

BROOK LANE HEALTH SERVICES, INC.
Status of Prior Year Audit Findings
June 30, 2017

No findings noted in prior year.

BROOK LANE HEALTH SERVICES, INC.
Schedule of Findings and Responses
June 30, 2017

Auditee's Response: Management has initiated a process to ensure that general ledger account balances are reconciled to supporting subsidiary records as part of the monthly financial close process. All account balances will be reviewed during the close process. Reconciliations will be completed by Fiscal Services staff and the Controller. The Controller will verify that reconciliations are completed and any differences are investigated and corrected. Reconciliations will be approved and dated after review. The Chief Financial Officer will regularly monitor compliance with the process.

Reconciliation of restricted assets will be completed monthly, and will include general ledger restricted funds accounts, restricted bank account, and subsidiary information. Subsidiary information maintained will include the purpose of the restriction, contributions, and release of restricted contributions. Any differences will be investigated and corrected. Release of restricted funds will be approved by the Brook Lane Health Services Finance Committee, and documented in Finance Committee minutes.

BROOK LANE HEALTH SERVICES, INC.
Schedule of Findings and Responses
June 30, 2017

Findings - Financial Statements Audit

Material Weakness

2017-001 Account Reconciliations

- Criteria:** All account balances within the general ledger should be supported by a reconciliation of the supporting subsidiary records to the applicable general ledger balances with any differences investigated and corrected in a timely manner.
- Condition:** The operating checking account reconciliation had a \$ 20,000 difference when compared to the general ledger account balance. The restricted cash bank balance and pledges receivable were not reconciled to the general ledger and contained \$ 13,000 and \$ 10,000 differences, respectively, when compared to the general ledger balance. While these differences were immaterial to the financial statements as a whole, formal reconciliations to the general ledger should be performed regularly for balance sheet accounts and any reconciling differences should be investigated and adjusted to properly reflect accurate general ledger account balances.
- Management's calculation of the total allowance for doubtful accounts did not agree to the general ledger with a difference of \$ 88,000. The difference was the result of various methods used to record and adjust the allowance for doubtful accounts throughout the year while some of the general ledger account balances were not considered in the journal entry to adjust the general ledger account balances at June 30, 2017. The difference was corrected through an audit entry.
- There is currently no reconciliation of restricted asset activity. Restricted contributions, releases of restricted contributions, and related restricted pledge activity should be reconciled regularly to provide management with accurate information of the restricted assets available.
- Effect:** The lack of reconciliations or investigation of differences included on the reconciliations resulted in several unlocated differences between the supporting records and general ledger balances.
- Cause:** Some of the differences were the result of reconciliations not being completed as part of the financial close process and other differences were not researched and corrected.
- Recommendation:** Internal control procedures should ensure that all general ledger accounts are properly reconciled to their supporting records and adjusted monthly through the routine financial close process.

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*.

Brook Lane's Response to Findings

Brook Lane's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Brook Lane's response was not subjected to the auditing procedures applied in the audit to the financial statements and, accordingly, we express no opinion on it.

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 Hearn & Company, LLC.

Chambersburg, Pennsylvania
August 30, 2017



**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 its subsidiary, Brook Lane Foundation, Inc. (Brook Lane), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, 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 August 30, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness (2017-001).

BROOK LANE HEALTH SERVICES, INC.
Laurel Hall School
Schedule of Accumulated Retained Earnings and Uses
for the Department of Education
Year Ended June 30, 2017

Prior Years' Income (Loss)	Washington County Level 1	Frederick County 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	(7,967)	116,410	108,443
2015	179,542	101,848	281,390
2016	217,421	143,693	361,114
Accumulated retained earnings	<u>\$ 715,988</u>	<u>\$ 943,772</u>	<u>\$ 1,659,760</u>

Purchases of Fixed Assets:	Date	Cost	
Prior year purchase of fixed assets		\$ 573,666	
Air unit - main campus		31,098	
Laurel Hall/Stone Bridge building		800	
Security cameras		9,269	
Frederick school		4,251	
Additional cameras		2,137	
TOTAL			(621,221)
Current year retained earnings	<u>\$ 319,203</u>	<u>\$ 335,736</u>	<u>654,939</u>
ENDING ACCUMULATED RETAINED EARNINGS			<u>\$ 1,693,478</u>

BROOK LANE HEALTH SERVICES, INC.
Laurel Hall School
Schedule of Nonpublic Special Education School Budgeted Expenses to Actual
Expense – Level 1 School (Frederick County) for the Department of Education
Year Ended June 30, 2017

	Approved	Actual Revenues	Variance	Percentage
	Budget	and Expenditures	(Over)/Under	Variance
Revenues	\$ 3,128,223			
Salaries and wages	\$ 1,477,361	1,418,572	\$ 58,789	3.98
Benefits	243,416	201,872	41,544	17.07
Payroll taxes	143,636	103,572	40,064	27.89
Professional fees	181,170	197,560	(16,390)	(9.05)
Supplies and non capital equipment	72,175	122,344	(50,169)	(69.51)
Phone/fax/internet	4,000	4,080	(80)	(2.00)
Postage	3,300	1,817	1,483	44.94
Occupancy	423,222	415,567	7,655	1.81
Rental/maintenance of equipment	20,271	28,799	(8,528)	(42.07)
Printing	-	62	(62)	(100.00)
Publications	-	238	(238)	(100.00)
Transportation	5,445	3,301	2,144	39.38
Meetings	500	-	500	100.00
Dues	2,850	-	2,850	100.00
Depreciation	23,760	25,959	(2,199)	(9.26)
Miscellaneous	1,700	-	1,700	100.00
Professional insurance	-	16,854	(16,854)	(100.00)
Training	-	6,867	(6,867)	(100.00)
Recruitment	-	5,061	(5,061)	(100.00)
Indirect cost	153,229	239,962	(86,733)	(100.00)
TOTAL EXPENSES	\$ 2,756,035	2,792,487	\$ (36,452)	(1.32)
Revenues over expenses	\$ 2,756,035	\$ 335,736		

