

***BROOK LANE HEALTH SERVICES, INC.***

***AUDITED FINANCIAL REPORT***

***JUNE 30, 2013***

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**BROOK LANE HEALTH SERVICES, INC.**

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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, 2013 and 2012, 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.

Board of Directors  
Brook Lane Health Services, Inc.

***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, 2013 and 2012, 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.

***Emphasis-of-Matter***

As discussed in Note 2 to the consolidated financial statements, Brook Lane adopted Financial Accounting Standards Board, Accounting Standards Update No. 2011-07, "*Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*" (ASU # 2011-07). Our opinion is not modified with respect to that matter.

***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, budgeted expenses to actual expenses and net cost per child care month – residential and education and accumulated retained earnings and uses for the Department of Human Resources Respite Program and Group Home – High Intensity Program required by the State of Maryland, Department of Human Resources, and schedules of nonpublic special education school budgeted expenses to actual expenses and schedule of accumulated retained earnings and uses for Laurel Hall School (Washington County – Level 1 School and the Frederick County Level 1 School), required by the Maryland Department of 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.

Board of Directors  
Brook Lane Health Services, Inc.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2013 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 Keown & Company, LLC*

Chambersburg, Pennsylvania  
September 9, 2013





**LIABILITIES AND NET ASSETS**

|  | 2013                     | 2012                     |
|--|--------------------------|--------------------------|
| <b>CURRENT LIABILITIES</b>                 |                          |                          |
| Current portion of long term debt          | \$ 291,461               | \$ 282,769               |
| Accounts payable and accrued expenses      | 525,712                  | 440,392                  |
| Accrued salaries, wages, and payroll taxes | 639,094                  | 553,943                  |
| Accrued vacation                           | <u>764,520</u>           | <u>771,884</u>           |
| <br>Total current liabilities              | <br><u>2,220,787</u>     | <br><u>2,048,988</u>     |
| <br><b>OTHER LIABILITIES</b>               |                          |                          |
| Long-term debt, net of current portion     | <u>3,125,894</u>         | <u>3,417,348</u>         |
| <br>Total liabilities                      | <br><u>5,346,681</u>     | <br><u>5,466,336</u>     |
| <br><b>NET ASSETS</b>                      |                          |                          |
| Unrestricted                               | 9,252,580                | 8,745,009                |
| Temporarily restricted                     | 363,531                  | 388,648                  |
| Total net assets                           | <u>9,616,111</u>         | <u>9,133,657</u>         |
| <br>Total liabilities and net assets       | <br><u>\$ 14,962,792</u> | <br><u>\$ 14,599,993</u> |

*The Notes to the Consolidated Financial Statements are an integral part of these statements.*

**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years Ended June 30, 2013 and 2012**

|   | 2013              | 2012                |
|---|-------------------|---------------------|
| <b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>                        |                   |                     |
| Net patient service revenue   |                   |                     |
| Routine services  | \$ 8,773,915      | \$ 8,113,360        |
| Ancillary services  | 8,464,438         | 7,384,930           |
| Net patient service revenue   | <u>17,238,353</u> | <u>15,498,290</u>   |
| Provision for bad debts   | ( 283,260)        | ( 223,634)          |
| Net patient service revenue less provision for bad debts                      | <u>16,955,093</u> | <u>15,274,656</u>   |
| Educational services  | 4,184,849         | 4,155,599           |
| Group home revenues   | 1,429,160         | 1,400,044           |
| Other operating revenues  | 247,708           | 254,480             |
| Total revenues, gains, and other support                                      | <u>22,816,810</u> | <u>21,084,779</u>   |
| <b>EXPENSES</b>   |                   |                     |
| Salaries and wages  | 13,708,185        | 12,486,427          |
| Employee benefits   | 3,343,744         | 3,004,556           |
| Supplies  | 1,219,155         | 1,137,833           |
| Contractual services  | 923,333           | 810,750             |
| Facility expense  | 1,473,299         | 1,361,122           |
| Depreciation and amortization   | 549,352           | 471,562             |
| Interest  | 107,585           | 116,340             |
| General and administrative  | 1,233,878         | 1,148,016           |
| Total expenses  | <u>22,558,531</u> | <u>20,536,606</u>   |
| Operating income  | <u>258,279</u>    | <u>548,173</u>      |
| <b>OTHER INCOME</b>   |                   |                     |
| Unrestricted gifts and bequests   | 158,712           | 10,791              |
| Investment income   | 67,245            | 15,474              |
| Health insurance settlement   | -                 | 791,745             |
| Other   | 8,277             | 6,600               |
| Total other income  | <u>234,234</u>    | <u>824,610</u>      |
| Excess of revenues, gains, and other support over expenses                    | <u>492,513</u>    | <u>1,372,783</u>    |
| Unrealized gain(loss) on investments  | ( 24,512)         | 42,085              |
| Net assets released from restriction, used to purchase property and equipment | <u>39,570</u>     | <u>65,422</u>       |
| Increase in unrestricted net assets   | <u>\$ 507,571</u> | <u>\$ 1,480,290</u> |

*The Notes to the Consolidated Financial Statements are an integral part of these statements.*

**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**Years Ended June 30, 2013 and 2012**

|   | 2013                | 2012                |
|---|---------------------|---------------------|
| <b>UNRESTRICTED NET ASSETS</b>  |                     |                     |
| Excess of revenues, gains, and other support over expenses                    | \$ 492,513          | \$ 1,372,783        |
| Unrealized gain(loss) on investments  | (24,512)            | 42,085              |
| Net assets released from restriction, used to purchase property and equipment | <u>39,570</u>       | <u>65,422</u>       |
| Increase in unrestricted net assets   | <u>507,571</u>      | <u>1,480,290</u>    |
| <b>TEMPORARILY RESTRICTED NET ASSETS</b>                                      |                     |                     |
| Contributions   | 14,453              | 79,816              |
| Net assets released from restriction, used to purchase property and equipment | <u>( 39,570)</u>    | <u>( 65,422)</u>    |
| (Decrease) increase in temporarily restricted net assets                      | <u>( 25,117)</u>    | <u>14,394</u>       |
| Increase in net assets  | <u>482,454</u>      | <u>1,494,684</u>    |
| Net assets, beginning of year   | <u>9,133,657</u>    | <u>7,638,973</u>    |
| Net assets, end of year   | <u>\$ 9,616,111</u> | <u>\$ 9,133,657</u> |

*The Notes to the Consolidated Financial Statements are an integral part of these statements.*

**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2013 and 2012**

|   | 2013                | 2012                |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                     |
| Change in net assets  | \$ 482,454          | \$ 1,494,684        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization   | 549,352             | 471,562             |
| Provision for bad debts   | 283,260             | 223,634             |
| Realized and unrealized gain on investments   | ( 2,294)            | ( 42,085)           |
| (Increase) decrease in:   |                     |                     |
| Patient accounts receivable   | ( 1,056,756)        | ( 1,115,646)        |
| Group home accounts receivable  | 2,096               | ( 130,195)          |
| Receivable for educational services   | ( 152,286)          | 258,797             |
| Inventories   | ( 1,482)            | ( 14,204)           |
| Amounts due from third-party payors   | 104,745             | ( 36,014)           |
| Other assets  | ( 14,981)           | ( 14,145)           |
| Increase in:  |                     |                     |
| Accounts payable and accrued expenses   | 163,107             | 147,634             |
| Net cash provided by operating activities   | <u>357,215</u>      | <u>1,244,022</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |                     |
| Purchases of property and equipment   | ( 783,742)          | ( 868,324)          |
| Proceeds from sale of investments   | 903,262             | -                   |
| Purchase of investments   | ( 933,362)          | ( 901,079)          |
| Net (increase) decrease in designated investments:  |                     |                     |
| Capital replacement and expansion   | 3,715               | ( 13,973)           |
| Special purposes  | 29,863              | ( 10,254)           |
| Proceeds from note receivable   | 22,127              | 25,304              |
| Net cash used by investing activities   | <u>( 758,137)</u>   | <u>( 1,768,326)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                     |                     |
| Payments on long-term debt  | ( 282,762)          | ( 274,025)          |
| Net cash used by financing activities   | <u>( 282,762)</u>   | <u>( 274,025)</u>   |
| Net decrease in cash and cash equivalents   | ( 683,684)          | ( 798,329)          |
| Cash and cash equivalents, beginning of year  | <u>2,097,775</u>    | <u>2,896,104</u>    |
| Cash and cash equivalents, end of year  | <u>\$ 1,414,091</u> | <u>\$ 2,097,775</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                                     |                     |                     |
| Cash paid for interest  | \$ 108,285          | \$ 117,023          |

*The Notes to the Consolidated Financial Statements are an integral part of these statements.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Organization and Summary of Significant Accounting Policies

#### *Organization*

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

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

#### *Principles of Consolidation*

The consolidated financial statements for 2013 and 2012 include the accounts of Brook Lane Health Services, Inc. and its subsidiary, Brook Lane Foundation, Inc. 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, 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.

#### *Investments*

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

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

***Patient Receivables***

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

***Inventories***

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

***Assets Whose Use Is Limited***

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

***Property, Plant, and Equipment***

Property, plant, and equipment acquisitions which exceed \$ 1,000 are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The cost and accumulated depreciation relating to capital assets sold or retired are removed from the respective accounts at the time of disposition and the resulting gain or loss is reflected in non-operating revenue. Depreciation expense was \$ 538,210 and \$ 460,420 for the years ended June 30, 2013 and 2012, respectively.

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

***Excess of Revenues, Gains, and Other Support Over Expenses***

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

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

***Donor-Restricted Gifts***

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

***Advertising Costs***

Brook Lane follows the policy of charging costs of advertising to expense as incurred. Advertising expense was \$ 41,073 and \$ 39,620 for 2013 and 2012, respectively.

