



Luther Speight & Company
Certified Public Accountants and Consultants

March 19, 2019

To Whom it May Concern:

The accompanying independent audit report for Smothers Academy, Inc. for the fiscal year ended June 30, 2018 is reissued to include a correction on page 23 of the report. On that page the date of "October 15, 2018" has been corrected to state "October 15, 2017".

No other modifications to the original report have been made.

Respectfully Submitted,

Luther Speight, CPA

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date APR 17 2019

REISSUE



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, 2018

New Orleans Office: 1100 Poydras Street, Suite 1225/New Orleans, LA/ (504)561-8600
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Luther Speight & Company
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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, 2018, 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 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.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smothers Academy as of June 30, 2018, 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.

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 and the Schedules Required by State Law are 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statement of functional expenses – program services is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2019 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 & Company CPAs
New Orleans, Louisiana
February 19, 2019

Smothers Academy, Inc.
Statement of Financial Position
June 30, 2018

| | Unrestricted | Temporarily Restricted | Total |
|---|-------------------|---------------------------|-------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 198,119 | \$ - | \$ 198,119 |
| Grants Receivable | 309,225 | 75,000 | 384,225 |
| Other Assets | 11,373 | - | 11,373 |
| Construction in Progress | 52,708 | - | 52,708 |
| Property and Equipment, Net | 141,089 | - | 141,089 |
| | <u>\$ 712,514</u> | <u>\$ 75,000</u> | <u>\$ 787,514</u> |
| TOTAL ASSETS | | | |
| | | | |
| LIABILITIES | | | |
| Accounts Payable | \$ 169,613 | \$ - | \$ 169,613 |
| Payroll Accrual | 112,415 | - | 112,415 |
| | <u>282,028</u> | <u>-</u> | <u>282,028</u> |
| TOTAL LIABILITIES | | | |
| | | | |
| NET ASSETS | | | |
| Unrestricted | 430,486 | 75,000 | 505,486 |
| TOTAL NET ASSETS | <u>430,486</u> | <u>75,000</u> | <u>505,486</u> |
| | | | |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 712,514</u> | <u>\$ 75,000</u> | <u>\$ 787,514</u> |

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

Smothers Academy, Inc.
Statement of Activities
For the Year Ended June 30, 2018

| | Unrestricted | Temporarily Restricted | Total |
|--|--------------|---------------------------|--------------|
| SUPPORT AND REVENUE | | | |
| Grants | | | |
| State and Local Minimum Foundation Program | \$ 4,249,794 | \$ - | \$ 4,249,794 |
| Federal | 358,852 | - | 358,852 |
| Athletic Department Revenue | 20,918 | - | 20,918 |
| Miscellaneous Revenue | 29,427 | - | 29,427 |
| Released from Restriction | 75,000 | (75,000) | - |
| Total Support and Revenue | 4,733,991 | (75,000) | 4,658,991 |
| EXPENSES | | | |
| Program Services | 2,320,498 | - | 2,320,498 |
| Management and General | 2,116,083 | - | 2,116,083 |
| Other Services | 1,196 | - | 1,196 |
| TOTAL EXPENSES | 4,437,777 | - | 4,437,777 |
| Change in Net Assets | 296,214 | (75,000) | 221,214 |
| NET ASSETS, BEGINNING OF YEAR | 134,272 | 150,000 | 284,272 |
| NET ASSETS, END OF YEAR | \$ 430,486 | \$ 75,000 | \$ 505,486 |

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

Smothers Academy, Inc.
Statement of Cash Flows
June 30, 2018

| | |
|---|--------------------------|
| Cash Flows from Operating Activities | |
| Change in Net Assets | \$ 221,214 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities: | |
| Depreciation | 23,068 |
| Net Changes in Assets and Liabilities: | |
| Increase in Receivables | (17,067) |
| Increase in Other Assets | (8,873) |
| Increase in Accounts Payable | 21,237 |
| Decrease in Other Current Liabilities | (22,430) |
| Total Adjustments | <u>(4,065)</u> |
| Net Cash Provided by Operating Activities | 217,149 |
| Cash Flows from Investing Activities | |
| Purchase of Property and Equipment | <u>(110,939)</u> |
| Net Cash Used by Investing Activities | <u>(110,939)</u> |
| Net Increase in Cash and Cash Equivalents | 106,210 |
| Cash and Cash Equivalents - Beginning of Year | <u>91,909</u> |
| Cash and Cash Equivalents - End of Year | <u><u>\$ 198,119</u></u> |

