

RUTHERFORD HOUSE
SHREVEPORT, LOUISIANA
JUNE 30, 2005

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Release Date 4-26-06

RUTHERFORD HOUSE
SHREVEPORT, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

**HEARD
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& VESTAL**
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February 23, 2006

The Board of Directors
Rutherford House
Shreveport, Louisiana

Independent Auditor's Report

We have audited the accompanying statement of financial position of Rutherford House at June 30, 2005, and the related statements of activities 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 and *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 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 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 Rutherford House at June 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2006 on our consideration of Rutherford House'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 over internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Heard McElroy + Vestal, LLP

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RUTHERFORD HOUSE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

<u>A S S E T S</u>	<u>Rutherford House I</u>	<u>Rutherford House II</u>	<u>Rutherford House III</u>	<u>Rutherford House IV</u>
<u>Current assets:</u>				
Cash-Note 3	-	-	-	-
Investments-Note 4	-	-	-	-
Accounts receivable-Note 6	24,838	36,442	37,106	39,899
Prepaid expenses	-	-	-	-
Total current assets	<u>24,838</u>	<u>36,442</u>	<u>37,106</u>	<u>39,899</u>
<u>Book value of fixed assets-Note 5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>24,838</u>	<u>36,442</u>	<u>37,106</u>	<u>39,899</u>
 <u>LIABILITIES AND NET ASSETS</u>				
<u>Current liabilities:</u>				
Accounts payable	-	-	-	-
Other current liabilities	-	-	-	-
Total current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net assets:</u>				
Unrestricted	24,838	36,442	37,106	39,899
Temporarily restricted-Note 8	-	-	-	-
Total net assets	<u>24,838</u>	<u>36,442</u>	<u>37,106</u>	<u>39,899</u>
Total liabilities and net assets	<u>24,838</u>	<u>36,442</u>	<u>37,106</u>	<u>39,899</u>

The accompanying notes are an integral part of the financial statements.

<u>Rutherford House V</u>	<u>Office and School</u>	<u>Truancy Center</u>	<u>Curfew Program</u>	<u>Fixed Assets</u>	<u>Total</u>
-	144,379	-	-	-	144,379
-	196,311	-	-	-	196,311
6,874	298,179	-	-	-	443,338
-	<u>27,800</u>	-	-	-	<u>27,800</u>
<u>6,874</u>	<u>666,669</u>	-	-	-	<u>811,828</u>
-	-	-	-	<u>960,521</u>	<u>960,521</u>
<u>6,874</u>	<u>666,669</u>	-	-	<u>960,521</u>	<u>1,772,349</u>
-	33,432	-	-	-	33,432
-	<u>44,575</u>	-	-	-	<u>44,575</u>
-	78,007	-	-	-	78,007
6,874	564,195	-	-	960,521	1,669,875
-	<u>24,467</u>	-	-	-	<u>24,467</u>
<u>6,874</u>	<u>588,662</u>	-	-	<u>960,521</u>	<u>1,694,342</u>
<u>6,874</u>	<u>666,669</u>	-	-	<u>960,521</u>	<u>1,772,349</u>

RUTHERFORD HOUSE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Rutherford House I</u>	<u>Rutherford House II</u>	<u>Rutherford House III</u>	<u>Rutherford House IV</u>
<u>Public support and revenue:</u>				
Public support:				
Contributions-Notes 7 and 8	-	-	-	-
Government grants:				
Louisiana Department of Corrections	413,318	390,681	413,513	413,608
Office of Community Services	42,740	-	-	4,686
Louisiana Commission on Law Enforcement	-	-	-	-
Louisiana Department of Education	-	-	-	-
Caddo Parish School Board	-	-	-	-
City of Shreveport	-	-	-	-
Caddo Parish	-	-	-	-
Total public support	<u>456,058</u>	<u>390,681</u>	<u>413,513</u>	<u>418,294</u>
Revenue:				
Investments	-	-	-	-
Fund-raising, net of \$4,500 in expenses	-	-	-	-
Other	-	-	-	-
Total revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	456,058	390,681	413,513	418,294
<u>Expenses:</u>				
Salaries and wages	121,442	149,816	172,334	165,382
Payroll taxes and related expense	-	-	-	-
Fringe benefits	-	-	-	-
Travel and training	150	108	700	602
Office supplies	-	-	-	-
Repairs and maintenance	4,859	2,892	3,728	7,797
Utilities	6,651	7,839	8,384	7,768
Insurance	-	-	-	-
Depreciation	-	-	-	-
Food	6,197	6,896	7,127	6,310
Medical	1,209	3,239	2,867	2,074
Recreation	1,416	1,904	1,421	1,349

The accompanying notes are an integral part of the financial statements.

