

Audited
Financial
Statements

June 30, 2021

**Brook Lane Health
Services, Inc.**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Brook Lane Health Services, Inc. (Brook Lane) which comprise the balance sheets as of June 30, 2021 and 2020, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Brook Lane's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Brook Lane's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Brook Lane Health Services, Inc. as of June 30, 2021 and 2020, and the results of its operations, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 1 to the financial statements, Brook Lane adopted new accounting guidance issued by the Financial Accounting Standards Board (FASB) related to revenue from contracts with customers. Our opinion is not modified with respect to this matter.

Smith Elliott Hearn & Company, LLC.

Chambersburg, Pennsylvania
September 8, 2021

BROOK LANE HEALTH SERVICES, INC.
Balance Sheets
June 30, 2021 and 2020

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,245,053	\$ 5,793,946
Investments	-	94
Patient accounts receivable, net of allowance for doubtful accounts of \$ 422,851 for 2021 and \$ 481,557 for 2020	3,175,568	1,637,259
Amounts due from third-party payors	128,533	256,652
Amounts due from affiliates	-	459,042
Other receivables	144,544	349
Inventories	177,686	133,683
Prepaid expenses	<u>605,436</u>	<u>509,620</u>
Total current assets	<u>11,476,820</u>	<u>8,790,645</u>
Board Designated Investments		
Capital replacement and expansion	<u>290,417</u>	<u>359,297</u>
Total board designated investments	<u>290,417</u>	<u>359,297</u>
Assets Whose Use is Limited		
Unemployment fund collateral	<u>275,547</u>	<u>275,547</u>
Total assets whose use is limited	<u>275,547</u>	<u>275,547</u>
Property, Plant and Equipment		
Land and land improvements	545,387	543,862
Buildings	18,437,767	17,734,811
Fixed equipment	3,737,673	3,557,796
Major moveable equipment	2,028,916	1,784,461
Construction in progress	<u>1,388,886</u>	<u>264,762</u>
	26,138,629	23,885,692
Less allowance for depreciation	<u>11,162,375</u>	<u>9,964,204</u>
	<u>14,976,254</u>	<u>13,921,488</u>
Other Assets		
Long-term patients accounts receivable, net of allowance for doubtful accounts of \$ 246,350 for 2021 and \$ 121,085 for 2020	<u>411,418</u>	<u>494,398</u>
TOTAL ASSETS	<u>\$ 27,430,456</u>	<u>\$ 23,841,375</u>

	2021	2020
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current portion of long term debt	\$ 709,528	\$ 676,807
Trade accounts payable and accrued expenses	453,577	375,080
Accrued salaries, wages, and payroll taxes	1,045,201	1,143,612
Accrued pension	17,961	-
Accrued vacation	1,530,482	1,319,938
Amounts due to affiliates	1,324,966	-
Deferred revenue - Paycheck Protection Program	<u>-</u>	<u>390,868</u>
Total current liabilities	<u>5,081,715</u>	<u>3,906,305</u>
Other Liabilities		
Long-term debt, net of current portion	3,921,962	4,640,983
Obligation under interest rate swap agreement	<u>373,300</u>	<u>555,163</u>
Total other liabilities	<u>4,295,262</u>	<u>5,196,146</u>
Total liabilities	<u>9,376,977</u>	<u>9,102,451</u>
Net Assets		
Without donor restrictions	17,763,062	14,379,627
With donor restrictions	<u>290,417</u>	<u>359,297</u>
Total net assets	<u>18,053,479</u>	<u>14,738,924</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 27,430,456</u>	<u>\$ 23,841,375</u>

BROOK LANE HEALTH SERVICES, INC.
Statements of Operations
Years Ended June 30, 2021 and 2020