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

Smothers Academy, Inc.
Statement of Functional Expense
For the Year Ended June 30, 2018

| | Program Services | Management and General | Other Services | Total |
|---|---------------------|------------------------------|-------------------|---------------------|
| Salaries | \$ 1,595,564 | \$ 641,413 | \$ - | \$ 2,236,977 |
| Communications Expense | - | 59,531 | - | 59,531 |
| Custodial Services | - | 116,108 | - | 116,108 |
| Dues & Subscriptions | - | 15,822 | - | 15,822 |
| Equipment Rental | - | 37,563 | - | 37,563 |
| Food Service | - | - | 1,196 | 1,196 |
| Fringe Benefits | - | 173,743 | - | 173,743 |
| Insurance | - | 255,580 | - | 255,580 |
| Legal Services | - | 59,375 | - | 59,375 |
| Materials & Supplies | 54,541 | - | - | 54,541 |
| Miscellaneous Expense | - | 81,233 | - | 81,233 |
| Payroll Taxes | - | 30,007 | - | 30,007 |
| Professional Services | - | 349,375 | - | 349,375 |
| Rent | - | 173,004 | - | 173,004 |
| Repairs and Maintenance | - | 42,082 | - | 42,082 |
| Sports Equipment and Supplies | 35,120 | - | - | 35,120 |
| Textbooks and Workbooks | 163,424 | - | - | 163,424 |
| Transportation | 471,849 | - | - | 471,849 |
| Utilities | - | 58,179 | - | 58,179 |
| Total Expenses Before Depreciation | 2,320,498 | 2,093,015 | 1,196 | 4,414,709 |
| Depreciation | - | 23,068 | - | 23,068 |
| Total Expenses | \$ 2,320,498 | \$ 2,116,083 | \$ 1,196 | \$ 4,437,777 |

The accompanying notes are an integral part of the financial statements

SMOTHERS ACADEMY, INC.
Notes to the Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Smother's Academy (the School) is a Type 2 charter school that is focused on improving outcomes for male students. The School 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 School was approved by the Louisiana State Board of Elementary and Secondary Education (BESE) and opened its doors in August 2016. The School currently serves grades K through 8, with plans of eventually expanding to grades K through 12. The School is governed by a Board of Directors.

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

The School follows the provisions of Non-For-Profit Entities Topic of the Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC 958), which establishes external financial reporting for not-for-profit organizations which includes three basic financial statements and classifications of resources into three separate categories of net assets, as follows:

- Unrestricted – Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.
- Temporarily Restricted – Net assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the School pursuant to those stipulations.
- Permanently Restricted – Net assets whose use by the School is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the School. There were no permanently restricted net assets as of June 30, 2018.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the donor-imposed time or purpose restrictions.

SMOTHERS ACADEMY, INC.
Notes to the Financial Statements
June 30, 2018

NOTE 1 – (Continued)

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 School 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 School 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, 2018. At times, the balance may exceed the federally insured amount. At June 30, 2018, the School's cash balances did not exceed the FDIC limit.

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.

SMOTHERS ACADEMY, INC.
Notes to the Financial Statements
June 30, 2018

NOTE 1 – (Continued)

Income Taxes

The Organization is 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, 2018 is subject to examination by the IRS, generally for three years after they were filed.

Public Support and Revenue

The School's primary source of funding is through the Minimum Foundation Program (MFP) funded by the State Public School Fund. The School receives money from this program based on eligible students in attendance. MFP revenue accounts for 91% of the School's total support for the year ended June 30, 2018. Federal grants are on a cost reimbursement basis and account for 8% of the School's total support for the year ended June 30, 2018.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the School's financial statements. The School has not elected to early adopt this standard.

NOTE 2 – COMPENSATED ABSENCES

Per School 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, 2018.

SMOTHERS ACADEMY, INC.
Notes to the Financial Statements
June 30, 2018

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2018 is as follows:

| | |
|-----------------------------|----------------|
| Furniture & Fixtures | \$ 137,699 |
| Computers & Equipment | 33,166 |
| Musical Instruments | 9,171 |
| | <u>180,036</u> |
| Accumulated Depreciation | (38,947) |
| Property and Equipment, Net | \$ 141,089 |
| | |
| Construction in Progress | \$ 52,708 |

Depreciation expense for the year ended June 30, 2018 was \$23,068.