***Net Patient Service Revenue***

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

Medicare and Medicaid inpatient payments are based on a prospective payment system.

***Charity Care***

Brook Lane provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Brook Lane calculates charity care based on a ratio of total expenses to charges. The Organization's estimated annual cost of providing charity care for the years ending June 30, 2013 and 2012 were \$ 378,187 and \$ 248,804, respectively. There were no contributions or grant income received to offset the cost of charity care for the years ending June 30, 2013 and 2012.

***Deferred Financing Costs***

Issuance costs related to the Smithsburg Economic Development Revenue Bond, Series 2002 (See Note 5) and financing costs related to the Frederick facility, have been deferred and included in other non-current assets as of June 30, 2013 and 2012. Amortization is recognized over the life of the debt using the straight-line method. Amortization expense was \$ 6,542 for each of the years ended June 30, 2013 and 2012.

In addition, a finance charge of \$ 23,000 was assessed to Brook Lane by the owner of the Frederick property for the build out of the school. This charge is being amortized over a period of five years using the straight line method. Amortization expense was \$ 4,600 for each of the years ended June 30, 2013 and 2012.

**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:

|                                  | 2013           | 2012           |
|----------------------------------|----------------|----------------|
| Blue Cross Blue Shield           | 17.50%         | 22.57%         |
| Medicare                         | 14.51%         | 8.01%          |
| Commercial Insurance             | 7.38%          | 7.12%          |
| Health Maintenance Organizations | 17.02%         | 21.83%         |
| Medical Assistance               | 30.33%         | 31.45%         |
| Self-Pay and Other               | <u>13.26%</u>  | <u>9.02%</u>   |
|                                  | <u>100.00%</u> | <u>100.00%</u> |

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

***Income Taxes***

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

***Uncertain Tax Positions***

The Organization follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the 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. As of June 30, 2013 the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the Organization's consolidated financial statements. 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, 2013 and 2012. Generally, the tax years before 2009 are no longer subject to examination by federal, state or local taxing authorities.

***Reclassifications***

Certain reclassifications were made to the previously reported amounts for 2012 in order for them to be comparative to 2013.



**Note 2. Adoption of New Accounting Standard**

Brook Lane adopted Accounting Standards Update No. 2011-07, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities" (ASU # 2011-07) for the year ended June 30, 2013. The objective of ASU # 2011-07 is to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The new standard requires enhanced disclosure of patient service revenue and the changes in the allowance for uncollectible patient accounts receivable. The most significant change required by ASU # 2011-07 is the classification of the provision for bad debts associated with patient service revenue from an operating expense to a deduction from net patient service revenue. The consolidated financial statements for the year ended June 30, 2012 have been restated to conform to the new requirements of ASU # 2011-07.

**Note 3. Investments**

The composition of investments in Brook Lane's investment portfolio at June 30, 2013 and 2012 is set forth in the following schedule:

|                               | 2013              |                   | 2012              |                   |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|
|                               | Cost              | Fair Value        | Cost              | Fair Value        |
| Cash and cash equivalents     | \$ 504,127        | \$ 504,127        | \$ 120,056        | \$ 120,056        |
| Equities                      | -                 | -                 | 80,324            | 88,178            |
| Fixed income                  | 470,000           | 469,681           | 654,616           | 674,565           |
| Mortgaged backed securities   | -                 | -                 | 20,032            | 18,878            |
| Real estate investment trusts | -                 | -                 | 39,905            | 40,408            |
| Current Investments           | <u>\$ 974,127</u> | <u>\$ 973,808</u> | <u>\$ 914,933</u> | <u>\$ 942,085</u> |
| Board-designated investments  |                   |                   |                   |                   |
| Cash and cash equivalents     | <u>\$ 445,283</u> | <u>\$ 445,283</u> | <u>\$ 478,861</u> | <u>\$ 478,861</u> |
| Unemployment fund collateral  |                   |                   |                   |                   |
| Certificate of deposit        | <u>\$ 191,513</u> | <u>\$ 191,513</u> | <u>\$ 190,842</u> | <u>\$ 190,842</u> |
|                               | <b>2013</b>       | <b>2012</b>       |                   |                   |
| <i>Investment Income</i>      |                   |                   |                   |                   |
| Interest and dividend income  | \$ 40,439         | \$ 15,474         |                   |                   |
| Realized gains                | 26,806            | -                 |                   |                   |
|                               | <u>\$ 67,245</u>  | <u>\$ 15,474</u>  |                   |                   |

**Note 4. Amounts Due From Third-Party Payors**

The amounts collected under the Medicare and Medicaid programs are subject to verification by fiscal intermediaries. Effective with the June 30, 2009 fiscal year end, Medicare is based on 100% prospective payment system and is no longer cost settled. The Medicaid outpatient settlements are still open for 2009 through 2013. Medicaid reimbursement for inpatient services is based on a prospective payment system and is no longer subject to a cost settlement process. An estimate for the settlement of the 2009 to 2013 Medicaid outpatient cost reports is recorded in the amount of \$ 81,991 at June 30, 2013 and \$ 186,736 at June 30, 2012. Management believes this to be a reasonable estimate at June 30, 2013 and 2012.

**Note 5. Long-Term Debt**

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

|   | 2013                | 2012                |
|---|---------------------|---------------------|
| Town of Smithsburg, Economic Development Revenue Bond (Series 2002) | \$ 3,417,355        | \$ 3,700,117        |
| Less current portion  | <u>291,461</u>      | <u>282,769</u>      |
|   | <u>\$ 3,125,894</u> | <u>\$ 3,417,348</u> |

On August 1, 2002, Brook Lane issued \$ 5,500,000 Town of Smithsburg, Economic Development Revenue Bond, Series 2002 (Series of 2002). The bond issue was used to refinance the outstanding principal balance of the Washington County Economic Development Revenue Bonds, Series 1991, and finance the construction of two, two-story hospital wings totaling approximately 30,000 square feet and to renovate approximately 3,900 square feet of the facility. This Series of 2002 shall mature on April 1, 2024. The interest rate on the bond issue is based on 92% of the prime rate, not to exceed a pre-determined interest rate. The interest rate will be adjusted on various anniversary dates. The interest rate on this obligation was 2.99% at June 30, 2013 and 2012. This obligation is secured by a first lien on all property and rents and profits hereunder and cross-collateralized with the line of credit. The Series of 2002 also has several covenants that Brook Lane must comply with, such as maintaining minimum debt service coverage and tangible net worth ratios. The bond series may be prepaid after August 1, 2007 without penalty.

The aggregate future maturities of long-term debt are:

|            |                     |
|------------|---------------------|
| 2014       | \$ 291,461          |
| 2015       | 300,420             |
| 2016       | 309,436             |
| 2017       | 316,167             |
| 2018       | 328,979             |
| Thereafter | 1,870,892           |
|            | <u>\$ 3,417,355</u> |

Brook Lane has a revolving line of credit in the amount of \$ 750,000, with an interest rate of 92% of the prime rate with a floor of 3.00%. The interest rate was 3.00% at June 30, 2013. This line of credit is secured by accounts receivable and cross-collateralized with the Series of 2002. There were no draws on this line of credit at June 30, 2013 or 2012.

Total interest costs incurred were \$ 107,585 and \$ 116,340 for 2013 and 2012, respectively.

**Note 6. Net Patient Service Revenue**

Brook Lane's routine and ancillary service revenue concentrations for the years ended June 30, 2013 and 2012 are as follows:

|                                  | <b>Net Patient Service Revenue</b> |                |
|----------------------------------|------------------------------------|----------------|
|                                  | <u>2013</u>                        | <u>2012</u>    |
| Blue Cross Blue Shield           | 22.33%                             | 26.43%         |
| Medicare                         | 13.73%                             | 11.92%         |
| Commercial Insurance             | 3.14%                              | 2.92%          |
| Health Maintenance Organizations | 17.35%                             | 17.45%         |
| Medical Assistance               | 39.67%                             | 38.04%         |
| Self-Pay and Other               | 3.78%                              | 3.24%          |
|                                  | <u>100.00%</u>                     | <u>100.00%</u> |

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, 2013 and 2012, from these major payor sources is as follows:

|                             | <u>Blue Cross<br/>Blue Shield</u> | <u>Medicare</u>     | <u>Commercial<br/>Insurance</u> | <u>2013<br/>Health<br/>Maintenance<br/>Organizations</u> | <u>Medical<br/>Assistance</u> | <u>Self-Pay<br/>and Other</u> | <u>Total</u>         |
|-----------------------------|-----------------------------------|---------------------|---------------------------------|--|-------------------------------|-------------------------------|----------------------|
| Net patient service revenue | <u>\$ 3,850,055</u>               | <u>\$ 2,367,443</u> | <u>\$ 541,013</u>               | <u>\$ 2,990,385</u>                                      | <u>\$ 6,838,226</u>           | <u>\$ 651,231</u>             | <u>\$ 17,238,353</u> |

  

|                             | <u>Blue Cross<br/>Blue Shield</u> | <u>Medicare</u>     | <u>Commercial<br/>Insurance</u> | <u>2012<br/>Health<br/>Maintenance<br/>Organizations</u> | <u>Medical<br/>Assistance</u> | <u>Self-Pay<br/>and Other</u> | <u>Total</u>         |
|-----------------------------|-----------------------------------|---------------------|---------------------------------|--|-------------------------------|-------------------------------|----------------------|
| Net patient service revenue | <u>\$ 4,095,120</u>               | <u>\$ 1,848,130</u> | <u>\$ 452,146</u>               | <u>\$ 2,704,392</u>                                      | <u>\$ 5,896,267</u>           | <u>\$ 502,235</u>             | <u>\$ 15,498,290</u> |

The change in the allowance for doubtful accounts for 2013 and 2012 is as follows:

|  | <u>2013</u>       | <u>2012</u>       |
|--|-------------------|-------------------|
| Allowance for doubtful accounts at July 1  | \$ 101,879        | \$ 100,677        |
| Provision for bad debts                    | 283,260           | 223,634           |
| Write off of bad debts                     | <u>(270,161)</u>  | <u>(222,432)</u>  |
| Allowance for doubtful accounts at June 30 | <u>\$ 114,978</u> | <u>\$ 101,879</u> |

**Note 7. Employee Benefit Plans**

Brook Lane has a 401(k) defined contribution plan that covers all employees who have attained the age of 21. 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 \$ 432,656 and \$ 411,538 was incurred by Brook Lane related to the 401(k) plan during 2013 and 2012, respectively.

