

SMART SCHOOL, INC.
(A COMPONENT UNIT OF THE BROWARD COUNTY PUBLIC SCHOOL BOARD)

**BASIC FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

June 30, 2007

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AUDITOR GENERAL

SMART SCHOOL, INC.
BASIC FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Smart School, Inc.
Lauderhill, Florida

We have audited the accompanying financial statements of the governmental activities and the major fund of Smart School, Inc. (a component unit of the of Broward County Public School Board) as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Smart School, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities and the General Fund of Smart School, Inc. as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2007 on our consideration of the Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered assessing the results of our audit.

Smart School, Inc.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 25 and 26 are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.


KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
September 26, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

SMART SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Smart School, Inc., (the School) originally started as a charter middle school located in Broward County, Florida. The School opened another charter high school at a separate location in Broward County, Florida. As management of the School, we offer readers of the basic financial statements this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2007.

Management's discussion and analysis is included at the beginning of the School's basic financial statements to provide, in layman's terms, the past and current position of the School's financial condition. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplementary information.

FINANCIAL HIGHLIGHTS

The following are the highlights of financial activity for the year ended June 30, 2007:

- The School's total liabilities exceeded its assets at June 30, 2007 by \$ 637,731.
- The School's total revenues were \$ 5,609,291, \$ 4,279,023 from FTE revenues and \$ 189,820 from grants and contributions, not restricted to specific programs, \$ 356,289 from operating grants, \$ 624,998 from capital grants, \$151,584 from charges for services, and \$ 7,577 from interest income. The School's expenses for the year were \$ 6,067,627.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Schools' basic financial statements. The School's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other required supplemental information in addition to the basic financial statements.

Government-wide financial statements:

The government-wide basic financial statements, which consist of the following two statements, are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net assets (deficit) presents information on all of the Schools' assets and liabilities, with the difference between the two reported as net assets (deficit). Over time, increases or decreases in net assets (deficit) may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the Schools' net assets (deficit) changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected revenues and services rendered, but unpaid.)

The government-wide basic financial statements include all governmental activities that are principally supported by grants and entitlements from the state for full-time equivalent funding. The School does not have any business-type activities. The governmental activities of the School primarily include instruction and instructional support services.

The government-wide financial statements can be found on pages 8 and 9 of this report.

SMART SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Fund financial statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School has one category of funds - governmental funds.

Governmental funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Schools' near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance (deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains only one governmental fund type, which is the General Fund. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balance for the General Fund.

The School adopts an annual budget for its governmental fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The government fund basic financial statements can be found on pages 10 through 13 of this report.

Notes to basic financial statements:

The notes to basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 14 through 24 of this report.

Other information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the School's adopted budget to actual results. Required supplemental information can be found on pages 25 and 26 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets (deficit) may serve over time as a useful indicator of financial position. A portion of the School's net assets (deficit) reflect its investment in capital assets, less any related outstanding debt used to acquire those assets. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Resources that are subject to external restrictions on how they may be used are classified as restricted assets. For the year ended June 30, 2007, the School had no restricted assets. The remaining unrestricted net assets (deficit) balance may

SMART SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

be used to meet the School's ongoing obligations. The following table presents the change in net assets (deficit) for the years ended June 30, 2007 and 2006. Our analysis in the table below focuses on the net assets of the School's governmental activities:

	Smart School, Inc. Net Assets (Deficit)		
	<u>2007</u>	<u>2006</u>	<u>Variances</u>
ASSETS:			
Current and other assets	\$ 578,816	\$ 579,931	\$ (1,115)
Capital assets, net of depreciation	<u>854,115</u>	<u>1,132,622</u>	<u>(278,507)</u>
Total assets	<u>1,432,931</u>	<u>1,712,553</u>	<u>(279,622)</u>
LIABILITIES:			
Liabilities, excluding long-term liabilities	1,341,638	1,744,275	(402,637)
Long-term liabilities	<u>729,024</u>	<u>147,673</u>	<u>581,351</u>
Total liabilities	<u>2,070,662</u>	<u>1,891,948</u>	<u>178,714</u>
NET ASSETS (DEFICIT):			
Invested in property and equipment, net of related debt	725,465	925,524	(200,059)
Unrestricted (deficit)	<u>(1,363,196)</u>	<u>(1,104,919)</u>	<u>(258,277)</u>
Total net assets (deficit)	\$ <u>(637,731)</u>	\$ <u>(179,395)</u>	\$ <u>(458,336)</u>

Governmental activities:

The results of this year's operations for the School as a whole are reported in the statement of activities on page 9. The table below provides a condensed presentation of the School's revenues and expenses for the years ended June 30, 2007 and 2006:

	Smart School, Inc. Change in Net Assets (Deficit)		
	<u>2007</u>	<u>2006</u>	<u>Variances</u>
REVENUES:			
General revenues	\$ 4,476,420	\$ 4,949,429	\$ (473,009)
Program revenues:			
Capital grants and contributions	624,998	361,515	263,483
Operating grants and contributions	356,289	395,675	(39,386)
Charges for services	<u>151,584</u>	<u>135,877</u>	<u>15,707</u>
Total revenues	<u>5,609,291</u>	<u>5,842,496</u>	<u>(233,205)</u>

SMART SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2007

Governmental activities: (continued)

