

Audited
Financial
Statements

June 30, 2015

**BROOK LANE HEALTH
SERVICES, INC.**

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BROOK LANE HEALTH SERVICES, INC.

List Of Report Distribution

June 30, 2015

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

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Brook Lane Health Services, Inc. and subsidiary (Brook Lane), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brook Lane Health Services, Inc. and subsidiary as of June 30, 2015 and 2014, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet, consolidating statement of operations, consolidating statement of changes in net assets, consolidating statement of cash flows, as well as the accompanying schedules of revenues and expenses, comparison of payment rate to actual rate, functional expenses, sources of funds received – residential and education, total budgeted expenses to total actual expenses, total budgeted expenses to total actual expenses and net cost per child care month – residential and education, accumulated retained earnings and uses for the Department of Human Resources Respite Program, and schedules of nonpublic special education school total budgeted expenses to total actual expenses and schedule of accumulated retained earnings and uses for Laurel Hall School (Washington County – Level 1 School and the Frederick County Level 1 School), required by the Maryland Department of Education, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2015 on our consideration of Brook Lane's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Brook Lane's internal control over financial reporting and compliance.

Smith Elliott Keenan & Company, LLC

Chambersburg, Pennsylvania
September 15, 2015

BROOK LANE HEALTH SERVICES, INC.
Consolidated Balance Sheets
June 30, 2015 and 2014

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,110,261	\$ 1,894,419
Investments	4,907	4,059
Assets whose use is limited - current portion	204,645	441,642
Patient accounts receivable, net of allowance for doubtful accounts of \$ 108,768 and \$ 82,118, respectively	3,761,792	4,221,287
Amounts due from third-party payors, current portion	136,823	34,885
Group home accounts receivable	246,082	333,074
Receivable for educational services	1,068,892	732,689
Inventories	129,346	136,904
Prepaid expenses	303,710	296,160
Other	23,767	11,817
Total current assets	<u>8,990,225</u>	<u>8,106,936</u>
Board Designated Investments		
Capital replacement and expansion	246,094	362,537
Special purposes	58,390	33,936
Total board designated investments	<u>304,484</u>	<u>396,473</u>
Assets Whole Use is Limited		
Pledges receivable, net of allowance for doubtful pledges of \$ 7,470 and \$ 0, respectively	205,778	293,395
Construction escrow fund	474,076	2,448,933
Unemployment fund collateral	256,689	191,513
Total assets whose use is limited	<u>936,543</u>	<u>2,933,841</u>
Property, Plant and Equipment		
Land and land improvements	429,154	556,581
Buildings	14,481,648	8,997,661
Fixed equipment	893,463	970,776
Major moveable equipment	951,636	868,803
Construction in progress	1,392,245	2,692,321
	<u>18,148,146</u>	<u>14,086,142</u>
Less allowance for depreciation	5,521,385	5,547,457
	<u>12,626,761</u>	<u>8,538,685</u>
Other Assets		
Long-term patients accounts receivable, net of allowance for doubtful accounts of \$ 13,259 and \$ 9,904, respectively	390,038	498,033
Deferred financing costs, net of accumulated amortization of \$ 80,501 and \$ 69,538, respectively	142,344	153,487
	<u>532,382</u>	<u>651,520</u>
TOTAL ASSETS	<u>\$ 23,390,395</u>	<u>\$ 20,627,455</u>

BROOK LANE HEALTH SERVICES, INC.
Consolidated Balance Sheets
June 30, 2015 and 2014

	2015	2014
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current portion of long term debt	\$ 563,198	\$ 449,035
Trade accounts payable and accrued expenses	460,829	565,468
Construction accounts payable	204,645	441,642
Accrued salaries, wages, and payroll taxes	938,487	714,889
Accrued vacation	<u>878,333</u>	<u>753,787</u>
 Total current liabilities	 <u>3,045,492</u>	 <u>2,924,821</u>
 Other Liabilities		
Long-term debt, net of current portion	7,830,240	7,201,924
Obligation under interest rate swap agreement	<u>344,668</u>	<u>280,945</u>
 Total liabilities	 <u>11,220,400</u>	 <u>10,407,690</u>
 Net Assets		
Unrestricted	11,718,123	9,563,833
Temporarily restricted	<u>451,872</u>	<u>655,932</u>
Total net assets	<u>12,169,995</u>	<u>10,219,765</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 23,390,395</u></u>	 <u><u>\$ 20,627,455</u></u>

BROOK LANE HEALTH SERVICES, INC.
Consolidated Statements of Operations
Years Ended June 30, 2015 and 2014

	2015	2014
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Net patient service revenue		
Routine services	\$ 10,023,567	\$ 8,340,251
Ancillary services	<u>10,605,681</u>	<u>9,347,906</u>
Net patient service revenue	<u>20,629,248</u>	<u>17,688,157</u>
Provision for bad debts	<u>(334,315)</u>	<u>(467,825)</u>
Net patient service revenue less provision for bad debts	<u>20,294,933</u>	<u>17,220,332</u>
Educational services	5,060,010	4,398,791
Group home revenues	923,957	1,069,976
Other operating revenues	<u>240,076</u>	<u>241,546</u>
Total revenue, gains and other support	<u>26,518,976</u>	<u>22,930,645</u>
EXPENSES		
Salaries and wages	16,081,975	14,288,070
Employee benefits	3,889,058	3,033,151
Supplies	1,323,789	1,179,922
Contractual services	910,177	912,024
Facility expense	1,706,928	1,523,089
Depreciation and amortization	575,540	531,527
Interest	89,313	91,351
General and administrative	<u>1,173,892</u>	<u>1,404,851</u>
Total Expenses	<u>25,750,672</u>	<u>22,963,985</u>
Operating income (loss)	<u>768,304</u>	<u>(33,340)</u>
OTHER INCOME		
Unrestricted gifts and bequests	46,460	21,700
Investment income	2,090	7,462
Other	<u>31,133</u>	<u>16,660</u>
Total other income	<u>79,683</u>	<u>45,822</u>
Excess of revenues, gains, and other support over expenses	<u>847,987</u>	<u>12,482</u>
Capital projects grant	949,097	150,903
Unrealized gain on investments	848	251
Change in value of interest rate swap agreement	(63,723)	(280,945)
Net assets released from restriction, used to purchase property and equipment	<u>420,081</u>	<u>428,562</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 2,154,290</u>	<u>\$ 311,253</u>

BROOK LANE HEALTH SERVICES, INC.
Consolidated Statements of Changed in Net assets
Years Ended June 30, 2015 and 2014

	2015	2014
UNRESTRICTED NET ASSETS		
Excess of revenues, gains, and other support over expenses	\$ 847,987	\$ 12,482
Capital projects grant	949,097	150,903
Unrealized gain on investments	848	251
Change in value of interest rate swap agreement	(63,723)	(280,945)
Net assets released from restriction, used to purchase property and equipment	<u>420,081</u>	<u>428,562</u>
Increase in unrestricted net assets	<u>2,154,290</u>	<u>311,253</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	216,021	720,963
Net assets released from restriction, used to purchase property and equipment	<u>(420,081)</u>	<u>(428,562)</u>
Increase (decrease) in temporarily restricted net assets	<u>(204,060)</u>	<u>292,401</u>
Increase in net assets	<u>1,950,230</u>	<u>603,654</u>
Net assets, beginning of year	<u>10,219,765</u>	<u>9,616,111</u>
NET ASSETS AT END OF YEAR	<u>\$ 12,169,995</u>	<u>\$ 10,219,765</u>