	2021	2020
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue, Gains, and Other Support		
Net patient service revenue		
Routine services	\$ 16,047,079	\$ 14,431,179
Ancillary services	7,056,687	6,653,743
Net patient service revenue	<u>23,103,766</u>	<u>21,084,922</u>
Provision for bad debts	<u>(563,180)</u>	<u>(761,666)</u>
Net patient service revenue less provision for bad debts	<u>22,540,586</u>	<u>20,323,256</u>
Other operating revenues	<u>425,868</u>	<u>447,520</u>
Total revenue, gains and other support	<u>22,966,454</u>	<u>20,770,776</u>
Expenses and Losses		
Salaries and wages	13,019,374	12,462,415
Employee benefits	2,820,397	3,158,222
Supplies	1,634,446	1,388,768
Contractual services	1,359,318	1,691,080
Facility expense	1,077,317	1,043,032
Depreciation	1,198,172	1,140,214
Interest	238,314	268,003
General and administrative	<u>716,568</u>	<u>537,920</u>
Total expenses	<u>22,063,906</u>	<u>21,689,654</u>
Operating income (loss)	<u>902,548</u>	<u>(918,878)</u>
Other Income		
Contributions	72,251	31,830
Investment income	1,437	5,807
Unrealized (loss) on investments	(94)	(183)
Paycheck Protection Program	390,868	2,362,860
Grant revenues	1,013,036	452,343
Other	<u>739,071</u>	<u>-</u>
Total other income	<u>2,216,569</u>	<u>2,852,657</u>
Excess of revenues, gains, and other support over expenses		
	<u>3,119,117</u>	<u>1,933,779</u>
Change in value of interest rate swap agreement	181,863	(220,980)
Net assets released from restriction	<u>82,455</u>	<u>3,750</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 3,383,435</u>	<u>\$ 1,716,549</u>

BROOK LANE HEALTH SERVICES, INC.
Statements of Changes in Net Assets
Years Ended June 30, 2021 and 2020

	2021	2020
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess of revenues, gains, and other support over expenses	\$ 3,119,117	\$ 1,933,779
Change in value of interest rate swap agreement	181,863	(220,980)
Net assets released from restriction	<u>82,455</u>	<u>3,750</u>
Increase in net assets without restrictions	<u>3,383,435</u>	<u>1,716,549</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	13,575	62,382
Net assets released from restrictions	<u>(82,455)</u>	<u>(3,750)</u>
Increase (decrease) in net assets with donor restrictions	<u>(68,880)</u>	<u>58,632</u>
Increase in net assets	3,314,555	1,775,181
Net Assets, Beginning	<u>14,738,924</u>	<u>12,963,743</u>
NET ASSETS, ENDING	<u><u>\$ 18,053,479</u></u>	<u><u>\$ 14,738,924</u></u>

BROOK LANE HEALTH SERVICES, INC.
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,314,555	\$ 1,775,181
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,209,260	1,151,302
Provision for bad debts	563,180	761,666
Unrealized loss on investments	94	183
Change in value of interest rate swap agreement	(181,863)	220,980
Contribution income with donor restrictions	(13,575)	(62,382)
(Increase) decrease in:		
Patient accounts receivable	(2,018,509)	1,139,280
Pledges receivable	-	3,750
Inventories	(44,003)	30,991
Amounts due from third-party payors	128,119	3,077
Amounts due from/to affiliates	1,784,008	706,788
Other assets	(240,011)	26,426
Increase (decrease) in:		
Accounts payable and accrued expenses	208,591	176,915
Deferred revenue	(390,868)	390,868
Net cash provided by operating activities	<u>4,318,978</u>	<u>6,325,025</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,252,938)	(1,155,618)
Proceeds from disposal of property and equipment	-	5,649
Net cash used by investing activities	<u>(2,252,938)</u>	<u>(1,149,969)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(697,388)	(629,196)
Contribution income with donor restrictions	13,575	62,382
Net cash used by financing activities	<u>(683,813)</u>	<u>(566,814)</u>
Net increase in cash and cash equivalents	1,382,227	4,608,242
Cash and cash equivalents, beginning of year	<u>6,428,790</u>	<u>1,820,548</u>
Cash and cash equivalents, end of year	<u>\$ 7,811,017</u>	<u>\$ 6,428,790</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 224,296</u>	<u>\$ 258,129</u>
UNRESTRICTED AND RESTRICTED CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 7,245,053	\$ 5,793,946
Capital replacement and expansion	290,417	359,297
Unemployment fund collateral	<u>275,547</u>	<u>275,547</u>
Total unrestricted and restricted and cash equivalents	<u>\$ 7,811,017</u>	<u>\$ 6,428,790</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

Accounting Method

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

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 and functional expense allocations. 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 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 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. Realized gains and losses are computed on the specific identification method. 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. 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, 2021 and 2020. 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.

