

CAPSTONE BEHAVIORAL HEALTHCARE, INC.
NEWTON, IOWA

FINANCIAL REPORT
JUNE 30, 2014 AND 2013

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Capstone Behavioral Healthcare, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the entity'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capstone Behavioral Healthcare, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Capstone Behavioral Healthcare, Inc.'s June 30, 2013 financial statements, and we express an unmodified opinion on those audited financial statements in our report dated November 8, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
December 3, 2014

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 WITH COMPARATIVE TOTALS AS OF JUNE 30, 2013

	<u>ASSETS</u>	
	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	\$ 39,977	\$ 23,135
Accounts receivable (net of allowance for doubtful accounts of \$60,177)	424,977	516,296
Prepaid expenses	50	50
Due from related party	12,139	12,912
Total current assets	<u>477,143</u>	<u>552,393</u>
<u>EQUIPMENT:</u>		
Equipment	29,766	-
Accumulated depreciation	<u>(3,940)</u>	<u>-</u>
Total equipment	<u>25,826</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 502,969</u>	<u>\$ 552,393</u>
	<u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES:</u>		
Accounts payable	\$ 42,554	\$ 47,459
Due to related party	108,361	161,561
Accrued liabilities:		
Salaries	25,041	20,038
Vacation	56,850	31,522
Payroll taxes	33,509	58,794
Interest	287	3,142
Other liabilities	675	1,286
Line of credit	-	30,000
Current maturities of notes payable	<u>131,307</u>	<u>154,780</u>
TOTAL CURRENT LIABILITIES	398,584	508,582
<u>LONG-TERM LIABILITIES:</u>		
Notes payable - less current maturities	<u>73,927</u>	<u>29,264</u>
TOTAL LIABILITIES	<u>472,511</u>	<u>537,846</u>
<u>NET ASSETS:</u>		
Unrestricted	<u>30,458</u>	<u>14,547</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 502,969</u>	<u>\$ 552,393</u>

See Accompanying Notes to Financial Statements

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

<u>OPERATING REVENUES AND OTHER SUPPORT:</u>	<u>2014</u>	<u>2013</u>
Public support:		
Capstone Community Foundation	\$ 66,163	\$ -
Fees from government agencies:		
County revenue:		
Mental health	69,679	97,562
Community based services	43,118	42,848
Club house services	110,134	32,800
Habilitation:		
Community based services	823,159	960,318
Patient fees	959,105	567,683
Other revenue:		
Miscellaneous	-	4,325
	<u> </u>	<u> </u>
TOTAL OPERATING REVENUES AND OTHER SUPPORT	<u>2,071,358</u>	<u>1,705,536</u>
 <u>OPERATING EXPENSES:</u>		
Program services:		
Mental health services	1,382,383	1,045,881
Community based services	356,151	318,838
Club house services	57,078	19,858
Total program services	<u>1,795,612</u>	<u>1,384,577</u>
Supporting services:		
Management and general	259,835	239,061
	<u> </u>	<u> </u>
TOTAL OPERATING EXPENSES	<u>2,055,447</u>	<u>1,623,638</u>
CHANGE IN NET ASSETS	15,911	81,898
NET ASSETS (DEFICIT) - Beginning of year, as restated	<u>14,547</u>	<u>(67,351)</u>
NET ASSETS - End of year	\$ <u>30,458</u>	\$ <u>14,547</u>

See Accompanying Notes to Financial Statements

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	Program Services		
	Mental Health Services	Community Based Services	Club House Services
<u>OPERATING EXPENSES:</u>			
Salaries	\$ 835,225	\$ 238,636	\$ 43,420
Payroll taxes and insurance	68,643	19,612	4,273
Employee benefits	118,621	33,892	4,291
Total salaries and related expenses	1,022,489	292,140	51,984
Professional fees	15,643	1,304	-
Contract service payments	43,344	12,384	-
Contract labor	124,600	13,844	-
Office supplies and expense	37,737	4,717	-
Medical supplies and other costs	3,317	369	-
Food supplies	-	-	-
Telephone	15,521	1,826	365
Postage and shipping	2,271	454	-
Rent	30,240	-	1,890
Building and grounds	-	4,012	-
Utilities	11,871	1,583	791
Property and liability insurance	15,518	2,069	1,035
Mileage	1,013	16,205	1,013
Staff development, training and recruitment	27,551	3,241	-
Meetings and conferences	185	37	-
Subscriptions and publications	174	10	-
Membership dues	1,129	-	-
Equipment rent	10,860	679	-
Interest expense	-	-	-
Public relations	15,676	871	-
Bank fees	-	-	-
Penalties	-	-	-
Miscellaneous	3,244	406	-
Total operating expenses before depreciation	1,382,383	356,151	57,078
Depreciation	-	-	-
TOTAL OPERATING EXPENSES	\$ 1,382,383	\$ 356,151	\$ 57,078