**Note 8. Leases**

Brook Lane has entered into a long-term lease agreement for the rental of office space. Rentals paid under operating leases for 2013 and 2012 were \$ 558,902 and \$ 557,348, respectively. Minimum future annual rentals based on long-term leases are as follows at June 30, 2012:

|       |                     |
|-------|---------------------|
| 2014  | \$ 267,395          |
| 2015  | 274,236             |
| 2016  | 281,209             |
| 2017  | 288,320             |
| 2018  | <u>212,641</u>      |
| Total | <u>\$ 1,323,801</u> |

**Note 9. 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:

|                            | 2013                 | 2012                 |
|----------------------------|----------------------|----------------------|
| Program services           | \$ 19,213,112        | \$ 17,536,029        |
| General and administrative | 3,239,966            | 3,113,740            |
| Fundraising                | <u>105,453</u>       | <u>110,471</u>       |
|                            | <u>\$ 22,558,531</u> | <u>\$ 20,760,240</u> |

**Note 10. 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 11. Malpractice Insurance Coverage**

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

#### **Note 12. Temporarily Restricted Net Assets**

At June 30, 2013 and 2012, temporarily restricted net assets consist of funds solicited for the purchase of designated equipment, furnishings, and supplies.

#### **Note 13. Health Insurance Settlement**

During the year ended June 30, 2012, Brook Lane received a refund of the previous year's health insurance premium in the amount of \$ 791,745. This resulted from a revised actuary study of the required funding to cover future health insurance claims. This is reported as part of other income in the consolidated statements of operations. There was no refund for the year ended June 30, 2013.

#### **Note 14. Fair Value Measurements**

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

- Level 1 – Represented by quoted prices available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products, and exchange traded equities.
- Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include 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, swap agreements and internally developed values with little uncertainty.
- Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement including the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and internally developed values with significant uncertainty.

**Note 14. Fair Value Measurements (Continued)**

The fair values of the assets measured on a recurring basis as of June 30, 2013 and 2012 are as follows:

| <u>At June 30, 2013</u> | <u>Fair Value</u> | <u>Quoted<br/>Prices in<br/>Active Markets<br/>for Identical<br/>Assets (Level 1)</u> | <u>Significant<br/>Other Observable<br/>Inputs (Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs (Level 3)</u> |
|-------------------------|-------------------|---|--|--|
| Money market funds      | \$ 504,127        | \$ -  | \$ 504,127   | \$ -   |
| Certificates of deposit | 469,681           | -   | 469,681  | -  |
|                         | <u>\$ 973,808</u> | <u>\$ -</u>   | <u>\$ 973,808</u>  | <u>\$ -</u>  |

| <u>At June 30, 2012</u>                           | <u>Fair Value</u> | <u>Quoted<br/>Prices in<br/>Active Markets<br/>for Identical<br/>Assets (Level 1)</u> | <u>Significant<br/>Other Observable<br/>Inputs (Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs (Level 3)</u> |
|---|-------------------|---|--|--|
| Money market funds                                | \$ 120,056        | \$ -  | \$ 120,056   | \$ -   |
| Domestic and international common stocks:         |                   |   |  |  |
| Consumer staples and discretionary                | 12,898            | 12,898  | -  | -  |
| Energy  | 32,680            | 32,680  | -  | -  |
| Health care                                       | 12,249            | 12,249  | -  | -  |
| Information technology                            | 22,724            | 22,724  | -  | -  |
| Minerals  | 7,627             | 7,627   | -  | -  |
| Total domestic and international<br>common stocks | <u>88,178</u>     | <u>88,178</u>   | <u>-</u>   | <u>-</u>   |
| Fixed income securities                           | 674,565           | -   | 674,565  | -  |
| Mortgage backed securities                        | 18,878            | -   | 18,878   | -  |
| Real estate investment trusts                     | 40,408            | 40,408  | -  | -  |
|   | <u>\$ 942,085</u> | <u>\$ 128,586</u>   | <u>\$ 813,499</u>  | <u>\$ -</u>  |

**Note 15 Subsequent Events**

Brook Lane has evaluated events and transactions subsequent to June 30, 2013 through September 9, 2013, 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 have occurred subsequent to June 30, 2013 and through September 9, 2013 that requires recognition or disclosure in the consolidated financial statements.

BROOK LANE HEALTH SERVICES, INC.

CONSOLIDATING BALANCE SHEET

June 30, 2013

|  | Brook Lane<br>Health Services, Inc. | Brook Lane<br>Foundation, Inc. | Eliminations | Consolidated<br>Balance |
|--|-------------------------------------|--------------------------------|--------------|-------------------------|
| <b>ASSETS</b>  |                                     |                                |              |                         |
| <b>CURRENT ASSETS</b>  |                                     |                                |              |                         |
| Cash and cash equivalents  | \$ 1,414,091                        | \$ -                           | -            | \$ 1,414,091            |
| Investments  | 973,808                             | -                              | -            | 973,808                 |
| Patient accounts receivable, net of allowance for doubtful<br>accounts of \$ 114,978           | 3,514,155                           | -                              | -            | 3,514,155               |
| Amounts due from third-party payors, current portion   | 81,991                              | -                              | -            | 81,991                  |
| Group home accounts receivable   | 315,660                             | -                              | -            | 315,660                 |
| Receivable for educational services  | 541,154                             | -                              | -            | 541,154                 |
| Inventories  | 143,918                             | -                              | -            | 143,918                 |
| Prepaid expenses   | 239,556                             | -                              | -            | 239,556                 |
| Other  | 10,429                              | -                              | -            | 10,429                  |
| Total current assets   | 7,234,762                           | -                              | -            | 7,234,762               |
| <b>BOARD DESIGNATED INVESTMENTS</b>  |                                     |                                |              |                         |
| Capital replacement and expansion  | -                                   | 390,409                        | -            | 390,409                 |
| Special purposes   | -                                   | 54,874                         | -            | 54,874                  |
| Total board designated investments   | -                                   | 445,283                        | -            | 445,283                 |
| <b>ASSETS WHOSE USE IS LIMITED</b>   |                                     |                                |              |                         |
| Unemployment fund collateral   | 191,513                             | -                              | -            | 191,513                 |
| <b>PROPERTY, PLANT, AND EQUIPMENT</b>  |                                     |                                |              |                         |
| Land and land improvements   | 568,889                             | -                              | -            | 568,889                 |
| Buildings  | 9,121,123                           | -                              | -            | 9,121,123               |
| Fixed equipment  | 922,509                             | -                              | -            | 922,509                 |
| Major moveable equipment   | 1,027,827                           | -                              | -            | 1,027,827               |
| Construction in progress   | 412,256                             | -                              | -            | 412,256                 |
| Less allowance for depreciation  | 12,052,604                          | -                              | -            | 12,052,604              |
|  | 5,390,338                           | -                              | -            | 5,390,338               |
|  | 6,662,266                           | -                              | -            | 6,662,266               |
| <b>OTHER ASSETS</b>  |                                     |                                |              |                         |
| Long-term patients accounts receivable, net of allowance for doubtful<br>accounts of \$ 12,240 | 360,555                             | -                              | -            | 360,555                 |
| Deferred financing costs, net of accumulated amortization of \$ 85,432                         | 68,413                              | -                              | -            | 68,413                  |
|  | 428,968                             | -                              | -            | 428,968                 |
| Total assets   | \$ 14,517,509                       | \$ 445,283                     | \$ -         | \$ 14,962,792           |

**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATING BALANCE SHEET (CONTINUED)**

June 30, 2013

|  | Brook Lane<br>Health Services, Inc. | Brook Lane<br>Foundation, Inc. | Eliminations | Consolidated<br>Balance |
|--|-------------------------------------|--------------------------------|--------------|-------------------------|
| <b>LIABILITIES AND NET ASSETS</b>          |                                     |                                |              |                         |
| <b>CURRENT LIABILITIES</b>                 |                                     |                                |              |                         |
| Current portion of long term debt          | \$ 291,461                          | -                              | -            | \$ 291,461              |
| Accounts payable and accrued expenses      | 525,712                             | -                              | -            | 525,712                 |
| Accrued salaries, wages, and payroll taxes | 639,094                             | -                              | -            | 639,094                 |
| Accrued vacation                           | 764,520                             | -                              | -            | 764,520                 |
| Total current liabilities                  | <u>2,220,787</u>                    | <u>-</u>                       | <u>-</u>     | <u>2,220,787</u>        |
| <b>OTHER LIABILITIES</b>                   |                                     |                                |              |                         |
| Long-term debt, net of current portion     | <u>3,125,894</u>                    | <u>-</u>                       | <u>-</u>     | <u>3,125,894</u>        |
| Total liabilities                          | <u>5,346,681</u>                    | <u>-</u>                       | <u>-</u>     | <u>5,346,681</u>        |
| <b>NET ASSETS</b>                          |                                     |                                |              |                         |
| Unrestricted                               | 9,170,828                           | 81,752                         | -            | 9,252,580               |
| Temporarily restricted                     | -                                   | 363,531                        | -            | 363,531                 |
| Total net assets                           | <u>9,170,828</u>                    | <u>445,283</u>                 | <u>-</u>     | <u>9,616,111</u>        |
| Total liabilities and net assets           | <u>\$ 14,517,509</u>                | <u>\$ 445,283</u>              | <u>\$ -</u>  | <u>\$ 14,962,792</u>    |