NOTE 4 – GRANTS RECEIVABLE

Grants receivable are deemed to be fully collectible by management and were comprised of the following as of June 30, 2018:

| | <u>2018</u> |
|--|-------------------|
| Grants Receivable | |
| Title I | \$ 234,240 |
| Title IIA | 13,410 |
| IDEA Part B 611 | 34,067 |
| IDEA Preschool 619 | 1,931 |
| Charter School Start-up Rnd 1 Implementation | 900 |
| Charter School Start-up Rnd 2 Implementation | 75,000 |
| Title IV SSAE | 5,120 |
| E-Rate | 19,557 |
| Total Grants Receivable | <u>\$ 384,225</u> |

SMOTHERS ACADEMY, INC.
Notes to the Financial Statements
June 30, 2018

NOTE 5 – COMMITMENTS

The School 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 School. The School is “at will”, which means the employment relationship may be terminated by either party, with or without cause, at any time.

The School entered into a 3-year lease agreement with the Jefferson Parish School Board on July 1, 2016 for the use of the school building. Rental expense for the year ending June 30, 2018 was \$173,004.

The future minimum lease payments are as follows:

| | |
|-----------------|-------------------|
| June 30: | |
| 2019 | <u>\$ 173,004</u> |
| | <u>\$ 173,004</u> |

NOTE 6 – CONCENTRATIONS

For the year ended June 30, 2018, the School received approximately 42% of its total revenue from State public school funds, and approximately 50% of its total revenue from Local sources.

NOTE 7 – CONTINGENCIES

State Funding

The continuation of the School 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.

SMOTHERS ACADEMY, INC.
Notes to the Financial Statements
June 30, 2018

NOTE 8 – 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, 2018, the School received an F 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 School meets those standards, then the contract can be renewed for another set period of time. If the School fails to meet those standards and fails to improve the students’ test scores, then the contract will not be renewed, and the School 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 School 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, 2018 was the School’s second year in its charter contract. Therefore, the decision to renew the School’s contract will be made no later than January 31, 2020. Although fiscal management findings are included in the Schedule of Findings and Recommendations, we did not make a determination if those findings have potential impacts to the status of the School’s charter.

NOTE 9 – SUBSEQUENT EVENTS

Management of the School has evaluated all subsequent events through February 22, 2019, the date the financial statements were available to be issued. No additional disclosures 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, 2018, 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 February 19, 2019.

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 2018-02, 2018-03, 2018-04, and 2018-05 in the accompanying schedule of findings and questioned costs to be material weaknesses.

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 deficiencies described in Finding numbers 2018-06 and 2018-08 in the accompany schedule of findings and questioned costs to be significant deficiencies.

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 2018-01 and 2018-07.

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
February 19, 2019

SMOTHERS ACADEMY, INC.
Summary of Auditor's Results
June 30, 2018

Section I – Summary of Auditor's Results

Financial Statements

An unmodified 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, 2018

FINDING NO. 2018-01: AUDIT REPORT NOT SUBMITTED TIMELY

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 Organization experienced significant turnover on the Board of Directors which contributed to a delay in engaging the independent audit firm.

EFFECT:

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

RECOMMENDATION:

We recommend that the Organization update its administrative procedures to include timely engagement of their independent auditor and assure submission of the audit report to the Louisiana Legislative Auditor within six months of the agency's year-end.

MANAGEMENT'S RESPONSE:

The Organization experienced significant turnover on the Board of Directors which contributed to a delay in engaging the independent audit firm. Although this is true, we will work to not have this happen again. Smothers Academy Preparatory School has established a record of excellent/good reporting with the Louisiana Department of Education and the Legislative Auditor's office we will continue that trend in the year to come.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2018

FINDING NO. 2018-02: FIXED ASSET RECONCILIATION PROCEDURES NOT ADEQUATE

CRITERIA:

Louisiana Revised Statute 24:515.B.1 states that every auditee subject to examination and audit shall maintain records of all land, buildings, improvements, equipment, and any other general fixed assets which were purchased or otherwise acquired. The records shall include information as to the date of purchase of such property or equipment, the initial cost, the disposition, if any, the purpose of such disposition, and the recipient of the property or equipment disposed of. These records shall be made available when the audit is conducted by a certified public accountant.

CONDITION:

Our initial review of the Organization's fixed asset records indicated the records had not been updated for the year ended June 30, 2018 and the fixed asset accounts had not been reconciled to subsidiary records. During the course of our fieldwork, management updated the fixed asset records including applicable reconciliations. We also noted that the Organization had not performed a physical inventory of fixed assets since as of the close of its second year of operations.

CAUSE:

The Organization's general accounting practices did not include maintaining the fixed asset records on a timely basis as well as performing periodic fixed asset inventories.

EFFECT:

The Organization's interim and year-end fixed asset and depreciation expense balances were not fairly stated or adequately supported with subsidiary ledgers. In addition, the Organization's procedures for safeguarding fixed assets were not adequate.