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

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 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 statement of operations includes *excess of revenues, gains, and other support over expenses*. Changes in net assets without donor restrictions which are excluded from *excess of revenues, gains, and other support over expenses*, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, 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 \$ 26,772 and \$ 22,208 for the years ended June 30, 2021 and 2020, 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

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

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, 2021 and 2020 was \$ 216,132 and \$ 240,590, respectively. There were no contributions or grant income received to offset the cost of charity care for the years ended June 30, 2021 and 2020.

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:

	2021	2020
Blue Cross Blue Shield	16.90%	21.02%
Medicare	9.19%	14.17%
Commercial Insurance	9.65%	7.29%
Health Maintenance Organizations	8.66%	6.56%
Medical Assistance	36.03%	17.06%
Self-Pay and Other	<u>19.57%</u>	<u>33.90%</u>
	<u><u>100.00%</u></u>	<u><u>100.00%</u></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 \$ 275,547 as of June 30, 2021 and 2020 as collateral for this requirement.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

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

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.

Change in Accounting Policy

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification ("ASC") Update 2014-09, "Revenue from Contracts with Customers" (ASC 606). This standard update established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle prescribed by this standards update is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The five-step model defined by ASU 2014-09 requires Brook Lane to identify the contracts with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when each performance obligation is satisfied. The standard applies to all contracts with customers, except those that are within the scope of other topics in the FASB ASC. ASU 2014-09 also requires enhanced disclosure of revenue arrangements and may be applied retrospectively to each prior period (full retrospectively) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). Brook Lane adopted the new standard under the modified retrospective approach with the guidance applied to the most current period presented and recognizing the cumulative effect of the adoption change as an adjustment to the beginning net assets. The adoption of ASU 2014-09 did not require an adjustment to net assets as of July 1, 2020 and did not cause any significant changes in the measurement or timing of revenue recognition as a result of this guidance.

NOTE 2 REVENUE RECOGNITION

As previously disclosed, Brook Lane implemented ASU 2014-09 during the year ended June 30, 2021. The sources of revenue for Brook Lane are patient service revenues, contributions, investment income, unrealized losses on investments, Paycheck Protection Program income, grant revenues, 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.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 2 REVENUE RECOGNITION (CONTINUED)

Contributions, investment income, unrealized losses on investments, Paycheck Protection Program income, and grant income are recognized on the accrual basis, but these revenues are outside the scope of ASC 606.

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 is completed.

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 received.

NOTE 3 LIQUIDITY AND AVAILABILITY

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

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	\$ 7,245,053	\$ 5,793,946
Investments	-	94
Accounts and other receivables	<u>3,448,645</u>	<u>2,353,302</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 10,693,698</u>	<u>\$ 8,147,342</u>

Brook Lane's goal is to maintain 30 days of available cash. There is daily monitoring of the operating bank accounts and the CFO and CEO review the cash balances weekly. The Organization maintains a focus on timely billing and collection to maintain a steady flow of operating cash. As of June 30, 2021 and 2020, Brook Lane has \$ 290,417 and \$ 359,297, respectively, in board designated investments available for use.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 4 INVESTMENTS