**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATING STATEMENT OF OPERATIONS**  
Year Ended June 30, 2013

**UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT**

|  | Brook Lane<br>Health Services, Inc. | Brook Lane<br>Foundation, Inc. | Eliminations | Consolidated<br>Balance |
|--|-------------------------------------|--------------------------------|--------------|-------------------------|
| Net patient service revenue                              | \$ 8,773,915                        | \$ -                           | \$ -         | \$ 8,773,915            |
| Routine services   | 8,464,438                           | -                              | -            | 8,464,438               |
| Ancillary services                                       | 17,238,353                          | -                              | -            | 17,238,353              |
| Net patient service revenue                              | -                                   | -                              | -            | -                       |
| Provision for bad debts                                  | ( 283,260)                          | -                              | -            | ( 283,260)              |
| Net patient service revenue less provision for bad debts | 16,955,093                          | -                              | -            | 16,955,093              |
| Educational services                                     | 4,184,849                           | -                              | -            | 4,184,849               |
| Group home revenues                                      | 1,429,160                           | -                              | -            | 1,429,160               |
| Other operating revenues                                 | 258,813                             | -                              | ( 11,105)    | 247,708                 |
| Total revenues, gains, and other support                 | 22,827,915                          | -                              | ( 11,105)    | 22,816,810              |

**EXPENSES**

|                               |            |            |           |            |
|-------------------------------|------------|------------|-----------|------------|
| Salaries and wages            | 13,708,185 | -          | -         | 13,708,185 |
| Employee benefits             | 3,343,744  | -          | -         | 3,343,744  |
| Supplies                      | 1,195,035  | 24,120     | -         | 1,219,155  |
| Contractual services          | 819,333    | 115,105    | ( 11,105) | 923,333    |
| Facility expense              | 1,472,661  | 638        | -         | 1,473,299  |
| Depreciation and amortization | 549,352    | -          | -         | 549,352    |
| Interest                      | 107,585    | -          | -         | 107,585    |
| General and administrative    | 1,215,614  | 18,264     | -         | 1,233,878  |
| Total expenses                | 22,411,509 | 158,127    | ( 11,105) | 22,558,531 |
| Operating income              | 416,406    | ( 158,127) | -         | 258,279    |

**OTHER INCOME**

|                                 |        |         |   |         |
|---------------------------------|--------|---------|---|---------|
| Unrestricted gifts and bequests | -      | 158,712 | - | 158,712 |
| Investment income               | 65,395 | 1,850   | - | 67,245  |
| Other                           | 8,277  | -       | - | 8,277   |
| Total other income              | 73,672 | 160,562 | - | 234,234 |

**Excess of revenues, gains, and other support over expenses**

|   |            |           |      |            |
|---|------------|-----------|------|------------|
| Unrealized loss on investments  | ( 24,512)  | -         | -    | ( 24,512)  |
| Net assets released from restriction, used to purchase property and equipment | ( 39,747)  | 39,570    | -    | 39,570     |
| Transfer from parent organization   | -          | 39,747    | -    | -          |
| Increase in unrestricted net assets   | \$ 425,819 | \$ 81,752 | \$ - | \$ 507,571 |

**BROOK LANE HEALTH SERVICES, INC.**

**CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS**  
 Year Ended June 30, 2013

|   | Brook Lane<br>Health Services, Inc. | Brook Lane<br>Foundation, Inc. | Eliminations | Consolidated<br>Balance |
|---|-------------------------------------|--------------------------------|--------------|-------------------------|
| <b>UNRESTRICTED NET ASSETS</b>  |                                     |                                |              |                         |
| Excess of revenues, gains, and other support over expenses                    | \$ 490,078                          | \$ 2,435                       | \$ -         | \$ 492,513              |
| Unrealized loss on investments  | ( 24,512)                           | -                              | -            | ( 24,512)               |
| Net assets released from restriction, used to purchase property and equipment | -                                   | 39,570                         | -            | 39,570                  |
| Transfer from parent organization   | ( 39,747)                           | 39,747                         | -            | -                       |
| Increase in unrestricted net assets   | 425,819                             | 81,752                         | -            | 507,571                 |
| <b>TEMPORARILY RESTRICTED NET ASSETS</b>                                      |                                     |                                |              |                         |
| Contributions   | 14,453                              | -                              | -            | 14,453                  |
| Net assets released from restriction, used to purchase property and equipment | -                                   | ( 39,570)                      | -            | ( 39,570)               |
| Transfer from parent organization   | ( 403,101)                          | 403,101                        | -            | -                       |
| Increase (decrease) in temporarily restricted net assets                      | ( 388,648)                          | 363,531                        | -            | ( 25,117)               |
| Increase in net assets  | 37,171                              | 445,283                        | -            | 482,454                 |
| Net assets, beginning of year   | 9,133,657                           | -                              | -            | 9,133,657               |
| Net assets, end of year   | \$ 9,170,828                        | \$ 445,283                     | \$ -         | \$ 9,616,111            |

**BROOK LANE HEALTH SERVICES, INC.**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2013**

|   | Brook Lane<br>Health Services, Inc. | Brook Lane<br>Foundation, Inc. | Eliminations | Consolidated<br>Balance |
|---|-------------------------------------|--------------------------------|--------------|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                     |                                |              |                         |
| Change in net assets  | \$ 37,171                           | \$ 445,283                     | \$ -         | \$ 482,454              |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                                     |                                |              |                         |
| Depreciation and amortization   | 549,352                             | -                              | -            | 549,352                 |
| Provision for bad debts   | 283,260                             | -                              | -            | 283,260                 |
| Realized and unrealized gain on investments   | (2,294)                             | -                              | -            | (2,294)                 |
| (Increase) decrease in:   |                                     |                                |              |                         |
| Patient accounts receivable   | (1,056,756)                         | -                              | -            | (1,056,756)             |
| Group home accounts receivable  | 2,096                               | -                              | -            | 2,096                   |
| Receivable for educational services   | (152,286)                           | -                              | -            | (152,286)               |
| Inventories   | (1,482)                             | -                              | -            | (1,482)                 |
| Amounts due from third-party payors   | 104,745                             | -                              | -            | 104,745                 |
| Other assets  | (14,981)                            | -                              | -            | (14,981)                |
| Increase in:  |                                     |                                |              |                         |
| Accounts payable and accrued expenses   | 163,107                             | -                              | -            | 163,107                 |
| Transfer of net assets  | 442,848                             | (442,848)                      | -            | -                       |
| Net cash provided by operating activities   | <u>354,780</u>                      | <u>2,435</u>                   | <u>-</u>     | <u>357,215</u>          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                     |                                |              |                         |
| Purchases of property and equipment   | (783,742)                           | -                              | -            | (783,742)               |
| Proceeds from sale of investments   | 903,262                             | -                              | -            | 903,262                 |
| Purchase of investments   | (933,362)                           | -                              | -            | (933,362)               |
| Net (increase) decrease in designated investments:  |                                     |                                |              |                         |
| Capital replacement and expansion   | 3,715                               | -                              | -            | 3,715                   |
| Special purposes  | 29,863                              | -                              | -            | 29,863                  |
| Proceeds from note receivable   | 22,127                              | -                              | -            | 22,127                  |
| Net cash used by investing activities   | <u>(758,137)</u>                    | <u>-</u>                       | <u>-</u>     | <u>(758,137)</u>        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                     |                                |              |                         |
| Payments on long-term debt  | (282,762)                           | -                              | -            | (282,762)               |
| Transfer of net assets  | 2,435                               | (2,435)                        | -            | -                       |
| Net cash used by financing activities   | <u>(280,327)</u>                    | <u>(2,435)</u>                 | <u>-</u>     | <u>(282,762)</u>        |
| Net decrease in cash and cash equivalents   | (683,684)                           | -                              | -            | (683,684)               |
| Cash and cash equivalents, beginning of year  | <u>2,097,775</u>                    | <u>-</u>                       | <u>-</u>     | <u>2,097,775</u>        |
| Cash and cash equivalents, end of year  | <u>\$ 1,414,091</u>                 | <u>\$ -</u>                    | <u>\$ -</u>  | <u>\$ 1,414,091</u>     |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                                     |                                     |                                |              |                         |
| Cash paid for interest  | \$ 108,285                          | \$ -                           | \$ -         | \$ 108,285              |

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAM  
SCHEDULE OF REVENUES AND EXPENSES  
Year Ended June 30, 2013**

**REVENUES**

|                        |                  |
|------------------------|------------------|
| Respite service fees   | \$ 1,002,905     |
| Education service fees | <u>101,914</u>   |
| Total revenue          | <u>1,104,819</u> |

