *Leases (Topic 842)* and all subsequent ASUs that modified Topic 842. Brook Lane elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. Financial results and disclosures for reporting periods beginning on or after July 1, 2022 are presented under the Topic 842 requirements, while prior period amounts and disclosures are not adjusted and continue to be reported in accordance with previous guidance. Brook Lane also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. The implementation of the new standard resulted in recognition of a right-of-use assets of \$ 2,097,121 and lease liability of \$ 2,090,735 at the date of adoption, which is related to Brook Lane's lease of office space and premises and equipment used in operations. Since the calculated right of use asset and lease liability were materially the same, a cumulative effect adjustment to net assets as of the implementation date was not recorded.

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 6.48% 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 five 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 year ended June 30, 2023.

Lease expense at June 30 is as follows:

	<u>2023</u>
Finance lease expense:	
Amortization of ROU assets	\$ 38,196
Interest on lease liabilities	<u>10,920</u>
	49,116
Operating lease expense	<u>574,530</u>
Total lease expense	<u>\$ 623,646</u>

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

**NOTE 15 LEASES (CONTINUED)**

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

	<b>2023</b>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases (i.e., interest)	\$ 10,920
Financing cash flows from finance leases (i.e., principal portion)	38,196
Operating cash flows from operating leases	574,530
ROU assets obtained in exchange for new finance lease liabilities	190,000
ROU assets obtained in exchange for new operating lease liabilities	1,907,121
Weighted-average remaining lease term in years for finance leases	3.83
Weighted-average remaining lease term in years for operating leases	2.76
Weighted-average discount rate for finance leases	6.48%
Weighted-average discount rate for operating leases	8.25%

Future payments due under lease obligation are as follows at June 30, 2023:

	<b>Finance</b>	<b>Operating</b>
2024	\$ 44,352	\$ 581,448
2025	44,352	368,850
2026	44,352	241,083
2027	36,143	89,044
2028	-	90,825
Thereafter	-	124,048
Total undiscounted cash flows	\$ 169,199	\$ 1,495,298
Less: present value discount	(19,017)	(109,911)
Total lease liabilities	<u>\$ 150,182</u>	<u>\$ 1,385,387</u>

During the year ended June 30, 2022, Brook Lane had operating leases for the rental of office space and equipment. Total rental expense for the year ended June 30, 2022 was \$ 36,942.

During the year ended June 30, 2022, Brook Lane entered into a lease agreement for a piece of medical equipment that qualified for capital lease treatment. The terms of the lease require payments of \$ 3,696 over 60 months. The implicit rate used was 6.48%. Interest expense for the capital lease was \$ 1,006 for the year ended June 30, 2022.

The equipment held under the capital lease at June 30, 2022 is as follows:

	<b>2022</b>
Medical equipment	\$ 190,000
Less accumulated depreciation	-
Assets under capital lease, net	<u>\$ 190,000</u>

The total capital lease liability was \$ 183,614 at June 30, 2022.

**BROOK LANE HEALTH SERVICES, INC.**  
**Notes to Financial Statements**

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**NOTE 16 DEFERRED REVENUES**

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During the year ended June 30, 2023, Brook Lane received a grant of \$ 1,080,000 for the future construction of a wing on the hospital. As of June 30, 2023, \$ 1,077,002 of the funds were not used and is included in deferred revenue in the balances sheets.

**NOTE 17 SUBSEQUENT EVENTS**

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Brook Lane has evaluated events and transactions subsequent to June 30, 2023 through September 18, 2023, 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 require recognition or disclosure in the financial statements.