BROOK LANE HEALTH SERVICES, INC.
Laurel Hall School
Schedule of Nonpublic Special Education School Budgeted Expenses to Actual
Expense – Level 1 School (Washington County) for the Department of Education
Year Ended June 30, 2017

	Approved	Actual Revenues	Variance (Over)/Under	Percentage Variance
Revenues	\$ 3,261,653			
Salaries and wages	\$ 1,666,870	1,848,759	\$ (181,889)	(10.91)
Benefits	269,871	261,848	8,023	2.97
Payroll taxes	159,420	145,694	13,726	8.61
Professional fees	22,464	3,865	18,599	82.79
Supplies and non capital equipment	88,325	135,747	(47,422)	(53.69)
Phone/fax/internet	4,500	10,534	(6,034)	(134.09)
Postage	500	1,415	(915)	(183.00)
Occupancy	116,872	199,162	(82,290)	(70.41)
Rental/maintenance of equipment	30,713	37,544	(6,831)	(22.24)
Printing	-	568	(568)	(100.00)
Publications	1,450	289	1,161	80.07
Transportation	4,750	4,196	554	11.66
Educational experiences	1,500	-	1,500	100.00
Dues	2,300	-	2,300	100.00
Depreciation	10,254	21,328	(11,074)	(108.00)
Miscellaneous	2,500	-	2,500	100.00
Professional insurance	-	17,573	(17,573)	(100.00)
Training	-	3,556	(3,556)	(100.00)
Recruitment	-	175	(175)	(100.00)
Indirect cost	115,322	250,197	(134,875)	(116.96)
TOTAL EXPENSES	\$ 2,497,611	2,942,450	\$ (444,839)	(17.81)
Revenues over expenses		\$ 319,203		

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, 2017

	Annual Budget	Actual	Variance (Over)/Under
Salaries and wages	\$ 59,794	\$ 61,166	\$ (1,372)
Payroll taxes	4,574	4,374	200
Benefits	10,407	8,656	1,751
Membership & subscriptions	864	-	864
Training	504	-	504
Recreation	-	489	(489)
Rent	-	15,730	(15,730)
Utilities	-	3,129	(3,129)
Repairs and maintenance	300	-	300
Personal need allowance	-	79	(79)
Equipment rental/lease	600	-	600
Insurance and taxes	-	502	(502)
Supplies	2,100	20	2,080
Telephone	-	295	(295)
Other administrative	-	44	(44)
Indirect expense	8,005	7,162	843
TOTAL EXPENSE	<u>\$ 87,148</u>	101,646	<u>\$ (14,498)</u>
Child care months		<u>54</u>	
NET COST PER CHILD CARE MONTH		<u>\$ 1,882</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 - Residential - for the Department
of Human Resources Respite Program
Year Ended June 30, 2017

	Annual	Actual	Variance
	Budget	(Over)/Under	
Salaries and wages	\$ 694,785	\$ 700,288	\$ (5,503)
Payroll taxes	53,151	54,191	(1,040)
Benefits	120,928	99,319	21,609
Contracted services	1,440	688	752
Membership & subscriptions	2,400	-	2,400
Food service	69,804	81,063	(11,259)
Equipment rental/lease	5,664	7,440	(1,776)
Training	4,320	15	4,305
Clothing	4,500	3,348	1,152
Recreation	3,600	5,325	(1,725)
Recruitment	1,200	232	968
Personal need allowance	7,596	9,731	(2,135)
Rent	-	143,338	(143,338)
Utilities	-	28,511	(28,511)
Repairs and maintenance	13,200	15,146	(1,946)
Insurance and taxes	-	6,080	(6,080)
Supplies	25,812	19,177	6,635
Printing/copying	600	103	497
Telephone	960	4,639	(3,679)
Postage	696	528	168
Travel and transportation	2,400	1,190	1,210
Depreciation/use allowance	7,800	9,020	(1,220)
Other administrative	300	-	300
Indirect expense	49,000	86,684	(37,684)
TOTAL EXPENSE	\$ 1,070,156	1,276,056	\$ (205,900)
Child care months		161	
NET COST PER CHILD CARE MONTH	\$	\$ 7,926	

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, 2017

	Annual	Budget	Actual	Variance
				(Over)/Under
Salaries and wages	\$ 754,579	\$ 754,579	\$ 761,454	\$ (6,875)
Payroll taxes	57,725	57,725	58,565	(840)
Benefits	131,335	131,335	107,975	23,360
Contracted services	1,440	1,440	688	752
Membership & subscriptions	3,264	3,264	-	3,264
Food service	69,804	69,804	81,063	(11,259)
Equipment rental/lease	6,264	6,264	7,440	(1,176)
Training	4,824	4,824	15	4,809
Clothing	4,500	4,500	3,348	1,152
Recreation	3,600	3,600	5,814	(2,214)
Recruitment	1,200	1,200	232	968
Personal need allowance	7,596	7,596	9,810	(2,214)
Rent	-	-	159,068	(159,068)
Utilities	-	-	31,640	(31,640)
Repairs and maintenance	13,500	13,500	15,146	(1,646)
Insurance and taxes	-	-	6,582	(6,582)
Supplies	27,912	27,912	19,197	8,715
Printing/copying	600	600	103	497
Telephone	960	960	4,934	(3,974)
Postage	696	696	528	168
Travel and transportation	2,400	2,400	1,190	1,210
Depreciation/use allowance	7,800	7,800	9,020	(1,220)
Other administrative	300	300	44	256
Indirect expense	57,005	57,005	93,846	(36,841)
TOTAL EXPENSE	\$ 1,157,304	\$ 1,157,304	\$ 1,377,702	\$ (220,398)

