

CAPSTONE BEHAVIORAL HEALTHCARE, INC.  
NEWTON, IOWA

FINANCIAL REPORT  
JUNE 30, 2011

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

TABLE OF CONTENTS

JUNE 30, 2011

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES	3
STATEMENT OF FUNCTIONAL EXPENSES	4-5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7-9



ANDERSON, LARKIN & CO. P.C.  
Certified Public Accountants  
*"Achieving your goals with our knowledge."*

Kenneth E. Crosser, CPA  
April D. Hammack, CPA  
Michael J. Podliska, CPA

David W. Goodman, CPA (Former Principal)  
Robert E. Wells, CPA (Retired)

C. Kenneth Anderson, CPA (1952-1977)  
Joseph C. Larkin, CPA (1960-1990)

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Capstone Behavioral Healthcare, Inc.  
Newton, Iowa

We have audited the accompanying statement of financial position of Capstone Behavioral Healthcare, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capstone Behavioral Healthcare, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ANDERSON, LARKIN & CO. P.C.

*Anderson, Larkin & Co. P.C.*

Ottumwa, Iowa  
October 5, 2011

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2011

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$	28,561
Accounts receivable (net of allowance for doubtful accounts \$50,437)		378,897
Prepaid expenses		<u>3,998</u>

TOTAL ASSETS \$ 411,456

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES:

Accounts payable	\$	12,826
Due to related party		93,394
Accrued liabilities:		
Salaries		30,940
Vacation		62,505
Payroll taxes		15,619
Interest		747
Other liabilities		11,584
Current maturities of notes payable		<u>116,300</u>

TOTAL CURRENT LIABILITIES 343,915

LONG-TERM LIABILITIES:

Notes payable - less current maturities		<u>86,789</u>
-----------------------------------------	--	---------------

TOTAL LIABILITIES 430,704

NET ASSETS (DEFICIT):

Unrestricted		<u>(19,248)</u>
--------------	--	-----------------

TOTAL LIABILITIES AND NET ASSETS (DEFICIT) \$ 411,456

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

OPERATING REVENUES, GAINS, AND OTHER SUPPORT:

Public support:	
Capstone community foundation	\$ 375,744
Fees from government agencies:	
County revenue:	
Clinical services	136,867
Mental health	193,029
Community based services	74,558
Residential	38,639
Habilitation:	
Community based services	309,475
Residential	584,232
Iowa department of public health	31,484
School contracts	1,000
Patient fees	825,899
Adjustment for managed care and charity care	(470,000)
Other revenue:	
Miscellaneous	<u>23,571</u>

TOTAL OPERATING REVENUES,  
GAINS AND OTHER SUPPORT 2,124,498

OPERATING EXPENSES:

Program services:	
Clinical services	775,409
Mental health services	472,911
Community based services	211,018
Residential services	344,928
Supporting services:	
Management and general	<u>75,204</u>

TOTAL OPERATING EXPENSES 1,879,470

CHANGE IN NET ASSETS (DEFICIT) 245,028

NET ASSETS (DEFICIT) - Beginning of year (264,276)

NET ASSETS (DEFICIT) - End of year \$ (19,248)

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2011

	Program Services			
	<u>Clinical Services</u>	<u>Mental Health Services</u>	<u>Community Based Services</u>	<u>Residential Services</u>
OPERATING EXPENSES:				
Salaries	\$ 521,222	\$ 344,501	\$ 148,331	\$ 242,404
Payroll taxes and insurance	51,722	35,161	15,815	28,167
Group benefits	62,301	19,618	12,721	21,055
Retirement benefits	6,616	1,637	1,319	1,785
Total salaries and related expenses	641,861	400,917	178,186	293,411
Professional fees	14,026	18,978	2,784	3,691
Contract service payments	12,866	3,192	2,703	3,637
Office supplies and expense	5,408	1,746	2,154	1,979
Medical supplies and other costs	428	464	27	2,039
Food supplies	-	-	-	8,846
Telephone	8,410	2,844	1,946	1,873
Postage and shipping	3,439	1,356	840	2,045
Rent	19,443	10,294	3,467	8,280
Building and grounds	9,334	4,269	2,100	1,820
Utilities	4,206	1,045	859	1,134
Property and liability insurance	12,418	8,255	2,535	3,346
Mileage	2,514	1,327	7,193	4,805
Staff development, training and recruitment	2,248	1,428	634	660
Meetings and conferences	-	7,053	-	-
Subscriptions and publications	830	1,235	169	224
Membership dues	1,534	1,916	259	342
Equipment rent	23,173	5,757	4,731	6,248
Interest expense	10,517	-	-	-
Public relations	2,700	835	431	546
Bank fees	54	-	-	-
Miscellaneous	-	-	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 775,409</b>	<b>\$ 472,911</b>	<b>\$ 211,018</b>	<b>\$ 344,928</b>

