Luther Speight & Company
Certified Public Accountants and Consultants

SMOTHERS ACADEMY, INC.

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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Luther Speight & Company
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Smothers Academy, Inc.
Jefferson, Louisiana

Report on the Financial Statements
We have audited the accompanying financial statements of Smothers Academy, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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 data 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Controller General of the United States. These 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.

Basis for Disclaimer of Opinion
Due to the closing of the Academy prior to the start of field-work (see Note 9), we were not provided adequate support for the certain financial statement balances which included cash, accounts receivable, property and equipment, accounts payable, revenues and payroll expenses. In addition, we were unable to obtain the attorney letter response from the Academy's primary law firm.

Disclaimer of Opinion
Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Emphasis of a Matter
As discussed in Note 1 to the financial statements, during the year ended June 30, 2019, the Academy adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

Substantial Doubt about the Academy's Ability to Continue as a Going Concern
The accompanying financial statements have been prepared knowing that the Academy will not continue. As discussed in Note 9 to the financial statements, the Louisiana State Board of Elementary and Secondary Education voted to revoke the charter of the Academy. The financial statements do include adjustments that resulted from this outcome. Our opinion was modified with respect to this matter.

Other Matters
Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of compensation, benefits, and other payments to the Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated March 3, 2020 on our consideration of Smothers Academy's internal control over financial reporting and on our test 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Smothers Academy's internal control over financial reporting and compliance.

Luther Speight & Co

Luther Speight & Company CPAs
New Orleans, Louisiana
March 3, 2020

Smothers Academy, Inc.
Statement of Financial Position
June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 318,794	$ -	$ 318,794
Grants Receivable	57,168	-	57,168
Other Assets	11,363	-	11,363
Construction in Progress	132,951	-	132,951
Property and Equipment, Net	147,457	-	147,457
TOTAL ASSETS	667,733	-	667,733
LIABILITIES			
Accounts Payable	190,142	-	190,142
Accrued Expenses	27,833	-	27,833
Payroll Accrual	127,228	-	127,228
TOTAL LIABILITIES	345,203	-	345,203
NET ASSETS			
Without Donor Restrictions	322,530	-	322,530
TOTAL NET ASSETS	322,530	-	322,530
TOTAL LIABILITIES AND NET ASSETS	$ 667,733	$ -	$ 667,733

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

Smothers Academy, Inc.
Statement of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grants			
State and Local Minimum Foundation Program	$ 4,543,692	$ -	$ 4,543,692
Federal	331,371	-	331,371
Miscellaneous Revenue	76,525	-	76,525
Released from Restriction	75,000	(75,000)	-
Total Support and Revenue	5,026,588	(75,000)	4,951,588
EXPENSES			
Program Services	2,940,798	-	2,940,798
Management and General	2,185,876	-	2,185,876
Other Services	7,870	-	7,870
TOTAL EXPENSES	5,134,544	-	5,134,544
Change in Net Assets	(107,956)	(75,000)	(182,956)
NET ASSETS, BEGINNING OF YEAR	430,486	75,000	505,486
NET ASSETS, END OF YEAR	$ 322,530	$ -	$ 322,530

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

Smothers Academy, Inc.
Statement of Cash Flows
June 30, 2019

Cash Flows from Operating Activities	
Change in Net Assets	$ (182,956)
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided (Used) by Operating Activities:	
Depreciation	46,861
Net Changes in Assets and Liabilities:	
Decrease in Receivables	327,067
Increase in Accounts Payable	20,529
Increase in Accrued Expenses	27,833
Increase in Payroll Liabilities	14,813
Total Adjustments	437,103
Net Cash Provided by Operating Activities	254,147
Cash Flows from Investing Activities	
Purchase of Property and Equipment	(133,472)
Net Cash Used by Investing Activities	(133,472)
Net Increase in Cash and Cash Equivalents	120,675
Cash and Cash Equivalents - Beginning of Year	198,119
Cash and Cash Equivalents - End of Year	$ 318,794