The composition of investments in Brook Lane’s investment portfolio at June 30, 2021 and 2020 is set forth in the following schedule:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ -	\$ -	\$ 21	\$ 21
Equities	-	-	4,039	73
Current Investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,060</u>	<u>\$ 94</u>
Board-designated investments				
Cash and cash equivalents	<u>\$ 290,417</u>	<u>\$ 290,417</u>	<u>\$ 359,297</u>	<u>\$ 359,297</u>
	<u>\$ 290,417</u>	<u>\$ 290,417</u>	<u>\$ 359,297</u>	<u>\$ 359,297</u>
Unemployment fund collateral				
Certificate of deposit	<u>\$ 275,547</u>	<u>\$ 275,547</u>	<u>\$ 275,547</u>	<u>\$ 275,547</u>

NOTE 5 AMOUNTS DUE FROM THIRD-PARTY PAYORS

The amounts collected under the Medicare and Medicaid programs are subject to verification by fiscal intermediaries. The Medicare program is based on a prospective payment system and is no longer cost settled. The Medicaid outpatient settlements are still open for 2020. Medicaid in-patient payments are 94% of HSCRC approved rates and are no longer subject to a cost settlement process. An estimate for the settlement of the 2020 Medicaid outpatient cost reports is recorded in the amount of \$ 128,533 and \$ 256,652 at June 30, 2021 and 2020, respectively. Management believes these are reasonable estimates at June 30, 2021 and 2020.

NOTE 6 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited are comprised of a certificate of deposit which has restrictions placed on it by regulatory requirements. This account includes an unemployment compensation trust fund with a balance of \$ 275,547 at June 30, 2021 and 2020. Investment income earned on these funds is reflected in investment income in the statements of operations.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 7 LONG-TERM DEBT

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

	2021	2020
Town of Smithsburg, Economic Development Revenue Bond (Series 2002)	\$ 846,773	\$ 1,209,602
Town of Smithsburg, Economic Development Revenue Bond (Series 2013)	3,331,332	3,541,703
Truist Bank Note	529,093	653,281
Total long-term debt	4,707,198	5,404,586
Less net debt issuance cost	(75,708)	(86,796)
Less current portion	(709,528)	(676,807)
Long-term portion	<u>\$ 3,921,962</u>	<u>\$ 4,640,983</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 will mature on August 1, 2023. The interest rate on the bond issue is based on 92% of the prime rate and will be adjusted on various anniversary dates. The interest rate was 4.60% at June 30, 2021 and 2020. This obligation is secured by a first lien on all property and rents and profits hereunder. The Series of 2002 bonds also have several covenants that Brook Lane must comply with, such as maintaining minimum debt service coverage and tangible net worth ratios. The bonds may 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 mature on December 15, 2033. The interest rate on the bond is 67% of the one-month London Interbank Offered Rate (LIBOR) plus 2.01%. This variable rate was 2.11% and 2.14% at June 30, 2021 and 2020, respectively. The interest rate on the bond is hedged with a swap agreement (Note 14) to create a synthetic fixed rate of 4.43%. The Series of 2013 bonds are secured by a second lien on all property and rents and profits hereunder.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 7 LONG-TERM DEBT (CONTINUED)

The Series of 2013 bonds also have several covenants that Brook Lane must comply with, such as maintaining a minimum debt service coverage of 1.10 to 1.00 and tangible net worth greater than \$ 6,000,000. The bonds may be prepaid without penalty.

As of June 30, 2021, Brook Lane was in compliance with the debt service coverage and tangible net worth ratios.

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 is due May 2025 and has 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% and 4.15% at June 30, 2021 and 2020, respectively. This obligation is secured by a third lien on all property and rents and profits.

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

2022	\$	709,528
2023		742,952
2024		431,002
2025		383,075
2026		264,861
Thereafter		2,175,780
	\$	<u>4,707,198</u>

Total interest costs and amortization of debt issuance costs for the year ended June 30, 2021 and 2020 were \$ 238,314 and \$ 268,003, respectively.

