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June 23, 2009

Board of Directors
Amethyst House, Inc.
P.O. Box 11
Bloomington, IN 47401

We have reviewed the audit report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Amethyst House, Inc., as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. The Independent Auditors' Report makes mention of cash flow concerns.

STATE BOARD OF ACCOUNTS

Amethyst
*Foundations for Sober Living*

**FINANCIAL STATEMENTS**
**AND**
**INDEPENDENT AUDITORS' REPORT**

**June 30, 2008 and 2007**

KATZ, SAPPER & MILLER
Certified Public Accountants

# AMETHYST HOUSE, INC.

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KATZ, SAPPER & MILLER

Katz, Sapper & Miller, LLP
Certified Public Accountants

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*Independent Auditors' Report*

Board of Directors
Amethyst House, Inc.

We have audited the accompanying statements of financial position of Amethyst House, Inc., an Indiana not-for-profit organization, as of June 30, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Amethyst House, Inc. at June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The Organization is operating under a line of credit agreement that expires in March 2010. The Organization has experienced decreases in net assets and negative cash flows from operating activities which may result in difficulty repaying the line of credit. If cash flow cannot be generated to repay the line of credit in a timely manner the Organization may have to liquidate assets. As discussed in Note 5 to the financial statements, management is pursuing additional grant funding and reviewing costs to address the Organization's negative cash flow.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
January 15, 2009

# AMETHYST HOUSE, INC.

## STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

### ASSETS

| | 2008 | 2007 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and equivalents | $ 19,630 | $ 19,701 |
| Accounts receivable, net of allowance for doubtful accounts of $7,000 in 2008 and 2007 | 15,786 | 35,192 |
| Grants receivable | 57,335 | 15,272 |
| Prepaid expenses | 5,732 | |
| Gift cards | 768 | 900 |
| Total Current Assets | 99,251 | 71,065 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 15,000 | 15,000 |
| Buildings and improvements | 904,373 | 904,373 |
| Furniture and equipment | 84,587 | 82,353 |
| | 1,003,960 | 1,001,726 |
| Less: Accumulated depreciation | 209,096 | 180,861 |
| Total Property and Equipment | 794,864 | 820,865 |
| **TOTAL ASSETS** | $ 894,115 | $ 891,930 |

### LIABILITIES AND UNRESTRICTED NET ASSETS

| | 2008 | 2007 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 21,946 | $ 20,599 |
| Accrued expenses | 29,669 | 41,223 |
| Line of credit borrowings | 206,062 | 147,900 |
| Current portion of long-term debt | 4,570 | 4,263 |
| Total Current Liabilities | 262,247 | 213,985 |
| **LONG-TERM DEBT** | 305,211 | 309,214 |
| Total Liabilities | 567,458 | 523,199 |
| **UNRESTRICTED NET ASSETS** | 326,657 | 368,731 |
| **TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS** | $ 894,115 | $ 891,930 |

*See accompanying notes.*

## AMETHYST HOUSE, INC.

**STATEMENTS OF ACTIVITIES**
**Years Ended June 30, 2008 and 2007**

| | 2008 | 2007 |
|---|---|---|
| **REVENUE AND SUPPORT** | | |
| Federal and state grants | $ 535,666 | $ 460,175 |
| Donations | 56,120 | 72,328 |
| United Way | 32,047 | 35,528 |
| Program fees-half-way houses | 74,441 | 110,096 |
| Treatment fees | 129,681 | 111,314 |
| Grants | 60,124 | 53,783 |
| Fundraising revenues | 12,126 | 22,953 |
| Interest income | 340 | 1,144 |
| Miscellaneous income | 2,419 | 2,779 |
| Total Revenue and Support | 902,964 | 870,100 |
| **EXPENSES** | | |
| Program services | 790,425 | 772,028 |
| Management and general | 134,129 | 203,553 |
| Fundraising | 20,484 | 15,257 |
| Total Expenses | 945,038 | 990,838 |
| **DECREASE IN NET ASSETS** | (42,074) | (120,738) |
| **UNRESTRICTED NET ASSETS** | | |
| Beginning of Year | 368,731 | 489,469 |
| End of Year | $ 326,657 | $ 368,731 |