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, 2017

<u>Payer Source</u>	<u>Number of Days</u>	<u>Per Diem Rate</u>	<u>Total Charges</u>
Allegany County Department of Social Services	337	\$ 57.81	\$ 19,482
Anne Arundel County Department of Social Services	66	\$ 57.81	3,815
Baltimore County Department of Social Services	61	\$ 57.81	3,526
Frederick County Department of Social Services	42	\$ 57.81	2,428
Harford County Department of Social Services	48	\$ 57.81	2,775
Montgomery County Department of Social Services	635	\$ 57.81	36,709
Prince George County Department of Social Services	206	\$ 57.81	11,909
Self-Pay	18	\$ 57.81	1,041
Saint Mary's Department of Social Services	47	\$ 57.81	2,717
Washington County Department of Social Services	<u>164</u>	\$ 57.81	<u>9,481</u>
	<u>1,624</u>		<u>\$ 93,883</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, 2017

Payer Source	Number of Days	Per Diem Rate	Total Charges
Allegany County Department of Social Services	733	\$ 233.51	\$ 171,163
Anne Arundel County Department of Social Services	147	\$ 233.51	34,326
Baltimore County Department of Social Services	116	\$ 233.51	27,087
Frederick County Department of Social Services	584	\$ 233.51	136,370
Garrett County Department of Social Services	234	\$ 233.51	54,641
Harford County Department of Social Services	116	\$ 233.51	27,087
Montgomery County Department of Social Services	1,815	\$ 233.51	423,821
Prince George County Department of Social Services	375	\$ 233.51	87,566
Self-Pay	26	\$ 233.51	6,071
Saint Mary's Department of Social Services	88	\$ 233.51	20,549
Washington County Department of Social Services	599	\$ 233.51	139,872
	<u>4,833</u>		<u>\$ 1,128,553</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, 2017

	Total Expense	Direct Care	Management & General	Educational Services
Salaries and wages	\$ 761,454	\$ 615,503	\$ 84,785	\$ 61,166
Payroll taxes	58,565	47,705	6,486	4,374
Benefits	107,975	87,321	11,998	8,656
Contracted services	688	688	-	-
Food service	81,063	81,063	-	-
Equipment rental/lease	7,440	7,440	-	-
Training	15	15	-	-
Clothing	3,348	3,348	-	-
Recreation	5,814	5,325	-	489
Recruitment	232	232	-	-
Personal need allowance	9,810	9,731	-	79
Rent	159,068	143,338	-	15,730
Utilities	31,640	28,511	-	3,129
Repairs and maintenance	15,146	15,146	-	-
Insurance and taxes	6,582	6,080	-	502
Supplies	19,197	19,177	-	20
Printing/copying	103	103	-	-
Telephone	4,934	4,639	-	295
Postage	528	528	-	-
Travel and transportation	1,190	1,190	-	-
Depreciation/use allowance	9,020	9,020	-	-
Other administrative	44	-	-	44
Indirect cost	<u>93,846</u>	<u>-</u>	<u>86,684</u>	<u>7,162</u>
TOTAL EXPENSE	<u>\$ 1,377,702</u>	<u>\$ 1,086,103</u>	<u>\$ 189,953</u>	<u>\$ 101,646</u>

BROOK LANE HEALTH SERVICES, INC.
Stone Bridge Transitional Care Program
Schedule of Comparison of Payment Rate to Actual Rate
Year Ended June 30, 2017

	Actual Cost per Child Care Month	Payment Rate per Child Care Month
Residential Program		
Total Revenue		\$ 1,128,553
Child Care Months		<u>161</u>
Rate comparison	<u>\$ 7,926</u>	<u>\$ 7,010</u>
Education Program		
Total Revenue		\$ 93,883
Child Care Months		<u>54</u>
Rate comparison	<u>\$ 1,882</u>	<u>\$ 1,739</u>

BROOK LANE HEALTH SERVICES, INC.
Stone Bridge Transitional Care Program
Schedule of Revenue and Expenses
Year Ended June 30, 2017

REVENUES

Respite service fees	\$ 1,128,553
Education service fees	93,883
Adjustments	<u>(634)</u>
 Total revenue	 <u>1,221,802</u>

EXPENSES

Salaries and wages	761,454
Payroll taxes	58,565
Benefits	107,975
Contracted services	688
Food service	81,063
Equipment rental/lease	7,440
Training	15
Clothing	3,348
Recreation	5,814
Recruitment	232
Personal need allowance	9,810
Rent	159,068
Utilities	31,640
Repairs and maintenance	15,146
Insurance and taxes	6,582
Supplies	19,197
Printing/copying	103
Telephone	4,934
Postage	528
Travel and transportation	1,190
Depreciation/use allowance	9,020
Other administrative	44
Indirect expense	<u>93,846</u>

TOTAL EXPENSE

1,377,702

Expenses over revenues

\$ (155,900)

BROOK LANE HEALTH SERVICES, INC.
Consolidating Statement of Cash Flows
Year Ended June 30, 2017

	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	\$ 2,612,701	\$ (325,350)	\$ -	\$ 2,287,351
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	816,528	-	-	816,528
Provision for bad debts	535,829	-	-	535,829
Change in value of interest rate swap agreement	(281,423)	-	-	(281,423)
(Increase) decrease in:				
Patient accounts receivable	(1,265,961)	-	-	(1,265,961)
Group home accounts receivable	39,186	-	-	39,186
Receivable for educational services	455,744	-	-	455,744
Pledges receivable	-	7,241	-	7,241
Due from Brook Lane Health Services, Inc.	-	(7,717)	7,717	-
Inventories	(5,683)	-	-	(5,683)
Amounts due from third-party payors	29,522	-	-	29,522
Other assets	(91,434)	-	-	(91,434)
Increase in:				
Accounts payable and accrued expenses	(597,310)	-	(7,717)	(605,027)
Grant restricted for construction	-	-	-	-
Net cash provided (used) by operating activities	<u>2,247,699</u>	<u>(325,826)</u>	<u>-</u>	<u>1,921,873</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property and equipment	(1,428,857)	-	-	(1,428,857)
Net (increase) decrease in designated investments:				
Capital replacement and expansion	(47,246)	-	-	(47,246)
Special purposes	(62,058)	-	-	(62,058)
Construction escrow fund	(3,866)	-	-	(3,866)
Unemployment fund collateral	(5,305)	-	-	(5,305)
Net cash used by investing activities	<u>(1,547,332)</u>	<u>-</u>	<u>-</u>	<u>(1,547,332)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on long-term debt	(583,285)	-	-	(583,285)
Transfer of net assets	(325,826)	325,826	-	-
Net cash provided (used) by financing activities	<u>(909,111)</u>	<u>325,826</u>	<u>-</u>	<u>(583,285)</u>
Net decrease in cash and cash equivalents	(208,744)	-	-	(208,744)
Cash and cash equivalents, beginning of year	<u>3,128,784</u>	<u>-</u>	<u>-</u>	<u>3,128,784</u>
Cash and cash equivalents, end of year	<u>\$ 2,920,040</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,920,040</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid for interest, net of capitalized interest of \$ 39,891.	\$ 286,993	\$ -	\$ -	\$ 286,993