**EXPENSES**

|                               |                            |
|-------------------------------|----------------------------|
| Salaries and wages            | 693,085                    |
| Payroll taxes                 | 53,021                     |
| Fringe benefits               | 98,213                     |
| Contracted services           | 67,329                     |
| Food service                  | 86,941                     |
| Training                      | 1,113                      |
| Clothing                      | 6,809                      |
| Recreation                    | 5,363                      |
| Personal need allowance       | 8,656                      |
| Rent                          | 141,625                    |
| Utilities                     | 32,836                     |
| Repairs and maintenance       | 17,218                     |
| Insurance and taxes           | 6,087                      |
| Supplies                      | 6,092                      |
| Printing/copying              | 562                        |
| Telephone                     | 5,030                      |
| Postage                       | 918                        |
| Memberships and subscriptions | 7,036                      |
| Conferences and conventions   | 82                         |
| Travel and transportation     | 1,211                      |
| Copier rental                 | 2,414                      |
| Depreciation/use allowance    | 10,108                     |
| Recruitment                   | 13,021                     |
| Indirect expense              | <u>105,256</u>             |
| Total expense                 | <u>1,370,026</u>           |
| Expenses over revenues        | <u><u>(\$ 265,207)</u></u> |

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAM  
SCHEDULE OF COMPARISON OF PAYMENT RATE TO ACTUAL RATE  
Year Ended June 30, 2013**

|                            | <b>Actual<br/>Cost per<br/>Child Care Month</b> | <b>Payment<br/>Rate per<br/>Child Care Month</b> |
|----------------------------|---|--|
| <b>Residential Program</b> |   |  |
| Total Revenue              |   | \$ 1,002,905                                     |
| Child Care Months          |   | <u>152</u>                                       |
| Rate comparison            | <u>\$ 8,350</u>                                 | <u>\$ 6,598</u>                                  |
| <b>Education Program</b>   |   |  |
| Total Revenue              |   | \$ 101,914                                       |
| Child Care Months          |   | <u>62</u>  |
| Rate comparison            | <u>\$ 1,627</u>                                 | <u>\$ 1,644</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, 2013**

|                              | <b>Total<br/>Expense</b> | <b>Direct<br/>Care</b> | <b>Management<br/>&amp; General</b> | <b>Educational<br/>Services</b> |
|------------------------------|--------------------------|------------------------|-------------------------------------|---------------------------------|
| Salaries and wages           | \$ 693,085               | \$ 571,695             | \$ 62,777                           | \$ 58,613                       |
| Payroll taxes                | 53,021                   | 43,198                 | 5,339                               | 4,484                           |
| Fringe benefits              | 98,213                   | 80,017                 | 9,890                               | 8,306                           |
| Contracted services          | 67,329                   | 67,329                 | -                                   | -                               |
| Food service                 | 86,941                   | 86,941                 | -                                   | -                               |
| Training                     | 1,113                    | 714                    | -                                   | 399                             |
| Clothing                     | 6,809                    | 6,809                  | -                                   | -                               |
| Recreation                   | 5,363                    | 5,363                  | -                                   | -                               |
| Personal need allowance      | 8,656                    | 8,656                  | -                                   | -                               |
| Rent                         | 141,625                  | 127,620                | -                                   | 14,005                          |
| Utilities                    | 32,836                   | 29,589                 | -                                   | 3,247                           |
| Repairs and maintenance      | 17,218                   | 17,218                 | -                                   | -                               |
| Insurance and taxes          | 6,087                    | 5,526                  | -                                   | 561                             |
| Supplies                     | 6,092                    | 4,929                  | -                                   | 1,163                           |
| Printing/copying             | 562                      | 537                    | -                                   | 25                              |
| Telephone                    | 5,030                    | 4,676                  | -                                   | 354                             |
| Postage                      | 918                      | 918                    | -                                   | -                               |
| Membership and subscriptions | 7,036                    | 7,026                  | -                                   | 10                              |
| Conferences and conventions  | 82                       | 82                     | -                                   | -                               |
| Travel and transportation    | 1,211                    | 1,188                  | -                                   | 23                              |
| Copier rental                | 2,414                    | -                      | 2,414                               | -                               |
| Depreciation/use allowance   | 10,108                   | 10,108                 | -                                   | -                               |
| Recruitment                  | 13,021                   | 13,021                 | -                                   | -                               |
| Indirect expense             | 105,256                  | -                      | 95,547                              | 9,709                           |
| <b>Total expense</b>         | <b>\$ 1,370,026</b>      | <b>\$ 1,093,160</b>    | <b>\$ 175,967</b>                   | <b>\$ 100,899</b>               |

**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, 2013**

| <b>Payer Source</b>                                | <b>Number<br/>of Days</b> | <b>Per Diem<br/>Rate</b> | <b>Total<br/>Charges</b> |
|--|---------------------------|--------------------------|--------------------------|
| Allegany County Department of Social Services      | 276                       | \$ 219.31                | \$ 60,530                |
| Baltimore City Department of Social Services       | 250                       | 219.31                   | 54,828                   |
| Carroll County Department of Social Services       | 42                        | 219.31                   | 9,211                    |
| Frederick County Department of Social Services     | 844                       | 219.31                   | 185,098                  |
| Montgomery County Department of Social Services    | 1,080                     | 219.31                   | 236,855                  |
| Prince George County Department of Social Services | 83                        | 219.31                   | 18,203                   |
| Somerset County Department of Social Services      | 39                        | 219.31                   | 8,553                    |
| Washington County Department of Social Services    | <u>1,959</u>              | 219.31                   | <u>429,628</u>           |
|  | <u>4,573</u>              |                          | <u>\$ 1,002,905</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, 2013**

| <b>Payer Source</b>                                | <b>Number<br/>of Days</b> | <b>Per Diem<br/>Rate</b> | <b>Total<br/>Charges</b> |
|--|---------------------------|--------------------------|--------------------------|
| Allegany County Department of Social Services      | 89                        | \$ 54.94                 | \$ 4,890                 |
| Baltimore City Department of Social Services       | 136                       | 54.94                    | 7,472                    |
| Carroll County Department of Social Services       | 20                        | 54.94                    | 1,099                    |
| Frederick County Department of Social Services     | 368                       | 54.94                    | 20,218                   |
| Montgomery County Department of Social Services    | 379                       | 54.94                    | 20,822                   |
| Prince George County Department of Social Services | 10                        | 54.94                    | 549                      |
| Somerset County Department of Social Services      | 21                        | 54.94                    | 1,154                    |
| Washington County Department of Social Services    | 832                       | 54.94                    | 45,710                   |
|  | <u>1,855</u>              |                          | <u>\$ 101,914</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, 2013**

|                               | <b>Annual<br/>Budget</b> | <b>Actual</b> | <b>Variance<br/>(Over)/Under</b> |
|-------------------------------|--------------------------|---------------|----------------------------------|
| Salaries and wages            | \$ 861,610               | \$ 693,085    | \$ 168,525                       |
| Payroll taxes                 | 65,913                   | 53,021        | 12,892                           |
| Fringe benefits               | 132,257                  | 98,213        | 34,044                           |
| Staff development costs       | 6,000                    | -             | 6,000                            |
| Conferences and conventions   | 2,000                    | 82            | 1,918                            |
| Contracted services           | 47,886                   | 67,329        | ( 19,443)                        |
| Publicity                     | 250                      | -             | 250                              |
| Food service                  | 119,032                  | 86,941        | 32,091                           |
| Training                      | -                        | 1,113         | ( 1,113)                         |
| Clothing                      | 3,600                    | 6,809         | ( 3,209)                         |
| Recreation                    | 5,000                    | 5,363         | ( 363)                           |
| Personal need allowance       | 10,000                   | 8,656         | 1,344                            |
| Rent                          | 121,860                  | 141,625       | ( 19,765)                        |
| Utilities                     | 28,133                   | 32,836        | ( 4,703)                         |
| Repairs and maintenance       | 15,000                   | 17,218        | ( 2,218)                         |
| Insurance and taxes           | 7,650                    | 6,087         | 1,563                            |
| Supplies                      | 16,000                   | 6,092         | 9,908                            |
| Printing/copying              | 300                      | 562           | ( 262)                           |
| Telephone                     | 5,532                    | 5,030         | 502                              |
| Postage                       | 1,200                    | 918           | 282                              |
| Memberships and subscriptions | 3,300                    | 7,036         | ( 3,736)                         |
| Travel and transportation     | 1,500                    | 1,211         | 289                              |
| Copier rental/equipment lease | 3,200                    | 2,414         | 786                              |
| Depreciation/use allowance    | 7,226                    | 10,108        | ( 2,882)                         |
| Recruitment                   | -                        | 13,021        | ( 13,021)                        |
| Indirect expense              | 127,490                  | 105,256       | 22,234                           |
|                               | <hr/>                    | <hr/>         | <hr/>                            |
| Total expense                 | \$ 1,591,939             | \$ 1,370,026  | \$ 221,913                       |
|                               | <hr/>                    | <hr/>         | <hr/>                            |

