

CAPSTONE BEHAVIORAL HEALTHCARE, INC.
NEWTON, IOWA

FINANCIAL REPORT
JUNE 30, 2012 AND 2011

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

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Certified Public Accountants
"Achieving your goals with our knowledge."

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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, 2012, 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. The prior year summarized comparative information has been derived from the Organization's June 30, 2011 financial statements and, in our report dated October 5, 2011, we express an unqualified opinion on those statements.

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, 2012, 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
January 30, 2013

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 WITH COMPARATIVE TOTALS AS OF JUNE 30, 2011

	<u>ASSETS</u>	
	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	\$ 6,121	\$ 28,561
Accounts receivable (net of allowance for doubtful accounts \$52,963)	429,759	378,897
Prepaid expenses	-	3,998
Due from related party	<u>8,484</u>	<u>2,180</u>
TOTAL ASSETS	\$ <u>444,364</u>	\$ <u>413,636</u>
<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts payable	\$ 45,058	\$ 12,826
Due to related party	141,961	95,574
Accrued liabilities:		
Salaries	16,353	30,940
Vacation	28,885	62,505
Payroll taxes	136,457	15,619
Interest	1,242	747
Other liabilities	1,384	11,584
Line of credit	20,000	-
Current maturities of notes payable	<u>27,973</u>	<u>116,300</u>
TOTAL CURRENT LIABILITIES	419,313	346,095
<u>LONG-TERM LIABILITIES:</u>		
Notes payable - less current maturities	<u>149,294</u>	<u>86,789</u>
TOTAL LIABILITIES	<u>568,607</u>	<u>432,884</u>
<u>NET ASSETS (DEFICIT):</u>		
Unrestricted	<u>(124,243)</u>	<u>(19,248)</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ <u>444,364</u>	\$ <u>413,636</u>

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011

<u>OPERATING REVENUES, GAINS, AND OTHER SUPPORT:</u>	<u>2012</u>	<u>2011</u>
Public support:		
Capstone community foundation	\$ 17,213	\$ 375,744
Fees from government agencies:		
County revenue:		
Clinical services	124,774	136,867
Mental health	549,573	321,715
Community based services	16,362	74,558
Residential	18,519	38,639
Habilitation:		
Community based services	379,771	309,475
Residential	674,665	869,076
Iowa department of public health	5,248	31,484
School contracts	-	1,000
Patient fees	320,197	412,369
Adjustment for managed care and charity care	(579,515)	(470,000)
Other revenue:		
Miscellaneous	<u>10,026</u>	<u>23,571</u>
TOTAL OPERATING REVENUES, GAINS AND OTHER SUPPORT	<u>1,536,833</u>	<u>2,124,498</u>
 <u>OPERATING EXPENSES:</u>		
Program services:		
Clinical services	399,611	775,409
Mental health services	609,133	472,911
Community based services	128,174	211,018
Residential services	<u>352,449</u>	<u>344,928</u>
Total program services	1,489,367	1,804,266
Supporting services:		
Management and general	<u>152,461</u>	<u>75,204</u>
TOTAL OPERATING EXPENSES	<u>1,641,828</u>	<u>1,879,470</u>
CHANGE IN NET ASSETS	(104,995)	245,028
NET ASSETS (DEFICIT) - Beginning of year	<u>(19,248)</u>	<u>(264,276)</u>
NET ASSETS (DEFICIT) - End of year	\$ <u>(124,243)</u>	\$ <u>(19,248)</u>

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011

	Program Services			
	Clinical Services	Mental Health Services	Community Based Services	Residential Services
OPERATING EXPENSES:				
Salaries	\$ 303,571	\$ 415,725	\$ 69,579	\$ 260,516
Payroll taxes and insurance	29,407	40,814	7,682	30,342
Group benefits	21,873	22,711	26,679	13,922
Total salaries and related expenses	354,851	479,250	103,940	304,780
Professional fees	3,770	15,594	3,746	3,746
Contract service payments	4,706	3,227	3,223	5,594
Contract labor	-	63,169	-	-
Office supplies and expense	1,101	12,769	2,933	5,699
Medical supplies and other costs	-	397	-	581
Food supplies	-	-	-	10,966
Telephone	3,799	3,455	2,872	2,213
Postage and shipping	891	1,021	1,561	1,535
Rent	6,495	10,449	2,259	6,213
Building and grounds	4,105	4,130	2,701	3,024
Utilities	1,254	1,341	1,353	1,208
Property and liability insurance	5,704	3,257	1,188	1,069
Mileage	2,787	4,484	970	2,666
Staff development, training and recruitment	249	421	252	277
Meetings and conferences	-	2,042	-	-
Subscriptions and publications	59	1,808	-	-
Membership dues	-	-	-	-
Equipment rent	536	863	187	513
Interest expense	7,996	-	-	-
Public relations	1,065	1,065	989	1,411
Bank fees	-	-	-	28
Miscellaneous	243	391	-	926
TOTAL OPERATING EXPENSES	\$ 399,611	\$ 609,133	\$ 128,174	\$ 352,449