BROOK LANE HEALTH SERVICES, INC.
Consolidating Statement of Change in Net Assets
Year Ended June 30, 2017

	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
UNRESTRICTED NET ASSETS				
Excess of revenues, gains, and other support over expenses	\$ 1,861,099	\$ 45,268	\$ -	\$ 1,906,367
Change in value of interest rate swap agreement	281,423	-	-	281,423
Net assets released from restriction, used to purchase property and equipment	-	62,842	-	62,842
Transfer from (to) parent organization	<u>166,610</u>	<u>(166,610)</u>	-	<u>-</u>
Increase (decrease) in unrestricted net assets	<u>2,309,132</u>	<u>(58,500)</u>	-	<u>2,250,632</u>
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	-	99,561	-	99,561
Net assets released from restriction, used to purchase property and equipment	-	(62,842)	-	(62,842)
Transfer from (to) parent organization	<u>303,569</u>	<u>(303,569)</u>	-	<u>-</u>
Increase (decrease) in temporarily restricted net assets	<u>303,569</u>	<u>(266,850)</u>	-	<u>36,719</u>
Increase (decrease) in net assets	<u>2,612,701</u>	<u>(325,350)</u>	-	<u>2,287,351</u>
Net assets, beginning of year	<u>13,306,217</u>	<u>325,350</u>	-	<u>13,631,567</u>
NET ASSETS END OF YEAR	<u>\$ 15,918,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,918,918</u>

BROOK LANE HEALTH SERVICES, INC.
Consolidating Statement of Operations
Year Ended June 30, 2017

	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT				
Net patient service revenue				
Routine services	\$ 12,741,244	\$ -	\$ -	\$ 12,741,244
Ancillary services	<u>13,250,656</u>	<u>-</u>	<u>-</u>	<u>13,250,656</u>
Net patient service revenue	25,991,900	-	-	25,991,900
Provision for bad debts	<u>(535,829)</u>	<u>-</u>	<u>-</u>	<u>(535,829)</u>
Net patient service revenue less provision for bad debts	25,456,071	-	-	25,456,071
Educational services	6,689,214	-	-	6,689,214
Group home revenues	1,221,802	-	-	1,221,802
Other operating revenues	<u>563,479</u>	<u>-</u>	<u>-</u>	<u>563,479</u>
Total revenues, gains, and other support	<u>33,930,566</u>	<u>-</u>	<u>-</u>	<u>33,930,566</u>
EXPENSES				
Salaries and wages	20,377,267	-	-	20,377,267
Employee benefits	5,097,420	-	-	5,097,420
Supplies	1,570,728	-	-	1,570,728
Contractual services	1,064,817	-	-	1,064,817
Facility expense	2,053,370	26,730	-	2,080,100
Depreciation	805,386	-	-	805,386
Interest	257,359	-	-	257,359
General and administrative	<u>1,128,474</u>	<u>23,831</u>	<u>-</u>	<u>1,152,305</u>
Total expenses	<u>32,354,821</u>	<u>50,561</u>	<u>-</u>	<u>32,405,382</u>
Operating loss	<u>1,575,745</u>	<u>(50,561)</u>	<u>-</u>	<u>1,525,184</u>
OTHER INCOME				
Unrestricted gifts and bequests	-	70,829	-	70,829
Investment income	6,937	-	-	6,937
Other	<u>278,417</u>	<u>25,000</u>	<u>-</u>	<u>303,417</u>
Total other income	<u>285,354</u>	<u>95,829</u>	<u>-</u>	<u>381,183</u>
Excess of revenues, gains, and other support over expenses	1,861,099	45,268	-	1,906,367
Change in value of interest rate swap agreement	281,423	-	-	281,423
Net assets released from restriction, used to purchase property and equipment	-	62,842	-	62,842
Transfer from (to) related organization	<u>166,610</u>	<u>(166,610)</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSET:	\$ 2,309,132	\$ (58,500)	\$ -	\$ 2,250,632

	Brook Lane Health Foundation, Inc.	Eliminations	Consolidated Balance
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current portion of long term debt	\$ 605,918	\$ -	\$ 605,918
Accounts payable and accrued expenses	888,617	-	888,617
Accrued salaries, wages, and payroll taxes	558,587	-	558,587
Accrued vacation	965,928	-	965,928
Total current liabilities	3,019,050	-	3,019,050
OTHER LIABILITIES			
Long-term debt, net of current portion	6,521,862	-	6,521,862
Obligation under interest rate swap agreement	330,400	-	330,400
TOTAL LIABILITIES	9,871,312	-	9,871,312
NET ASSETS			
Unrestricted	15,615,349	-	15,615,349
Temporarily restricted	303,569	-	303,569
Total net assets	15,918,918	-	15,918,918
TOTAL LIABILITIES AND NET ASSETS	\$ 25,790,230	\$ -	\$ 25,790,230