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAM  
SCHEDULE OF BUDGETED EXPENSES TO ACTUAL EXPENSES  
AND NET COST PER CHILD CARE MONTH - RESIDENTIAL -  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
Year Ended June 30, 2013**

|                               | Annual<br>Budget | Actual     | Variance<br>(Over)/Under |
|-------------------------------|------------------|------------|--------------------------|
| Salaries and wages            | \$ 754,943       | \$ 634,472 | \$ 120,471               |
| Payroll taxes                 | 57,753           | 48,537     | 9,216                    |
| Fringe benefits               | 115,884          | 89,907     | 25,977                   |
| Staff development costs       | 6,000            | -          | 6,000                    |
| Conferences and conventions   | 1,500            | 82         | 1,418                    |
| Contracted services           | 47,886           | 67,329     | ( 19,443)                |
| Publicity                     | 250              | -          | 250                      |
| Food service                  | 119,032          | 86,941     | 32,091                   |
| Training                      | -                | 714        | ( 714)                   |
| Clothing                      | 3,600            | 6,809      | ( 3,209)                 |
| Recreation                    | 5,000            | 5,363      | ( 363)                   |
| Personal need allowance       | 10,000           | 8,656      | 1,344                    |
| Rent                          | 106,428          | 127,620    | ( 21,192)                |
| Utilities                     | 25,000           | 29,589     | ( 4,589)                 |
| Repairs and maintenance       | 14,000           | 17,218     | ( 3,218)                 |
| Insurance and taxes           | 7,000            | 5,526      | 1,474                    |
| Supplies                      | 8,000            | 4,929      | 3,071                    |
| Printing/copying              | 300              | 537        | ( 237)                   |
| Telephone                     | 5,000            | 4,676      | 324                      |
| Postage                       | 1,200            | 918        | 282                      |
| Memberships and subscriptions | 3,300            | 7,026      | ( 3,726)                 |
| Travel and transportation     | 1,500            | 1,188      | 312                      |
| Copier rental/equipment lease | 3,200            | 2,414      | 786                      |
| Depreciation/use allowance    | 7,226            | 10,108     | ( 2,882)                 |
| Recruitment                   | -                | 13,021     | ( 13,021)                |
| Indirect expense              | 108,848          | 95,547     | 13,301                   |
|                               | <hr/>            | <hr/>      | <hr/>                    |
| Total expense                 | \$ 1,412,850     | 1,269,127  | \$ 143,723               |
|                               |                  | <hr/>      |                          |
| Child care months             |                  | 152        |                          |
|                               |                  | <hr/>      |                          |
| Net cost per child care month |                  | \$ 8,350   |                          |
|                               |                  | <hr/>      |                          |

**SCHEDULE OF BUDGETED EXPENSES TO ACTUAL EXPENSES  
AND NET COST PER CHILD CARE MONTH - EDUCATION -  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
Year Ended June 30, 2013**

|                                   | Annual<br>Budget      | Actual              | Variance<br>(Over)/Under |
|-----------------------------------|-----------------------|---------------------|--------------------------|
| Salaries and wages                | \$ 106,667            | \$ 58,613           | \$ 48,054                |
| Payroll taxes                     | 8,160                 | 4,484               | 3,676                    |
| Fringe benefits                   | 16,373                | 8,306               | 8,067                    |
| Training                          | -                     | 399                 | ( 399)                   |
| Conferences and conventions       | 500                   | -                   | 500                      |
| Rent                              | 15,432                | 14,005              | 1,427                    |
| Utilities                         | 3,133                 | 3,247               | ( 114)                   |
| Repairs and maintenance           | 1,000                 | -                   | 1,000                    |
| Insurance and taxes               | 650                   | 561                 | 89                       |
| Printing and copying              | -                     | 25                  | ( 25)                    |
| Supplies                          | 8,000                 | 1,163               | 6,837                    |
| Telephone                         | 532                   | 354                 | 178                      |
| Memberships and subscriptions     | -                     | 10                  | ( 10)                    |
| Travel and transportation         | -                     | 23                  | ( 23)                    |
| Indirect expense                  | <u>18,642</u>         | <u>9,709</u>        | <u>8,933</u>             |
| <br>Total expense                 | <br><u>\$ 179,089</u> | <br>100,899         | <br><u>\$ 78,190</u>     |
| <br>Child care months             |                       | <br><u>62</u>       |                          |
| <br>Net cost per child care month |                       | <br><u>\$ 1,627</u> |                          |

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BRIDGE TRANSITIONAL CARE PROGRAMS  
SCHEDULE OF ACCUMULATED RETAINED EARNINGS AND USES  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
Year Ended June 30, 2013**

| 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)          |
|  | <u>(\$ 602,723)</u> | <u>\$ 41,439</u> | <u>( 561,284)</u>   |
| Accumulated retained earnings and (losses) |                     |                  |                     |
| <b>Purchases of Fixed Assets:</b>          | <b>Date</b>         | <b>Cost</b>      |                     |
| Prior year purchases of fixed assets       |                     | \$ 165,657       |                     |
| Furniture                                  | 7/1/2012            | 2,035            |                     |
| Bathroom split circuits                    | 7/1/2012            | 2,825            |                     |
| Awning                                     | 9/1/2012            | 1,900            |                     |
|  |                     |                  | ( 172,417)          |
| Current year retained earning and (losses) | <u>(\$ 266,222)</u> | <u>\$ 2,389</u>  | <u>( 263,833)</u>   |
| Ending accumulated retained losses         |                     |                  | <u>(\$ 997,534)</u> |

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BROOK TRANSITIONAL CARE PROGRAM  
SCHEDULE OF REVENUES AND EXPENSES  
Year Ended June 30, 2013**

**REVENUES**

|                     |            |
|---------------------|------------|
| Group Home revenues | \$ 426,254 |
|                     | <hr/>      |
| Total revenue       | 426,254    |
|                     | <hr/>      |

**EXPENSES**

|                               |                                |
|-------------------------------|--------------------------------|
| Salaries and wages            | 245,785                        |
| Payroll taxes                 | 18,803                         |
| Fringe benefits               | 34,829                         |
| Contracted services           | 12,150                         |
| Food service                  | 35,108                         |
| Training                      | 300                            |
| Clothing                      | 2,984                          |
| Conferences and conventions   | 233                            |
| Copier rental/equipment lease | 25                             |
| Recreation                    | 2,615                          |
| Personal need allowance       | 4,320                          |
| Rent                          | 33,050                         |
| Utilities                     | 7,673                          |
| Repairs and maintenance       | 1,717                          |
| Insurance and taxes           | 2,348                          |
| Supplies                      | 892                            |
| Printing/copying              | 126                            |
| Telephone                     | 354                            |
| Postage                       | 353                            |
| Memberships and subscriptions | 30                             |
| Conferences and conventions   | 139                            |
| Depreciation/use allowance    | 16,200                         |
| Recruitment                   | 40,609                         |
| Total expense                 | <hr/> 460,643 <hr/>            |
| Expenses over revenues        | <hr/> <u>(\$ 34,389)</u> <hr/> |

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BROOK TRANSITIONAL CARE PROGRAM  
SCHEDULE OF COMPARISON OF PAYMENT RATE TO ACTUAL RATE  
GROUP HOME - HIGH INTENSITY PROGRAM  
Year Ended June 30, 2013**

|                   | <b>Actual<br/>Cost per<br/>Child Care Month</b> | <b>Payment<br/>Rate per<br/>Child Care Month</b> |
|-------------------|---|--|
| Total Revenue     |   | \$ 426,254                                       |
| Child Care Months |   | <u>60</u>  |
| Rate comparison   | <u>\$ 7,677</u>                                 | <u>\$ 7,104</u>                                  |

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BROOK TRANSITIONAL CARE PROGRAM  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE DEPARTMENT OF HUMAN RESOURCES  
GROUP HOME - HIGH INTENSITY PROGRAM  
Year Ended June 30, 2013**

|                               | <b>Total<br/>Expense</b> | <b>Direct<br/>Care</b> | <b>Management<br/>&amp; General</b> |
|-------------------------------|--------------------------|------------------------|-------------------------------------|
| Salaries and wages            | \$ 245,785               | \$ 232,837             | \$ 12,948                           |
| Payroll taxes                 | 18,803                   | 17,675                 | 1,128                               |
| Fringe benefits               | 34,829                   | 32,739                 | 2,090                               |
| Clothing                      | 2,984                    | 2,984                  | -                                   |
| Conferences and conventions   | 233                      | 233                    | -                                   |
| Contracted services           | 12,150                   | 12,150                 | -                                   |
| Copier rental/equipment lease | 25                       | 25                     | -                                   |
| Food service                  | 35,108                   | 35,108                 | -                                   |
| Indirect expense              | 40,609                   | -                      | 40,609                              |
| Insurance and taxes           | 2,348                    | 2,348                  | -                                   |
| Membership and subscriptions  | 30                       | 30                     | -                                   |
| Personal need allowance       | 4,320                    | 4,320                  | -                                   |
| Postage                       | 353                      | 353                    | -                                   |
| Printing/copying              | 126                      | 126                    | -                                   |
| Recreation                    | 2,615                    | 2,615                  | -                                   |
| Recruitment                   | 16,200                   | 16,200                 | -                                   |
| Rent                          | 33,050                   | 33,050                 | -                                   |
| Repairs and maintenance       | 1,717                    | 1,717                  | -                                   |
| Supplies                      | 892                      | 892                    | -                                   |
| Telephone                     | 354                      | 354                    | -                                   |
| Training                      | 300                      | 300                    | -                                   |
| Travel and transportation     | 139                      | 139                    | -                                   |
| Utilities                     | 7,673                    | 7,673                  | -                                   |
|                               | <hr/>                    | <hr/>                  | <hr/>                               |
| Total expense                 | <u>\$ 460,643</u>        | <u>\$ 403,868</u>      | <u>\$ 56,775</u>                    |

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BROOK TRANSITIONAL CARE PROGRAM  
SCHEDULE OF SOURCES OF FUNDS RECEIVED - RESIDENTIAL -  
FOR THE DEPARTMENT OF HUMAN RESOURCES  
GROUP HOME - HIGH INTENSITY PROGRAM  
Year Ended June 30, 2013**

| <b>Payer Source</b>                                | <b>Number<br/>of Days</b> | <b>Per Diem<br/>Rate</b> | <b>Total<br/>Charges</b> |
|--|---------------------------|--------------------------|--------------------------|
| Baltimore City Department of Social Services       | 70                        | \$ 235.63                | \$ 16,494                |
| Frederick County Department of Social Services     | 19                        | 235.63                   | 4,477                    |
| Harford County Department of Social Services       | 15                        | 235.63                   | 3,534                    |
| Montgomery County Department of Social Services    | 824                       | 235.63                   | 194,159                  |
| Prince George County Department of Social Services | 49                        | 235.63                   | 11,546                   |
| Washington County Department of Social Services    | 832                       | 235.63                   | 196,044                  |
|  | <u>1,809</u>              |                          | <u>\$ 426,254</u>        |