<u>Rutherford House V</u>	<u>Office and School</u>	<u>Truancy Center</u>	<u>Curfew Program</u>	<u>Fixed Assets</u>	<u>Total</u>
-	159,274	-	-	-	159,274
5,464	19,470	-	-	-	1,656,054
316,361	53,768	-	-	-	417,555
-	113,443	-	-	-	113,443
-	75,671	-	-	-	75,671
-	141,985	-	-	-	141,985
-	60,095	-	58,300	-	118,395
-	29,661	386,887	-	-	416,548
<u>321,825</u>	<u>653,367</u>	<u>386,887</u>	<u>58,300</u>	-	<u>3,098,925</u>
-	1,295	-	-	-	1,295
-	26,524	-	-	-	26,524
-	81,890	-	-	-	81,890
<u>-</u>	<u>109,709</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,709</u>
321,825	763,076	386,887	58,300	-	3,208,634
192,175	807,710	148,267	57,743	-	1,814,869
-	162,084	-	-	-	162,084
-	242,529	-	-	-	242,529
625	3,513	1,505	108	-	7,311
-	29,974	5,421	-	-	35,395
7,443	43,457	3,126	-	-	73,302
6,511	59,813	6,922	-	-	103,888
212	83,739	400	-	-	84,351
-	-	-	-	125,162	125,162
6,252	156,315	293	-	-	189,390
944	1,016	-	-	-	11,349
1,656	1,508	40	-	-	9,294

RUTHERFORD HOUSE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Rutherford House I</u>	<u>Rutherford House II</u>	<u>Rutherford House III</u>	<u>Rutherford House IV</u>
<u>Expenses: (Continued)</u>				
Laundry and linen	3,631	3,662	3,626	3,774
Personal hygiene	2,795	3,286	3,010	2,865
Telephone	-	-	-	-
Professional	-	-	-	-
Outside contracts	-	-	1,440	-
Licensing	575	575	575	520
Work study and educational	742	800	1,103	301
Miscellaneous	-	-	-	-
Maintenance supplies	1,125	361	701	441
Program supplies	1,942	1,884	1,943	1,910
Personal allowance	3,596	3,504	3,390	3,395
Uncollectible grants	-	-	-	-
Total expenses	<u>156,330</u>	<u>186,766</u>	<u>212,349</u>	<u>204,488</u>
<u>Change in net assets</u>	299,728	203,915	201,164	213,806
<u>Net assets-beginning of year</u>	33,882	37,960	31,032	36,852
<u>Transfers:</u>				
Purchase of fixed assets	(428)	(317)	-	-
Other	<u>(308,344)</u>	<u>(205,116)</u>	<u>(195,090)</u>	<u>(210,759)</u>
	<u>(308,772)</u>	<u>(205,433)</u>	<u>(195,090)</u>	<u>(210,759)</u>
<u>Net assets-end of year</u>	<u>24,838</u>	<u>36,442</u>	<u>37,106</u>	<u>39,899</u>

The accompanying notes are an integral part of the financial statements.