	<u>Supporting Services Management and General</u>	<u>Total</u>
\$	33,521	\$ 1,289,979
	2,093	132,958
	12,037	127,732
	<u>1,384</u>	<u>12,741</u>
	49,035	1,563,410
	3,441	42,920
	3,996	26,394
	975	12,262
	-	2,958
	-	8,846
	2,630	17,703
	665	8,345
	3,144	44,628
	1,392	18,915
	953	8,197
	5,417	31,973
	621	16,460
	318	5,288
	-	7,053
	-	2,458
	242	4,293
	1,079	40,988
	-	10,517
	991	5,503
	101	155
	<u>204</u>	<u>204</u>
\$	<u>75,204</u>	\$ <u>1,879,470</u>

CAPSTONE BEHAVIORAL HEALTH

STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 245,028
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Noncash contribution from related party	(375,744)
Decrease in account receivable	84,263
Decrease in prepaid expenses	16,020
Decrease in accounts payable	(35,064)
Increase in due to related party	20,153
Decrease in accrued liabilities	<u>(31,330)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(76,674)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on long-term debt	(114,719)
Proceeds from related party loan	65,500
Proceeds from long-term debt	<u>90,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>40,781</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (35,893)

CASH AND CASH EQUIVALENTS - Beginning of year 64,454

CASH AND CASH EQUIVALENTS - End of year \$ 28,561

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for interest \$ 10,544

SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES:

Note payable forgiven from related party \$ 375,744

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Organization is a nonprofit corporation established to provide services to educate, evaluate, and treat persons who are in need of mental health care or substance abuse treatment and provide services to promote the prevention of mental illness and substance abuse. Services are provided to individuals residing in Newton, Iowa and the surrounding areas.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. Under FASB, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2011, the Organization had only unrestricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Organization's receivables are trade receivables due primarily from individuals, government agencies and Medicaid payers. The risk of loss on accounts receivable is the balance owed at the time of default. Accounts receivable are uncollateralized and are considered past due after the normal 30-60 day billing cycle and are charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined to be uncollectible.

Income Tax Status

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes. The Organization has also been classified as an entity that is not a private foundation.

Allocated Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Capstone Behavioral Healthcare, Inc. accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board. In accordance with FASB, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must 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 the long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

NOTE 2: LONG-TERM DEBT

Long-term debt at June 30, 2011 consisted of the following:

First Newton National Bank

Dated May 10, 2010, due May 1, 2015, interest rate is 6.25%, payable in monthly installments of \$2,719 including interest. \$ 113,089

Dated December 1, 2010, due June 12, 2012, interest rate is 3.26%. This loan has a balloon payment (including principal and interest) due at maturity date. 90,000

Total \$ 203,089

The notes are secured by CD's and real estate of the Capstone Community Foundation, and have also been guaranteed by the Foundation.

Long-term debt is expected to mature as follows:

Year Ending <u>June 30,</u>	
2012	\$ 116,300
2013	28,007
2014	29,801
2015	<u>28,981</u>
Total	\$ <u>203,089</u>

CAPSTONE BEHAVIORAL HEALTHCARE INC.

NOTES TO FINANCIAL STATEMENTS

**NOTE 3: LEASE AGREEMENTS**

The Organization leases certain property and equipment from Capstone Community Foundation for use in its operations. The leases are classified as operating leases and have one-year terms renewable at the end of each year. The annual lease rate is based on Capstone Community Foundation's actual costs.

The Organization also leases an apartment from Beacon Housing Corporation (a related party) for use as an office; the lease is renewed annually. The Organization also has leases which are properly classified as operating leases for office space and equipment with unrelated third parties for \$2,350 per month.

Future minimum lease payments are as follows:

2012	\$ <u>18,800</u>
------	------------------

Lease expense totaled to \$85,616 for the year ended June 30, 2011, which is included in the statement of functional expenses in rent and equipment rent.

**NOTE 4: RELATED PARTIES**

Capstone Community Foundation is a separate non-profit corporation. It leases property and equipment and contributes funding to the Organization. Following, is a summary of transaction balances as of and for the year ended June 30, 2011:

Contributions from Capstone Community Foundation	\$ 375,744
Rents paid for property and equipment	\$ 31,266
Due to Capstone Community Foundation	\$ 95,574

Beacon Housing Corporation, a separate non-profit corporation, was incorporated November 12, 1991. It provides residential housing for individuals with disabilities through a HUD program. The two corporations are related by common officers and trustees and operate toward a common cause. Following is a summary of transaction balances as of and for the year ended June 30, 2011:

Management fee receivable from Beacon Housing Corporation	\$ 2,180
Management fee revenue from Beacon Housing Corporation	\$ 4,583
Rents paid to Beacon Housing	\$ 4,868

Management fee income is included in miscellaneous revenue on the Statement of Activities.

**NOTE 5: PENSION PLAN**

The Organization has established a 403(b) Plan for all full-time employees. The Organization matches 100% up to the first 3% and 50% of the next 2% of salary deferred by the participant. The Organization contributed \$12,741 to the Plan for the year ended June 30, 2011.

**NOTE 6: EVALUATION OF SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through October 5, 2011, the date which the financial statements were available to be issued.