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

Smothers Academy, Inc.
Statement of Functional Expense
For the Year Ended June 30, 2019

	Program Services	Management and General	Other Services	Total
Salaries	$ 2,129,830	$ 446,670	$ -	$ 2,576,500
Transportation	512,670	-	-	512,670
Professional Services	-	445,950	-	445,950
Rent	-	351,164	-	351,164
Insurance	-	285,821	-	285,821
Fringe Benefits	157,651	33,063	-	190,714
Bad Debt Expense	-	137,932	-	137,932
Materials & Supplies	117,802	-	-	117,802
Miscellaneous Expense	-	105,121	-	105,121
Custodial Services	-	90,439	-	90,439
Utilities	-	65,405	-	65,405
Communications Expense	-	52,774	-	52,774
Legal Services	-	46,470	-	46,470
Repairs and Maintenance	-	28,341	-	28,341
Equipment Rental	-	28,197	-	28,197
Payroll Taxes	-	16,925	-	16,925
Sports Equipment and Supplies	9,044	-	-	9,044
Food Service	-	-	7,870	7,870
Textbooks and Workbooks	7,390	-	-	7,390
Travel	6,411	-	-	6,411
Dues & Subscriptions	-	4,743	-	4,743
Total Expenses Before Depreciation	2,940,798	2,139,015	7,870	5,087,683
Depreciation	-	46,861	-	46,861
Total Expenses	$ 2,940,798	$ 2,185,876	$ 7,870	$ 5,134,544

The accompanying notes are an integral part of the financial statements

SMOTHERS ACADEMY, INC.
Notes to the Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Smothers Academy (the Academy) is a Type 2 charter school that is focused on improving outcomes for male students. The Academy offers a multifaceted technology integrated curriculum focused on Science, Mathematics, Arts, and Sports developing students into competent, motivated, and selfless life-long learners committed to bettering their community. The Academy was approved by the Louisiana State Board of Elementary and Secondary Education (BESE) and opened its doors in August 2016. During the year ended June 30, 2019, the Academy serve grades K through 8. The Academy is governed by a Board of Directors. During the year ended June 30, 2019, the BESE voted to revoke the charter for Smothers Academy. See note 8 for more details.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the FASB ASC 958-210, *Not-For-Profit Entities*. Under ASC 958-210, the Academy may report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Below is a description of the two classes of net assets:

- *Net Assets Without Donor Restrictions* – Net assets without donor restrictions include funds that are not subject to donor-imposed restrictions. As of June 30, 2019, all of the Academy's net assets were in this category.

- *Net Assets With Donor Restrictions* – Net assets with donor restrictions include funds that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. As of June 30, 2019, the Academy had no net assets with donor restrictions

SMOTHERS ACADEMY, INC.
Notes to the Financial Statements
June 30, 2019

NOTE 1 – (Continued)

Contributions
Contributions received are recorded as without donor restrictions or with donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the donor-imposed time or purpose restrictions.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
For the purposes of the statement of cash flows, the Academy considers all unrestricted highly liquid investments with a maturity of three months or less to be cash equivalents.

Grants Receivable
The grants receivable is stated at the amount management expects to collect from outstanding balances. The financial statements do not include an estimate for allowance for doubtful accounts. Management believes that all receivables are collectible.

Property and Equipment
Expenditures for the acquisition of furniture and equipment are capitalized at cost. The fair value of donated property and equipment is similarly capitalized. The Academy's threshold for capitalization is $500. Management will review every purchase over this amount to determine if it is worthy of capitalization. Depreciation is computed using the straight-line method for financial reporting purposes over the following estimated useful lives:

Furniture	5 – 7 years
Equipment	3 – 5 years

Concentration of Credit
The Academy maintains cash accounts with one commercial bank. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) by up to $250,000 per financial institution for the year ended June 30, 2019. At times, the balance may exceed the federally insured amount. At June 30, 2019, the Academy's cash balances exceeded the FDIC limit by $68,795.