See Accompanying Notes to Financial Statements

	Supporting Services Management and General	<u>2014</u>	<u>2013</u>
<u>Total</u>		<u>Total</u>	<u>Total</u>
\$ 1,117,281	\$ 119,317	\$ 1,236,598	\$ 917,768
92,528	9,806	102,334	96,374
<u>156,804</u>	<u>16,946</u>	<u>173,750</u>	<u>147,804</u>
1,366,613	146,069	1,512,682	1,161,946
16,947	9,125	26,072	26,768
55,728	6,192	61,920	69,265
138,444	-	138,444	115,785
42,454	4,717	47,171	12,389
3,686	-	3,686	1,949
-	13,107	13,107	11,406
17,712	549	18,261	14,955
2,725	1,817	4,542	3,697
32,130	5,670	37,800	37,800
4,012	16,046	20,058	6,876
14,245	1,583	15,828	7,691
18,622	2,069	20,691	24,831
18,231	2,026	20,257	15,284
30,792	1,621	32,413	3,802
222	148	370	1,143
184	20	204	411
1,129	125	1,254	430
11,539	2,036	13,575	14,392
-	30,020	30,020	23,098
16,547	871	17,418	14,081
-	637	637	368
-	11,041	11,041	49,575
<u>3,650</u>	<u>406</u>	<u>4,056</u>	<u>5,696</u>
1,795,612	255,895	2,051,507	1,623,638
-	3,940	3,940	-
\$ <u>1,795,612</u>	\$ <u>259,835</u>	\$ <u>2,055,447</u>	\$ <u>1,623,638</u>

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in net assets	\$ 15,911	\$ 81,898
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	3,940	-
Increase (decrease) in allowance for doubtful accounts	16,574	(9,360)
Decrease (increase) in account receivable	74,745	(20,285)
Decrease (increase) in due from related party	773	(4,428)
Increase in prepaid expenses	-	(50)
Increase (decrease) in accounts payable	(4,905)	2,401
Increase (decrease) in due to related party	(53,200)	19,600
Decrease in other liabilities	(611)	(98)
Increase (decrease) in accrued liabilities	2,191	(69,441)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>55,418</u>	<u>237</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of equipment	<u>(29,766)</u>	<u>-</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from long-term debt	107,631	35,000
Principal payments on long-term debt	(86,441)	(28,223)
Proceeds from line of credit	-	10,000
Principal payments on line of credit	<u>(30,000)</u>	<u>-</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(8,810)</u>	<u>16,777</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	16,842	17,014
 <u>CASH AND CASH EQUIVALENTS - Beginning of year - as restated</u>	<u>23,135</u>	<u>6,121</u>
 <u>CASH AND CASH EQUIVALENTS - End of year</u>	\$ <u>39,977</u>	\$ <u>23,135</u>
 <u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u>		
Cash paid during the year for interest	\$ 32,875	\$ 21,198
 <u>SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITY:</u>		
Note paid off with issuance of new note	\$ 122,486	\$ -

See Accompanying Notes to Financial Statements

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014, 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 available for current use with an initial maturity of three months or less to be cash equivalents.

Equipment

Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Organization follows the policy of expensing any items purchased that cost under \$500. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Equipment	3-10

Depreciation expense for the year ended June 30, 2014 was \$3,940.

Accounts Receivable

The Organization's receivables are trade receivables due primarily from individuals, government agencies and Medicaid payers. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. The risk of loss on the accounts receivable is the balance owed at the time of default. Bad debts are charged to operations in the year in which the account is determined 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, 2014, 2013, 2012 and 2011, generally for 3 years after they were filed.

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2014 consisted of the following:

First Newton National Bank

Dated August 22, 2013, due August 22, 2017, interest rate is 5.5% payable in monthly installments of \$3,026 including interest.	\$ 105,234
Dated August 22, 2013, due August 22, 2014, interest rate is 3.3%. Interest is payable monthly. This loan has a balloon payment (including principal) due at maturity.	<u>100,000</u>
Total	205,234
Less current maturities	<u>131,307</u>
Total long term debt	\$ <u>73,927</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>	
2015	\$ 131,307
2016	33,069
2017	34,941
2018	<u>5,917</u>
Total	\$ <u>205,234</u>

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 3: LEASE AGREEMENTS

The Organization leases property from Capstone Community Foundation for use in its operations. The lease is classified as an operating lease and has a one-year term renewable at the end of each fiscal year. The annual lease rate is based on Capstone Community Foundation's actual costs, currently \$2,800 per month.

The Organization also leases an apartment from Beacon Housing Corporation (a related party) for \$350 per month 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 \$1,074 per month.

Future minimum lease payments are as follows:

2015	\$	50,685
2016		<u>3,090</u>
	\$	<u>53,775</u>

Lease expense totaled to \$51,375 for the year ended June 30, 2014, which is included in the statement of functional expenses as 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 transactions as of and for the year ended June 30, 2014:

Contributions received from Capstone Community Foundation	\$	66,163
Rents paid to Capstone Community Foundation	\$	33,600
Due to Capstone Community Foundation	\$	108,361

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. The following is a summary of transactions as of and for the year ended June 30, 2014:

Due from Beacon Housing Corporation	\$	12,139
Management fee revenue from Beacon Housing Corporation	\$	4,231
Rents paid to Beacon Housing Corporation	\$	4,200

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

NOTE 5: 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, 2014.

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 6: RESTATEMENTS

During the year ended June 30, 2014 it was determined that accounts receivable and fees had not been properly accrued and an adjustment to cash was needed at June 30, 2013.

Net assets June 30, 2013, as previously reported	\$	(9,349)
Adjustment to cash and payroll taxes		10,336
Adjustment to accounts receivable and fees		<u>13,560</u>
Net assets June 30, 2013, as restated	\$	<u>14,547</u>

NOTE 7: RECLASSIFICATIONS

Certain amounts for June 30, 2013 have been reclassified to conform with the June 30, 2014 presentation.

NOTE 8: EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 3, 2014, the date which the financial statements were available to be issued.