<u>Rutherford House V</u>	<u>Office and School</u>	<u>Truancy Center</u>	<u>Curfew Program</u>	<u>Fixed Assets</u>	<u>Total</u>
4,398	3,318	1,310	-	-	23,719
2,273	-	-	-	-	14,229
-	18,562	7,484	-	-	26,046
-	16,469	-	-	-	16,469
-	15,484	39,141	-	-	56,065
20	-	-	-	-	2,265
233	33,297	35	-	-	36,511
-	21,425	27	-	-	21,452
772	14,355	6	-	-	17,761
1,854	15,738	-	-	-	25,271
4,133	-	-	-	-	18,018
-	31,132	-	-	-	31,132
<u>229,501</u>	<u>1,761,438</u>	<u>213,977</u>	<u>57,851</u>	<u>125,162</u>	<u>3,147,862</u>
92,324	(998,362)	172,910	449	(125,162)	60,772
33,048	502,211	88,514	14,575	855,496	1,633,570
(4,193)	(219,082)	(6,167)	-	230,187	-
<u>(114,305)</u>	<u>1,303,895</u>	<u>(255,257)</u>	<u>(15,024)</u>	<u>-</u>	<u>-</u>
<u>(118,498)</u>	<u>1,084,813</u>	<u>(261,424)</u>	<u>(15,024)</u>	<u>230,187</u>	<u>-</u>
<u>6,874</u>	<u>588,662</u>	<u>-</u>	<u>-</u>	<u>960,521</u>	<u>1,694,342</u>

RUTHERFORD HOUSE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

<u>Cash flows from operating activities:</u>	
Change in net assets	60,772
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	125,162
(Increase) in accounts receivable	(65,031)
Decrease in prepaid expenses	900
(Decrease) in accounts payable	(23,482)
Increase in other current liabilities	<u>25,916</u>
Total adjustments	<u>63,465</u>
Net cash provided by operating activities	124,237
<u>Cash flows from investing activities:</u>	
Purchase of investments	(1,000)
Purchase of fixed assets	(230,187)
Decrease in notes receivable	<u>2,008</u>
Net cash (used) by investing activities	<u>(229,179)</u>
<u>Net (decrease) in cash and cash equivalents</u>	(104,942)
<u>Cash and cash equivalents at beginning of year</u>	<u>249,321</u>
<u>Cash and cash equivalents at end of year</u>	<u>144,379</u>

The accompanying notes are an integral part of the financial statements.

RUTHERFORD HOUSE

NOTES TO FINANCIAL STATEMENTS

AT JUNE 30, 2005

1. Nature of Business.

For the year ending June 30, 2005, five homes, four for boys and one for girls, were operated for delinquent adolescents. These individuals are usually placed in the home by juvenile courts. Rutherford House also operates a schooling program for the adolescents. Rutherford House receives substantially all of its income from state and local government grants, generally under third-party reimbursement plans, and is a not for profit entity exempt from federal income taxation under Internal Revenue Code Section 501(c)(3).

2. Summary of Significant Accounting Policies.

a) Financial Statement Presentation:

As a not-for-profit entity, Rutherford House is required to report information regarding its financial position and activities based on the absence or existence of donor-imposed restrictions. Accordingly, net assets of Rutherford House and changes therein may be classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Some unrestricted net assets may be designated by the Board for specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of Rutherford House, and/or by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by Rutherford House. Generally, donors permit all or part of the income earned on these assets to be used for general or specific purposes.

There were no significant temporarily or permanently restricted net assets at June 30, 2005, other than those disclosed in Note 8.

b) Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

c) Promises to Give:

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Rutherford House uses the allowance method to determine uncollectible unconditional promises receivable, when material. The allowance is based on prior years' experience and management's analysis of specific promises made.

2. Summary of Significant Accounting Policies. (Continued)

d) Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

e) Fixed Assets:

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Estimated Life</u>
Furniture, fixtures, and equipment	5-10 years
House improvements	10-20 years
Buildings	20 years

Donated property and equipment are reported at their estimated fair market value at the date of gift. All expenditures for fixed assets in excess of \$250 are capitalized.

f) Cash Equivalents:

For purposes of the statement of cash flows, Rutherford House considers all cash on hand and demand deposits with banks to be cash equivalents.

g) Advertising Costs:

Costs of advertising are expensed as incurred.

h) Compensated Absences:

Annual leave generally is earned by employees at the rate of eight hours per month, beginning with the third month of employment. A maximum of fifteen days may be carried forward to the next fiscal year.

Sick leave generally is earned at the rate of eight hours per month, cumulative to a maximum of thirty-six days. Sick leave is not redeemable when an employee separates from the organization.

3. Cash.

Rutherford House holds approximately \$8,000 at June 30, 2005, in various interest-bearing accounts on behalf of individual adolescents. These monies include individual allowances allowed by state funding and earnings in various fund-raising activities, and are not included in the accounts of Rutherford House.

Operating cash on deposit with banks is protected by FDIC insurance; deposits in excess of these limits approximated \$85,000 at June 30, 2005.