NOTE 1 – (Continued)

Functional Allocation of Expenses
The costs of providing the various programs and 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 benefitted based on the time spent on each program.

Income Taxes
The Organization in a not-for-profit organization that is exempt from income taxes under Section 501(c)3 of the Internal Revenue Code and classified by the Internal Revenue Services as other than a private foundation. The Organization's Forms 990, *Return of Organization Exempt from Income Tax,* for the year ending June 30, 2019 is subject to examination by the IRS, generally for three years after they were filed.

Public Support and Revenue
The Academy's primary source of funding is through the Minimum Foundation Program (MFP) funded by the State Public School Fund. The Academy receives money from this program based on eligible students in attendance. MFP revenue accounts for 88% of the Academy's total support for the year ended June 30, 2019. Federal grants are on a cost reimbursement basis and account for 10% of the Academy's total support for the year ended June 30, 2019.

Recent Accounting Pronouncements
In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards update No. 2016-14, Not-For-Profit Entities (Topic 958) to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendment is effective for fiscal years beginning after December 15, 2017. The Academy has adopted the new ASU, which effects the presentation of the financial statements and the disclosures in the footnotes. Management has implemented the changes and adjusted the presentation in the financial statements and footnotes accordingly.

In June 2018, the FASB issued Accounting Standards Update No. 2018, Not-For-Profit Entities (Topic 958) to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendment is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted, but the Academy has elected not to early adopt this standard. Management is reviewing the impact that this standard will have on the financial statements and related disclosures.

SMOTHERS ACADEMY, INC.
Notes to the Financial Statements
June 30, 2019

NOTE 2 – GRANTS RECEIVABLE

Grants receivable are deemed to be fully collectible by management and were comprised of a $57,168 receivable from the State of Louisiana as of June 30, 2019.

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2019 is as follows:

Furniture & Fixtures	$ 137,606
Computers & Equipment	86,490
Musical Instruments	9,171
	233,267
Accumulated Depreciation	(85,810)
Property and Equipment, Net	$ 147,457
Construction in Progress	$ 132,951

Depreciation expense for the year ended June 30, 2019 was $46,861.

NOTE 4 – COMPENSATED ABSENCES

Per Academy policy, vacation and sick time does not roll over from year to year. Therefore, management has determined that an accrual for compensated absences is not necessary at June 30, 2019.

NOTE 5 – COMMITMENTS

The Academy has employment contracts with most of its employees. The majority of the teacher contracts are for 3 years as long as they are in good standing with the Academy. The Academy is "at will", which means the employment relationship may be terminated by either party, with or without cause, at any time. On June 30, 2019, all employment contracts were terminated due to the Academy being shut down by BESE.

The Academy entered into a 3-year lease agreement with the Jefferson Parish Academy Board on July 1, 2016 for the use of the school building. Rental expense for the year ending June 30, 2019 was $364,944. Since the Academy's charter was revoked effective June 30, 2019, the lease agreement was not renewed. As of June 30, 2019, there were no future lease payments.

NOTE 6 – CONCENTRATIONS

For the year ended June 30, 2019, the Academy received approximately 44% of its total revenue from State public school funds, and approximately 44% of its total revenue from Local sources.

NOTE 7 – CONTINGENCIES

State Funding

The continuation of the Academy is contingent upon legislative appropriation or allocation of funds necessary to fulfill the requirements of the charter contract with the Board of Elementary and Secondary Education. If the legislature fails to appropriate sufficient monies to provide for the continuation of the charter contract, or if such appropriation is reduced by veto of the governor or by any means provided in the appropriations act to prevent the appropriation for the year from exceeding revenues for that year, or for any other lawful purpose, and the effect of such reduction is to provide insufficient monies for the continuation of the charter contract, the contract shall terminate on the date of the beginning of the first fiscal year for which funds are not appropriated.