RECOMMENDATION:

We recommend the Organization update their fixed asset records on a monthly basis. Periodic fixed asset inventories should be implemented to include reconciliation to fixed asset records and follow-up of any variances.

MANAGEMENT RESPONSE:

Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2018

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

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) The Organization outsourced its payroll processing and human resource function to separate companies. The coordination between the two companies and the Organization's accounting department was not adequate.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2018

Continued,

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

- 2) We examined a sample of forty-eight (48) payroll transactions and twenty-five (25) personnel files and noted the following:
 - a) The authorized pay rates per personnel files did not agree with the gross pay computations for six (6) of our sample transactions.
 - b) Salary information was missing from three (3) of our sample transactions.
 - c) Timesheets were not available for eighteen (18) of the forty-eight (48) payroll transactions. However, we noted that employees use a thumbprint identification when clocking in at work.
 - d) Human resource files were not consistently documented and did not include all required documentation in many instances. Some of the more vital records, such as employment contracts, documentation of change in pay, sick and vacation leave documentation, signed experience verification forms, and background check information were missing from multiple personnel files

CAUSE:

The School did not have a human resource manager or coordinator on staff.

EFFECT:

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

RECOMMENDATION:

We recommend that the Organization delegate the coordination of human resource and payroll policies and procedures to a specific staff person. Policies should be updated to include documentation and approval of staff daily timesheets.

MANAGEMENT'S RESPONSE:

Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2018

FINDING NO. 2018-04: CREDIT CARD EXPENSES NOT SUPPORTED AND INCLUDED
PERSONAL USAGE

QUESTIONED COSTS: \$4,942

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:

The Organization maintained a credit card for business use. During our audit of general ledger postings for credit card activity we examined 47 charges totaling \$6,710. We were not provided with supporting documentation for 34 of the transactions totaling \$3,972. We also noted that 17 charges totaling \$2,618 were charged to miscellaneous expense and appeared to include personal expenses and also appeared to include alcoholic beverages.

CAUSE:

Organization policies and procedures regarding use of credit cards did not limit the use to business purposes.

EFFECT:

Governmental funding appears to have been used to fund ineligible expenses.

RECOMMENDATION:

We recommend that the Organization develop and implement a policy that restricts credit card usage to business purposes. The policy should also include requirements for maintaining supporting documentation for all credit card transactions on file.

MANAGEMENT'S RESPONSE:

Per our prior year finding Mr. Smothers paid \$12,500 to Smothers Academy for \$9,000 of personal credit card charges. The difference was used to cover these charges per auditor's review, any difference due Smothers Academy Preparatory School will be paid in full by 6/30/2019. Also please note these charges were from 07/01/2017 to 11/29/2017; once we were notified of this non-compliance issue, the personal credit card charges stopped.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2018

FINDING NO. 2018-05: NON-PAYROLL CASH DISBURSEMENT PROCEDURES AND CONTROLS NOT ADEQUATE

QUESTIONED COSTS: \$ 4,237

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 40 transactions totaling \$437,776. Based upon our examination we noted four (4) transactions that were not supported by source documentation totaling \$4,237. We also noted twelve (12) 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 \$4,237 were not adequately supported with proper documentation. We were unable to determine if these transactions were eligible costs.

RECOMMENDATION:

We recommend the Organization enhance its record retention procedures to assure all expenditures are accompanied by adequate source documentation on file.

MANAGEMENT RESPONSE:

Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2018

FINDING NO. 2018-06: TRAVEL EXPENDITURES NOT ADEQUATELY DOCUMENTED

QUESTIONED COSTS: \$ 1,000

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 travel expenditures and reimbursements for examination and noted supporting documentation was not complete, and in some instances not available for review. Our sample included five transactions totaling \$2,439. We were not provided with supporting documentation for one (1) transaction totaling \$1,000.

CAUSE:

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

EFFECT:

Expenditures totaling \$1,000 were not adequately supported with proper documentation. We were unable to determine if these transactions were eligible costs.

RECOMMENDATION:

We recommend the School enhance its record retention procedures to assure all travel expenditures are accompanied by adequate source documentation on file.

MANAGEMENT RESPONSE:

Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2018

FINDING NO. 2018-07: UNAUTHORIZED ADVANCES TO CHIEF EXECUTIVE OFFICER

QUESTIONED COSTS: \$20,000

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 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 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.

CAUSE:

We were unable to determine the cause for this condition.

EFFECT:

The advances to the chief executive officer totaling \$20,000 were considered unauthorized disbursements and ineligible costs.

RECOMMENDATION:

We recommend the Organization implement policies that prohibit employee advances.

MANAGEMENT RESPONSE:

We were under the impression that this transaction was acceptable, however this advance will be paid in full by the end this fiscal year.

