



1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

**Inspection of
Larry E. Nunn & Associates,
Certified Public Accountants, L.L.C.**

**Issued by the
Public Company Accounting Oversight Board**

July 13, 2006

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

**PORTIONS OF THE COMPLETE REPORT ARE OMITTED
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**

PCAOB RELEASE NO. 104-2006-147



Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from Generally Accepted Accounting Principles ("GAAP") in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP, rests with the Securities and Exchange Commission ("SEC" or "Commission"). Any description, in this report, of perceived departures from GAAP should not be understood as an indication that the Commission has considered or made any determination regarding these GAAP issues unless otherwise expressly stated.



**INSPECTION OF LARRY E. NUNN & ASSOCIATES,
CERTIFIED PUBLIC ACCOUNTANTS, L.L.C.**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Larry E. Nunn & Associates, Certified Public Accountants, L.L.C.^{1/} ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{2/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{3/} A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

^{1/} The Firm issued the audit report on its issuer client under the name of Larry E. Nunn & Associates, LLC.

^{2/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

^{3/} See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted fieldwork for the inspection at times during the period from October 11, 2005 to November 21, 2005. The fieldwork included procedures tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	3 (Columbus, Plainfield, and Seymour, Indiana)
Ownership structure	Limited liability company
Number of partners	9
Number of professional staff ^{4/}	17
Number of issuer audit clients ^{5/}	1

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

^{4/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{5/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.^{6/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagement

The scope of the inspection procedures performed included a review of aspects of the performance of the Firm's audit of the financial statements of its issuer audit client. Those aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

The inspection team identified matters that it considered to be audit deficiencies.^{7/} The deficiencies identified included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements. Those deficiencies included –

^{6/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations or cash flows of the issuer in conformity with GAAP, the Board reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{7/} PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. *See* AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

- (1) the Firm's failure to identify, or to address appropriately, departures from GAAP that related to potentially material misstatements in the issuer's audited financial statements concerning prepaid trade show costs;
- (2) the failure to perform and document an appropriate evaluation of audit differences identified in the work papers;
- (3) the failure to perform and document an appropriate evaluation of the accounting for, and disclosure of, contingent legal liabilities; and
- (4) the failure to perform and document appropriate testing of a component of revenues from the issuer's business.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, the inspection included review of certain of the Firm's practices, policies and procedures related to audit quality. This review addressed practices, policies and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I



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Inspection of Larry E. Nunn & Associates,
Certified Public Accountants, L.L.C.
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PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.

Larry E. Nunn & Associates
Certified Public Accountants, L.L.C.



Member American Institute of Certified Public Accountants (AICPA)
Member AICPA's Center for Public Company Audit Firms
Member AICPA's Governmental Audit Quality Center
Member AICPA's Employee Benefit Plan Audit Quality Center
Registered with Public Company Accounting Oversight Board (PCAOB)
Member Indiana CPA Society
An Independent Member of BDO Seidman Alliance

From Vision to Solution

May 8, 2006

Mr. George H. Diacont, Director
Division of Registrations and Inspections
Company Accounting Oversight Board
1666 K Street N.W.
Washington DC 20006

Via FedEx Express with
Copy via Fax to (202) 862-8433

Dear Director:

Attached is our response to the draft report dated April 7, 2006. As requested in your letter the attached response under the caption of Audit Opinion Issues with the four topics is response subject to Part I. The total attached response is to respond by group to Part I, II and III.

We appreciate the opportunity to respond and would be pleased to answer any questions.

Very truly yours,
Larry E. Nunn & Associates, LLC



Larry E. Nunn
Managing Member

2545 Foxpointe Drive Suite A
Columbus, IN 47203-3299
812-376-3061 Fax 812-376 3157

4002 Clarks Creek Road
Plainfield, IN 46168-1948
317-839-9136 Fax 317-839-9177

419 West Second Street
Seymour, IN 47274-2149
812-523-6726 Fax 812-523-6728

Visit our website: www.nunnpcas.com

**Public Company Accounting Oversight Board
Draft Report of Inspection Dated April 7, 2006
Response by Larry E. Nunn & Associates May 8, 2006
Attached Summary**

Audit Opinion Issues

Prepaid Trade Show Costs

Paragraph 17 of FAS 45 also requires the revenue recognition on a percentage earned basis. The realization of the franchise fee revenue based on the percentage earned was tested and the earned revenue would have equaled the prepaid balance. The effect would be to provide revenue recognition to the extent of this balance and recast the current asset from the prepaid expense to unbilled franchise fees. There would be a gross up of revenue and operating costs by about 100,000 or 1.25% of revenue and operating expenses would increase about .5% of revenue. Operating costs were reported at 62.4%.

In 2005 the Issuer changed the presentation to be consistent with the expensing of the costs and the recognition of the franchise fee revenue on the percentage basis.

Audit Differences

The analysis does not consider the recording of 26,000 as an outstanding check to the account against the wage accrual and the 68,226 for the closing adjustment made to get the Accruals to 1,252,000 from the 1,184,000 in adjustments which makes the adjustment 20,735 and under the materiality limit for individually significant items as these are one item on the balance sheet.

In 2005 the Issuer made all adjustments that were above the individual item significance even though the net was below the individual item significance on a balance sheet item. The audit procedure was enhanced to require all adjustments to be summarized and categorized by balance sheet and income statement item to assure the proper determination of significance.

Loss Contingencies

Client in representation and in the legal letter response documentation indicated that they believed a loss would not be incurred in which legal counsel agreed and justified with appeal briefs causing the loss to not be probable. The excess of loss in the discontinued operations accrual with the insurance claim on these matters supported this with disclosure of lawsuits in the notes. In 2005 the issues had been resolved and there were no loss contingencies that were noted neither in legal responses nor in the other audit work. Additionally, the notes to the financial statements disclosed the contingencies of claims from litigation even though there were none in existence or threatened currently.

**Public Company Accounting Oversight Board
Draft Report of Inspection Dated April 7, 2006
Response by Larry E. Nunn & Associates May 8, 2006
Attached Summary**

Revenue Testing of Restaurant Operations

The revenue from restaurant operations are deposits made daily directly into the corporate account at the respective location's bank branch. This revenue recognition was tested in connection with the cash and subsequent review audit procedures with specific cash cutoff testing at year end and the cutoff period since the year end. The procedures included the tracing through the point of sale register documentation by store for the sales in the last week of December and the first week of January. The bank reconciliation for the bank account was done for the month of December, thus, the testing of receipts from the restaurants was also reconciled for the month of December to the point of sale documentation.

This test was expanded in 2005 to include the overall testing for one month of 60% of the restaurant stores revenue which included detail testing to point of sale documentation. This expanded the test sample of approximately 8% of the annual revenue to a test of approximately 12.5%. As with prior years, the restaurant sales and cost of sales was analytically reviewed and compared to prior years and expected results.

REDACTED

Comments on Non-public Aspects of Report