4. Investments.

Investments are summarized as follows at June 30, 2005:

	<u>Cost</u>	<u>Approximate Market Value</u>
Money Market Funds:		
U.S. Treasury	42,468	42,468
Bank One Business Market Index	103,843	103,843
Certificate of Deposit, 3.55%, matures 3-1-06	<u>50,000</u>	<u>50,000</u>
	<u>196,311</u>	<u>196,311</u>

5. Fixed Assets.

The book value of fixed assets consists of:

	<u>Cost or Donated Value</u>
Land	84,760
Rutherford House I and improvements	113,478
Rutherford House II and improvements	217,900
Rutherford House III and improvements	137,465
Rutherford House IV and improvements	103,418
Rutherford House V and improvements	57,219
Auto garage improvements	1,232
Furniture and fixtures	383,560
Vehicles	278,732
Shop building	185,000
Shop improvements	234,894
Shop equipment	73,365
School equipment	114,484
Office and school, building and improvements	848,264
Foster care equipment	4,653
DOC After Care Assistance equipment	39,539
Laundry/Book Store building	<u>62,650</u>
Total cost or donated value	2,940,613
<u>Less-accumulated depreciation</u>	<u>(1,980,092)</u>
Book value of fixed assets	<u><u>960,521</u></u>

6. Receivables.

Receivables are summarized by source as follows:

State of Louisiana	320,355
Caddo Parish School Board	43,691
Caddo Parish	30,493
City of Shreveport	44,390
Other	<u>4,409</u>
Total	<u><u>443,338</u></u>

7. Conditional Promises.

Conditional promises consist of the unfunded portions of approved governmental awards, either currently in effect or approved for commencement after June 30, 2005. Future funding of such awards is conditioned upon Rutherford House's operation of certain programs, incurrence of certain costs, and meeting certain matching requirements. Because such awards represent conditional promises to Rutherford House, they have not been recognized in the financial statements at June 30, 2005. Such conditional promises amounted to approximately \$3,431,000 at June 30, 2005.

8. Restricted Contributions.

Rutherford House received donations during the year that were restricted for renovating and supplying newly purchased art lab facilities. Certain of these restrictions were met during the current fiscal year; it is anticipated the remaining temporarily restricted assets will be used next year. Summarized activity follows:

8. Restricted Contributions. (Continued)

	<u>2005</u>
Temporarily restricted contributions	36,000
Restrictions released-qualifying expenses	<u>(11,533)</u>
Temporarily restricted at June 30, 2005	<u>24,467</u>

OTHER REPORTS

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WILLIAM L. HIGHTOWER, CPA

February 23, 2006

The Board of Directors
Rutherford House
Shreveport, Louisiana

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards*

We have audited the financial statements of Rutherford House as of and for the year ended June 30, 2005, and have issued our report thereon dated February 23, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rutherford House's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Rutherford House's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 2005-02 through 2005-06.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that items 2005-02 and 2005-03 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rutherford House's 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 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2005-01.

This report is intended solely for the information and use of the board, management, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hearn, McElroy & Vestal, LLP

RUTHERFORD HOUSE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Rutherford House.
2. Five reportable conditions relating to the audit of the financial statements are reported; two are material weaknesses.
3. One instance of noncompliance material to the financial statements of Rutherford House was disclosed during the audit.
4. Rutherford House was not required to have a Federal Single Audit for the year ended June 30, 2005.

B. Findings - Financial Statement Audit

2005-01 - Compliance Finding

Statement of Condition: Rutherford House did not submit its audit report for the year ended June 30, 2005 within six months of its year end, as required by state law.

Cause: Accounting problems in the general ledger caused by a conversion in accounting software and the retirement of the Director of Finance created significant delays in the audit preparation process.

Criteria: Louisiana state law requires auditees to submit their audit reports within six months after the end of their fiscal year.

Effect of Condition: Rutherford House was not in compliance with state law.

Recommendation: Rutherford House should take all necessary steps to ensure that its audit is submitted within the required time limit.

Response: We will prepare for audit as soon as the books are closed for the year and make all audit information available in a more timely manner to our auditor.