BROOK LANE HEALTH SERVICES, INC.
Consolidated Statements Of Cash Flow
Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,950,230	\$ 603,654
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	575,540	531,527
Provision for bad debts	334,315	467,825
Unrealized gain on investments	(848)	(251)
Change in value of interest rate swap agreement	63,723	280,945
(Increase) decrease in:		
Patient accounts receivable	233,175	(1,312,435)
Group home accounts receivable	86,992	(17,414)
Receivable for educational services	(336,203)	(191,535)
Pledges receivable	87,617	(293,395)
Inventories	7,558	7,014
Amounts due from third-party payors	(101,938)	47,106
Other assets	(19,500)	(57,992)
Increase in:		
Accounts payable and accrued expenses	243,505	104,818
Grant restricted for construction	(949,097)	(150,903)
Net cash provided by operating activities	<u>2,175,069</u>	<u>18,964</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4,889,470)	(1,959,378)
Proceeds from sale of investments	-	970,000
Net (increase) decrease in designated investments:		
Capital replacement and expansion	116,443	27,872
Special purposes	(24,454)	20,938
Construction escrow fund	2,211,854	(2,890,575)
Unemployment fund collateral	(65,176)	-
Net cash used by investing activities	<u>(2,650,803)</u>	<u>(3,831,143)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Financing costs	-	(92,000)
Payments on long-term debt	(457,521)	(366,396)
Proceeds from long-term debt	1,200,000	4,600,000
Grant restricted for construction	949,097	150,903
Net cash provided by financing activities	<u>1,691,576</u>	<u>4,292,507</u>
Net increase in cash and cash equivalents	1,215,842	480,328
Cash and cash equivalents, beginning of year	<u>1,894,419</u>	<u>1,414,091</u>
Cash and cash equivalents, end of year	<u>\$ 3,110,261</u>	<u>\$ 1,894,419</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of capitalized interest of \$ 200,222 for 2015 and \$ 99,471 for 2014	\$ 90,064	\$ 92,079
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Construction in progress	\$ 236,997	\$ 441,642
Construction accounts payable	236,997	441,642

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Brook Lane Health Services, Inc. (Brook Lane), located in Hagerstown, Maryland, is a not-for-profit provider of mental health services established in 1949. It provides short-term hospitalization, outpatient services, Level 1 schooling, and transitional care to the residents of Washington County and surrounding areas.

In 2009, Brook Lane Foundation, Inc. (the "Foundation"), a wholly controlled subsidiary of Brook Lane, was organized for the purpose of receiving and administering funds to support Brook Lane Health Services, Inc.'s charitable and educational purposes.

Principles of Consolidation

The consolidated financial statements for 2015 and 2014 include the accounts of Brook Lane Health Services, Inc. and its subsidiary, Brook Lane Foundation, Inc. (collectively "Brook Lane"). All significant intercompany transactions have been eliminated.

Consolidated Financial Statement Presentation

Brook Lane follows generally accepted accounting principles for not-for-profit organizations, which require that resources be classified for reporting purposes into net asset categories as permanently restricted, temporarily restricted, and unrestricted net assets according to the existence or absence of donor-imposed restrictions.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were management's estimate of the allowance for doubtful accounts and pledges receivable, reserve for contractual allowances, and amounts receivable under third party contractual agreements. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the consolidated statements of cash flows, Brook Lane has defined cash and cash equivalents as those amounts included in "cash and cash equivalents" on the consolidated balance sheets. No investments are considered cash equivalents.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

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

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues, gains, and other support over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses are reflected as other changes in net assets.

Patient Receivables

Brook Lane provides credit in the normal course of its business to patients. Patient receivables are generally due 90 days after billed. An allowance for doubtful accounts is carried for patient accounts that may become uncollectible in future periods. The allowance for doubtful accounts is based on management's judgment of uncollectible accounts, historical trends, and other information. Patient receivables are charged off against the allowance when, in the judgment of management, it is unlikely they will be collected.

Pledge Receivables

In 2013, Brook Lane began a capital campaign to raise money for construction and expansion of the hospital and has begun receiving pledges. Pledges are recorded as receivables when a commitment is signed. An allowance for uncollectible pledges of \$ 7,470 has been established in 2015 based on management's estimate of accounts that will become uncollectable. There was no allowance for 2014.

Inventories

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

Property, Plant, and Equipment

Property, plant, and equipment acquisitions which exceed \$ 1,000 are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The cost and accumulated depreciation relating to capital assets sold or retired are removed from the respective accounts at the time of disposition and the resulting gain or loss is reflected in non-operating revenue. Depreciation expense was \$ 564,398 and \$ 520,001 for the years ended June 30, 2015 and 2014, respectively.

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 unrestricted support, and are excluded from the excess of revenues, gains, and other support over expenses, unless explicit donor stipulations specify how the assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Excess of Revenues, Gains, and Other Support Over Expenses

The consolidated statements of operations include *excess of revenues, gains, and other support over expenses*. Changes in unrestricted net assets which are excluded from *excess of revenues, gains, and other support over expenses*, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, unrealized gains or losses on investments (other than trading securities), 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 the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Temporarily restricted net assets are those whose use by the Organization has been restricted by donors to a specific time period or purpose. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Advertising Costs

Brook Lane follows the policy of charging costs of advertising to expense as incurred. Advertising expense was \$ 34,232 and \$ 45,347 for 2015 and 2014, respectively.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered. Rates for patients' services in Maryland hospitals are subject to investigation, review, and approval by the Health Services Cost Review Commission (HSCRC), an independent commission created by a State of Maryland legislative act. All payors, except Medicare and Medicaid, are required to pay the HSCRC approved rates. Medicare and Medicaid inpatient payments are based on a prospective payment system.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

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

Charity Care

Brook Lane provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Brook Lane calculates charity care based on a ratio of total expenses to charges. Brook Lane's estimated annual cost of providing charity care for the years ending June 30, 2015 and 2014 was \$ 660,127 and \$ 554,682, respectively. There were no contributions or grant income received to offset the cost of charity care for the years ending June 30, 2015 and 2014.

Deferred Financing Costs

Issuance costs related to the Town of Smithsburg Economic Development Revenue Bond, Series of 2013 and Series of 2002 (See Note 6), have been deferred and included in other non-current assets as of June 30, 2015 and 2014. Amortization is recognized over the life of the associated debt using the straight-line method. Amortization expense was \$ 11,142 and \$ 11,526 for the years ended June 30, 2015 and 2014, respectively.

Concentration of Credit Risk

Brook Lane services patients principally living in the Washington County area. The majority of these patients have insurance through Blue Cross Blue Shield of Maryland or another insurance company, a health maintenance organization, or qualify for the Maryland Medical Assistance or Federal Medicare programs. Brook Lane grants credit without requiring collateral.

At June 30, Brook Lane's patient accounts receivable consisted of the following payors:

	<u>2015</u>	<u>2014</u>
Blue Cross Blue Shield	18.34%	23.78%
Medicare	9.24%	10.07%
Commercial Insurance	7.06%	6.76%
Health Maintenance Organizations	14.82%	20.57%
Medical Assistance	32.10%	25.21%
Self-Pay and Other	<u>18.44%</u>	<u>13.61%</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.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

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

Income Taxes

The Internal Revenue Service has ruled that Brook Lane and the Foundation qualify as tax-exempt entities under Section 501(c)(3) of the Internal Revenue Code and are classified as public charities.

Uncertain Tax Positions

The Organization follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the consolidated financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the consolidated financial statements. No interest and penalties were recorded during the years ended June 30, 2015 and 2014. Generally, the tax years before 2012 are no longer subject to examination by federal, state or local taxing authorities.