BROOK LANE HEALTH SERVICES, INC.
Consolidating Balance Sheet
June 30, 2017

	Brook Lane Health Services, Inc.	Brook Lane Foundation, Inc.	Eliminations	Consolidated Balance
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,920,040	\$ -	\$ -	\$ 2,920,040
Investments	1,152	-	-	1,152
Patient accounts receivable, net of allowance for doubtful accounts of \$ 202,405	4,624,258	-	-	4,624,258
Amounts due from third-party payors, current portion	58,125	-	-	58,125
Group home accounts receivable	269,242	-	-	269,242
Receivable for educational services	871,425	-	-	871,425
Inventories	159,234	-	-	159,234
Prepaid expenses	528,179	-	-	528,179
Other	<u>117,314</u>	<u>-</u>	<u>-</u>	<u>117,314</u>
Total current assets	<u>9,548,969</u>	<u>-</u>	<u>-</u>	<u>9,548,969</u>
BOARD DESIGNATED INVESTMENTS				
Capital replacement and expansion	215,063	-	-	215,063
Special purposes	<u>116,127</u>	<u>-</u>	<u>-</u>	<u>116,127</u>
Total board designated investments	<u>331,190</u>	<u>-</u>	<u>-</u>	<u>331,190</u>
ASSETS WHOSE USE IS LIMITED				
Pledges receivable, net of allowance for doubtful pledges of \$ 7,210	88,506	-	-	88,506
Escrow funds	1,159,655	-	-	1,159,655
Unemployment fund collateral	<u>261,994</u>	<u>-</u>	<u>-</u>	<u>261,994</u>
Total assets whose use is limited	<u>1,510,155</u>	<u>-</u>	<u>-</u>	<u>1,510,155</u>
PROPERTY, PLANT, AND EQUIPMENT				
Land and land improvements	500,286	-	-	500,286
Buildings	15,850,823	-	-	15,850,823
Fixed equipment	990,995	-	-	990,995
Major moveable equipment	1,523,551	-	-	1,523,551
Construction in progress	<u>2,052,135</u>	<u>-</u>	<u>-</u>	<u>2,052,135</u>
	20,917,790	-	-	20,917,790
Less allowance for depreciation	<u>6,826,873</u>	<u>-</u>	<u>-</u>	<u>6,826,873</u>
	<u>14,090,917</u>	<u>-</u>	<u>-</u>	<u>14,090,917</u>
OTHER ASSETS				
Long-term patients accounts receivable, net of allowance for doubtful accounts of \$ 73,865	<u>308,999</u>	<u>-</u>	<u>-</u>	<u>308,999</u>
TOTAL ASSETS	<u>\$ 25,790,230</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,790,230</u>

NOTE 16 SUBSEQUENT EVENTS

Brook Lane has evaluated events and transactions subsequent to June 30, 2017 through August 30, 2017, the date these consolidated 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 consolidated financial statements.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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.

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:

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, 2017</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	\$ 20	\$ -	\$ 20	\$ -
Domestic and international common stocks:				
Energy	1,132	1,132	-	-
Real estate development	<u>10,293</u>	<u>10,293</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 11,445</u>	<u>\$ 11,425</u>	<u>\$ -</u>	<u>\$ -</u>
Financial Liabilities				
Interest rate swap agreement	<u>\$ 330,400</u>	<u>\$ -</u>	<u>\$ 330,400</u>	<u>\$ -</u>

<u>At June 30, 2016</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	\$ 20	\$ -	\$ 20	\$ -
Domestic and international common stocks:				
Energy	1,132	1,132	-	-
Real estate development	<u>10,293</u>	<u>10,293</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 11,445</u>	<u>\$ 11,425</u>	<u>\$ -</u>	<u>\$ -</u>
Financial Liabilities				
Interest rate swap agreement	<u>\$ 611,821</u>	<u>\$ -</u>	<u>\$ 611,821</u>	<u>\$ -</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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.

The fair value of the interest rate swap at June 30, 2017 and 2016 was \$ 330,400 and \$ 611,822, 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 the years ended June 30, 2017 and 2016.

NOTE 14 TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2017 and 2016, 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, 2017 and 2016

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 2017 and 2016 were \$ 797,270 and \$ 767,253 respectively. Minimum future annual rentals based on long-term leases are as follows at June 30, 2017:

2018	\$ 684,334
2019	660,853
2020	599,354
2021	611,341
2022	<u>417,469</u>
TOTAL	<u>\$2,973,351</u>

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:

	<u>2017</u>	<u>2016</u>
Program services	\$ 27,530,513	\$ 24,544,007
General and administrative	4,767,748	4,952,167
Fundraising	<u>107,121</u>	<u>94,586</u>
	<u>\$ 32,405,382</u>	<u>\$ 29,590,760</u>

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, 2017 and 2016

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, 2017 and 2016, from these major payor sources is as follows:

2017						
<u>Blue Cross Blue Shield</u>	<u>Medicare</u>	<u>Commercial Insurance</u>	<u>Health Maintenance Organizations</u>	<u>Medical Assistance</u>	<u>Self-Pay and Other</u>	<u>Total</u>
<u>\$ 5,664,511</u>	<u>\$ 2,102,036</u>	<u>\$ 1,241,240</u>	<u>\$ 3,868,858</u>	<u>\$11,674,617</u>	<u>\$ 1,440,640</u>	<u>\$ 25,991,900</u>
2016						
<u>Blue Cross Blue Shield</u>	<u>Medicare</u>	<u>Commercial Insurance</u>	<u>Health Maintenance Organizations</u>	<u>Medical Assistance</u>	<u>Self-Pay and Other</u>	<u>Total</u>
<u>\$ 5,091,789</u>	<u>\$ 2,317,295</u>	<u>\$ 1,152,189</u>	<u>\$ 3,403,034</u>	<u>\$10,921,282</u>	<u>\$ 1,453,520</u>	<u>\$ 24,339,109</u>

The change in the allowance for doubtful accounts for 2017 and 2016 is as follows:

	2017	2016
Allowance for doubtful accounts at July 1	\$ 169,735	108,768
Provision for bad debts	535,829	346,065
Write off of bad debts	<u>(429,294)</u>	<u>(285,098)</u>
Allowance for doubtful accounts at June 30	<u>\$ 276,270</u>	<u>\$ 169,735</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 \$ 787,544 and \$ 642,767 was incurred by Brook Lane related to the 401(k) plan during the years ended June 30, 2017 and 2016, respectively.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 6 LONG-TERM DEBT (CONTINUED)

Brook Lane was in compliance with its loan covenants at June 30, 2017 and 2016

In May 2015, Brook Lane entered into a note for \$ 1,200,000 with 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 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:

2018	\$	605,917
2019		629,140
2020		651,894
2021		676,796
2022		702,023
Thereafter		<u>3,982,070</u>
	\$	<u><u>7,247,840</u></u>

Brook Lane has a revolving line of credit with BB&T 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 4.25% and 3.22% at June 30, 2017 and 2016, respectively. 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, 2017 or 2016.