FUNCTIONS/PROGRAM EXPENSES:			
Instruction	2,518,450	2,873,981	(355,531)
Operation of facility	1,042,840	837,258	205,582
General administration	998,051	1,062,535	(64,484)
School administration	438,129	678,872	(240,743)
Pupil transportation services	248,456	154,630	93,826
Food services	191,369	31,552	159,817
Extended care programs	174,885	--	174,885
Central services	165,515	164,265	1,250
Instructional support services	128,777	48,925	79,852
Facility maintenance	82,404	58,054	24,350
Interest expense	56,567	20,700	35,867
Fiscal services	<u>22,184</u>	<u>22,391</u>	<u>(207)</u>
 Total governmental activities	 <u>6,067,627</u>	 <u>5,953,163</u>	 <u>114,464</u>
 Decrease in net assets	 \$ <u>(458,336)</u>	 \$ <u>(110,667)</u>	 \$ <u>(347,669)</u>

FINANCIAL HIGHLIGHTS - GOVERNMENTAL FUND

The following is condensed information regarding the Governmental Fund:

	<u>2007</u>	<u>2006</u>	<u>Variance</u>
REVENUES	\$ 5,609,291	\$ 5,842,496	\$ (233,205)
EXPENDITURES	(6,095,482)	(6,505,738)	410,256
OTHER FINANCING SOURCES	<u>849,038</u>	<u>194,992</u>	<u>654,046</u>
Net change in fund balance (deficit)	362,847	(468,250)	831,097
FUND BALANCE (DEFICIT), July 1, 2006	<u>(915,052)</u>	<u>(446,802)</u>	<u>(468,250)</u>
FUND BALANCE (DEFICIT), June 30, 2007	\$ <u>(552,205)</u>	\$ <u>(915,052)</u>	\$ <u>362,847</u>

Revenue and expenditure decreases were primarily related to the overall decrease in the number of students attending both Schools.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At June 30, 2007, the School had capital assets of \$ 854,115, net of accumulated depreciation, invested in a leasehold improvements, computers, transportation equipment, and furniture and

SMART SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

equipment as compared to \$ 1,132,622 at June 30, 2006. A detailed schedule is on page 18 and 19 in footnotes to the basic financial statements.

Debt

At June 30, 2007, the School had debt of \$ 907,532, which consists of capital leases, as compared to \$ 396,965 at June 30, 2006. More information about the School's debt is on page 20 and 21 of the basic financial statements.

BUDGETARY HIGHLIGHTS

The following is an analysis of the School's adopted budget to actual variances and comments on certain differences:

Middle School

- FTE revenues were under planned levels due to a decrease in student enrollment.
- Expenditures were over planned levels due principally to debt service and unexpected lunch expenses.

High School

- Revenues overall were over planned levels due to an increase in student enrollment and the receipt of the 21st Century Grant (Extended Day Program).
- Salaries expenditures were over planned levels due to an increase in teachers relative to the increase in students.

ECONOMIC OUTLOOK

The School expects to grow to approximately 1,000 students over the next three years. This would include 400 students at the middle school level and 600 students at the high school level. These growth estimates are anticipated due to the uniqueness of the programs offered, class size reductions affecting the public school system, and the addition of grades eleven and twelve to our high school.

REQUESTS FOR INFORMATION

Questions about this report or requests for additional information should be directed to Ms. Olivia Hilton, CFO; Smart School, Inc.; 3020 N.W. 33rd Avenue; Lauderdale Lakes, Florida 33311.

**BASIC
FINANCIAL STATEMENTS**

SMART SCHOOL, INC.
STATEMENT OF NET ASSETS (DEFICIT)
June 30, 2007

A S S E T S

CURRENT ASSETS:

Cash and cash equivalents	\$ 66,724
Accounts receivable, net	250,868
Prepaid expenses and other assets	<u>18,419</u>

Total current assets 336,011

NONCURRENT ASSETS:

Capital assets, less accumulated depreciation of \$ 1,496,175	854,115
Deposits	<u>242,805</u>

Total noncurrent assets 1,096,920

Total assets 1,432,931

L I A B I L I T I E S A N D N E T A S S E T S (D E F I C I T)

CURRENT LIABILITIES:

Bank overdraft	16,031
Accounts payable	383,765
Accrued expenses	2,087
Accrued payroll and related payroll taxes	377,452
Accrued interest payable	32,109
Current portion of debt	178,508
Due to Lauderdale Lakes Academy, Inc.	242,970
Due to management company	<u>108,716</u>

Total current liabilities 1,341,638

NONCURRENT LIABILITIES:

Debt, less current portion	<u>729,024</u>
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Total noncurrent liabilities 729,024

Total liabilities 2,070,662

COMMITMENTS AND CONTINGENCIES (Notes 10 and 12)

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NET ASSETS (DEFICIT):

Invested in capital assets, net of related debt	725,465
Unrestricted (deficit)	<u>(1,363,196)</u>

Total net assets (deficit) \$ (637,731)

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

SMART SCHOOL, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

		Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets (Deficit)
FUNCTIONS/PROGRAMS:					
Governmental Activities:					
Instruction	\$ 2,518,450	\$ 42,482	\$ 148,601	\$ --	\$ (2,327,367)
Facility operations	1,042,840	--	--	624,998	(417,842)
General administration	998,051	--	--	--	(998,051)
School administration	438,129	--	--	--	(438,129)
Pupil transportation services	248,456	103,944	--	--	(144,512)
Food services	191,369	5,158	88,385	--	(97,826)
Extended care programs	174,885	--	119,303	--	(55,582)
Central services	165,515	--	--	--	(165,515)
Instructional support services	128,777	--	--	--	(128,777)
Facility maintenance	82,404	--	--	--	(82,404)
Interest expense	56,567	--	--	--	(56,567)
Fiscal services	22,184	--	--	--	(22,184)
Total governmental activities	<u>\$ 6,067,627</u>	<u>\$ 151,584</u>	<u>\$ 356,289</u>	<u>\$ 624,998</u>	<u>(4,934,756)</u>
General revenues:					
FTE revenues					4,279,023
Grants and contributions, not restricted for specific programs					189,820
Interest income					<u>7,577</u>
Total general revenues					<u>4,476,420</u>
Change in net assets (deficit)					(458,336)
Net assets (deficit), July 1, 2006					<u>(179,395)</u>
Net assets (deficit), June 30, 2007					<u>\$ (637,731)</u>