SMOTHERS ACADEMY, INC.
Schedule of Findings and Management Responses
June 30, 2018

FINDING NO. 2018-08: CONSTRUCTION MANAGEMENT PROCEDURES NOT ADEQUATE

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, 2018 based upon the technical construction benchmarks included in the contract.

RECOMMENDATION:

We recommend the Organization engage construction management or other knowledgeable professional to assist in the management and oversight of major capital improvements.

MANAGEMENT RESPONSE:

Smothers Academy management met regularly with the general contractor during the construction work to provide project oversight. However, we agree with the recommendation and will engage professional construction managers to provide oversight on future major capital projects.

SMOTHERS ACADEMY, INC.
Schedule of Prior Year Findings
June 30, 2018

| <u>Finding #</u> | <u>Description</u> | <u>Resolved/Unresolved</u> |
|------------------|---|----------------------------|
| 2017-01 | LACK OF SEGREGATION OF DUTIES | Resolved |
| 2017-02 | BANK RECONCILIATION PROCEDURES NOT ADEQUATE | Resolved |
| 2017-03 | NON-COMPLIANCE WITH OPEN MEETINGS LAW | Resolved |
| 2017-04 | LACK OF DOCUMENTED POLICIES & PROCEDURES | Resolved |
| 2017-05 | CREDIT CARD EXPENSES INCLUDED PERSONAL USAGE | Unresolved |
| 2017-06 | PAYROLL AND HUMAN RESOURCE 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, 2018

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 | - |



Luther Speight & Company
Certified Public Accountants and Consultants

**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES - PERFORMANCE AND STATISTICAL DATA**

To the Board of Directors of Smothers Academy, Inc., the Louisiana Department of Education, and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Smothers Academy, Inc., the Louisiana Department of Education, and the Louisiana Legislative Auditor (the specified parties), on the performance and statistical data accompanying the annual financial statements of Smothers Academy, Inc. for the fiscal year ended June 30, 2018; and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education (BESE), in compliance with Louisiana Revised Statute 24:514 I. Management of Smothers Academy, Inc. is responsible for its performance and statistical data. The sufficiency of these procedures is solely the responsibility of the specified parties. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

General Fund Instructional and Support Expenditures and Certain Local Revenue Sources
(Schedule 1)

1. We selected a sample of 25 transactions, reviewed supporting documentation, and observed that the sampled expenditures/revenues are classified correctly and are reported in the proper amounts among the following amounts reported on the schedule:
 - Total General Fund Instructional Expenditures
 - Total General Fund Equipment Expenditures
 - Total Local Taxation Revenue
 - Total Local Earnings on Investment in Real Property
 - Total State Revenue in Lieu of Taxes
 - Nonpublic Textbook Revenue
 - Nonpublic Transportation Revenue

Findings: Based upon our examination we noted four (4) transactions that were not supported by source documentation totaling \$4,237. We also noted twelve (12) additional instances where various internal control procedures were not followed related to the disbursements. We also noted two (2) transactions that were incorrectly recorded as General Fund Instructional Expenditures that we recorded as audit adjustments to fixed assets.

Management's Response: Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

Class Size Characteristics (Schedule 2)

2. We obtained a list of classes by school, school type, and class size as reported on the schedule. We then traced a sample of 10 classes to the October 1 roll books for those classes and observed that the class was properly classified on the schedule.

Findings: Of the 10 classes sampled, we noted that 1 of the class sizes were wrong. The 1 class size that was wrong was classified in the wrong size category on Schedule 2.

Management's Response: Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

Education Levels/Experience of Public School Staff (NO SCHEDULE)

3. We obtained October 1st PEP data submitted to the Department of Education (or equivalent listing prepared by management), including full-time teachers, principals, and assistant principals by classification, as well as their level of education and experience, and obtained management's representation that the data/listing was complete. We then selected a sample of 25 individuals, traced to each individual's personnel file, and observed that each individual's education level and experience was properly classified on the PEP data or equivalent listing prepared by management.

Findings: Of the sample of 25 individuals, we noted that only 1 had the proper documents to support both the education level and experience. We noted that 18 of the 25 did not have any documents related to their education level or experience at all. We also noted that 6 out of the 25 had either one of the documents in the file or the document that was included did not match the PEP data.

Management's Response: Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

Public School Staff Data: Average Salaries (NO SCHEDULE)

4. We obtained June 30th PEP data submitted to the Department of Education (or equivalent listing provided by management) of all classroom teachers, including base salary, extra compensation, and ROTC or rehired retiree status, as well as full-time equivalents, and obtained management's representation that the data/listing was complete. We then selected a sample of 25 individuals, traced to each individual's personnel file, and observed that each individual's salary, extra compensation, and full-time equivalents were properly included on the PEP data (or equivalent listing prepared by management).