*See accompanying notes.*

# AMETHYST HOUSE, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES
### Years Ended June 30, 2008 and 2007

| | Program Services | | Management and General | | Fundraising | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Salaries | $ 491,576 | $ 473,512 | $ 23,786 | $ 24,309 | $ 13,214 | $ 8,609 | $ 528,576 | $ 506,430 |
| Payroll taxes | 39,331 | 41,900 | 1,903 | 2,151 | 1,057 | 762 | 42,291 | 44,813 |
| Health insurance | 57,288 | 66,166 | 2,772 | 3,397 | 1,540 | 1,203 | 61,600 | 70,766 |
| Insurance | 30,443 | 31,162 | 2,137 | 2,188 | | | 32,580 | 33,350 |
| Dues and subscription | 1,906 | 1,581 | 1,969 | 1,633 | 2,477 | 2,055 | 6,352 | 5,269 |
| Telephone | 9,869 | 10,234 | 2,948 | 3,057 | | | 12,817 | 13,291 |
| Occupancy | 12,776 | 12,776 | 21,753 | 21,753 | | | 34,529 | 34,529 |
| Marketing and advertising | 2,213 | 2,893 | 1,128 | 1,475 | 998 | 1,305 | 4,339 | 5,673 |
| Conferences and training | 15,054 | 3,230 | 2,101 | 451 | 350 | 75 | 17,505 | 3,756 |
| Travel | | 4,181 | | 5,321 | | | | 9,502 |
| Professional services | | | 13,874 | 10,012 | | | 13,874 | 10,012 |
| Repairs and maintenance | 17,475 | 10,299 | 4,369 | 2,575 | | | 21,844 | 12,874 |
| Program costs and supplies | 52,403 | 46,159 | 3,944 | 3,224 | | | 56,347 | 49,383 |
| Office supplies and postage | 4,431 | 5,290 | 5,485 | 6,549 | 633 | 756 | 10,549 | 12,595 |
| Penalties | | | | 66,399 | | | | 66,399 |
| Depreciation | 22,588 | 22,588 | 5,647 | 5,647 | | | 28,235 | 28,235 |
| Interest | | | 29,518 | 25,092 | | | 29,518 | 25,092 |
| Equipment rental | 4,442 | 6,435 | 4,624 | 6,697 | | | 9,066 | 13,132 |
| Utilities | 25,911 | 25,874 | 1,950 | 1,947 | | | 27,861 | 27,821 |
| Bad debts | | 1,516 | | | | | | 1,516 |
| Miscellaneous | 2,719 | 6,232 | 4,221 | 9,676 | 215 | 492 | 7,155 | 16,400 |
| **TOTAL EXPENSES** | $ 790,425 | $ 772,028 | $ 134,129 | $ 203,553 | $ 20,484 | $ 15,257 | $ 945,038 | $ 990,838 |

*See accompanying notes.*

## AMETHYST HOUSE, INC.

### STATEMENTS OF CASH FLOWS
### Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Decrease in net assets | $ (42,074) | $ (120,738) |
| Adjustments to reconcile decrease in net assets to net cash used by operating activities: | | |
| Depreciation | 28,235 | 28,235 |
| (Increase) decrease in certain current assets: | | |
| Receivables | (22,657) | (19,306) |
| Prepaid expenses | (5,732) | |
| Gift cards | 132 | (140) |
| Increase (decrease) in certain current liabilities: | | |
| Accounts payable | 1,347 | (8,751) |
| Accrued expenses | (11,554) | (41,614) |
| Net Cash (Used) by Operating Activities | (52,303) | (162,314) |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (2,234) | (2,917) |
| Net Cash (Used) by Investing Activities | (2,234) | (2,917) |
| **FINANCING ACTIVITIES** | | |
| Principal payments on long-term debt | (3,696) | (40,841) |
| Net proceeds from issuance of long-term debt | | 137,771 |
| Proceeds from line of credit borrowings | 58,162 | 40,400 |
| Net Cash Provided by Financing Activities | 54,466 | 137,330 |
| **NET DECREASE IN CASH AND EQUIVALENTS** | (71) | (27,901) |
| **CASH AND EQUIVALENTS** | | |
| Beginning of Year | 19,701 | 47,602 |
| End of Year | $ 19,630 | $ 19,701 |
| **SUPPLEMENTAL DISCLOSURES** | | |
| Interest paid | $ 29,518 | $ 25,092 |

*See accompanying notes.*

## AMETHYST HOUSE, INC.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Nature of Activities:* Amethyst House, Inc. (the Organization) is an Indiana not-for-profit organization that provides outpatient treatment services for chronically addicted persons in Monroe County, Indiana and in Vanderburgh County, Indiana, as well as half-way house programs in Monroe County, Indiana. The Organization is supported by the State Hoosier Assurance Program, client fees, other grants, and donations.

Government funding provided to the Organization comes from the State of Indiana Family and Social Services Administration Division of Mental Health. A portion of the funding comes from the U.S. Department of Health and Human Services.

*Basis of Accounting:* The Organization prepares its financial statements using the accrual basis of accounting. Accrual accounting requires the recognition of revenues when they are earned and measurable in the accounting period when services are provided, and the recognition of expenses in the period in which they occur.

*Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

*Cash and Equivalents:* For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Occasionally, the Organization maintains checking account balances in excess of the federally insured limit. The Organization has not experienced any losses from these bank accounts.