Disclosure about Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, short-term investments, investment securities, patient accounts receivable, group home accounts receivable, educational services receivable, pledges receivable, accounts payables, long-term debt, and obligation under interest rate swap agreement.

The fair value of cash and cash equivalents are deemed to be the same as their carrying value. The fair value of receivables and payables equals their carrying value. The fair value of the long-term debt approximates its carrying amount to the consolidated balance sheets as both issues are adjustable rate debt. The fair value of the interest rate swap agreement is based on valuation techniques which consider the present value of estimated expected future cash flows. Disclosure of additional fair value information is included in Notes 2, 13, and 15.

Reclassifications

Reclassification of the previously reported amounts for 2014 were made, in order for them to be comparative to 2015.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE 2 INVESTMENTS

The composition of investments in Brook Lane's investment portfolio at June 30, 2015 and 2014 is set forth in the following schedule:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 21	\$ 21	\$ 44	\$ 44
Equities	4,039	4,886	4,039	4,015
Current Investments	<u>\$ 4,060</u>	<u>\$ 4,907</u>	<u>\$ 4,083</u>	<u>\$ 4,059</u>
Board-designated investments				
Cash and cash equivalents	<u>\$ 304,484</u>	<u>\$ 304,484</u>	<u>\$ 396,473</u>	<u>\$ 396,473</u>
Construction Escrow Fund				
Cash and cash equivalents	<u>\$ 474,076</u>	<u>\$ 474,076</u>	<u>\$ 2,448,933</u>	<u>\$ 2,448,933</u>
Unemployment fund collateral				
Certificate of deposit	<u>\$ 256,689</u>	<u>\$ 256,689</u>	<u>\$ 191,513</u>	<u>\$ 191,513</u>
		2015	2014	
<i>Investment Income</i>				
Interest and dividend income		<u>\$ 2,090</u>	<u>\$ 7,462</u>	

NOTE 3 AMOUNTS DUE FROM THIRD-PARTY PAYORS

The amounts collected under the Medicare and Medicaid programs are subject to verification by fiscal intermediaries. The Medicare program is based on a prospective payment system and is no longer cost settled. The Medicaid outpatient settlements are still open for 2011 through 2015. Medicaid reimbursement for inpatient services is based on a prospective payment system and is no longer subject to a cost settlement process. An estimate for the settlement of the 2011 to 2015 Medicaid outpatient cost reports is recorded in the amount of \$ 136,823 at June 30, 2015 and \$ 34,885 at June 30, 2014. Management believes these are reasonable estimates at June 30, 2015 and 2014.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited are comprised of various funds which have restrictions placed on them either by outside third-parties, or regulatory requirements. The accounts in this grouping include pledges receivable from donors designated for the hospital expansion; an escrow account to hold the proceeds of the Revenue Bond Series of 2013 (Note 6) for use in the hospital expansion and an unemployment compensation trust fund. Investment income earned on these funds is reflected in investment income in the consolidated statements of operations.

	2015	2014
Pledges receivable	\$ 205,778	\$ 293,395
Construction escrow fund	678,721	2,890,575
Unemployment fund collateral	256,689	191,513
Total funds available	1,141,188	3,375,483
Less: Assets available to meet current liabilities	(204,645)	(441,642)
Assets whose use is limited	<u>\$ 936,543</u>	<u>\$ 2,933,841</u>

NOTE 5 PLEDGES RECEIVABLE

The Foundation has been soliciting pledges for the expansion of the hospital. Pledges restricted for capital acquisitions are reported in temporarily restricted net assets.

The balance of these pledges, net of allowance for uncollectible pledges of \$ 7,470, at June 30, 2015 are due as follows:

Receivable in less than one year	\$ 104,274
Receivable in one to five years	101,504
Total pledges receivable	<u>\$ 205,778</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE 6 LONG-TERM DEBT

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

	2015	2014
Town of Smithsburg, Economic Development Revenue Bond (Series 2002)	\$ 2,825,496	\$ 3,125,908
Town of Smithsburg, Economic Development Revenue Bond (Series 2013)	4,375,925	4,525,051
Susquehanna Bank Note	<u>1,192,017</u>	<u>-</u>
Total long-term debt	8,393,438	7,650,959
Less current portion	<u>(563,198)</u>	<u>(449,035)</u>
Long-term portion	<u>\$ 7,830,240</u>	<u>\$ 7,201,924</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 April 1, 2024. The interest rate on the bond issue is based on 92% of the prime rate. The interest rate will be adjusted on various anniversary dates. The interest rate on this obligation was 2.99% at June 30, 2015 and 2014, respectively. This obligation is secured by a first lien on all property and rents and profits hereunder and cross-collateralized with the line of credit. The Series of 2002 also has several covenants that Brook Lane must comply with, such as maintaining minimum debt service coverage and tangible net worth ratios. The bond series may be prepaid without penalty.

On December 20, 2013, Brook Lane issued \$ 4,600,000 Town of Smithsburg, Economic Development Revenue Bond, 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 waste water 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 bond matures December 15, 2033. The interest rate on this obligation is 67% of the one month London Interbank Offered Rate (LIBOR) plus 2.01%. This variable rate was 2.14% and 2.11% at June 30, 2015 and 2014, respectively. The interest rate on the bond is hedged with a swap agreement (Note 13) to create a synthetic fixed rate of 4.43%. The Series of 2013 is secured by a lien on all property and rents and profits hereunder and cross-collateralized with the line of credit. The Series of 2013 also has several covenants that Brook Lane must comply with, such as maintaining minimum debt service coverage, tangible net worth ratios and restrictions on future borrowings. The bond series may be prepaid after December 20, 2018 without penalty.

Brook Lane was in compliance with its loan covenants at June 30, 2015 and 2014.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE 6 LONG-TERM DEBT (CONTINUED)

In May 2015, Brook Lane entered into a note for \$ 1,200,000 with Susquehanna Bank 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 variable rate of 2.65% over the Federal Home Loan Bank of Pittsburgh five-year non-amortizing fixed rate. 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:

2016	\$	563,198
2017		584,939
2018		606,631
2019		629,159
2020		651,911
Thereafter		<u>5,357,600</u>
	\$	<u><u>8,393,438</u></u>

Brook Lane has a revolving line of credit in the amount of \$ 750,000, with an interest rate of 92% of the prime rate with a floor of 3%. The interest rate was 3% at June 30, 2015 and 2014. This line of credit is secured by accounts receivable and cross-collateralized with the Series of 2002 and Series of 2013. There were no draws on this line of credit at June 30, 2015 or 2014.

Total interest costs incurred for 2015 was \$ 289,535 of which \$ 200,222 was capitalized with construction. Total interest costs incurred for 2014 were \$ 190,822, of which \$ 99,471 was capitalized with construction.