NOTE 8 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and Cash Equivalents	$	318,794
Accounts Receivable		3,243
Grants Receivable		27,618
	$	349,655

NOTE 9 – ACADEMIC PERFORMANCE AND CHARTER RENEWAL

The BESE has created a statewide system of accountability for all public schools and school districts based on student achievement and minimum standards for the approval of schools. A letter grade system was adopted that is reflective of school and district performance, whereby any school that has been labeled academically unacceptable shall be assigned a grade of “F”.

For the year ended June 30, 2019, the Academy received an D rating based on the students’ standardized test scores. Per state law, the validity of each charter contract is contingent upon the school’s ability to meet certain academic, financial, and legal standards within an allotted time frame. If the Academy meets those standards, then the contract can be renewed for another set period of time. If the Academy fails to meet those standards and fails to improve the students’ test scores, then the contract will not be renewed, and the Academy will be either closed altogether or transferred to a different operator.

Additionally, the contract can be revoked at any time by a majority vote of the BESE if they find that the Academy has violated the contract, fiscal standards, or the law. All charter schools are initially authorized for a 4-year term. The year ended June 30, 2019 was the Academy’s third year in its charter contract. However, the BESE voted to revoke the charter of the Academy based on academic performance, findings from previous audits, and non-compliance related to Special Education requirements. The Academy ceased to exist after the year ended June 30, 2019. Management indicated that the timing of the School closing did not allow sufficient time to properly wind-down the affairs of the School. Although management hired a consulting company to assist in the transition, the timing between closing and engaging the consultant had an adverse impact on the availability of financial records for the audit.

NOTE 10 – SUBSEQUENT EVENTS

Management of the Academy has evaluated all subsequent events through March 3, 2020, the date the financial statements were available to be issued. No additional disclosures other than noted in Note 9 are considered necessary.

Luther Speight & Company
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S 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

To the Board of Directors of
Smothers Academy, Inc.
Baton Rouge, Louisiana

We have audited, in accordance with the 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, the financial statements of Smothers Academy (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Smothers Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Smothers Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described at finding numbers 2019-02, 2019-03, and 2019-04 in the accompanying schedule of findings and questioned costs to be material weaknesses.

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Continued,

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Finding number 2019-06 in the accompany schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smothers Academy's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs at Finding numbers 2019-01 and 2019-05.

Smothers Academy's Response to Findings

Smothers Academy Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Smothers Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Luther Speight & Company CPAs
New Orleans, Louisiana
March 3, 2020

SMOTHERS ACADEMY, INC.
Summary of Auditor's Results
June 30, 2019

Section I – Summary of Auditor's Results

Financial Statements

A disclaimer of opinion was issued on the financial statements of the auditee.

Internal Control Over Financial Reporting:

Material weaknesses identified?	__X__ yes	_____ no
Significant deficiencies identified not considered to be material weaknesses?	__X__ yes	_____ no
Noncompliance material to financial statements noted?	__X__ yes	_____ no

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2019

FINDING NO. 2019-01: AUDIT REPORT NOT SUBMITTED TIMELY (ORIGINATED IN 2018)

CRITERIA:
Louisiana Revised Statute 24:513 requires that Agencies receiving federal, state, or local government funding from the State of Louisiana submit an independent financial statement engagement to the Louisiana Legislative Auditor's office within six months from their fiscal year end.

CONDITION:
The Organization did not complete and submit its independent audit report within the six (6) months after the close of their fiscal year.

CAUSE:
The Louisiana Board of Elementary and Secondary Education voted to revoke the charter of the Academy. The Academy terminated the contracts with all employees effective June 30, 2019 so there were no Academy employees available to close the books or prepare for the audit. An outside company took over subsequent to year-end, but was unable to prepare for the audit in time to meet the deadline.

EFFECT:
The Organization's independent audit report was submitted after the submission deadline.

RECOMMENDATION:
No recommendation needed, as the Academy is no longer operating subsequent to June 30, 2019.