Findings: Of the sample of 25 individuals, 16 of the personnel files matched the salary information included in the PEP data. We noted that the supporting documentation for 9 out of the 25 individuals did not match the salary information included in the PEP data.

Management's Response: Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the United States Comptroller General. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the performance and statistical data. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on the performance and statistical data accompanying the annual financial statements of Smothers Academy, Inc., as required by Louisiana Revised Statute 24:514.I, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.



Luther Speight & Company CPAs
New Orleans, Louisiana
February 19, 2019

Smothers Academy, Inc.
Schedules Required by State Law
(R.S. 24:514 – Performance and Statistical Data)

Schedule 1 - General Fund Instructional and Support Expenditures and Certain Local Revenue Sources

This schedule includes general fund instructional and equipment expenditures. It also contains local taxation revenue, earnings on investments, revenue in lieu of taxes, and nonpublic textbook and transportation revenue. This data is used either in the Minimum Foundation Program (MFP) formula or is presented annually in the MFP 70% Expenditure Requirement Report.

Schedule 2 (Formerly Schedule 6) Class Size Characteristics

This schedule includes the percent and number of classes with student enrollment in the following ranges: 1-20, 21-26, 27-33, and 34+ students.

Smothers Academy, Inc.
General Fund Instructional and Support Expenditures
and Certain Local Revenue Sources
For the Year Ended June 30, 2018
Schedule 1

General Fund Instructional and Equipment Expenditures

General Fund Instructional Expenditures:

Teacher and Student Interaction Activities:

| | | |
|--|----|--------------|
| Classroom Teacher Salaries | \$ | 917,369 |
| Other Instructional Staff Activities | | 675,883 |
| Instructional Staff Employee Benefits | | 416,292 |
| Purchased Professional and Technical Services | | 1,050,898 |
| Instructional Materials and Supplies | | 207,530 |
| Instructional Equipment | | 60,614 |
| Total Teacher and Student Interaction Activities | | \$ 3,328,586 |

Other Instructional Activities -

Pupil Support Activities -
Less: Equipment for Pupil Support Activities -
Net Pupil Support Activities -

Instructional Staff Services -
Less: Equipment for Instructional Staff Services -
Net Instructional Staff Services -

School Administration -
Less: Equipment for School Administration -
Net School Administration -

Total General Fund Instructional Expenditures (Total of Column B) 3,328,586

Total General Fund Equipment Expenditures (Object 730; Function Series 1000-4000) -

Certain Local Revenue Sources

Local Taxation Revenue:

| | | |
|---|--|---|
| Constitutional Ad Valorem Taxes | | - |
| Renewable Ad Valorem Tax | | - |
| Debt Service Ad Valorem Tax | | - |
| Up to 1% of Collections by the Sheriff on Taxes Other than School Taxes | | - |
| Sales and Use Taxes | | - |
| Total Local Taxation Revenue | | - |

Local Earnings on Investment in Real Property:

| | | |
|---|--|---|
| Earnings from 16th Section Property | | - |
| Earnings from Other Real Property | | - |
| Total Local Earnings on Investment in Real Property | | - |

See independent accountant's report on applying agreed-upon procedures

Smothers Academy, Inc.
General Fund Instructional and Support Expenditures
and Certain Local Revenue Sources
For the Year Ended June 30, 2018

| | | |
|--------------------------------------|------------|------------|
| State Revenue in Lieu of Taxes: | Schedule 1 | |
| Revenue Sharing - Constitutional Tax | | - |
| Revenue Sharing - Other Taxes | | - |
| Revenue Sharing - Excess Portion | | - |
| Other Revenue in Lieu of Taxes | | - |
| Total State Revenue in Lieu of Taxes | | - ===== |
| | | |
| Nonpublic Textbook Revenue | | - ===== |
| Nonpublic Transportation Revenue | | - ===== |