NOTE 8 NET PATIENT SERVICE REVENUE

Brook Lane's routine and ancillary service revenue concentrations for the years ended June 30, 2021 and 2020 are as follows:

	<u>Net Patient Service Revenue</u>	
	<u>2021</u>	<u>2020</u>
Blue Cross Blue Shield	21.50%	21.26%
Medicare	9.08%	10.59%
Commercial Insurance	9.48%	6.61%
Health Maintenance Organizations	10.55%	8.72%
Medical Assistance	45.15%	47.44%
Self-Pay and Other	4.24%	5.38%
	<u>100.00%</u>	<u>100.00%</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 8 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 statement of operations for the years ended June 30, 2021 and 2020 from these major payor sources is as follows:

2021						
Health						
Blue Cross Blue Shield	Medicare	Commercial Insurance	Maintenance Organizations	Medical Assistance	Self-Pay and Other	Total
\$ 4,966,404	\$ 2,098,888	\$ 2,190,672	\$ 2,437,774	\$ 10,430,725	\$ 979,304	\$ 23,103,766

2020						
Health						
Blue Cross Blue Shield	Medicare	Commercial Insurance	Maintenance Organizations	Medical Assistance	Self-Pay and Other	Total
\$ 4,482,307	\$ 2,232,352	\$ 1,394,700	\$ 1,838,286	\$ 10,003,237	\$ 1,134,040	\$ 21,084,922

The change in the allowance for doubtful accounts for 2021 and 2020 is as follows:

	2021	2020
Allowance for doubtful accounts at July 1	\$ 602,642	\$ 589,318
Provision for bad debts	563,180	761,666
Write off of bad debts	(496,621)	(748,342)
Allowance for doubtful accounts at June 30	<u>\$ 669,201</u>	<u>\$ 602,642</u>

NOTE 9 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. 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. 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 \$ 340,620 and \$ 330,998 was incurred by Brook Lane related to the 401(k) plan during the years ended June 30, 2021 and 2020, respectively.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 10 LEASES

Brook Lane has entered into lease agreements for the rental of equipment. Rentals paid under operating leases for the years ended June 30, 2021 and 2020 were \$ 136,206 and \$ 135,596, respectively.

NOTE 11 FUNCTIONAL EXPENSES

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

2021			
	Program	Management and General	Total
Salaries and wages	\$ 10,169,588	\$ 2,849,786	\$ 13,019,374
Employee benefits	2,203,046	617,351	2,820,397
Supplies	1,540,382	94,064	1,634,446
Contractual services	884,761	474,557	1,359,318
Facility expense	679,437	397,880	1,077,317
Depreciation	1,198,172	-	1,198,172
Interest	227,226	11,088	238,314
General and administrative	135,310	581,258	716,568
Total	\$ 17,037,922	\$ 5,025,984	\$ 22,063,906

2020			
	Program	Management and General	Total
Salaries and wages	\$ 9,518,516	\$ 2,943,899	\$ 12,462,415
Employee benefits	2,412,180	746,042	3,158,222
Supplies	1,346,072	42,696	1,388,768
Contractual services	1,292,467	398,613	1,691,080
Facility expense	702,502	340,530	1,043,032
Depreciation	1,140,214	-	1,140,214
Interest	256,915	11,088	268,003
General and administrative	160,920	377,000	537,920
Total	\$ 16,829,786	\$ 4,859,868	\$ 21,689,654

NOTE 12 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.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 13 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 14 INTEREST RATE SWAP AGREEMENT

Brook Lane is exposed to the impact of interest rate changes on its variable rate debt, Town of Smithsburg, Economic Development Revenue Bond, Series of 2013 (Note 7). 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 is to pay a synthetic fixed interest rate of 4.43% and receive a floating rate of 67% of monthly LIBOR plus 2.01% on the Series of 2013.

The fair value of the interest rate swap liability at June 30, 2021 and 2020 was \$ 373,300 and \$ 555,163, respectively, and is included in other liabilities on the balance sheets. The change in the value of the interest rate swap agreement of \$ 181,863 and \$ (220,980) for the years ended June 30, 2021 and 2020, respectively, is presented after the excess of revenues, gains, and other support over expenses in the statements of operations.