MANAGEMENT'S RESPONSE:
No management response needed.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2019

FINDING NO. 2019-02: AUDIT SUPPORT NOT AVAILABLE FOR TESTING

CRITERIA:
R.S. 24.513 section 512 states that the first and most important requirement of an accounting system is that there be an audit trail. Every transaction in the system must be traceable to supporting documentation. It should be possible to trace the occurrence of an event from the supporting documentation, to initial recording, to summarization in a general ledger account, comparison to budgeted amounts, and interim and annual financial reports. This trail is facilitated by file control and a reconciling series of journals, ledgers, subsidiary ledgers, and reports

CONDITION:
Throughout our audit, we noted multiple instances where we were not provided adequate support to form an opinion on whether individual line items on the financial statements were fairly stated. Below are details of key areas that we were unable to fully audit:

1) Of the Agency's 8 bank accounts, we were only provided 1 of the bank reconciliations and bank statements.
2) The bank reconciliation we were provided had a variance of $15,303 between the Register Balance on the reconciliation and the general ledger balance. In addition, the list of uncleared transactions did not match the uncleared transactions amount on the bank reconciliation. We also noted an unsubstantiated transaction in the outstanding transactions listing for $10,464.61. The variances were explained, but we were not provided with an updated bank reconciliation without a variance.
3) We were provided five adjusting entries for accounts receivable and revenues. However, we were not provided any support for the entries.
4) We were not provided support for the two fixed asset additions selected for testing, totaling $52,172.
5) Of the 11 transactions selected for testing in accounts payable, three of them were missing supporting invoices and one of them was missing a portion of the supporting invoices. In addition, one of the transactions missing supporting documentation was labeled as being a fraudulent check. We noted this check was in the amount of $4,383 and was endorsed with a fake name. We were unable to determine if the Academy received a refund for this check.
6) We were only provided 6 of the 12 monthly credit card statements. We were unable to determine of the Academy resolved the credit card finding from the last two years. See additional information at Finding No. 2019-07.
7) We were not provided any grant agreements for the year ended June 30, 2019. We were also unable to confirm revenues due to receiving the signed confirmations too late into fieldwork.

FINDING NO. 2019-02: AUDIT SUPPORT NOT AVAILABLE FOR TESTING (CONTINUED)

8) We selected 2 payroll periods for testing and were not provided any of the supporting time sheets. See additional information at Finding No. 2019-03.
9) Of the 50 non-payroll expense transactions selected for testing, we were provided only an invoice for 31 of them. In addition, 11 of the 31 invoices were not initialed or signed for payment approval. See additional information at Finding No. 2019-04.
10) We requested minutes for all board meetings during the fiscal year plus subsequent to year-end and were only provided board minutes for 3 months. For the remaining months, we were only provided board meeting agendas, which did not go into detail of the meetings.
11) We were not provided the completed Louisiana Legislative Auditor's Compliance Questionnaire.

CAUSE:
The Louisiana Board of Elementary and Secondary Education voted to revoke the Academy's charter, effective June 30, 2019. As a result, the Academy was forced to terminate all employee contracts. This means the Academy was unable to use their normal record retention practices subsequent to year-end.

EFFECT:
We were unable to determine if the Academy's financial statements were fairly stated due to the lack of support for testing. This resulted in a Disclaimer of Opinion.

RECOMMENDATION:
No recommendation needed, as the Academy is no longer operating subsequent to June 30, 2019.

MANAGEMENT'S RESPONSE:
No management response needed.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2019

FINDING NO. 2019-03: PAYROLL AND HUMAN RESOURCE PROCEDURES NOT ADEQUATE (ORIGINATED IN 2017)

CRITERIA:
Best practices for governmental entities published by the Louisiana Legislative Auditor relating to proper internal controls over payroll and personnel files state the following:

Payroll Documentation
Effective controls could consist of (1) including in the individual personnel files the approved salary or rate of pay amount; (2) requiring all employees to complete simple time reports to document hours worked; (3) requiring the time reports be approved by the appropriate supervisor; and (4) maintaining simple records to account for vacation and sick leave earned and taken by employees.