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

SMART SCHOOL, INC.
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2007

A S S E T S

	<u>Charter Middle School</u>	<u>Charter High School</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 66,424	\$ 300	\$ 66,724
Accounts receivable, net	231,593	19,275	250,868
Prepaid expenditures and other assets	14,446	3,973	18,419
Deposits	<u>51,605</u>	<u>191,200</u>	<u>242,805</u>
Total assets	\$ <u>364,068</u>	\$ <u>214,748</u>	\$ <u>578,816</u>

L I A B I L I T I E S A N D F U N D B A L A N C E

LIABILITIES:			
Bank overdraft	\$ 16,031	\$ --	\$ 16,031
Accounts payable	280,359	103,406	383,765
Accrued liabilities	2,087	--	2,087
Accrued payroll and payroll taxes	214,929	162,523	377,452
Due to Lauderdale Lakes Academy, Inc.	(539,959)	782,929	242,970
Due to management company	108,716	--	108,716
Intrafund balances	<u>1,048,717</u>	<u>(1,048,717)</u>	<u>--</u>
Total liabilities	<u>1,130,880</u>	<u>141</u>	<u>1,131,021</u>
COMMITMENTS AND CONTINGENCIES			
(Note 10 and 12)	--	--	--
FUND BALANCE (DEFICIT):			
Reserved for:			
Prepaid expenditures and other assets	14,446	3,973	18,419
Unreserved (deficit)	<u>(781,258)</u>	<u>210,634</u>	<u>(570,624)</u>
Total fund balance (deficit)	<u>(766,812)</u>	<u>214,607</u>	<u>(552,205)</u>
Total liabilities and fund balance (deficit)	\$ <u>364,068</u>	\$ <u>214,748</u>	\$ <u>578,816</u>

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

SMART SCHOOL, INC.
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
SHEET TO THE STATEMENT OF NET ASSETS (DEFICIT)
For the Year Ended June 30, 2007

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
SHEET TO THE STATEMENT OF NET ASSETS (DEFICIT), PAGE 10

Governmental fund balance (deficit) \$ (552,205)

Amounts reported for governmental activities in
the statement of net assets (deficit) are different because:

The cost of capital assets acquired is reported as an expenditure in the governmental fund. The statement of net assets (deficit) includes those capital assets, net of accumulated depreciation, among the assets of the School as a whole.

Governmental capital assets	\$ 2,350,290	
Less accumulated depreciation	<u>(1,496,175)</u>	854,115

Liabilities not payable with current available resources are not reported as fund liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements.

Notes payable	(778,882)	
Capital lease payable	(128,650)	
Accrued interest payable	<u>(32,109)</u>	<u>(939,641)</u>

NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES,
PAGE 8 \$ (637,731)

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

SMART SCHOOL, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE
IN FUND BALANCE (DEFICIT) - GOVERNMENTAL FUND
For the Year Ended June 30, 2007

	<u>Charter Middle School</u>	<u>Charter High School</u>	<u>Total Governmental Fund</u>
REVENUES:			
State sources	\$ 2,138,206	\$ 3,077,182	\$ 5,215,388
Federal sources	269,150	47,796	316,946
Local sources	<u>76,207</u>	<u>750</u>	<u>76,957</u>
Total revenues	<u>2,483,563</u>	<u>3,125,728</u>	<u>5,609,291</u>
EXPENDITURES:			
Current:			
Instruction	1,151,990	1,541,343	2,693,333
General administration	429,730	592,779	1,022,509
School administration	194,471	243,658	438,129
Facility operations	403,381	315,922	719,303
Central services	88,394	77,121	165,515
Pupil transportation services	141,820	106,636	248,456
Facility maintenance	44,368	38,036	82,404
Instructional support services	64,928	63,849	128,777
Food services	151,978	39,391	191,369
Fiscal services	9,292	12,893	22,185
Capital outlay	21,196	23,835	45,031
Debt service	<u>338,471</u>	<u>--</u>	<u>338,471</u>
Total expenditures	<u>3,040,019</u>	<u>3,055,463</u>	<u>6,095,482</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(556,456)</u>	<u>70,265</u>	<u>(486,191)</u>
OTHER FINANCING SOURCES:			
Proceeds from issuance of debt (Note 7)	<u>611,462</u>	<u>237,576</u>	<u>849,038</u>
Net change in fund balance	55,006	307,841	362,847
FUND BALANCE (DEFICIT), July 1, 2006	<u>(821,818)</u>	<u>(93,234)</u>	<u>(915,052)</u>
FUND BALANCE (DEFICIT), June 30, 2007	\$ <u><u>(766,812)</u></u>	\$ <u><u>214,607</u></u>	\$ <u><u>(552,205)</u></u>

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

SMART SCHOOL, INC.
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE (DEFICIT) OF THE
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

NET INCREASE IN FUND BALANCE (DEFICIT) -
 GOVERNMENTAL FUND, PAGE 12 \$ 362,847

Amounts reported for governmental activities in the statement of activities
 are different because:

Governmental funds report capital outlays as expenditures; in the statement
 of activities, these costs are allocated over their estimated useful lives as a
 provision for depreciation.

The cost of property and equipment purchased	\$ 45,031	
Less provision for depreciation	<u>(323,538)</u>	(278,507)

Debt proceeds provide current financial resources to
 governmental funds, but issuing debt increase long-term
 liabilities in the statement of net assets. Repayment of
 debt principal is an expenditure in the governmental funds,
 but the repayment reduces long-term liabilities in the
 statement of net assets

Proceeds from debt	(849,038)	
Repayments of debt	<u>338,471</u>	(510,567)

Some expense reported in the statement of activities do
 not require the use of current financial resources and, therefore,
 are not reported as expenditures in governmental funds.