See independent accountant's report on applying agreed-upon procedures

Smothers Academy, Inc.
Class Size Characteristics
For the Year Ended June 30, 2018
Schedule 2

| School Type | Class Size Range | | | | | | | |
|----------------------------------|------------------|--------|---------|--------|---------|--------|---------|--------|
| | 1 - 20 | | 21 - 26 | | 27 - 33 | | 34+ | |
| | Percent | Number | Percent | Number | Percent | Number | Percent | Number |
| Elementary | 0% | - | 24% | 18 | 76% | 56 | 0% | - |
| Elementary Activity Classes | 0% | - | 12% | 2 | 88% | 14 | 0% | - |
| Middle/Jr. High | 0% | - | 0% | - | 100% | 16 | 0% | - |
| Middle/Jr. High Activity Classes | 0% | - | 11% | 1 | 89% | 8 | 0% | - |
| High | 0% | - | 0% | - | 0% | - | 0% | - |
| High Activity Classes | 0% | - | 0% | - | 0% | - | 0% | - |
| Combination | 0% | - | 0% | - | 0% | - | 0% | - |
| Combination Activity Classes | 0% | - | 0% | - | 0% | - | 0% | - |

Note: The Board of Elementary and Secondary Education has set specific limits on the maximum size of classes at various grade levels. The maximum enrollment in grades K-3 is 26 students and maximum enrollment in grades 4-12 is 33 students. These limits do not apply to activity classes such as physical education, chorus, band, and other classes without maximum enrollment standards. Therefore, these classes are included only as separate line items.



Luther Speight & Company
Certified Public Accountants and Consultants

SMOTHERS ACADEMY, INC.

**INDEPENDENT ACCOUNTANT'S
AGREED UPON PROCEDURES REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

New Orleans Office: 1100 Poydras Street, Suite 1225/New Orleans, LA/ (504)561-8600
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Luther Speight & Company
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INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of Smothers Academy, Inc. and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Smothers Academy, Inc. (the School) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period July 1, 2017 through June 30, 2018. The School's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) **Disbursements**, including processing, reviewing, and approving.
 - d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

- e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process
- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)
- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Results: The School's written policies and procedures properly address the items in (a through h) above. However, the policies and procedures do not address ethics or ethics violations. Debt Service is not considered applicable.

Management's Response: Smothers Academy Preparatory School will update our policies and procedures manual to include ethics and ethics violations.

Board or Finance Committee

- 2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

Results: We noted the School conducted board meetings every month of the fiscal year except for December 2017 and January 2018. In addition, the May 2018 and the June 2018 board minutes did not contain any detailed information about the meetings.

Management's Response: Smothers Academy Preparatory School's Board did not conduct meetings in December 2017 and January 2018; however, I believe we are allowed not to have (2) monthly meetings in a fiscal year. In May 2018 and June 2018 we were experiencing Board turnover; however we will work to have seamless transition in the future.

- b) For those entities reporting on the non-profit accounting model, observe that the minutes referenced included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.

Results: Per review of the board minutes, we noted financial activity was regularly discussed at the meetings. However, the May 2018 and June 2018 board meeting minutes did not contain any detailed information about the meetings.

Management's Response: Smothers Academy Preparatory School Chief Financial Officer reports school finances to the Board of Director every Board meeting. We ensure it is documented within the minutes moving forward.

Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:

Results: List and management's representations obtained.

- a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

Results: We noted that all bank reconciliations were prepared well after (at least 4 months after) the statement closing date for the main operating account. We noted that no reconciliations were prepared for the remaining bank accounts in the sample.

Management's Response: Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged).

Results: We noted that for the main Operating account, the reconciliations were initialed and dated by the CEO and in some cases a Board member.

- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Results: We noted no outstanding items greater than 12 months old.

Collections

- 4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

Results: List and management's representation obtained.

- 5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site, obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

Results: We noted no employees share cash drawers.

- b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (c.g. pre-numbered receipts) to the deposit.

Results: We noted that employees that are responsible for collection cash sometimes made the deposits. However, a separate employee that does not collect cash or deposit the money counts and reconciles the money to the records.

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposits.

Results: We noted that the employees responsible for collecting cash do not post collections entries to the general ledger.

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

Results: We noted the employee responsible for reconciling cash collections to the general ledger does not collect cash.

- 6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

Results: The employees that collect cash and are not bonded by insurance.

Management's Response: Smothers Academy Preparatory School will contact the insurance company to ensure our employees are bonded.

- 7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). Obtain supporting documentation for each of the 10 deposits and:

- a) Observe that receipts are sequentially pre-numbered.

Results: We were only provided deposit slips and a listing of what was included in the deposits. It does not appear that employees that collect cash retain pre-numbered cash logs or cash receipt books.

Management's Response: Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls. In addition, we do use receipt books and maintain cash logs for cash collections.

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

Results: We were only provided deposit slips and a listing of what was included in the deposits. It does not appear that employees that collect cash retain pre-numbered cash logs or cash receipt books.

Management's Response: See response at 7a) above.

- c) Trace the deposit slip total to the actual deposit per the bank statement.

Results: No findings noted.

- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).