Total interest costs and amortization of debt issuance costs for the year ended June 30, 2017 were \$ 257,359, net of \$ 39,981 of capitalized interest. Total interest costs and amortization of debt issuance costs for the year ended June 30, 2016 were \$ 287,681.

NOTE 7 NET PATIENT SERVICE REVENUE

Brook Lane's routine and ancillary service revenue concentrations for the years ended June 30, 2017 and 2016 are as follows:

	<u>Net Patient Service Revenue</u>	
	<u>2017</u>	<u>2016</u>
Blue Cross Blue Shield	21.79%	20.92%
Medicare	8.09%	9.52%
Commercial Insurance	4.78%	4.73%
Health Maintenance Organizations	14.88%	13.98%
Medical Assistance	44.92%	44.87%
Self-Pay and Other	5.54%	5.98%
	<u>100.00%</u>	<u>100.00%</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 6 LONG-TERM DEBT

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

	<u>2017</u>	<u>2016</u>
Town of Smithsburg, Economic Development Revenue Bond (Series 2002)	\$ 2,196,942	\$ 2,516,094
Town of Smithsburg, Economic Development Revenue Bond (Series 2013)	4,060,661	4,221,605
BB&T Bank Note	<u>990,237</u>	<u>1,093,426</u>
Total long-term debt	7,247,840	7,831,125
Less net debt issuance cost	(120,060)	(131,202)
Less current portion	<u>(605,918)</u>	<u>(584,524)</u>
Long-term portion	<u>\$ 6,521,862</u>	<u>\$ 7,115,399</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, 2017 and 2016. 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 2.73% and 2.14% at June 30, 2017 and 2016, 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 HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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 2013 through 2016. Medicaid payments are 94% of HSCRC approved rates and are no longer subject to a cost settlement process. An estimate for the settlement of the 2013 to 2016 Medicaid outpatient cost reports is recorded in the amount of \$ 58,125 at June 30, 2017 and \$ 87,647 at June 30, 2016. Management believes these are reasonable estimates at June 30, 2017 and 2016.

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 and another escrow account to hold the proceeds from a bank note for an electronic health records system (Note 6). Investment income earned on these funds is reflected in investment income in the consolidated statements of operations.

	2017	2016
Pledges receivable	\$ 88,506	\$ 95,747
Escrow funds	1,159,655	1,155,789
Unemployment fund collateral	<u>261,994</u>	<u>256,689</u>
Assets whose use is limited	<u>\$ 1,510,155</u>	<u>\$ 1,508,225</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 at June 30, 2017 are due as follows:

Less than one year	\$ 56,133
One year to five years	<u>39,583</u>
	95,716
Less: Allowance for uncollectable pledges	<u>(7,210)</u>
	<u>\$ 88,506</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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

Adoption of New Accounting Standard (Continued)

Brook Lane adopted the provisions of ASU #2015-03 for the year ended June 30, 2017. Application of the new provisions of ASU #2015-03 to Brook Lane's financial reporting practices resulted in a change in the reporting of deferred financing costs on the balance sheet from a component of other assets to a component of long-term debt. Recognition of the amortization of deferred financing costs changed from a component of depreciation and amortization expense to a component of interest expense. The financial statements for the year ended June 30, 2016 have been restated to conform to the new requirements of ASU #2015-03.

The restatements occurred as follows:

	Deferred Costs, Net	Long-term Debt	Depreciation and Amortization	Interest
June 30, 2016, as originally reported	\$ 131,202	\$ 7,831,125	\$ 727,983	\$ 276,539
Prior period adjustment	<u>(131,202)</u>	<u>(131,202)</u>	<u>(11,142)</u>	<u>11,142</u>
June 30, 2016, as restated	<u>\$ -</u>	<u>\$ 7,699,923</u>	<u>\$ 716,841</u>	<u>\$ 287,681</u>

Reclassifications

Reclassifications were made to the amounts reported for 2016 in order for the statements to be comparable to 2017.

NOTE 2 INVESTMENTS

The composition of investments in Brook Lane's investment portfolio at June 30, 2017 and 2016 is set forth in the following schedule:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 20	\$ 20	\$ 20	\$ 20
Equities	4,039	1,132	4,039	1,132
Current Investments	<u>\$ 4,059</u>	<u>\$ 1,152</u>	<u>\$ 4,059</u>	<u>\$ 1,152</u>
Board-designated investments				
Cash and cash equivalents	\$ 320,897	\$ 320,897	\$ 211,593	\$ 211,593
Equities	10,293	10,293	10,293	10,293
	<u>\$ 331,190</u>	<u>\$ 331,190</u>	<u>\$ 221,886</u>	<u>\$ 221,886</u>
Escrow Funds				
Cash and cash equivalents	<u>\$ 1,159,655</u>	<u>\$ 1,159,655</u>	<u>\$ 1,155,789</u>	<u>\$ 1,155,789</u>
Unemployment fund collateral				
Certificate of deposit	<u>\$ 261,994</u>	<u>\$ 261,994</u>	<u>\$ 256,689</u>	<u>\$ 256,689</u>
		2017		2016
<i>Investment Income</i>				
Interest and dividend income		<u>\$ 6,937</u>		<u>\$ 7,615</u>

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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

Uncertain Tax Positions

The Organization follows generally accepted accounting principles, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The Organization's policy is to charge penalties and interest to income tax expense as incurred. The Organization'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.