NOTE 7 NET PATIENT SERVICE REVENUE

Brook Lane's routine and ancillary service revenue concentrations for the years ended June 30, 2015 and 2014 are as follows:

	Net Patient Service Revenue	
	<u>2015</u>	<u>2014</u>
Blue Cross Blue Shield	22.71%	21.83%
Medicare	9.22%	10.79%
Commercial Insurance	3.71%	3.82%
Health Maintenance Organizations	17.15%	19.14%
Medical Assistance	43.02%	39.09%
Self-Pay and Other	<u>4.19%</u>	<u>5.33%</u>
	<u><u>100.00%</u></u>	<u><u>100.00%</u></u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE 7 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 consolidated statements of operations for the years ended June 30, 2015 and 2014, from these major payor sources is as follows:

	2015						
	Health						
	Blue Cross Blue Shield	Medicare	Commercial Insurance	Maintenance Organizations	Medical Assistance	Self-Pay and Other	Total
Net patient service revenue	<u>\$ 4,684,256</u>	<u>\$ 1,902,029</u>	<u>\$ 764,652</u>	<u>\$ 3,538,763</u>	<u>\$ 8,874,951</u>	<u>\$ 864,597</u>	<u>\$ 20,629,248</u>
	2014						
	Health						
	Blue Cross Blue Shield	Medicare	Commercial Insurance	Maintenance Organizations	Medical Assistance	Self-Pay and Other	Total
Net patient service revenue	<u>\$ 3,860,906</u>	<u>\$ 1,909,079</u>	<u>\$ 674,894</u>	<u>\$ 3,384,860</u>	<u>\$ 6,914,057</u>	<u>\$ 944,361</u>	<u>\$ 17,688,157</u>

The change in the allowance for doubtful accounts for 2015 and 2014 is as follows:

	2015	2014
Allowance for doubtful accounts at July 1	\$ 82,118	\$ 114,978
Provision for bad debts	334,315	467,825
Write off of bad debts	<u>(307,665)</u>	<u>(500,685)</u>
Allowance for doubtful accounts at June 30	<u>\$ 108,768</u>	<u>\$ 82,118</u>

NOTE 8 EMPLOYEE BENEFIT PLANS

Brook Lane has a 401(k) defined contribution plan that covers all employees who have attained the age of 21. Employees are eligible for matching contributions after completion of one year of service. An employee may contribute up to 100% of salary on a before-tax basis up to the elective deferral limit for the respective year. Brook Lane will make a 50% matching contribution up to a maximum of \$ 2,500, which is based on 5% of an eligible employee's salary up to \$ 100,000. Brook Lane may also make other discretionary contributions to the plan. All employee contributions and earnings are vested 100% immediately, as are Brook Lane's matching contributions. All discretionary employer contributions become 100% vested after three years of service.

Contribution expense of \$ 529,663 and \$ 460,202 was incurred by Brook Lane related to the 401(k) plan during 2015 and 2014, respectively.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE 9 LEASES

Brook Lane has entered into a long-term lease agreement for the rental of office space. Rentals paid under operating leases for 2015 and 2014 were \$ 670,895 and \$ 570,346 respectively. Minimum future annual rentals based on long-term leases are as follows at June 30, 2015:

2016	\$ 395,089
2017	403,908
2018	329,963
2019	134,734
2020	-
TOTAL	\$ 1,263,694

NOTE 10 FUNCTIONAL EXPENSES

Brook Lane provides general psychiatric and school services to residents within its geographic service area. Expenses by functional category related to providing these services are as follows:

	2015	2014
Program services	\$ 21,776,320	\$ 19,111,201
General and administrative	3,853,891	3,748,049
Fundraising	116,994	104,735
	\$ 25,747,205	\$ 22,963,985

NOTE 11 MARYLAND HEALTH SERVICES COST REVIEW COMMISSION

Brook Lane's charges are subject to review and approval by the Maryland Health Services Cost Review Commission. Management has filed the required forms with the Commission and believes Brook Lane to be in compliance with Commission requirements.

NOTE 12 MALPRACTICE INSURANCE COVERAGE

Brook Lane is insured for malpractice under a claims-made policy. This type of policy covers only malpractice claims covered by the policy which are reported to the insurance carrier during the policy term. If this policy were discontinued, it would be Brook Lane's intention to obtain tail coverage. Based on management's evaluation of malpractice claims, an allowance for incurred but not reported claims is considered immaterial and not necessary.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE 13 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 6). In order to manage the impact of interest rate changes on the Series of 2013, Brook Lane entered into a swap agreement with Susquehanna 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.

Brook Lane does employ hedge accounting. The fair value of the interest rate swap at June 30, 2015 and 2014 was \$ 344,668 and \$ 280,945, respectively and is included in other liabilities on the consolidated balance sheets. The change in the value of the interest rate swap agreement is included after the excess of revenues, gains, and other support over expenses in the consolidated statements of operations for 2015 and 2014.

NOTE 14 TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2015 and 2014, temporarily restricted net assets consist of funds solicited for the construction of the hospital addition and purchase of designated equipment, furnishings, and supplies.

NOTE 15 FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements. The established framework includes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those assets or liabilities included in each are as follows:

Level 1 – Represented by quoted prices available in an active market. Level 1 assets include highly liquid government bonds, treasury securities, mortgage products, and exchange traded equities.

Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 assets would include money market funds, certificates of deposit, U.S. agency securities, mortgage-backed agency securities, obligation of states, and political subdivisions, and certain corporate asset backed securities, and internally developed values with little uncertainty. The swap agreement liability is considered Level 2.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE 15 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement including the reporting entity’s own assumptions about the market risk. Level 3 assets would include hedge funds, private equity securities, and internally developed values with significant uncertainty.

The fair value measurements are determined as follows:

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

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.

<u>At June 30, 2015</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Financial Assets				
Money market funds	\$ 21	\$ -	\$ 21	\$ -
Domestic and international common stocks:				
Energy	4,886	4,886	-	-
TOTAL ASSETS AT FAIR VALUE	<u>\$ 4,907</u>	<u>\$ 4,886</u>	<u>\$ 21</u>	<u>\$ -</u>
Financial Liabilities				
Interest rate swap agreement	<u>\$ 344,668</u>	<u>\$ -</u>	<u>\$ 344,668</u>	<u>\$ -</u>
<u>At June 30, 2014</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Financial Assets				
Money market funds	\$ 44	\$ -	\$ 44	\$ -
Domestic and international common stocks:				
Energy	4,015	4,015	-	-
TOTAL ASSETS AT FAIR VALUE	<u>\$ 4,059</u>	<u>\$ 4,015</u>	<u>\$ 44</u>	<u>\$ -</u>
Financial Liabilities				
Interest rate swap agreement	<u>\$ 280,945</u>	<u>\$ -</u>	<u>\$ 280,945</u>	<u>\$ -</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE 16 COMMITMENTS – CONSTRUCTION

At June 30, 2015, Brook Lane has a commitment outstanding for 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 waste water treatment facility to serve the Brook Lane campus and build out, and furnishing and equipping approximately 7,700 square feet of office space leased in Frederick County Maryland. The total amount of this commitment outstanding at June 30, 2015 was \$ 257,695.

NOTE 17 SUBSEQUENT EVENTS

Brook Lane has evaluated events and transactions subsequent to June 30, 2015 through September 15, 2015, the date these consolidated financial statements were issued. Based on the definitions and requirements of generally accepted accounting principles, management has not identified any events that have occurred subsequent to June 30, 2015 and through September 15, 2015 that requires recognition or disclosure in the consolidated financial statements.