Increase in accrued interest		<u>(32,109)</u>
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CHANGE IN NET ASSETS (DEFICIT) ON THE STATEMENT OF
 ACTIVITIES, PAGE 9 \$ (458,336)

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

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - ORGANIZATION AND OPERATIONS

Smart School, Inc. (the "School") is a not-for-profit organization incorporated in the State of Florida and originally established as a charter school for children from sixth grade through eighth grade in Broward County. In August, 2003, the School opened a high school which offers grades nine through twelve at a another location in Broward County under a separate charter contract. As of June 30, 2007, approximately 370 children were enrolled in the middle school and 350 in the high school. The School is funded primarily through the Broward County Public School Board contributions and other governmental grants.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity:

The School operates under two charters granted by the sponsoring school district, the Broward County Public School Board, (the "Sponsor"). The School's middle school charter contract is effective until June 30, 2010, and may be renewed in increments of one year by mutual written agreement between the School and the Sponsor. The School's high school charter contract was approved on June 19, 2003, and is effective until June 30, 2013, and may be renewed in increments of five years by mutual written agreement between the School and the Sponsor. At the end of the term of the charters, the Sponsor may choose not to renew the charters under grounds specified in the charters in which case the Sponsor is required to notify the Schools in writing at least ninety days prior to the charters' expiration. During the term of the charters, the Sponsor may also terminate the charters if good cause is shown. The School is considered a component unit of the Sponsor.

The School may also be financially accountable if an organization is fiscally dependent on the School regardless of whether the organization has a separately elected governing board, a governing board appointed by another government, or a jointly approved board. In addition, component units can be other organizations for which the nature and significance of their relationship with the Schools are such that exclusion would cause the reporting entities' financial statements to be misleading or incomplete. As a result of evaluating the above criteria, management has determined that no component units exist for which the Schools are financially accountable which would require inclusion in the Schools' financial statements.

As a result of evaluating the above criteria, management has determined that no component units exist for which the School is financially accountable which would require inclusion in the School's basic financial statements.

Basis of presentation:

Based on the contractual provisions within the School's contract with the Broward County Public School Board and the provisions of Florida Statutes, the School is presented as a governmental organization for financial reporting purposes.

Government-wide Statements:

The School's basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the Schools' major fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. All of the Schools' activities are classified as governmental activities.

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the government-wide statement of net assets (deficit), the governmental activities column is presented on a consolidated basis, if applicable, and is reported on a full accrual, economic resource basis, which recognizes all noncurrent assets and receivables as well as all noncurrent debt and obligations. The Schools' net assets (deficit) are reported in two parts: invested in capital assets, net of related debt; and unrestricted net assets (deficit). As of June 30, 2007, the Schools' net assets (deficit) were classified as:

Invested in capital assets, net of related debt	\$	725,465
Unrestricted (deficit)		<u>(1,363,196)</u>
	\$	<u>(637,731)</u>

The government-wide statement of activities reports both the gross and net cost of each of the School's functions. The net costs, by function are also supported by general revenues (unrestricted contributions, investment income, other revenue, etc.). The statement of activities reduces gross expenses (including provision for depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

This government-wide focus is more on the ability to sustain the School as an entity and the change in the School's net assets (deficit) resulting from the current year's activities.

Fund basic financial statements:

The accounts of the School are organized on the basis of funds. The operations of the General Fund are accounted for with a separate set of self-balancing accounts that comprise their assets, liabilities, equity, revenues, and expenditures.

The charter middle school and charter high school operations are both accounted for in the General Fund of the School. It is a governmental fund type used to account for all financial transactions of the School.

Measurement focus and basis of accounting:

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. Governmental funds use the current financial resources measurement focus and the governmental-wide statements use the economic resources measurement focus.

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting under which revenue is recognized in the accounting period in which it becomes susceptible to accrual (i.e., when it becomes both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the current period means one year.

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets (deficit):

Net assets (deficit) are classified in two categories. The meaning of each is as follows:

Invested in capital assets, net of related debt - represents the difference between the cost of capital assets, less accumulated depreciation reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those capital assets.

Unrestricted (deficit) - indicates that portion of net assets (deficit) that may be used to fund future operations.

Fund balance (deficit):

Fund balance (deficit) is classified in two categories. The meaning of each is as follows:

Reserved - indicates the portion of fund balance (deficit) not available for appropriation in subsequent periods or legally segregated for a specific future use. These amounts do not represent available spendable resources.

Unreserved (deficit) - indicates the portion of fund balance (deficit) that may be used to fund future operations.

Designations of fund balance represent tentative management plans that are subject to change.

Capital assets:

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Capital assets are defined by the School as assets with an initial cost of \$ 500 and useful life of over one year. Donated capital assets are valued at their estimated fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of a capital asset are capitalized and depreciated over the remaining useful lives of the related capital assets. Other costs incurred for repairs and maintenance are expensed/expended as incurred.

Depreciation on all capital assets is provided on the straight-line basis over the estimated useful lives as follows:

Leasehold improvements	5 years
Computer equipment	5 years
Transportation equipment	5 years
Furniture and equipment	5-7 years

Allowance for doubtful accounts:

Management of the School reviews the accounts receivable balances and provides an allowance for accounts which may be uncollectible.

Revenue recognition:

Student funding is provided by the State of Florida through the School Board. Such funding is recorded as entitlement revenue in the government-wide financial statements and state source revenue in the fund financial statements and is net of a 5% administration fee retained by the School Board. This funding is received on a pro-rata basis over a twelve-month period and is adjusted for changes in full-time equivalent (FTE) student population.