*Accounts Receivable and Credit Policies:* Accounts receivable represent uncollateralized obligations due to the Organization from clients for treatment services and residency in the halfway and three-quarter way houses. The balances are due and payable within 30 days of the billing date. Accounts receivable are stated at the amount billed to the client.

Grants receivable represent uncollateralized obligations due to the Organization for treatment services. The balances are due and payable within 30 days of the billing date. Grants receivable are stated at the amount billed to the paying agency and represent the amount management expects to collect on the outstanding balances. Paying agencies with account balances over 90 days old are considered delinquent.

The Organization does not charge late fees or interest due to the nature of its clientele and treatment services. However, those with overdue balances receive warnings, and when balances reach $200 for outpatient session fees and $800 for residency fees, services are subject to stoppage. A client with a balance due must pay the balance or make arrangements acceptable to management prior to treatment resuming.

The Organization establishes an allowance for uncollectible accounts receivable based on historical collection experience, economic conditions and management's evaluation of collectibility of outstanding balances. Management periodically reviews the status of delinquent accounts and writes off uncollectible accounts after reasonable collection efforts have been exhausted. The allowance for doubtful accounts was $7,000 at June 30, 2008 and 2007.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Property and Equipment*** are recorded at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, which range up to 40 years for buildings and improvements and from 3 to 10 years for furniture and equipment. The Organization's policy is to capitalize and depreciate asset acquisitions of $500 and greater.

***Functional Expenses*** have been allocated between program, management and general, and fundraising services based on an analysis of personnel time utilized for the related activities.

***Advertising:*** The Organization expenses all advertising costs as they are incurred.

***Income Taxes:*** The Organization is a private not-for-profit Indiana corporation, and its activities are exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). The Organization is classified as a public charity by the Internal Revenue Service.

***Net Assets By Class:*** Temporarily or permanently restricted net assets are created only by donor-imposed restrictions on their use. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions whose restrictions lapse, expire, or are otherwise met in the same reporting period as the contribution was received are recorded as unrestricted support. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class.

***Reclassifications:*** Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

## NOTE 2 - LEASE

The Organization leases office space and equipment under noncancellable operating leases expiring through September 2012. Future minimum rental payments as of June 30, 2008, are as follows:

| Payable In Year Ending June 30, | Rental Payments |
|---|---|
| 2009 | $ 41,914 |
| 2010 | 41,914 |
| 2011 | 38,430 |
| 2012 | 4,195 |
| 2013 | 1,049 |
| | $127,502 |

As provided in the office lease agreement, the Organization is assessed monthly operating expense fees. The monthly charges are based upon the Organization's square footage in the building. Rent expense was $34,529 in each of the years ended June 30, 2008 and 2007.

## NOTE 3 - DEBT AND CREDIT ARRANGEMENTS

Long-term debt consisted of the following at June 30, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Mortgage payable to United Commerce in monthly installments of $166, plus interest computed at prime plus 1%, through September 12, 2023. Secured by real estate. | $ 21,680 | $ 22,206 |
| Mortgage payable to United Commerce in monthly installments of $279, plus interest computed at prime plus 1%, through October 11, 2026. Secured by real estate. | 134,601 | 137,771 |
| Noninterest-bearing note payable to City of Bloomington in 2018. The note is forgivable at maturity in the event the Organization does not default on provisions of the loan agreement. | 153,500 | 153,500 |
| | 309,781 | 313,477 |
| Less: Current maturities | 4,570 | 4,263 |
| Total Long-term Debt | $305,211 | $309,214 |

At June 30, 2008, the aggregate maturities in each of the next five years for the above long-term obligations were as follows:

| Payable In Year Ending June 30, | Principal |
|---|---|
| 2009 | $ 4,570 |
| 2010 | 4,899 |
| 2011 | 5,255 |
| 2012 | 5,635 |
| 2013 | 5,950 |

The Organization has a $250,000 bank line of credit for short-term borrowings through March 25, 2010. Interest is computed at 5.75% until September 26, 2008, when the interest rate will change to Bank's prime lending rate plus .75%. The line of credit is secured by real estate. The Company had $206,062 and $147,900 borrowed and outstanding on the line of credit at June 30, 2008 and 2007, respectively.

## NOTE 4 - CONCENTRATIONS

The Organization received 59% in fiscal year 2008 and 53% in fiscal year 2007 of its total revenues and support from Government grants. The Organization is dependent on federal grant funding to continue its operations. Such grants have been renewed for fiscal year 2009.

## NOTE 5 - MANAGEMENT'S PLANS FOR FUTURE OPERATIONS

Management has reviewed the operating results of the Organization and expects operations to continue for the foreseeable future . Management's budget for the 2009 fiscal year anticipates positive cash flows from operations. Also, the Organization anticipates continued funding from Government grants, funding for new programs, and cost savings in payroll and other expenses.