BROOK LANE HEALTH SERVICES, INC.
Consolidating Balance Sheet
June 30, 2015

	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,110,261	-	-	\$ 3,110,261
Investments	4,907	-	-	4,907
Assets whose use is limited - current portion	204,645	-	-	204,645
Patient accounts receivable, net of allowance for doubtful accounts of \$ 108,768	3,761,792	-	-	3,761,792
Amounts due from third-party payors, current portion	136,823	-	-	136,823
Group home accounts receivable	246,082	-	-	246,082
Receivable for educational services	1,068,892	-	-	1,068,892
Due from Brook Lane Foundation, Inc.	10,129	-	(10,129)	-
Inventories	129,346	-	-	129,346
Prepaid expenses	303,710	-	-	303,710
Other	23,767	-	-	23,767
Total current assets	<u>9,000,354</u>	<u>-</u>	<u>(10,129)</u>	<u>8,990,225</u>
BOARD DESIGNATED INVESTMENTS				
Capital replacement and expansion	-	246,094	-	246,094
Special purposes	-	58,390	-	58,390
Total board designated investments	<u>-</u>	<u>304,484</u>	<u>-</u>	<u>304,484</u>
ASSETS WHOSE USE IS LIMITED				
Pledges receivable, net of allowance for doubtful pledges of \$ 7,470	-	205,778	-	205,778
Construction Escrow Fund	474,076	-	-	474,076
Unemployment fund collateral	256,689	-	-	256,689
Total assets whose use is limited	<u>730,765</u>	<u>205,778</u>	<u>-</u>	<u>936,543</u>
PROPERTY, PLANT, AND EQUIPMENT				
Land and land improvements	429,154	-	-	429,154
Buildings	14,481,648	-	-	14,481,648
Fixed equipment	893,463	-	-	893,463
Major moveable equipment	951,636	-	-	951,636
Construction in progress	1,392,245	-	-	1,392,245
Less allowance for depreciation	18,148,146	-	-	18,148,146
	5,521,385	-	-	5,521,385
	<u>12,626,761</u>	<u>-</u>	<u>-</u>	<u>12,626,761</u>
OTHER ASSETS				
Long-term patients accounts receivable, net of allowance for doubtful accounts of \$ 13,259	390,038	-	-	390,038
Deferred financing costs, net of accumulated amortization of \$ 80,501	142,344	-	-	142,344
	<u>532,382</u>	<u>-</u>	<u>-</u>	<u>532,382</u>
TOTAL ASSETS	<u>\$ 22,890,262</u>	<u>\$ 510,262</u>	<u>\$ (10,129)</u>	<u>\$ 23,390,395</u>

BROOK LANE HEALTH SERVICES, INC.
Consolidating Balance Sheet (Continued)
June 30, 2015

	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of long term debt	\$ 563,198	-	-	\$ 563,198
Accounts payable and accrued expenses	460,829	-	-	460,829
Construction accounts payable	204,645	-	-	204,645
Due to Brook Lane Health Services, Inc.	-	10,129	(10,129)	-
Accrued salaries, wages, and payroll taxes	938,487	-	-	938,487
Accrued vacation	878,333	-	-	878,333
Total current liabilities	<u>3,045,492</u>	<u>10,129</u>	<u>(10,129)</u>	<u>3,045,492</u>
OTHER LIABILITIES				
Long-term debt, net of current portion	7,830,240	-	-	7,830,240
Obligation under interest rate swap agreement	344,668	-	-	344,668
TOTAL LIABILITIES	<u>11,220,400</u>	<u>10,129</u>	<u>(10,129)</u>	<u>11,220,400</u>
NET ASSETS				
Unrestricted	11,669,862	48,261	-	11,718,123
Temporarily restricted	-	451,872	-	451,872
Total net assets	<u>11,669,862</u>	<u>500,133</u>	<u>-</u>	<u>12,169,995</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,890,262</u>	<u>\$ 510,262</u>	<u>\$ (10,129)</u>	<u>\$ 23,390,395</u>

BROOK LANE HEALTH SERVICES, INC.
Consolidating Statement Of Operations
Year Ended June 30, 2015

	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT				
Net patient service revenue	\$ 10,023,567	-	-	\$ 10,023,567
Routine services	10,605,681	-	-	10,605,681
Ancillary services	20,629,248	-	-	20,629,248
Net patient service revenue	(334,315)	-	-	(334,315)
Provision for bad debts	20,294,933	-	-	20,294,933
Net patient service revenue less provision for bad debts	5,060,010	-	-	5,060,010
Educational services	923,957	-	-	923,957
Group home revenues	247,296	-	(7,220)	240,076
Other operating revenues	26,526,196	-	(7,220)	26,518,976
Total revenues, gains, and other support	16,081,975	-	-	16,081,975
EXPENSES				
Salaries and wages	3,889,058	-	-	3,889,058
Employee benefits	1,323,697	92	-	1,323,789
Supplies	910,177	7,220	(7,220)	910,177
Contractual services	1,706,928	-	-	1,706,928
Facility expense	575,540	-	-	575,540
Depreciation and amortization	89,313	-	-	89,313
Interest	1,150,439	23,453	-	1,173,892
General and administrative	25,727,127	30,765	(7,220)	25,750,672
Total expenses	799,069	(30,765)	-	768,304
Operating loss	3,322	43,138	-	46,460
OTHER INCOME				
Unrestricted gifts and bequests	90	2,000	-	2,090
Investment income	31,133	-	-	31,133
Other	34,545	45,138	-	79,683
Total other income	833,614	14,373	-	847,987
Excess of revenues, gains, and other support over expenses	949,097	-	-	949,097
Capital projects grant	(63,723)	-	-	848
Unrealized gain on investments	-	-	-	(63,723)
Change in value of interest rate swap agreement	-	420,081	-	420,081
Net assets released from restriction, used to purchase property and equipment	420,081	(420,081)	-	-
Transfer from (to) related organization	-	-	-	-
INCREASE IN UNRESTRICTED NET ASSETS	\$ 2,139,917	\$ 14,373	\$ -	\$ 2,154,290

BROOK LANE HEALTH SERVICES, INC.
Consolidating Statement Of Change In Net Assets
Year Ended June 30, 2015

	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
UNRESTRICTED NET ASSETS				
Excess of revenues, gains, and other support over expenses	\$ 833,614	\$ 14,373	-	\$ 847,987
Capital projects grant	949,097	-	-	949,097
Unrealized gain on investments	848	-	-	848
Change in value of interest rate swap agreement	(63,723)	-	-	(63,723)
Net assets released from restriction, used to purchase property and equipment	-	420,081	-	420,081
Transfer from parent organization	420,081	(420,081)	-	-
Increase in unrestricted net assets	<u>2,139,917</u>	<u>14,373</u>	<u>-</u>	<u>2,154,290</u>
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	-	216,021	-	216,021
Net assets released from restriction, used to purchase property and equipment	-	(420,081)	-	(420,081)
Decrease in temporarily restricted net assets	<u>-</u>	<u>(204,060)</u>	<u>-</u>	<u>(204,060)</u>
Increase (decrease) in net assets	<u>2,139,917</u>	<u>(189,687)</u>	<u>-</u>	<u>1,950,230</u>
Net assets, beginning of year	<u>9,529,945</u>	<u>689,820</u>	<u>-</u>	<u>10,219,765</u>
NET ASSETS END OF YEAR	<u>\$ 11,669,862</u>	<u>\$ 500,133</u>	<u>\$ -</u>	<u>\$ 12,169,995</u>

BROOK LANE HEALTH SERVICES, INC.
Consolidating Statement Of Cash Flows
Year Ended June 30, 2015