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grant and contract revenue is recognized when the allowable costs as defined by the individual grant or contract are incurred.

Use of estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Compensated absences:

The School's policy allows certain employees to carry over three weeks of vacation per fiscal year. Unused sick leave benefits are not paid upon separation from service. No liability for compensated absences was recorded for the year ended June 30, 2007.

Cash and cash equivalents

The School considers all demand accounts and money market funds which are not subjected to withdrawal restrictions to be cash and cash equivalents.

The School maintains its cash accounts with one financial institution. The School's accounts at this institution, at times, may exceed the federally insured limit. The School has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

NOTE 3 - BUDGET

The School formally adopted a budget for the charter middle school and charter high school, the General Fund, by function, for the year ended June 30, 2007. The budgets have been prepared in accordance with generally accepted accounting principles. A comparison of actual results of operations to the budgeted amounts for the major fund is presented as required supplemental information on pages 25 and 26.

NOTE 4 - DEPOSITS

The School's deposits must be placed with banks and savings and loans which are qualified as public depositories prior to receipt of public monies under Chapter 280, Florida Statutes and the School's policy. These deposits are insured by the FDIC up to \$ 200,000, \$ 100,000 for demand deposits and \$ 100,000 for savings deposits. Monies deposited in amounts greater than the insurance coverage are secured by the bank's pledging securities with the State Treasurer in the collateral pool. At year end, the School recorded an overdraft of \$ 16,031 and the bank balance was \$ 66,473. The deposits were fully insured by the FDIC.

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 4 - DEPOSITS (continued)

Investments

Investments as of June 30, 2007 were in money market mutual funds and are reported at the fair value or amortized cost of \$ 64,774.

These deposits and investments are reflected in the accompanying statement of net assets and balance sheet - governmental fund as cash and cash equivalents of \$ 66,724.

Credit risk:

Florida Statutes require the money market mutual funds held by the School to have the highest credit quality rating from a nationally recognized rating agency. The money market mutual fund held by the School is unrated.

Concentration of credit risk:

The School has placed no limit on the amount the School may invest in any one issuer.

Interest rate risk:

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk:

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the School's investments are exposed to custodial credit risk.

NOTE 5 - CAPITAL ASSETS

A summary of changes in governmental capital assets is as follows:

	<u>Balance, July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2007</u>
Capital assets, being depreciated:				
Leasehold improvements	\$ 1,336,439	\$ 22,934	\$ --	\$ 1,359,373
Computer equipment	779,498	12,239	--	791,737
Transportation equipment	104,217	--	--	104,217
Furniture and equipment	<u>85,105</u>	<u>9,858</u>	<u>--</u>	<u>94,963</u>
	<u>2,305,259</u>	<u>45,031</u>	<u>--</u>	<u>2,350,290</u>
Accumulated depreciation:				
Leasehold improvements	(632,325)	(178,348)	--	(810,673)
Computer equipment	(442,891)	(113,917)	--	(556,808)

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 5 - CAPITAL ASSETS (continued)

Transportation equipment	(65,351)	(13,474)	--	(78,825)
Furniture and equipment	<u>(32,070)</u>	<u>(17,799)</u>	<u>--</u>	<u>(49,869)</u>
	<u>(1,172,637)</u>	<u>(323,538)</u>	<u>--</u>	<u>(1,496,175)</u>
Capital assets, net	\$ <u>1,132,622</u>	\$ <u>(278,507)</u>	\$ <u>--</u>	\$ <u>854,115</u>

The provision for depreciation for the year ended June 30, 2007, amounted to \$ 323,538. The School allocated the provision for depreciation of \$ 310,064 and \$ 13,474 to facility operations and transportation services, respectively.

As part of the Schools' charter contracts, all capital assets purchased with public funds will automatically revert to the Broward County Public School Board upon the non-renewal or termination of the contracts.

NOTE 6 - DUE TO LAUDERDALE LAKES ACADEMY, INC.

Smart School, Inc. is involved in several transactions with and on behalf of Lauderdale Lakes Academy, Inc., a related party. The School entered into a rental agreement with Lauderdale Lakes Academy, Inc. for use of their facility for a high school. This lease calls for monthly payments of approximately \$ 9,100 (Note 10) and automatically renews annually until June 2012. The School also paid expenses related to the high school for certain operating costs incurred and vice-versa. The following is a summary of such transactions:

Amount due from Lauderdale Lakes Academy, Inc. as of July 1, 2006	\$ (231,764)
Expenses paid by Smart School, Inc. on behalf of Lauderdale Lakes Academy, Inc.:	
Payroll and related benefits	1,713,056
Operating expenses	<u>205,793</u>
	<u>1,687,085</u>
Rent incurred by Smart School, Inc. for use of the School's facility	(110,000)
Expenses paid on behalf of Smart School, Inc.	(217,055)
Reimbursement paid to Smart School, Inc.	<u>(1,603,000)</u>
Amount due to Lauderdale Lakes Academy, Inc. as of June 30, 2007	\$ <u>242,970</u>

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 7 - DEBT

The following is a summary of the changes in debt of the School for the year ended June 30, 2007:

	Balance, July 1, 2006	Additions	Retirements	Balance, June 30, 2007	Due Within One Year
Obligations under capital leases	\$ 207,099	\$ --	\$ 78,449	\$ 128,650	\$ 49,298
Notes payable	<u>189,866</u>	<u>849,038</u>	<u>260,022</u>	<u>778,882</u>	<u>129,210</u>
Total debt	<u>\$ 396,965</u>	<u>\$ 849,038</u>	<u>\$ 338,471</u>	<u>\$ 907,532</u>	<u>\$ 178,508</u>

The School is indebted on the following obligations:

\$ 100,000 Revolving line of credit note; unsecured, due on demand, interest payable monthly at the prime rate (8.25% at June 30, 2007).	\$ 100,000
Note payable to the School's business director to fund operating expenses payable at \$ 2,512 per month including interest at 4.0% through September 2008. This note is unsecured.	36,699
Four installment contracts payable in monthly installment aggregating \$ 5,359, including interest ranging from 10.61% to 13.41% until October 2007 and at lesser amounts thereafter through July 2010. These obligations are collateralized by computer equipment with a net book value of approximately \$ 124,300.	128,650
Note payable to Teched-Ventures for management fees payable at 10% of balance including interest at the lesser of the prime rate (8.25% at June 30, 2007) or 5% commencing September 2010 through 2025, at which time the remaining principal balance of approximately \$ 347,000 is due. This note is unsecured and uncollateralized (Note 9).	642,183
	<u>907,532</u>
Less amount due within one year	<u>178,508</u>
	<u>\$ 729,024</u>

Future debt principal and interest payments are as follows:

Year ending June 30	Principal	Interest	Total
2008	\$ 178,508	\$ 13,839	\$ 192,347
2009	43,202	7,844	51,046
2010	37,570	67,198	104,768
2011	6,070	65,400	71,470
2012	--	64,219	64,219

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 7 - DEBT (continued)

2013-2017	145,275	145,275	290,550
2018-2022	112,411	112,411	224,822
2023-2025	<u>384,496</u>	<u>54,840</u>	<u>439,336</u>
	\$ <u>907,532</u>	\$ <u>531,026</u>	\$ <u>1,438,558</u>

NOTE 8 - INCOME TAXES

Smart School, Inc. has qualified as tax exempt organization under Internal Revenue Code Section 501(c)(3), and are, therefore, exempt from income taxes. According, no tax provision has been made in the accompanying financial statements.

NOTE 9 - RELATED PARTIES

The School is related to Teched-Ventures, Inc. in that an officer of that company is also a board member of Smart School, Inc. The School has a management agreement with Teched-Ventures, Inc. through June 2013, which calls for a payment based on five-percent (5%) of gross Broward County Public School Board revenue. For the year ended June 30, 2007, these fees amounted to \$ 221,897. Unpaid management fees at June 30, 2007 totaling \$ 642,183, were converted into a note payable, bearing interest of the lesser of the prime rate or 5% annually. The note is payable in payments of 10% of note balance beginning September 30, 2010 through September 2025, at which time the remaining principal balance of approximately \$ 347,000 will be due. Interest relative to this payable was \$ 32,109 for the year ended June 30, 2007. The School also has a short-term non-interest bearing note with Teched-Ventures, Inc. This note had a balance of \$ 108,716 as of June 30, 2007.

The School also has a note payable due to its business director. This note bears interest at 4.0% and is due in monthly installments of \$ 2,512 through September 2008. Interest relative to this loan was \$ 934 for the year ended June 30, 2007.

The School's executive director and management company is also a guarantor on the modular facilities lease disclosed in Note 10.

Balances and transactions with Lauderdale Lakes Academy, Inc., a related party, are discussed in Note 6.

NOTE 10 - LEASE COMMITMENTS

Lease agreement:

Smart School, Inc. leases its City of Lauderhill facility for a monthly rental payment of \$ 29,720, including common area maintenance. This amount increases annually by 4% until the lease expires in August, 2007. The School signed an extension, which calls for annual increases of 6.0% from September 2007 through August 2017. Rent expense relative to this lease was \$ 353,056 for the year ended June 30, 2007.

The School has a land lease for its high school facility. The lease calls for a monthly payment of approximately \$ 9,100 until June 2008. This has automatic annual renewals that expire in June 2012. In addition, the School is required to pay its proportional share of utility expenses. Rent expense relative to this lease was \$ 110,000 for the year ended June 30, 2007.

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 10 - LEASE COMMITMENTS (continued)

The School leases modular facilities for its high school. The lease calls for a monthly rental payment of \$ 12,320 until September 2010. This lease contains renewal options with 5.0% increases per year. Rent expense relative to this lease was \$ 147,840 for the year ended June 30, 2007. The lease agreement contains a purchase option in the amount of approximately \$ 291,000 applicable for the term of the lease. The lease is guaranteed by the School's executive director and the management company (Note 9). If the facilities are purchased, certain deposits placed will be refunded to the School.

The School leases certain office equipment items requiring aggregate monthly rental payments of approximately \$ 970 through November 2011 and lesser amounts thereafter until June 2012. Total expense/expenditure related to these obligations for the year ended June 30, 2007 was \$ 13,784.

Approximate future minimum lease payments required for all leases as of June 30, 2007 are as follows:

Year ending June 30	Amount
2008	\$ 620,600
2009	\$ 633,100
2010	\$ 648,500
2011	\$ 556,100
2012	\$ 425,600
Thereafter	\$ 2,451,600

NOTE 11 - PENSION PLAN

The School is part of the Florida Retirement System. Employees of the School who are employed in a full-time or part-time regularly established position participate in the statewide Florida Retirement System (FRS), a multiple-employer, cost-sharing defined benefit plan. All rates, benefits and amendments are established by the State of Florida through its legislative body.

The FRS has various classes of memberships. School employees fall under the "Regular Class," which covers all School employees who do not qualify for membership in the special risk, senior management service, or elected officer's classes.

FRS members with 6 years of service are entitled to a retirement benefit. Such benefit, payable monthly for life, is based on the percentage shown below, times the number of years of credited service, times the average of the member's five highest years of earnings.