Results: We were unable to ascertain when the cash and checks were collected based on the supporting documentation provided.

Management's Response: Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

- e) Trace the actual deposit per the bank statement to the general ledger.

Results: No findings noted.

Non-Payroll Disbursements (excluding credit card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

Results: List and management's representations obtained.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

Results: No findings noted.

- b) At least two employees are involved in processing and approving payments to vendors.

Results: Purchase orders and/or invoices are reviewed and approved by department heads and the CFO before a separate employee processes the payments.

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

Results: Adding a new vendor requires approval from the CEO.

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments

Results: We noted that after a check is processed, it is signed by the CFO and either mailed off by him or mailed by a separate employee.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtaining supporting documentation for each transaction and:

- a) Observe that the disbursement matched the related original invoice/billing statement.

Results: No findings noted.

- b) Observe that the disbursement documentation included evidence (e.g. initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

Results: No findings noted.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

Results: Obtained list and management's representation.

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g. original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder.

Results: We noted that all monthly credit card reconciliations are performed by an employee different from the authorized card holders and approved by a board member without credit card privileges.

- b) Observe that finance charges and late fees were not assessed on the selected statements.

Results: No findings noted.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transactions, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

Results: We were provided receipts for only 10 out of the 20 selected transactions. In addition, the business purpose was not documented for the 10 receipts received.

Management's Response: Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

Travel and Travel-Related Expense Reimbursements (excluding credit card transactions)

14. Obtain from management a listing of all travel and related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

Results: We noted the School did not use a per diem for the reimbursements selected.

b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

Results: We were only provided receipts for 4 out of the 5 selected transactions. For the receipts we were provided, we noted the receipts supported the actual travel costs.

Management's Response: Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

Results: We noted no documentation of the business purpose of the 4 selected transactions that we were provided support for. However, we did note that for 2 of the 5 selected transactions, the business purpose was described in the journal entry on the general ledger detail.

Management's Response: Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Results: We noted that 4 of the 5 transactions were approved by someone other than the person receiving reimbursement. For the remaining transaction, no support was given.

Management's Response: Per our prior year audit finding regarding segregation of duties we added (2) additional staff to the accounting department. Although our staff accountants are working diligently to perform at a high level we are still working to train them on the importance of creating an audit trail. We will continue to train them on the importance of record retention and following the policies and procedures established. We will also strengthen our review during the month end close process. Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. Alternately, the practitioner may use an equivalent selection source such as an active vendor list. Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g. solicited quotes or bids, advertised), if required by law.

Results: We noted none of the School's contracts we selected were subject to Louisiana Public Bid Law.

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

Results: Per the School's Financial Policies and Procedures, only contracts over \$150,000 are required to be approved by the Board of Directors. We noted all of the contracts we selected were under this amount and no Board approval was necessary. We also noted the CEO signed all 5 contracts, which falls in line with the School's policies.

- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

Results: No findings noted.

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Results: No findings noted.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agreed paid salaries to authorized salaries/pay rates in the personnel files.

Results: We obtained the list and management's representation. Of the 5 employees selected, the personnel documents for 1 of the employees did not agree to actual salary paid. We noted that this employee received a raise, but we were not provided the appropriate documentation supporting the raise.

Management's Response: Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period and:

- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g. vacation, sick, and compensatory).

Results: We noted that 4 out of the 5 employees had time sheets documenting their daily attendance. No time sheets were provided for 1 of the 5 employees. In addition, 2 of the 5 employees did not have Leave Approval forms supporting their leave time.

Management's Response: Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

- b) Observe that supervisors approved the attendance and leave of the selected employees/officials

Results: We noted 3 of the 5 employees had approved Leave Authorization forms that were signed by a supervisor. Two out of the 5 employees did not have Leave Authorization forms.

Management's Response: Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

Results: No findings noted other than what is noted in #17a and #17b above.

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

Results: We were provided the final payment for the two selected employees. However, we were unable to verify the pay rate or hours to the employees' personnel files.

Management's Response: Smothers Academy Preparatory School recognizes the importance of this finding and we are in discussions to hire a staff accountant to work specifically on internal controls.

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Results: No findings noted.

Ethics

20. Using the five randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and:
- a) Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.
 - b) Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Results: Not applicable.

Debt Service (excluding nonprofits)

21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

Results: Not applicable.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

Results: Not applicable as the School is a non-profit entity.

Other

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Results: Per management, there were no misappropriations of public funds and assets during the fiscal year.

24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

Results: We observed the notice posted on the School premises, but noted it was not included on the School's website.

Management's Response: Smothers Academy Preparatory School has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.



Luther Speight & Company CPAs
New Orleans, Louisiana
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