**BROOK LANE HEALTH SERVICES, INC.**

**STONE BROOK TRANSITIONAL CARE PROGRAM  
SCHEDULE OF TOTAL BUDGETED EXPENSES TO TOTAL ACTUAL EXPENSES  
FOR THE DEPARTMENT OF HUMAN RESOURCES RESPITE PROGRAM  
GROUP HOME - HIGH INTENSITY PROGRAM  
Year Ended June 30, 2013**

|                               | <b>Annual<br/>Budget</b> | <b>Actual</b> | <b>Variance<br/>(Over)/Under</b> |
|-------------------------------|--------------------------|---------------|----------------------------------|
| Salaries and wages            | \$ 354,137               | \$ 245,785    | \$ 108,352                       |
| Payroll taxes                 | 27,091                   | 18,803        | 8,288                            |
| Fringe benefits               | 54,360                   | 34,829        | 19,531                           |
| Staff development costs       | 1,250                    | -             | 1,250                            |
| Conferences and conventions   | 300                      | 233           | 67                               |
| Contracted services           | 20,513                   | 12,150        | 8,363                            |
| Publicity                     | 250                      | -             | 250                              |
| Food service                  | 49,698                   | 35,108        | 14,590                           |
| Training                      | -                        | 300           | ( 300)                           |
| Clothing                      | 1,500                    | 2,984         | ( 1,484)                         |
| Recreation                    | 3,500                    | 2,615         | 885                              |
| Personal need allowance       | 3,269                    | 4,320         | ( 1,051)                         |
| Rent                          | 26,409                   | 33,050        | ( 6,641)                         |
| Utilities                     | 6,732                    | 7,673         | ( 941)                           |
| Repairs and maintenance       | 3,750                    | 1,717         | 2,033                            |
| Insurance and taxes           | 1,750                    | 2,348         | ( 598)                           |
| Supplies                      | 3,060                    | 892           | 2,168                            |
| Printing/copying              | 150                      | 126           | 24                               |
| Telephone                     | 1,000                    | 354           | 646                              |
| Postage                       | 450                      | 353           | 97                               |
| Memberships and subscriptions | 1,674                    | 30            | 1,644                            |
| Travel and transportation     | 300                      | 139           | 161                              |
| Copier rental/equipment lease | 1,700                    | 25            | 1,675                            |
| Depreciation/use allowance    | 1,600                    | -             | 1,600                            |
| Recruitment                   | -                        | 16,200        | ( 16,200)                        |
| Indirect expense              | 55,131                   | 40,609        | 14,522                           |
|                               | <hr/>                    | <hr/>         | <hr/>                            |
| Total expense                 | \$ 619,574               | \$ 460,643    | \$ 158,931                       |
|                               | <hr/>                    | <hr/>         | <hr/>                            |

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BROOK TRANSITIONAL CARE PROGRAM  
SCHEDULE OF BUDGETED EXPENSES TO ACTUAL EXPENSES  
AND NET COST PER CHILD CARE MONTH - RESIDENTIAL -  
FOR THE DEPARTMENT OF HUMAN RESOURCES  
GROUP HOME - HIGH INTENSITY PROGRAM  
Year Ended June 30, 2013**

|                               | <b>Annual<br/>Budget</b> | <b>Actual</b>   | <b>Variance<br/>(Over)/Under</b> |
|-------------------------------|--------------------------|-----------------|----------------------------------|
| Salaries and wages            | \$ 354,137               | \$ 245,785      | \$ 108,352                       |
| Payroll taxes                 | 27,091                   | 18,803          | 8,288                            |
| Fringe benefits               | 54,360                   | 34,829          | 19,531                           |
| Staff development costs       | 1,250                    | -               | 1,250                            |
| Conferences and conventions   | 300                      | 233             | 67                               |
| Contracted services           | 20,513                   | 12,150          | 8,363                            |
| Publicity                     | 250                      | -               | 250                              |
| Food service                  | 49,698                   | 35,108          | 14,590                           |
| Training                      | -                        | 300             | ( 300)                           |
| Clothing                      | 1,500                    | 2,984           | ( 1,484)                         |
| Recreation                    | 3,500                    | 2,615           | 885                              |
| Personal need allowance       | 3,269                    | 4,320           | ( 1,051)                         |
| Rent                          | 26,409                   | 33,050          | ( 6,641)                         |
| Utilities                     | 6,732                    | 7,673           | ( 941)                           |
| Repairs and maintenance       | 3,750                    | 1,717           | 2,033                            |
| Insurance and taxes           | 1,750                    | 2,348           | ( 598)                           |
| Supplies                      | 3,060                    | 892             | 2,168                            |
| Printing/copying              | 150                      | 126             | 24                               |
| Telephone                     | 1,000                    | 354             | 646                              |
| Postage                       | 450                      | 353             | 97                               |
| Memberships and subscriptions | 1,674                    | 30              | 1,644                            |
| Travel and transportation     | 300                      | 139             | 161                              |
| Copier rental/equipment lease | 1,700                    | 25              | 1,675                            |
| Depreciation/use allowance    | 1,600                    | -               | 1,600                            |
| Recruitment                   | -                        | 16,200          | ( 16,200)                        |
| Indirect expense              | 55,131                   | 40,609          | 14,522                           |
|                               | <hr/>                    | <hr/>           | <hr/>                            |
| Total expense                 | <u>\$ 619,574</u>        | 460,643         | <u>\$ 158,931</u>                |
|                               |                          | <hr/>           |                                  |
| Child care months             |                          | 60              |                                  |
|                               |                          | <hr/>           |                                  |
| Net cost per child care month |                          | <u>\$ 7,677</u> |                                  |

**BROOK LANE HEALTH SERVICES, INC.**

**STONE BROOK TRANSITIONAL CARE PROGRAM  
SCHEDULE OF ACCUMULATED RETAINED EARNINGS AND USES  
FOR THE DEPARTMENT OF HUMAN RESOURCES  
GROUP HOME - HIGH INTENSITY PROGRAM  
Year Ended June 30, 2013**

| <b>Prior Years' Loss</b>              | <b>Residential</b>        | <b>Total</b>               |
|---------------------------------------|---------------------------|----------------------------|
| 2012                                  | <u>(\$ 66,963)</u>        | <u>(\$ 66,963)</u>         |
| Accumulated retained losses           | <u><u>(\$ 66,963)</u></u> | <u><u>( 66,963)</u></u>    |
| <br><b>Purchases of Fixed Assets:</b> |                           |                            |
|                                       | <b>Date</b>               | <b>Cost</b>                |
| Prior year purchases of fixed assets  |                           | \$ 7,581                   |
|                                       |                           | -                          |
| Current year retained losses          | <u>(\$ 34,389)</u>        | <u>( 34,389)</u>           |
| Ending accumulated retained losses    |                           | <u><u>(\$ 101,352)</u></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, 2013**

|                                    | Approved<br>Budget  | Actual<br>Expenditures | Variance<br>(Over)/Under | Percentage<br>Variance |
|------------------------------------|---------------------|------------------------|--------------------------|------------------------|
| <i>Direct Costs</i>                |                     |                        |                          |                        |
| Salaries:                          |                     |                        |                          |                        |
| School administrative              | \$ 64,306           | \$ 66,653              | (\$ 2,347)               | ( 3.65)                |
| Direct classroom                   | 248,127             | 218,751                | 29,376                   | 11.84                  |
| Related services                   | 450,359             | 430,778                | 19,581                   | 4.35                   |
| General support                    | 25,353              | 26,584                 | ( 1,231)                 | ( 4.86)                |
| Fringe benefits                    | 134,865             | 105,358                | 29,507                   | 21.88                  |
| Payroll taxes                      | 71,327              | 56,822                 | 14,505                   | 20.34                  |
| Professional fees                  | -                   | 6,145                  | ( 6,145)                 | ( 100.00)              |
| Supplies and non capital equipment | 20,200              | 37,687                 | ( 17,487)                | ( 86.57)               |
| Phone/fax/internet                 | 3,250               | 4,874                  | ( 1,624)                 | ( 49.97)               |
| Postage                            | 500                 | 1,144                  | ( 644)                   | ( 128.80)              |
| Occupancy                          | 85,361              | 183,522                | ( 98,161)                | ( 115.00)              |
| Rental/maintenance of equipment    | 3,218               | 20,182                 | ( 16,964)                | ( 527.16)              |
| Printing                           | 5,300               | -                      | 5,300                    | ( 100.00)              |
| Publications                       | 250                 | 712                    | ( 462)                   | ( 184.80)              |
| Transportation                     | 750                 | 3,083                  | ( 2,333)                 | ( 311.07)              |
| Educational experiences            | 1,000               | -                      | 1,000                    | 100.00                 |
| Dues                               | 1,375               | 2,437                  | ( 1,062)                 | ( 77.24)               |
| Depreciation                       | 19,412              | 22,696                 | ( 3,284)                 | ( 16.92)               |
| Professional insurance             | -                   | 6,457                  | ( 6,457)                 | ( 100.00)              |
| Training                           | -                   | 4,107                  | ( 4,107)                 | ( 100.00)              |
| Recruitment                        | -                   | 5,197                  | ( 5,197)                 | ( 100.00)              |
|                                    | <u>\$ 1,134,953</u> | <u>\$ 1,203,189</u>    | <u>(\$ 68,236)</u>       | <u>( 6.01)</u>         |
| Total direct costs                 |                     |                        |                          |                        |