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 an 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 on 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.

Adoption of New Accounting Standard

In April of 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03, "Interest – Imputation of Interest" (ASU #2015-03). The objective of ASU #2015-03 is to simplify presentation of debt issuance costs and achieve consistency in this area between United States generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). The new standard requires organizations to report deferred costs related to debt issuance as a deduction from the carrying value of the debt liability recorded on the balance sheet. ASU #2015-03 also requires organizations to report the amortization of deferred financing costs as a component of interest expense. ASU #2015-03 must be implemented for annual financial statements of public entities for fiscal years beginning after December 15, 2015 and all other entities for fiscal years beginning after December 15, 2016 with early adoption permitted.

Brook Lane has borrowed funds through tax-exempt bond financing transactions and costs incurred to issue these outstanding bonds were deferred at the time of issuance and are amortized over the period the related obligation is outstanding. Prior to 2016, Brook Lane reported deferred debt issuance costs related to its outstanding bond issues, net of accumulated amortization, as other assets on the balance sheet. Amortization of these deferred financing costs was reported as a component of depreciation and amortization expense on the statement of operations.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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

Concentration of Credit Risk

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

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

	<u>2017</u>	<u>2016</u>
Blue Cross Blue Shield	10.56%	17.99%
Medicare	4.94%	12.22%
Commercial Insurance	6.12%	9.80%
Health Maintenance Organizations	14.12%	12.17%
Medical Assistance	23.27%	31.76%
Self-Pay and Other	<u>40.99%</u>	<u>16.06%</u>
	<u>100.00%</u>	<u>100.00%</u>

Brook Lane's cash balances at a local financial institution periodically exceed the Federal Deposit Insurance Corporation limit. Management considers this a normal business risk.

Unemployment Compensation

Brook Lane has elected under Maryland Unemployment Compensation Law to reimburse the Maryland Department of Unemployment Insurance for unemployment insurance benefits paid to former employees rather than make quarterly unemployment insurance tax payments. Reimbursable employers are required to provide collateral as a security in the event of the employer's default on these reimbursements. Brook Lane holds a certificate of deposit in the amount of \$ 261,994 and \$ 256,689 as of June 30, 2017 and 2016, respectively, as collateral for this requirement.

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. The entities each file a Form 990, "Return of Organization Exempt from Income Tax".

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Temporarily restricted net assets are those whose use by the Organization has been restricted by donors to a specific time period or purpose. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Advertising Costs

Brook Lane follows the policy of charging costs of advertising to expense as incurred. Advertising expense was \$ 30,205 and \$ 35,812 for the years ended June 30, 2017 and 2016, 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.

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

Charity Care

Brook Lane provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Brook Lane calculates charity care based on a ratio of total expenses to charges. Brook Lane's estimated annual cost of providing charity care for the years ending June 30, 2017 and 2016 was \$ 410,280 and \$ 818,814, respectively. There were no contributions or grant income received to offset the cost of charity care for the years ending June 30, 2017 and 2016.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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

Pledge Receivables

In 2013, Brook Lane began a capital campaign to raise money for construction and expansion of the hospital. Pledges are recorded as receivables when a commitment is signed. The allowance for doubtful accounts was \$ 7,210 for 2017 and 2016.

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 \$ 805,386 and \$ 716,841 for the years ended June 30, 2017 and 2016, respectively.

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

At June 30, 2017, Brook Lane had purchase commitments of \$ 1,749,000, of which \$ 1,669,000 had been paid.

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).

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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

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.

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. Realized gains and losses are computed on the specific identification method. 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. 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’s allowance for doubtful accounts for self-pay patients was 24% and 13% of self-pay accounts receivable at June 30, 2017 and 2016, respectively. In addition, the Organization’s self-pay write-offs increased from \$ 285,000 during the year ended June 30, 2016 to \$ 429,000 during the year ended June 30, 2017. 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.

BROOK LANE HEALTH SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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. In March 2017, the Board of Directors approved suspending the activities of the Foundation and transferred the Foundation's assets to Brook Lane.

Principles of Consolidation

The consolidated financial statements 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. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets.

Accounting Method

Brook Lane presents its consolidated 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 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, and reserve for contractual allowances. Actual results could differ from those estimates.

BROOK LANE HEALTH SERVICES, INC.
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,287,351	\$ 1,461,572
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	816,528	727,983
Provision for bad debts	535,829	346,065
Unrealized (gain) loss on investments	-	3,755
Change in value of interest rate swap agreement	(281,423)	267,153
(Increase) decrease in:		
Patient accounts receivable	(1,265,961)	(397,360)
Group home accounts receivable	39,186	(62,346)
Receivable for educational services	455,744	(258,277)
Pledges receivable	7,241	110,031
Inventories	(5,683)	(24,205)
Amounts due from third-party payors	29,522	49,176
Other assets	(91,434)	(226,582)
Increase in:		
Accounts payable and accrued expenses	(605,027)	703,833
Net cash provided by operating activities	1,921,873	2,700,798
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,428,857)	(1,725,492)
Net (increase) decrease in designated investments:		
Capital replacement and expansion	(47,246)	78,277
Special purposes	(62,058)	4,321
Escrow funds	(3,866)	(477,068)
Unemployment fund collateral	(5,305)	-
Net cash used by investing activities	(1,547,332)	(2,119,962)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(583,285)	(562,313)
Net cash used by financing activities	(583,285)	(562,313)
Net increase (decrease) in cash and cash equivalents	(208,744)	18,523
Cash and cash equivalents, beginning of year	3,128,784	3,110,261
Cash and cash equivalents, end of year	\$ 2,920,040	\$ 3,128,784
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of capitalized interest of \$ 39,981 for 2017 and \$ - for 2016.	\$ 286,993	\$ 277,310

BROOK LANE HEALTH SERVICES, INC.
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2017 and 2016