Employee Personnel Records
A personnel file should be maintained for each employee that contains, at a minimum, (1) the employment application form that includes background information (employee's name, address, date of birth, emergency contact) and work experience of the employee; (2) the approved starting salary or rate of pay amount; (3) the Federal Employee's Withholding Allowance Certificate Form W-4 and Louisiana Employee Withholding Exemption Certificate Form L-4; (4) approved salary or hourly pay rate increases/decreases; (5) employee authorized deductions (e.g., insurance, deferred compensation plan); (6) performance appraisals; (7) promotions; and (8) disciplinary actions.

Provisions set forth in the Louisiana Charter School Handbook provide for comparable requirements.

CONDITION:
The Organization's payroll processing and human resource procedures were not adequate and did not include sufficient documentation to support payroll disbursements. During our examination we noted the following:

1) We examined a sample of 112 payroll transactions (2 pay periods) and noted the following:
    a. Timesheets were not available for all 112 payroll transactions.

    b. Personnel files were not available to review to verify pay rates.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2019

FINDING NO. 2018-03: PAYROLL AND HUMAN RESOURCE PROCEDURES NOT ADEQUATE (CONTINUED)

CAUSE:
The Academy did not have a human resource manager or coordinator on staff. In addition, the Academy closed down as of June 30, 2019 and they were not able to follow their normal document retention procedures.

EFFECT:
The internal control environment over payroll and human resources was not adequate.

RECOMMENDATION:
No recommendation needed, as the Academy is no longer operating subsequent to June 30, 2019.

MANAGEMENT'S RESPONSE:
No management response needed.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2019

FINDING NO. 2019-04: NON-PAYROLL CASH DISBURSEMENT PROCEDURES AND CONTROLS NOT ADEQUATE (ORIGINATED IN 2018)

QUESTIONED COSTS: $ 241,933

CRITERIA:
R.S. 24.513 section 512 states that the first and most important requirement of an accounting system is that there be an audit trail. Every transaction in the system must be traceable to supporting documentation. It should be possible to trace the occurrence of an event from the supporting documentation, to initial recording, to summarization in a general ledger account, comparison to budgeted amounts, and interim and annual financial reports. This trail is facilitated by file control and a reconciling series of journals, ledgers, subsidiary ledgers, and reports.

CONDITION:
We selected a sample of non-payroll cash disbursements for examination and noted supporting documentation was not complete, and in some instances not available for review. Our sample included 50 transactions totaling $541,352. Based upon our examination we noted nineteen (19) transactions that were not supported by source documentation totaling $241,933. We also noted eleven (11) additional instances where various internal control procedures were not followed related to the disbursements.

CAUSE:
The Organization's record retention practices were not adequately implemented.

EFFECT:
Expenditures totaling $241,933 were not adequately supported with proper documentation. We were unable to determine if these transactions were eligible costs.

RECOMMENDATION:
No recommendation needed, as the Academy is no longer operating subsequent to June 30, 2019.

MANAGEMENT'S RESPONSE:
No management response needed.

FINDING NO. 2018-05: UNAUTHORIZED ADVANCES TO CHIEF EXECUTIVE OFFICER NOT PAID IN FULL

CRITERIA:
R.S. 17:414.3 limits a principal's discretion to expenses that benefit the educational purposes of the school and LA. Const. Art. VII prohibits any gratuitous expenditure of school funds for non-educational purposes that are either legally unauthorized or non-mandated.