**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 (CONTINUED)  
Year Ended June 30, 2013**

|                                    | Approved<br>Budget | Actual<br>Expenditures | Variance<br>(Over)/Under | Percentage<br>Variance |
|------------------------------------|--------------------|------------------------|--------------------------|------------------------|
| <i>Indirect Costs</i>              |                    |                        |                          |                        |
| Salaries:                          |                    |                        |                          |                        |
| Administrative/Executive           | \$ 37,716          | \$ 56,765              | (\$ 19,049)              | ( 50.51)               |
| Fringe benefits                    | 9,639              | 13,822                 | ( 4,183)                 | ( 43.40)               |
| Professional fees                  | 4,750              | 9,785                  | ( 5,035)                 | ( 106.00)              |
| Supplies and non capital equipment | 1,300              | 1,779                  | ( 479)                   | ( 36.85)               |
| Rental/maintenance of equipment    | -                  | 5,253                  | ( 5,253)                 | ( 100.00)              |
| Training                           | -                  | 395                    | ( 395)                   | ( 100.00)              |
| Publications                       | -                  | 220                    | ( 220)                   | ( 100.00)              |
| Printing and duplicating           | -                  | 1,178                  | ( 1,178)                 | ( 100.00)              |
| Transportation                     | -                  | 641                    | ( 641)                   | ( 100.00)              |
| Meetings                           | -                  | 288                    | ( 288)                   | ( 100.00)              |
| Recruitment                        | -                  | 537                    | ( 537)                   | ( 100.00)              |
| Depreciation                       | 4,150              | 16,174                 | ( 12,024)                | ( 289.73)              |
| Miscellaneous                      | -                  | 1,056                  | ( 1,056)                 | ( 100.00)              |
|                                    | <hr/>              | <hr/>                  | <hr/>                    | <hr/>                  |
| Total indirect costs               | 57,555             | 107,893                | ( 50,338)                | ( 87.46)               |
|                                    | <hr/>              | <hr/>                  | <hr/>                    | <hr/>                  |
| <i>Total costs</i>                 | \$ 1,192,508       | \$ 1,311,082           | (\$ 118,574)             | ( 9.94)                |
|                                    | <hr/> <hr/>        | <hr/> <hr/>            | <hr/> <hr/>              | <hr/> <hr/>            |

**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, 2013**

|                                    | <b>Approved<br/>Budget</b> | <b>Actual<br/>Expenditures</b> | <b>Variance<br/>(Over)/Under</b> | <b>Percentage<br/>Variance</b> |
|------------------------------------|----------------------------|--------------------------------|----------------------------------|--------------------------------|
| <i>Direct Costs</i>                |                            |                                |                                  |                                |
| Salaries:                          |                            |                                |                                  |                                |
| School administrative              | \$ 151,143                 | \$ 154,476                     | (\$ 3,333)                       | ( 2.21)                        |
| Direct classroom                   | 384,371                    | 344,114                        | 40,257                           | 10.47                          |
| Related services                   | 507,507                    | 438,273                        | 69,234                           | 13.64                          |
| General support                    | 28,132                     | 27,689                         | 443                              | 1.57                           |
| Fringe benefits                    | 177,030                    | 137,001                        | 40,029                           | 22.61                          |
| Payroll taxes                      | 97,623                     | 73,788                         | 23,835                           | 24.42                          |
| Professional fees                  | -                          | 57,422                         | ( 57,422)                        | ( 100.00)                      |
| Supplies and non capital equipment | 39,123                     | 114,452                        | ( 75,329)                        | ( 192.54)                      |
| Phone/fax/internet                 | 3,000                      | 2,627                          | 373                              | 12.43                          |
| Postage                            | 750                        | 1,857                          | ( 1,107)                         | ( 147.60)                      |
| Occupancy                          | 459,538                    | 298,132                        | 161,406                          | 35.12                          |
| Rental/maintenance of equipment    | 11,000                     | 13,394                         | ( 2,394)                         | ( 21.76)                       |
| Printing                           | -                          | 468                            | ( 468)                           | ( 100.00)                      |
| Publications                       | -                          | 663                            | ( 663)                           | ( 100.00)                      |
| Transportation                     | 5,334                      | 4,148                          | 1,186                            | 22.23                          |
| Meetings                           | 500                        | 45                             | 455                              | 91.00                          |
| Dues                               | 1,375                      | 1,516                          | ( 141)                           | ( 10.25)                       |
| Depreciation                       | 33,775                     | 31,500                         | 2,275                            | 6.74                           |
| Training                           | -                          | 2,486                          | ( 2,486)                         | ( 100.00)                      |
| Recruitment                        | 5,250                      | 15,555                         | ( 10,305)                        | ( 196.29)                      |
|                                    | <u>\$ 1,905,451</u>        | <u>\$ 1,719,606</u>            | <u>\$ 185,845</u>                | <u>9.75</u>                    |
| Total direct costs                 | <u>\$ 1,905,451</u>        | <u>\$ 1,719,606</u>            | <u>\$ 185,845</u>                | <u>9.75</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 (CONTINUED)  
Year Ended June 30, 2013**

|                                    | <b>Approved<br/>Budget</b> | <b>Actual<br/>Expenditures</b> | <b>Variance<br/>(Over)/Under</b> | <b>Percentage<br/>Variance</b> |
|------------------------------------|----------------------------|--------------------------------|----------------------------------|--------------------------------|
| <i>Indirect Costs</i>              |                            |                                |                                  |                                |
| Salaries:                          |                            |                                |                                  |                                |
| Administrative/Executive           | \$ 109,177                 | \$ 98,565                      | \$ 10,612                        | 9.72                           |
| Fringe benefits                    | 28,137                     | 24,001                         | 4,136                            | 14.70                          |
| Professional fees                  | 6,142                      | 16,990                         | ( 10,848)                        | ( 176.62)                      |
| Supplies and non capital equipment | -                          | 3,088                          | ( 3,088)                         | ( 100.00)                      |
| Rental/maintenance of equipment    | -                          | 9,122                          | ( 9,122)                         | ( 100.00)                      |
| Training                           | -                          | 685                            | ( 685)                           | ( 100.00)                      |
| Publications                       | -                          | 382                            | ( 382)                           | ( 100.00)                      |
| Public relations                   | -                          | 2,045                          | ( 2,045)                         | ( 100.00)                      |
| Transportation                     | -                          | 1,113                          | ( 1,113)                         | ( 100.00)                      |
| Meetings                           | -                          | 500                            | ( 500)                           | ( 100.00)                      |
| Recruitment                        | -                          | 932                            | ( 932)                           | ( 100.00)                      |
| Depreciation                       | -                          | 28,084                         | ( 28,084)                        | ( 100.00)                      |
| Miscellaneous                      | -                          | 1,836                          | ( 1,836)                         | ( 100.00)                      |
|                                    | <hr/>                      | <hr/>                          | <hr/>                            | <hr/>                          |
| Total indirect costs               | 143,456                    | 187,343                        | ( 43,887)                        | ( 30.59)                       |
|                                    | <hr/>                      | <hr/>                          | <hr/>                            | <hr/>                          |
| <b>Total costs</b>                 | <b>\$ 2,048,907</b>        | <b>\$ 1,906,949</b>            | <b>\$ 141,958</b>                | <b>6.93</b>                    |
|                                    | <hr/> <hr/>                | <hr/> <hr/>                    | <hr/> <hr/>                      | <hr/> <hr/>                    |

**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, 2013**

| Prior Years' Income (Loss)           | Laurel Hall<br>Level 1 | Frederick<br>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            |
|                                      | <u>\$ 466,476</u>      | <u>\$ 453,855</u>    | <u>\$ 920,331</u> |
| <br>                                 |                        |                      |                   |
| <b>Purchases of Fixed Assets:</b>    | <b>Date</b>            | <b>Cost</b>          |                   |
| Prior year purchase of fixed assets  |                        | \$ 343,771           |                   |
| Upgrade computer system              | 7/10/2012              | 6,800                |                   |
| Boiler repair                        | 9/1/2012               | 47,121               |                   |
| Vinyl floor                          | 12/4/2012              | 4,309                |                   |
| Smart board w/projector              | 4/1/2013               | 4,066                |                   |
| 4 heat pumps                         | 4/9/2013               | 3,863                |                   |
| New server                           | 9/1/2012               | 3,409                |                   |
| 30 stackable chairs                  | 9/20/2012              | 2,180                |                   |
|                                      |                        |                      | ( 415,519)        |
| Current year retained earnings       | <u>(\$ 139,484)</u>    | <u>\$ 127,966</u>    | <u>( 11,518)</u>  |
| Ending accumulated retained earnings |                        |                      | <u>\$ 493,294</u> |





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

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

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

We have audited, 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, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 9, 2013.

**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*.

Board of Directors  
Brook Lane Health Services, Inc.

**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.

A handwritten signature in black ink that reads "Smith Elliott Keenan's Company, LLC". The signature is written in a cursive, flowing style.

Chambersburg, Pennsylvania  
September 9, 2013

**BROOK LANE HEALTH SERVICES, INC.**  
**STONE BRIDGE AND STONE BROOK TRANSITIONAL CARE PROGRAM**  
**AND LAUREL HALL SCHOOL**  
**STATUS OF PRIOR YEAR AUDIT FINDINGS**  
**Year Ended June 30, 2013**

No findings noted in prior year.