NOTE 15 NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2021 and 2020, 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:

	2021	2020
Subject to expenditure for specified purpose:		
Building projects	\$ 290,417	\$ 359,297
Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose by donors are as follows:		
Building projects	\$ 82,455	\$ -
Collection/write-off of pledges receivable	-	3,750
	<u>\$ 82,455</u>	<u>\$ 3,750</u>

NOTE 16 FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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

- Level 1:** Inputs to the valuation methodology are quoted prices available in active markets for identical assets or liabilities that the Organization can access at the measurement date.
- Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3:** Inputs that are unobservable 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:

Money Market funds: Based on the daily closing price as reported by the fund based on the daily net asset value (NAV).

Domestic common stocks: Based on quoted prices in an active market.

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.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 16 FAIR VALUE MEASUREMENTS (CONTINUED)

At June 30, 2021	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Certificate of deposit	\$ 275,547	\$ -	\$ 275,547	\$ -
TOTAL ASSETS AT FAIR VALUE	\$ 275,547	\$ -	\$ 275,547	\$ -
Financial Liabilities				
Interest rate swap agreement	\$ 373,300	\$ -	\$ 373,300	\$ -
<hr/>				
At June 30, 2020	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Money market funds	\$ 21	\$ -	\$ 21	\$ -
Certificate of deposit	275,547	-	275,547	-
Domestic common stocks:				
Energy	73	73	-	-
TOTAL ASSETS AT FAIR VALUE	\$ 275,641	\$ 73	\$ 275,568	\$ -
Financial Liabilities				
Interest rate swap agreement	\$ 555,163	\$ -	\$ 555,163	\$ -

NOTE 17 RELATED PARTIES

During the years ended June 30, 2021 and 2020, Brook Lane Health Services, Inc. charged Brook Lane Behavioral Health Services, Inc. a management fee of \$ 134,998 and \$ 130,002, respectively. During the year ended June 30, 2021 and 2020, Brook Lane Health Services, Inc. charged Brook Lane Behavioral Services, Inc. for contracted capital costs of \$ 200,572 and \$ 191,118, respectively. These are included in other income in the statements of operations.

Brook Lane Health Services, Inc. had a payable amount of \$ 1,324,966 and a receivable amount of \$ 459,042 from Brook Lane Behavioral Services, Inc. as of June 30, 2021 and 2020, respectively, that is recorded as amounts due to and due from affiliates in the balance sheets.

BROOK LANE HEALTH SERVICES, INC.
Notes to Financial Statements

NOTE 18 PAYCHECK PROTECTION PROGRAM

In May 2020, Brook Lane, Inc. was approved and received \$ 5,039,765 through the U.S. Treasury's Paycheck Protection Program (PPP) created by the Coronavirus Aid Relief and Economic Security Act ("CARES ACT") and governed by the Small Business Administration ("SBA"). Of this amount, \$ 2,753,728 was allocated to Brook Lane Health Services, Inc. PPP is a government initiated economic stimulus program to provide loans to assist small businesses that have been impacted by closures as result of the COVID-19 pandemic. Under the terms of the PPP, the loan will be due in two years and bears interest at 1%, with payments deferred for six months and interest will continue to accrue over this period. The loan may be forgiven if the loan proceeds are used to cover payroll costs, and most mortgage interest, rent, and utility costs over the 24-week period after the loan is made and employee and compensation levels are maintained over the period.

Brook Lane expects the total amount to be forgiven based on management's assessment that they have incurred eligible costs and met the requirements for forgiveness. At June 30, 2021 and 2020, Brook Lane recognized \$ 390,868 and \$ 2,362,860, respectively, as income in the statements of operations.

NOTE 19 COMMITMENTS

In April 2021, Brook Lane entered into a contract for renovations to adolescent patient and adult patient wings of the Hospital. The total contract is \$ 698,747, of which none had been paid as of June 30, 2021.

NOTE 20 SUBSEQUENT EVENTS

Brook Lane has evaluated events and transactions subsequent to June 30, 2021 through September 8, 2021, 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.