	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	\$ 2,139,917	\$ (189,687)	\$ -	\$ 1,950,230
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	575,540	-	-	575,540
Provision for bad debts	334,315	-	-	334,315
Unrealized gain on investments	(848)	-	-	(848)
Change in value of interest rate swap agreement	63,723	-	-	63,723
(Increase) decrease in:				
Patient accounts receivable	233,175	-	-	233,175
Group home accounts receivable	86,992	-	-	86,992
Receivable for educational services	(336,203)	-	-	(336,203)
Pledges receivable	-	87,617	-	87,617
Due from Brook Lane Foundation, Inc.	(10,129)	-	10,129	-
Inventories	7,558	-	-	7,558
Amounts due from third-party payors	(101,938)	-	-	(101,938)
Other assets	(19,500)	-	-	(19,500)
Increase in:				
Accounts payable and accrued expenses	243,505	10,129	(10,129)	243,505
Grant restricted for construction	(949,097)	-	-	(949,097)
Net cash provided (used) by operating activities	<u>2,267,010</u>	<u>(91,941)</u>	<u>-</u>	<u>2,175,069</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property and equipment	(4,889,470)	-	-	(4,889,470)
Proceeds from sale of investments	-	-	-	-
Net (increase) decrease in designated investments:				
Capital replacement and expansion	116,443	-	-	116,443
Special purposes	(24,454)	-	-	(24,454)
Construction escrow fund	2,211,854	-	-	2,211,854
Unemployment fund collateral	(65,176)	-	-	(65,176)
Net cash used by investing activities	<u>(2,650,803)</u>	<u>-</u>	<u>-</u>	<u>(2,650,803)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on long-term debt	(457,521)	-	-	(457,521)
Proceeds from long-term debt	1,200,000	-	-	1,200,000
Grant restricted for construction	949,097	-	-	949,097
Transfer of net assets	(91,941)	91,941	-	-
Net cash provided by financing activities	<u>1,599,635</u>	<u>91,941</u>	<u>-</u>	<u>1,691,576</u>
Net increase in cash and cash equivalents	1,215,842	-	-	1,215,842
Cash and cash equivalents, beginning of year	<u>1,894,419</u>	<u>-</u>	<u>-</u>	<u>1,894,419</u>
Cash and cash equivalents, end of year	<u>\$ 3,110,261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,110,261</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid for interest, net of capitalized interest of \$ 200,222	\$ 90,064	\$ -	\$ -	\$ 90,064
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Construction in progress	\$ 236,997	\$ -	\$ -	\$ 236,997
Construction accounts payable	236,997	-	-	236,997

BROOK LANE HEALTH SERVICES, INC.
STONE BRIDGE TRANSITIONAL CARE PROGRAM
Schedule of Revenue and Expenses
Year Ended June 30, 2015

REVENUES

Respite service fees	\$	924,235
Education service fees		63,096
Adjustments		<u>(2,060)</u>
Total revenue		<u>985,271</u>

EXPENSES

Salaries and wages	714,478
Payroll taxes	54,657
Fringe benefits	101,707
Contracted services	608
Food service	75,185
Training	344
Clothing	2,210
Recreation	2,125
Personal need allowance	11,939
Rent	148,106
Utilities	34,897
Repairs and maintenance	14,936
Insurance and taxes	3,103
Supplies	4,198
Printing/copying	36
Telephone	3,283
Postage	235
Memberships and subscriptions	3,298
Conferences and conventions	1,417
Travel and transportation	917
Copier rental	2,519
Depreciation/use allowance	11,945
Indirect expense	<u>48,681</u>

TOTAL EXPENSE 1,240,824

Expenses over revenues \$ (255,553)

BROOK LANE HEALTH SERVICES, INC.
STONE BRIDGE TRANSITIONAL CARE PROGRAM
Schedule of Comparison of Payment Rate to Actual Rate
Year Ended June 30, 2015

	Actual Cost per Child Care Month	Payment Rate per Child Care Month
Residential Program		
Total Revenue		\$ 924,235
Child Care Months		<u>136</u>
Rate comparison	<u>\$ 8,277</u>	<u>\$ 6,796</u>
Education Program		
Total Revenue		\$ 63,096
Child Care Months		<u>37</u>
Rate comparison	<u>\$ 3,111</u>	<u>\$ 1,705</u>

BROOK LANE HEALTH SERVICES, INC.
STONE BRIDGE TRANSITIONAL CARE PROGRAM
Schedule of Functional Expenses For The
Department of Human Resources Respite Program
Year Ended June 30, 2015

	Total Expense	Direct Care	Management & General	Educational Services
Salaries and wages	\$ 714,478	\$ 557,923	\$ 80,261	\$ 76,294
Payroll taxes	54,657	43,451	5,370	5,836
Fringe benefits	101,707	81,128	9,861	10,718
Contracted services	608	608	-	-
Food service	75,185	75,185	-	-
Training	344	344	-	-
Clothing	2,210	2,210	-	-
Recreation	2,125	2,125	-	-
Personal need allowance	11,939	11,939	-	-
Rent	148,106	133,460	-	14,646
Utilities	34,897	31,446	-	3,451
Repairs and maintenance	14,936	14,936	-	-
Insurance and taxes	3,103	2,901	-	202
Supplies	4,198	3,525	-	673
Printing/copying	36	36	-	-
Telephone	3,283	3,163	-	120
Postage	235	235	-	-
Membership and subscriptions	3,298	3,298	-	-
Recruitment	1,417	1,417	-	-
Travel and transportation	917	917	-	-
Copier rental	2,519	-	2,519	-
Depreciation/use allowance	11,945	11,945	-	-
Indirect expense	<u>48,681</u>	<u>-</u>	<u>45,508</u>	<u>3,173</u>
TOTAL EXPENSE	<u>\$ 1,240,824</u>	<u>\$ 982,192</u>	<u>\$ 143,519</u>	<u>\$ 115,113</u>

BROOK LANE HEALTH SERVICES, INC.
STONE BRIDGE TRANSITIONAL CARE PROGRAM
Schedule of Sources of Funds Received- Residential -
For The Department of Human Resources Respite Program
Year Ended June 30, 2015

Payer Source	Number of Days	Per Diem Rate	Total Charges
Alliance/One Net PPO	27	\$ 224.79	\$ 6,069
Baltimore County Department of Social Services	102	\$ 228.16	23,272
Frederick County Department of Social Services	784	\$ 228.16	178,877
Garrett County Department of Social Services	14	\$ 224.79	3,147
Montgomery County Department of Social Services	1,209	\$ 227.23	274,721
Self-Pay	104	\$ 228.16	23,729
Prince George County Department of Social Services	134	\$ 228.16	30,573
Washington County Department of Social Services	<u>1,692</u>	\$ 226.86	<u>383,847</u>
	<u>4,066</u>		<u>\$ 924,235</u>

BROOK LANE HEALTH SERVICES, INC.
STONE BRIDGE TRANSITIONAL CARE PROGRAM
Schedule of Sources of Funds Received - Education -
For The Department of Human Resources Respite Program
Year Ended June 30, 2015

Payer Source	Number of Days	Per Diem Rate	Total Charges
Alliance/One Net PPO	17	\$ 55.61	\$ 945
Baltimore County Department of Social Services	9	\$ 56.43	508
Frederick County Department of Social Services	239	\$ 56.28	13,451
Garrett County Department of Social Services	10	\$ 55.61	556
Montgomery County Department of Social Services	299	\$ 56.07	16,765
Prince George County Department of Social Services	27	\$ 56.43	1,524
Self-Pay	3	\$ 56.43	169
Washington County Department of Social Services	<u>519</u>	\$ 56.22	<u>29,178</u>
	<u>1,123</u>		<u>\$ 63,096</u>

BROOK LANE HEALTH SERVICES, INC.
STONE BRIDGE TRANSITIONAL CARE PROGRAM
Schedule of Total Budgeted Expenses To Total Actual Expenses
For The Department of Human Resources Respite Program
Year Ended June 30, 2015