Regular Class:

Retirement up to age 62 or 30 years of service	1.60%
Retirement at age 63 or 31 years of service	1.63%
Retirement at age 64 or 32 years of service	1.65%
Retirement at age 65 or 33 years of service	1.68%

Normal retirement age in the regular, senior management service, and elected officers' classes is 62. In the special risk service class, normal retirement age is 55. If a member is vested but has not reached normal retirement age, early retirement can be taken. The amount of the benefit will be reduced by 5% for each year the retirement date precedes normal retirement age.

In addition, eligible FRS members can elect to participate in the deferred retirement option program (DROP). The DROP allows an employee to retire and defer their monthly retirement benefit to an interest-bearing account, for up to a maximum of 60 months, and to continue employment with the School. When the DROP period ends, the employee must terminate employ-

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2007

NOTE 11 - PENSION PLAN (continued)

ment. At that time, the employee will receive payment of the accumulated DROP benefits, and direct receipt, thereafter, of the FRS monthly retirement benefit.

Contributions to the FRS are made by the School as a percentage of covered payroll. The required contribution rate in effect at year end was 7.51%. No employee contributions are required. Additionally, the School is required to contribute 12.50% for all DROP participants. At June 30, 2007, the School had 96 employees participating in the FRS and no employees were participating in the DROP.

The contribution requirements of covered payroll and actual contributions made for the last three periods ended June 30th were as follows:

	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2005</u>
Contribution requirements	\$ <u>245,531</u>	\$ <u>330,204</u>	\$ <u>87,583</u>
Contributions made (100%)	\$ <u>245,531</u>	\$ <u>330,204</u>	\$ <u>87,583</u>
Total covered payroll	\$ <u>3,268,563</u>	\$ <u>3,802,292</u>	\$ <u>1,652,509</u>
Percent of contributions to total covered payroll	7.51%	8.68%	5.30%

The FRS issues an annual report including statements of financial condition, historical and statistical information and an actuarial report. A copy can be obtained from the State of Florida, Division of Retirement, Research, Education and Policy Section, 2639-C North Monroe Street, Tallahassee, Florida 32399-1560.

NOTE 12 - CONTINGENCIES AND RISK MANAGEMENT

Grant agreements:

The School received financial assistance from federal, state, and local governmental agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies. In accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, the School is not required to conduct a "single audit" since the required threshold of federal money is currently \$ 500,000 and the School did not exceed such threshold.

Litigation:

The School is involved in lawsuits which arose in the normal course of operations. The School's management and legal counsel do not feel that any determination can be made at this time concerning the potential liability on these claims, if any, and no adjustment has been made in the accompanying financial statements.

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

Risk Management:

The School is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets and natural disasters. The School has obtained property insurance from commercial companies including, but not limited to, general liability and errors and omissions insurance. There have been no claims in excess of insurance coverage limits during the past four years.

NOTE 13 - FUND DEFICIT

Overall the fund deficit improved by \$ 362,847 in the fiscal year ending June 30, 2007. This improvement was \$ 204,066 better than the Financial Recovery Plan goal for fiscal year ending June 30, 2007, submitted to the School Board of Broward County in January 2007. The high school now has a favorable fund balance, and the middle school fund deficit of \$ 766,812 improved by \$ 55,006 compared to the prior fiscal year.

Smart School Middle School enrollment has declined over the past two years at a slower rate than other neighborhood public middle schools. The resulting decline in student count has put a financial strain on Smart School Middle School. To alleviate some of the burden of fixed costs at the Lauderhill facility and affect sharing of administrative and support functions, the Smart School High School of Technology and Commerce (SSITC) 9th grade was transferred to Lauderhill from the Lauderdale Lakes facility for the 2007/2008 school year. This action allows the high school to house more students overall, which helps to financially mitigate the impact of the Smart Middle School student count decline.

New marketing efforts will be enacted to increase student population in the future. These efforts will include grass roots efforts, advertising, and other media techniques to target student populations throughout the broader Broward County. Also, other revenue sources, including grants and fund raising, are being explored to help improve the overall financial performance.

REQUIRED SUPPLEMENTAL INFORMATION

SMART SCHOOL, INC.
BUDGETARY COMPARISON SCHEDULE -
CHARTER MIDDLE SCHOOL
For the Year Ended June 30, 2007

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
REVENUES:			
FTE revenue	\$ 1,985,680	\$ 1,831,851	\$ (153,829)
Grants and program fees	429,482	432,847	3,365
Capital grants	<u>175,000</u>	<u>218,865</u>	<u>43,865</u>
Total revenues	<u>2,590,162</u>	<u>2,483,563</u>	<u>(106,599)</u>
EXPENDITURES:			
Current:			
Salaries and related benefits	1,557,432	1,358,439	198,993
Rent	323,136	353,056	(29,920)
Management fees	198,568	185,474	13,094
Lunch expense	--	151,978	(151,978)
Transportation	95,014	141,820	(46,806)
School activities	48,500	109,878	(61,378)
Utilities	63,000	80,187	(17,187)
Repairs and maintenance	44,000	58,952	(14,952)
Office expense	21,500	42,609	(21,109)
Professional services	16,500	38,774	(22,274)
Insurance	50,632	35,677	14,955
Telephone	33,000	27,105	5,895
Training	5,300	19,598	(14,298)
Supplies	17,000	17,868	(868)
Textbooks	26,800	17,383	9,417
Small equipment	4,000	11,086	(7,086)
Printing	14,600	6,010	8,590
Marketing/revenue development	8,000	--	8,000
Capital outlay	--	21,196	(21,196)
Debt service:			
Principal	63,180	338,471	(275,291)
Interest	<u>--</u>	<u>24,458</u>	<u>(24,458)</u>
Total expenditures	<u>2,590,162</u>	<u>3,040,019</u>	<u>(449,857)</u>
Excess (deficiency) of revenues over (under) expenditures	--	(556,456)	(556,456)
OTHER FINANCING SOURCES:			
Proceeds from issuance of debt	<u>--</u>	<u>611,462</u>	<u>611,462</u>
Net change in fund balance	--	55,006	55,006
FUND BALANCE (DEFICIT), July 1, 2006	<u>(104,120)</u>	<u>(821,818)</u>	<u>(717,698)</u>
FUND BALANCE (DEFICIT), June 30, 2007	\$ <u><u>(104,120)</u></u>	\$ <u><u>(766,812)</u></u>	\$ <u><u>(662,692)</u></u>