	<u>Supporting Services Management and General</u>	<u>2012</u>	<u>2011</u>
<u>Total</u>		<u>Total</u>	<u>Total</u>
\$ 1,049,391	\$ 81,889	\$ 1,131,280	\$ 1,302,720
108,245	5,374	113,619	132,958
<u>85,185</u>	<u>22,733</u>	<u>107,918</u>	<u>127,732</u>
1,242,821	109,996	1,352,817	1,563,410
26,856	14,403	41,259	42,920
16,750	6,435	23,185	26,394
63,169	-	63,169	-
22,502	988	23,490	12,262
978	24	1,002	2,958
10,966	-	10,966	8,846
12,339	4,142	16,481	17,703
5,008	158	5,166	8,345
25,416	2,825	28,241	44,628
13,960	1,604	15,564	18,915
5,156	2,295	7,451	8,197
11,218	2,495	13,713	31,973
10,907	1,212	12,119	16,460
1,199	215	1,414	5,288
2,042	-	2,042	7,053
1,867	-	1,867	2,458
-	-	-	4,293
2,099	233	2,332	40,988
7,996	-	7,996	10,517
4,530	264	4,794	5,503
28	48	76	155
<u>1,560</u>	<u>5,124</u>	<u>6,684</u>	<u>204</u>
\$ <u>1,489,367</u>	\$ <u>152,461</u>	\$ <u>1,641,828</u>	\$ <u>1,879,470</u>

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in net assets	\$ (104,995)	\$ 245,028
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Noncash contribution from related party	-	(375,744)
Increase (decrease) in allowance for doubtful accounts	2,525	(41,463)
Decrease (increase) in account receivable	(53,387)	125,726
Increase in due from related party	(6,304)	(2,180)
Decrease in prepaid expenses	3,998	16,020
Increase (decrease) in accounts payable	32,232	(35,064)
Increase in due to related party	46,387	87,833
Increase (decrease) in other liabilities	(10,200)	11,584
Increase (decrease) in accrued liabilities	73,126	(42,914)
NET CASH USED IN OPERATING ACTIVITIES	<u>(16,618)</u>	<u>(11,174)</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Principal payments on long-term debt	(25,822)	(114,719)
Proceeds from line of credit	30,000	90,000
Principal payments on line of credit	(10,000)	-
NET CASH USED IN FINANCING ACTIVITIES	<u>(5,822)</u>	<u>(24,719)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(22,440)	(35,893)
 <u>CASH AND CASH EQUIVALENTS - Beginning of year</u>	<u>28,561</u>	<u>64,454</u>
 <u>CASH AND CASH EQUIVALENTS - End of year</u>	<u>\$ 6,121</u>	<u>\$ 28,561</u>
 <u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u>		
Cash paid during the year for interest	\$ 7,501	\$ 10,544
 <u>SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITY</u>		
Note payable forgiven from related party	\$ -	\$ 375,744
Note paid off with issuance of new note	90,000	-

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012, 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. The Organization has open tax returns for years ending June 30, 2012, 2011, and 2010.

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

JUNE 30, 2012

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, 2012 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.	\$ 87,267
Dated July 15, 2011, due October 12, 2013, interest rate is 3.31%. Interest payable in monthly installments. This loan has a balloon Payment (including principal) due at maturity date.	<u>90,000</u>
Total	177,267
Less current maturities	<u>(27,973)</u>
Total long term debt	\$ <u>149,294</u>

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>	
2013	\$ 27,973
2014	119,764
2015	<u>29,530</u>
Total	\$ <u>177,267</u>

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 3: LINE OF CREDIT

On December 27, 2011, Capstone Behavioral Healthcare was extended a \$40,000 line of credit with First Newton National Bank. The line of credit has a variable interest rate currently at 5.9% and expires on December 27, 2012. The line of credit is secured by real estate of the Capstone Community Foundation. At June 30, 2012, \$20,000 was outstanding on this line of credit.

NOTE 4: 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 equipment with unrelated third parties for \$1,091 per month.

Future minimum lease payments are as follows:

2013	\$ <u>50,896</u>
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Lease expense totaled to \$30,573 for the year ended June 30, 2012, which is included in the statement of functional expenses as rent and equipment rent.

NOTE 5: 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, 2012:

Rents paid or accrued for property (including unpaid amounts from prior years)	\$ 33,600
Due to Capstone Community Foundation	\$ 141,961
Contributions from Capstone Community Foundation	\$ 17,213

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, 2012:

Due to Beacon Housing Corporation	\$ 1,400
Due from Beacon Housing Corporation	\$ 8,484
Management fee revenue from Beacon Housing Corporation	\$ 4,206
Rents paid to Beacon Housing	\$ 2,800

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

NOTE 6: PENSION PLAN

The Organization has established a 401(k) Plan for all full-time employees. The Organization's Plan allows for the Organization to make voluntary contributions. The Organization did not contribute to the Plan during the year ended June 30, 2012.

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 7: ABILITY TO CONTINUE AS A GOING CONCERN

While negative change in net assets and unrestricted net assets may raise substantial doubt about Organization's ability to continue as a going concern, management believes such a concern may be alleviated by current plans and initiatives which are directed towards stabilizing the operations. Among these plans are reductions of expenses, increased appointments for therapists and elimination of staff positions. Also, the Organization has received a grant in the amount of \$57,000 and have refiled prior year cost reports which had been previously filed. This correction of cost reports has increased the billable rates of the Organization.

The uncertainty of these actions may cause actual results to differ materially from those planned.

NOTE 8: RECLASSIFICATIONS

Certain amounts for June 30, 2011 have been reclassified to conform with the June 30, 2012 presentation.

NOTE 9: EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 30, 2013, the date which the financial statements were available to be issued.