	Annual Budget	Actual	Variance (Over)/Under
Salaries and wages	\$ 756,856	\$ 714,478	\$ 42,378
Payroll taxes	57,899	54,657	3,242
Fringe benefits	117,203	101,707	15,496
Staff development costs	10,000	-	10,000
Conferences and conventions	2,000	1,417	583
Contracted services	22,346	608	21,738
Publicity	250	-	250
Food service	70,752	75,185	(4,433)
Training	-	344	(344)
Clothing	4,500	2,210	2,290
Recreation	5,000	2,125	2,875
Personal need allowance	7,500	11,939	(4,439)
Rent	91,254	148,106	(56,852)
Utilities	37,371	34,897	2,474
Repairs and maintenance	14,500	14,936	(436)
Insurance and taxes	7,150	3,103	4,047
Supplies	12,640	4,198	8,442
Printing/copying	250	36	214
Telephone	4,032	3,283	749
Postage	1,400	235	1,165
Membership and subscriptions	2,400	3,298	(898)
Travel and transportation	1,000	917	83
Copier rental/equipment lease	3,400	2,519	881
Depreciation/use allowance	7,850	11,945	(4,095)
Indirect expense	59,023	48,681	10,342
TOTAL EXPENSE	\$ 1,296,576	\$ 1,240,824	\$ 55,752

BROOK LANE HEALTH SERVICES, INC.
STONE BRIDGE TRANSITIONAL CARE PROGRAM
Schedule of Total Budgeted Expenses to Total Actual Expenses
and Net Cost Per Child Care Month-Residential-
For The Department of Human Resources Respite Program
Year Ended June 30, 2015

	Annual Budget	Actual	Variance (Over)/Under
Salaries and wages	\$ 668,727	\$ 638,184	\$ 30,543
Payroll taxes	51,157	48,821	2,336
Fringe benefits	102,984	90,989	11,995
Staff development costs	10,000	-	10,000
Conferences and conventions	1,500	1,417	83
Contracted services	22,346	608	21,738
Publicity	250	-	250
Food service	70,752	75,185	(4,433)
Training	-	344	(344)
Clothing	4,500	2,210	2,290
Recreation	5,000	2,125	2,875
Personal need allowance	7,500	11,939	(4,439)
Rent	75,513	133,460	(57,947)
Utilities	34,175	31,446	2,729
Repairs and maintenance	13,500	14,936	(1,436)
Insurance and taxes	6,500	2,901	3,599
Supplies	4,400	3,525	875
Printing/copying	250	36	214
Telephone	3,500	3,163	337
Postage	1,400	235	1,165
Memberships and subscriptions	2,400	3,298	(898)
Travel and transportation	1,000	917	83
Copier rental/equipment lease	3,400	2,519	881
Depreciation/use allowance	7,850	11,945	(4,095)
Indirect expense	<u>49,000</u>	<u>45,508</u>	<u>3,492</u>
TOTAL EXPENSE	<u>\$ 1,147,604</u>	1,125,711	<u>\$ 21,893</u>
Child care months		<u>136</u>	
NET COST PER CHILD CARE MONTH		<u>\$ 8,277</u>	

BROOK LANE HEALTH SERVICES, INC.
STONE BRIDGE TRANSITIONAL CARE PROGRAM
Schedule of Total Budgeted Expenses to Total Actual Expenses
And Net Cost Per Child Care Month-Education-
For The Department of Human Resources Respite Program
Year Ended June 30, 2015

	Annual Budget	Actual	Variance (Over)/Under
Salaries and wages	\$ 88,129	\$ 76,294	\$ 11,835
Payroll taxes	6,742	5,836	906
Fringe benefits	14,219	10,718	3,501
Conferences and conventions	500	-	500
Rent	15,741	14,646	1,095
Utilities	3,196	3,451	(255)
Repairs and maintenance	1,000	-	1,000
Insurance and taxes	650	202	448
Supplies	8,240	673	7,567
Telephone	532	120	412
Indirect expense	<u>10,023</u>	<u>3,173</u>	<u>6,850</u>
TOTAL EXPENSE	<u>\$ 148,972</u>	115,113	<u>\$ 33,859</u>
Child care months		<u>37</u>	
NET COST PER CHILD CARE MONTH		<u>\$ 3,111</u>	

BROOK LANE HEALTH SERVICES, INC.
STONE BRIDGE TRANSITIONAL CARE PROGRAM
Schedule of Accumulated Retained Earnings and Uses
for the Department of Human Resources Respite Program
Year Ended June 30, 2015

Prior Years' Income (Loss)	Residential	Education	Total
1999	\$ 26,044	\$ -	\$ 26,044
2000	(91,016)	-	(91,016)
2001	39,126	-	39,126
2002	(119,520)	86,141	(33,379)
2003	(132,903)	(27,725)	(160,628)
2004	(90,146)	(27,381)	(117,527)
2005	172,479	18,900	191,379
2006	192,239	11,114	203,353
2007	(19,302)	10,376	(8,926)
2008	(12,380)	12,302	(78)
2009	56,376	(2,328)	54,048
2010	(142,031)	(37,091)	(179,122)
2011	(177,409)	(13,793)	(191,202)
2012	(304,280)	10,924	(293,356)
2013	(266,221)	1,014	(265,207)
2014	<u>(185,129)</u>	<u>(30,587)</u>	<u>(215,716)</u>

Accumulated retained earnings and (losses)	<u>\$ (1,054,073)</u>	<u>\$ 11,866</u>	<u>(1,042,207)</u>
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Purchases of Fixed Assets:

	Date	Cost	
Prior year purchases of fixed assets		\$ 172,417	
Remodeling Stonebridge bathrooms	5/31/2014	\$ 14,706	
Bathrooms Demo	10/23/2014	\$ 2,320	
Central Air units	1/31/2015	\$ 30,520	
			(219,963)

Current year retained earning and (losses)	<u>\$ (201,755)</u>	<u>\$ (53,798)</u>	<u>(255,553)</u>
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**ENDING ACCUMULATED
RETAINED EARNINGS**

\$ (1,517,723)

BROOK LANE HEALTH SERVICES, INC.
LAUREL HALL SCHOOL
Schedule of Nonpublic Special Education School Budgeted
Expenses to Actual Expenses- Level 1 School (Washington County)
For The Department of Education
Year Ended June 30, 2015

	Approved Budget	Actual Expenditures	Variance (Over)/Under	Percentage Variance
DIRECT COSTS				
Salaries:				
Administrative/Executive	\$ -	\$ 89,304	\$ (89,304)	(100.00)
School administrative	108,609	70,112	38,497	35.45
Direct classroom	555,149	341,125	214,024	38.55
Related services	149,484	533,894	(384,410)	(257.16)
General support	-	29,460	(29,460)	(100.00)
Fringe benefits	130,070	149,684	(19,614)	(15.08)
Payroll taxes	84,984	81,388	3,596	4.23
Professional fees	-	5,452	(5,452)	(100.00)
Supplies and non capital equipment	20,757	89,349	(68,592)	(330.45)
Phone/fax/internet	3,250	3,926	(676)	(20.80)
Postage	500	430	70	14.00
Occupancy	88,282	187,296	(99,014)	(112.16)
Rental/maintenance of equipment	14,680	23,844	(9,164)	(62.43)
Printing	-	255	(255)	(100.00)
Publications	-	-	-	(100.00)
Transportation	2,124	4,223	(2,099)	(98.82)
Dues	1,500	167	1,333	88.87
Depreciation	14,421	18,218	(3,797)	(26.33)
Professional insurance	-	5,378	(5,378)	(100.00)
Training	-	2,282	(2,282)	(100.00)
Recruitment	2,800	889	1,911	(100.00)
Total direct costs	<u>\$ 1,176,610</u>	<u>\$ 1,636,676</u>	<u>\$ (460,066)</u>	<u>(39.10)</u>