2005-02 - Material Weakness

Statement of Condition: We noted during our testing of cash balances that bank reconciliations were not completed on a timely basis. The August 2005 bank statement was not successfully reconciled until our audit fieldwork in January 2006.

2005-02 - Material Weakness (Continued)

Cause: The cause of this condition is unknown.

Criteria: Because of their importance to financial operations, liquidity, and sensitivity to misappropriation, all cash accounts should be tightly controlled, monitored, and immediately reconciled to supporting statements.

Effect of Condition: Although lack of timely bank reconciliations occurred after the financial statement date of June 30, 2005, such a condition affects the effectiveness and efficiency of the Rutherford House accounting system, and may have consequences for the audit of the subsequent year.

Recommendation: All bank statements should be received timely each month, be immediately reconciled, and all reconciling items properly followed up.

Response: We agree with the recommendation and have brought current the reconciliation process of all bank accounts.

2005-03 - Material Weakness

Statement of Condition: Rutherford House was unable to reconcile all outstanding accounts receivable per its aged receivables listing to the related general ledger control accounts. This resulted in control account balances exceeding the aged receivables listing by \$31,132 at June 30, 2005.

Cause: This condition apparently was caused by accounting staffs inability to identify differences in amounts billed and received, and to timely adjust those differences.

Criteria: Detailed listings supporting outstanding accounts receivable should be reconciled against amounts on the general ledger at least monthly. Collectibility should be analyzed, and any reconciling items cleared.

Effect of Condition: This condition resulted in an audit adjustment to write down accounts receivable on the general ledger by \$31,132.

Recommendation: Rutherford House accounting personnel should closely monitor balances in accounts receivable to determine that they are properly recorded, timely collected, and supported by valid billings. All differences should be timely resolved.

Response: We concur with this recommendation.

2005-04 - Reportable Condition

Statement of Condition: Rutherford House is not receiving investment statements or reconciling them to the general ledger on a regular basis.

Cause: This condition apparently is caused by management oversight.

Criteria: At a minimum, monthly activity statements should be received from the financial institution, either online or in paper copy, to properly support the amounts carried in the general ledger.

2005-04 - Reportable Condition (Continued)

Effect of Condition: Lack of proper support may cause accounting and auditing inefficiencies, and improper account balances. Although not significant, this resulted in an understatement of investment amounts on the general ledger of \$1,618.

Recommendation: Rutherford House should adopt the appropriate procedures to timely obtain and reconcile monthly investment statements.

Response: We agree with the recommendation, and have contacted our financial institution to provide the monthly statements.

2005-05 - Reportable Condition

Statement of Condition: Accounting personnel incorrectly included or excluded three invoices from the accounts payable system during the year.

Cause: The condition apparently was caused by human error.

Criteria: The disbursements system of Rutherford House generally requires that invoices to be paid first be entered into the accounts payable system so that the appropriate general ledger account is charged. Omission of this step can result in improper balances in expense accounts, and in accounts payable.

Effect of Condition: This condition resulted in an immaterial understatement of accounts payable and expenses by \$1,922; however certain individual expenses were overstated by \$13,593 and understated by \$15,515. This amount was adjusted on the financial statements.

Recommendation: Rutherford House should ensure that all invoices are recorded in the accounts payable system as they are received.

Response: We agree with the recommendation, and will implement the procedures necessary to timely enter all appropriate invoices in the accounts payable system.

2005-06 - Reportable Condition

Statement of Condition: Rutherford House does not have an accounting methodology to keep track of contributions with donor use restrictions, and the expiration of those restrictions.

Cause: This condition appears to be caused by accounting personnel's lack of understanding of the nature of donor-restricted assets.

Criteria: For financial reporting purposes, significant inflows, uses, and balances of donor-restricted assets must be disclosed.

Effect of Condition: This condition resulted in audit inefficiency, requiring the identification and preparation of a schedule to reflect inflows and outflows of donor-restricted resources.

Recommendation: We recommend that Rutherford House use the auditor-prepared schedule of restricted contributions to account for, monitor, and report donor-restricted resources on a prospective basis.

2005-06 - Reportable Condition (Continued)

Response: We agree with the recommendation.

C. Findings and Questioned Costs - Major Federal Award Programs

Not Applicable

RUTHERFORD HOUSE
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

No findings were reported as a result of the prior year audit.