Note 1 - OVEREXPENDITURE OF BUDGET:

Total expenditures exceeded budget by \$ 449,857

Note 2 - FUND BALANCE DEFICIT:

Fund balance deficit at June 30, 2007 is \$ (766,812)

SMART SCHOOL, INC.
BUDGETARY COMPARISON SCHEDULE -
CHARTER HIGH SCHOOL
For the Year Ended June 30, 2007

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
REVENUES:			
FTE revenue	\$ 2,385,225	\$ 2,551,117	\$ 165,892
Capital grants	200,000	406,134	206,134
Grants and program fees	4,500	167,727	163,227
Miscellaneous income	<u>---</u>	<u>750</u>	<u>750</u>
Total revenues	<u>2,589,725</u>	<u>3,125,728</u>	<u>536,003</u>
 EXPENDITURES:			
Current:			
Salaries and related benefits	1,621,067	1,939,374	(318,307)
Management fees	238,523	258,320	(19,797)
Rent	285,840	257,840	28,000
School activities	70,000	111,392	(41,392)
Transportation	73,695	106,636	(32,941)
Utilities	44,700	68,403	(23,703)
Textbooks	45,000	56,260	(11,260)
Repairs and maintenance	55,800	45,476	10,324
Insurance	45,170	45,447	(277)
Lunch expense	12,500	39,392	(26,892)
Office expense	20,000	25,345	(5,345)
Professional services	11,000	20,615	(9,615)
Training	4,200	17,318	(13,118)
Telephone	12,000	13,815	(1,815)
Small equipment	29,730	12,809	16,921
Supplies	12,000	8,718	3,282
Printing	4,500	4,467	33
Marketing/revenue development	4,000	--	4,000
Capital outlay	<u>---</u>	<u>23,836</u>	<u>(23,836)</u>
Total expenditures	<u>2,589,725</u>	<u>3,055,463</u>	<u>(465,738)</u>
Excess (deficiency) of revenues over (under) expenditures	--	70,265	70,265
 OTHER FINANCING SOURCES:			
Proceeds from issuance of debt	<u>---</u>	<u>237,576</u>	<u>237,576</u>
Change in fund balance	--	307,841	307,841
FUND BALANCE (DEFICIT), July 1, 2006	<u>(9,156)</u>	<u>(93,234)</u>	<u>(84,078)</u>
FUND BALANCE (DEFICIT), June 30, 2007	\$ <u><u>(9,156)</u></u>	\$ <u><u>214,607</u></u>	\$ <u><u>223,763</u></u>

Note 1 - OVEREXPENDITURE OF BUDGET:
Total expenditures exceeded budget by \$ 465,738

OTHER AUDITORS' REPORTS



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**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
Smart School, Inc.
Lauderhill, Florida

We have audited the basic financial statements of Smart School, Inc., a component unit of the School Board of Broward County, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Smart School, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the effectiveness of the Smart School, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Smart School, Inc.'s internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Smart School, Inc.'s ability to initiate, authorize, record, process or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Smart School, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Smart School, Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Smart School, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Smart School, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smart School, Inc.'s basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the School's management, Board of Directors, the Auditor General of the State of Florida, and the School Board of Broward County, and is not intended to be, and should not be, used by anyone other than these specified parties.

Keefe, McCullough & Co., LLP
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
September 26, 2007



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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

To the Board of Directors
Smart School, Inc.
Lauderhill, Florida

This letter is written in connection with our audit of the financial statements of Smart School, Inc. (a not-for-profit organization and component unit of the Broward County Public School Board), as of and for the year ended June 30, 2007. The purpose of this letter is to communicate to you any comments and recommendations and to comply with the requirements of Chapter 10.850, Rules of the Auditor General.

The following statements relate to requirements of the Auditor General:

1. There were no inaccuracies, irregularities, shortages, defalcations, fraud and/or violations of laws, rules, regulations, or contractual provisions reported for the preceding audit.
2. There were recommendations made relating to the preceding audit and their disposition is noted in the accompanying schedule of findings and recommendations on pages 30.
3. There were no recommendations to improve the Schools' financial management.
4. There were no violations of laws, rules, regulations or contractual provisions discovered during our audit.
5. There were no illegal or improper expenditures discovered within the scope of the financial audit which may or may not materially affect the financial statements.
6. There were no other matters requiring correction which may or may not materially affect the financial statements including, but not limited to, failures to properly record financial transactions, or other inaccuracies, shortages, defalcations and instances of fraud or other reportable conditions.
7. There was one condition met as described in Section 218.503(1), Determination of Financial Emergency, of the Florida Statutes. This condition relates to reported unreserved deficit fund balance of \$ 766,812 in the middle school. See Note 13 describing the School's plans to alleviate the deficit.

Keefe, McCullough & Co., LLP
KEEFE, MCCULLOUGH & CO., LLP

Fort Lauderdale, Florida
September 26, 2007

SMART SCHOOL, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2007

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

	<u>STILL APPLICABLE</u>	<u>IMPLEMENTED OR NO LONGER RELEVANT</u>
<u>Internal controls:</u>		
Reconcile accounts payable detail to the general ledger		X
Improve record keeping for grant contracts		X

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

NONE