BROOK LANE HEALTH SERVICES, INC.
LAUREL HALL SCHOOL
Schedule of Nonpublic Special Education School Budgeted
Expenses to Actual Expenses- Level 1 School (Washington County)
For The Department of Education
Year Ended June 30, 2015

	Approved Budget	Actual Expenditures	Variance (Over)/Under	Percentage Variance
INDIRECT COSTS				
Salaries:				
Administrative/Executive	\$ 19,877	\$ 46,290	\$ (26,413)	(132.88)
Related services	20,135	-	20,135	100.00
Fringe benefits	10,073	11,193	(1,120)	(11.12)
Professional fees	4,840	6,710	(1,870)	(38.64)
Supplies and non capital equipment	1,300	1,327	(27)	(2.08)
Rental/maintenance of equipment	-	4,180	(4,180)	(100.00)
Training	-	252	(252)	(100.00)
Publications	-	127	(127)	(100.00)
Printing and duplicating	-	734	(734)	(100.00)
Transportation	-	428	(428)	(100.00)
Meetings	-	285	(285)	(100.00)
Recruitment	-	566	(566)	(100.00)
Depreciation	4,150	10,699	(6,549)	(157.81)
Miscellaneous	-	2,142	(2,142)	(100.00)
	<u>60,375</u>	<u>84,933</u>	<u>(24,558)</u>	<u>(40.68)</u>
Total indirect costs	<u>60,375</u>	<u>84,933</u>	<u>(24,558)</u>	<u>(40.68)</u>
TOTAL COSTS	<u>\$ 1,236,985</u>	<u>\$ 1,721,609</u>	<u>\$ (484,624)</u>	<u>(39.18)</u>

BROOK LANE HEALTH SERVICES, INC.
LAUREL HALL SCHOOL
Schedule of Nonpublic Special Education School Budgeted
Expenses to Actual Expenses- Level 1 School (Frederick County)
For The Department of Education
Year Ended June 30, 2015

	Approved Budget	Actual Expenditures	Variance (Over)/Under	Percentage Variance
DIRECT COSTS				
Salaries:				
School administrative	\$ 166,888	\$ 71,089	\$ 95,799	57.40
Direct classroom	668,291	394,131	274,160	41.02
Related services	277,203	434,511	(157,308)	(56.75)
General support	-	34,396	(34,396)	(100.00)
Fringe benefits	173,570	132,159	41,411	23.86
Payroll taxes	116,244	71,461	44,783	38.52
Professional fees	-	4,068	(4,068)	(100.00)
Supplies and non capital equipment	68,857	74,305	(5,448)	(7.91)
Phone/fax/internet	3,000	2,652	348	11.60
Postage	2,000	2,490	(490)	(24.50)
Occupancy	414,274	404,169	10,105	2.44
Rental/maintenance of equipment	30,000	23,260	6,740	22.47
Printing	-	245	(245)	(100.00)
Publications	-	89	(89)	(100.00)
Transportation	6,334	3,388	2,946	46.51
Meetings	500	54	446	89.20
Dues	2,375	2,819	(444)	(18.69)
Depreciation	41,550	25,086	16,464	39.62
Professional insurance	-	5,869	(5,869)	(100.00)
Training	-	4,232	(4,232)	(100.00)
Recruitment	5,250	3,699	1,551	29.54
	<u>5,250</u>	<u>3,699</u>	<u>1,551</u>	<u>29.54</u>
 Total direct costs	 <u>\$ 1,976,336</u>	 <u>\$ 1,694,172</u>	 <u>\$ 282,164</u>	 <u>14.28</u>

BROOK LANE HEALTH SERVICES, INC.
LAUREL HALL SCHOOL
Schedule of Nonpublic Special Education School Budgeted
Expenses to Actual Expenses- Level 1 School (Frederick County)
For The Department of Education
Year Ended June 30, 2015

	Approved Budget	Actual Expenditures	Variance (Over)/Under	Percentage Variance
INDIRECT COSTS				
Salaries:				
Administrative/Executive	\$ 112,452	\$ 49,306	\$ 63,146	56.15
Fringe benefits	30,545	11,922	18,623	60.97
Professional fees	6,142	7,323	(1,181)	(19.23)
Supplies and non capital equipment	-	1,448	(1,448)	(100.00)
Rental/maintenance of equipment	-	4,563	(4,563)	(100.00)
Training	-	275	(275)	(100.00)
Publications	-	139	(139)	(100.00)
Public relations	-	801	(801)	(100.00)
Transportation	-	468	(468)	(100.00)
Meetings	-	311	(311)	(100.00)
Recruitment	-	617	(617)	(100.00)
Depreciation	-	11,678	(11,678)	(100.00)
Miscellaneous	-	2,338	(2,338)	(100.00)
	<u>149,139</u>	<u>91,189</u>	<u>57,950</u>	<u>38.86</u>
Total indirect costs	<u>149,139</u>	<u>91,189</u>	<u>57,950</u>	<u>38.86</u>
TOTAL COSTS	<u><u>\$ 2,125,475</u></u>	<u><u>\$ 1,785,361</u></u>	<u><u>\$ 340,114</u></u>	<u><u>16.00</u></u>

BROOK LANE HEALTH SERVICES, INC.
LAUREL HALL SCHOOL LEVEL 1
Schedule of Accumulated Retained Earnings And Uses
For The Department of Education
Year Ended June 30, 2015

Prior Years' Income (Loss)	Laurel Hall Level 1	Frederick Level 1	Total
2007	\$ 189,503	\$ -	\$ 189,503
2008	212,627	(24,195)	188,432
2009	145,399	119,720	265,119
2010	(55,033)	132,522	77,489
2011	22,471	166,094	188,565
2012	(48,491)	59,714	11,223
2013	(139,484)	127,966	(11,518)
2014	<u>(7,967)</u>	<u>116,410</u>	<u>108,443</u>
Accumulated retained earnings	<u>\$ 319,025</u>	<u>\$ 698,231</u>	<u>\$ 1,017,256</u>

Purchases of Fixed Assets:	Date	Cost	
Prior year purchase of fixed assets		\$ 423,399	
Carpeting for Laurel Hall	4/30/2015	10,338	
Cameras for School	12/15/2014	11,806	
Mini Dome Cameras	1/13/2015	1,712	
Panel Door	10/1/2014	1,838	
School Remodel	1/31/2015	84,662	
Volley Ball System	7/21/2014	2,072	
Volley Ball Sleeves	7/25/2014	1,118	
2008 Chevy Cobalt	8/6/2014	10,185	
Autism Swing	12/1/2014	5,021	
TOTAL			(552,151)
Current year retained earnings	<u>\$ 179,542</u>	<u>\$ 101,848</u>	<u>281,390</u>

**ENDING ACCUMULATED
RETAINED EARNINGS** \$ 746,495



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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Brook Lane Health Services, Inc. and subsidiary (Brook Lane), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Brook Lane's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Brook Lane's internal control. Accordingly, we do not express an opinion on the effectiveness of Brook Lane's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Brook Lane's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other Matters

As part of obtaining reasonable assurance about whether Brook Lane's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion of the effectiveness of Brook Lane's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Brook Lane's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith Elliott Keener's Company, LLC

Chambersburg, Pennsylvania
September 15, 2015

BROOK LANE HEALTH SERVICES, INC.
STONE BRIDGE AND LAUREL HALL SCHOOL
Status of Prior Year Audit Findings
June 30, 2015

No findings noted in prior year.