	2017	2016
UNRESTRICTED NET ASSETS		
Excess of revenues, gains, and other support over expenses	\$ 1,906,367	\$ 1,640,642
Unrealized loss on investments	-	(3,755)
Change in value of interest rate swap agreement	281,423	(267,153)
Net assets released from restriction, used to purchase property and equipment	<u>62,842</u>	<u>276,860</u>
Increase in unrestricted net assets	<u>2,250,632</u>	<u>1,646,594</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	99,561	91,838
Net assets released from restriction, used to purchase property and equipment	<u>(62,842)</u>	<u>(276,860)</u>
Increase (decrease) in temporarily restricted net assets	<u>36,719</u>	<u>(185,022)</u>
Increase in net assets	<u>2,287,351</u>	<u>1,461,572</u>
Net assets, beginning of year	<u>13,631,567</u>	<u>12,169,995</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 15,918,918</u></u>	<u><u>\$ 13,631,567</u></u>

BROOK LANE HEALTH SERVICES, INC.
Consolidated Statements of Operations
Years Ended June 30, 2017 and 2016

	2017	2016
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Net patient service revenue		
Routine services	\$ 12,741,244	\$ 12,127,867
Ancillary services	<u>13,250,656</u>	<u>12,211,242</u>
Net patient service revenue	<u>25,991,900</u>	<u>24,339,109</u>
Provision for bad debts	<u>(535,829)</u>	<u>(346,065)</u>
Net patient service revenue less provision for bad debts	<u>25,456,071</u>	<u>23,993,044</u>
Educational services	6,689,214	5,725,814
Group home revenues	1,221,802	1,150,576
Other operating revenues	<u>563,479</u>	<u>214,693</u>
Total revenue, gains and other support	<u>33,930,566</u>	<u>31,084,127</u>
 EXPENSES		
Salaries and wages	20,377,267	18,455,717
Employee benefits	5,097,420	4,439,947
Supplies	1,570,728	1,577,453
Contractual services	1,064,817	1,062,792
Facility expense	2,080,100	1,990,533
Depreciation	805,386	716,841
Interest	257,359	287,681
General and administrative	<u>1,152,305</u>	<u>1,059,796</u>
Total Expenses	<u>32,405,382</u>	<u>29,590,760</u>
Operating income	<u>1,525,184</u>	<u>1,493,367</u>
 OTHER INCOME		
Unrestricted gifts and bequests	70,829	23,793
Investment income	6,937	7,615
Other	<u>303,417</u>	<u>115,867</u>
Total other income	<u>381,183</u>	<u>147,275</u>
Excess of revenues, gains, and other support over expenses	<u>1,906,367</u>	<u>1,640,642</u>
Unrealized (loss) on investments	-	(3,755)
Change in value of interest rate swap agreement	281,423	(267,153)
Net assets released from restriction, used to purchase property and equipment	<u>62,842</u>	<u>276,860</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 2,250,632</u>	<u>\$ 1,646,594</u>

	2017	2016
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current portion of long term debt	\$ 605,918	\$ 584,524
Trade accounts payable and accrued expenses	888,617	721,761
Accrued salaries, wages, and payroll taxes	558,587	1,234,554
Accrued vacation	<u>965,928</u>	<u>1,025,167</u>
 Total current liabilities	 <u>3,019,050</u>	 <u>3,566,006</u>
 Other Liabilities		
Long-term debt, net of current portion	6,521,862	7,115,399
Obligation under interest rate swap agreement	<u>330,400</u>	<u>611,821</u>
 Total liabilities	 <u>9,871,312</u>	 <u>11,293,226</u>
 Net Assets		
Unrestricted	15,615,349	13,364,717
Temporarily restricted	<u>303,569</u>	<u>266,850</u>
Total net assets	<u>15,918,918</u>	<u>13,631,567</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 25,790,230</u>	 <u>\$ 24,924,793</u>

BROOK LANE HEALTH SERVICES, INC.
Consolidated Balance Sheets
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,920,040	3,128,784
Investments	1,152	1,152
Patient accounts receivable, net of allowance for doubtful accounts of \$ 202,405 and \$ 145,331, respectively	4,624,258	3,633,517
Amounts due from third-party payors, current portion	58,125	87,647
Group home accounts receivable	269,242	308,428
Receivable for educational services	871,425	1,327,169
Inventories	159,234	153,551
Prepaid expenses	528,179	493,113
Other	117,314	60,946
Total current assets	<u>9,548,969</u>	<u>9,194,307</u>
Board Designated Investments		
Capital replacement and expansion	215,063	167,817
Special purposes	116,127	54,069
Total board designated investments	<u>331,190</u>	<u>221,886</u>
Assets Whose Use is Limited		
Pledges receivable, net of allowance for doubtful pledges of \$ 7,210	88,506	95,747
Escrow Funds	1,159,655	1,155,789
Unemployment fund collateral	261,994	256,689
Total assets whose use is limited	<u>1,510,155</u>	<u>1,508,225</u>
Property, Plant and Equipment		
Land and land improvements	500,286	442,399
Buildings	15,850,823	15,733,239
Fixed equipment	990,995	978,561
Major moveable equipment	1,523,551	1,416,967
Construction in progress	2,052,135	1,035,413
	20,917,790	19,606,579
Less allowance for depreciation	6,826,873	6,175,812
	<u>14,090,917</u>	<u>13,430,767</u>
Other Assets		
Long-term patients accounts receivable, net of allowance for doubtful accounts of \$ 73,865 and \$ 24,404 respectively	308,999	569,608
TOTAL ASSETS	<u>\$ 25,790,230</u>	<u>\$ 24,924,793</u>

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, 2017 and 2016, 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 for the Department of Human Resources Respite Program, 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 budgeted expenses to actual expenses and schedule of accumulated retained earnings and uses for Laurel Hall School (Washington County – Level 1 School and the Frederick County Level 1 School), required by the Maryland Department of 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 August 30, 2017 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 Hearn & Company, LLC.

Chambersburg, Pennsylvania
August 30, 2017



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 its subsidiary, Brook Lane Foundation, Inc. (Brook Lane), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, 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.

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Audited
Consolidated
Financial
Statements

June 30, 2017

**Brook Lane Health
Services, Inc.**