CONDITION:
During the prior audit period the Organization's chief executive officer was paid an advance totaling $20,000. The advance was not specifically approved by the Organization's governing body. This disbursement was disclosed prior to the beginning of our prior year audit fieldwork. Upon the beginning of fieldwork we were advised by Organization management that the chief executive officer had agreed to reimburse the Organization in full for the advance received. The agreed upon repayment schedule reflected 36 monthly payments at $555.55, which we noted started on October 15, 2017. We reviewed the schedule of payments as of June 30, 2018 and noted the payments were made in accordance with the schedule. We were informed by the chief executive officer that the remaining balance would be paid in full by the end of the current fiscal year. However, we noted no evidence that payments were made during the year ended June 30, 2019.

CAUSE:
We were unable to determine the cause for this condition.

EFFECT:
The advances to the chief executive officer in the prior audit period totaling $20,000 were considered unauthorized disbursements and ineligible costs. Since there was no evidence provided that additional payments were made in the current audit period, the remaining balance from the year ended June 30, 2018 was not repaid.

RECOMMENDATION:
We recommend the Organization obtain repayment of the remaining balance of the unauthorized advance.

MANAGEMENT RESPONSE:
We did not receive a response from management.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2019

FINDING NO. 2019-06: CONSTRUCTION MANAGEMENT PROCEDURES NOT ADEQUATE (ORIGINATED IN 2018)

CRITERIA:
Construction industry best practices provide that construction project monitoring procedures should be conducted by management and/or governance for all capital improvement projects to provide reasonable assurance that the organization's assets are protected as well as to ensure the projects will be completed in accordance with the agreement and in a timely manner.

CONDITION:
The Organization began a capital improvement project during the audit period that included land improvements in anticipation of subsequent acquisition and installation of modular classroom buildings on the Organization's campus. Although the Organization engaged an architect/engineering firm for design services, that firm was not engaged to provide construction management services during the course of the project construction. The Organization did not have adequate technical professionals engaged to monitor the technical requirements and benchmarks included in the construction contract.

CAUSE:
We were unable to determine the cause of this condition.

EFFECT:
We were unable to specifically determine the proper amount of construction fees that were due and payable as of June 30, 2019 based upon the technical construction benchmarks included in the contract.

RECOMMENDATION:
No recommendation needed, as the Academy is no longer operating subsequent to June 30, 2019.

MANAGEMENT'S RESPONSE:
The Academy engaged a licensed architect on May 4, 2017. However, the contractor informed the school that an architect was not needed because the modular company already has an architect of record. Subsequently, the contractor handled all of the project management, permitting, scheduling, and construction of the facility.

SMOTHERS ACADEMY, INC.
Schedule of Prior Year Findings
June 30, 2019

Finding #	Description	Resolved/Unresolved
2018-01	AUDIT REPORT NOT SUBMITTED TIMELY	UNRESOLVED
2018-02	FIXED ASSET RECONCILIATION PROCEDURES NOT ADEQUATE	RESOLVED
2018-03	PAYROLL AND HUMAN RESOURCE PROCEDURES NOT ADEQUATE	UNRESOLVED
2018-04	CREDIT CARD EXPENSES INCLUDED PERSONAL USAGE	RESOLVED
2018-05	NON-PAYROLL CASH DISBURSEMENT PROCEDURES NOT ADEQUATE	UNRESOLVED
2018-06	TRAVEL EXPENDITURES NOT ADQUATELY DOCUMENTED	RESOLVED
2018-07	UNAUTHORIZED ADVANCES TO CEO	PARTIALLY RESOLVED
2018-08	CONSTRUCTION MANAGEMENT PROCEDURES NOT ADEQUATE	UNRESOLVED

SMOTHERS ACADEMY, INC.
Schedule of Compensation, Benefits, and Other Payments
To Agency Head or Chief Executive Officer
For the Year Ended June 30, 2019

Agency Head Name: Damon Smothers, CEO

Purpose	Amount
Salary	$ 125,000
Benefits-FICA	-
Benefits-insurance	-
Benefits-retirement	-
Benefits-executive parking	-
Car allowance	-
vehicle provided by government	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Continuing professional education fees	-
Housing	-
Unvouchered expenses	-
Special meals	-