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SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2007

MARK ESCOFFERY P.A.
CERTIFIED PUBLIC ACCOUNTANT

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board Members of Suncoast School for
Innovative Studies, Inc.
Sarasota, Florida

I have audited the accompanying Financial Statements of the governmental activities, and each major fund, of the Suncoast School for Innovative Studies, Inc. ("the School") a component unit of the District School Board of Sarasota County as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the foregoing Table of Contents. These financial statements are the responsibility of the Management of the School. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my 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 of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the School 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.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in **Note 5** of the Financial Statements, the School's deteriorating financial condition and limited access to outside financing raise substantial doubt about its ability to continue as a going concern. The Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 12, 2007, on my consideration of the School's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

To The Board Members of Suncoast School for
Innovative Studies, Inc.
Sarasota , Florida
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The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Board. I have applied certain limited procedures, which consisted principally of inquiries of Management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprised the School's basic financial statements. The accompanying Supplementary Schedule of Expenditures, Budget and Actual – Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in my opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Palm Beach Gardens, Florida
October 12, 2007

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

Our discussion and analysis of Suncoast School for Innovative Studies School, Inc.'s ("the School") financial program provides an overview of the School's financial activities for the year ended June 30, 2007.

Because the information contained in this discussion is intended to highlight significant transactions, it should be read in conjunction with the School's financial statements which begin on page 7.

For financial statement purposes the School is considered a component unit of the District School Board of Sarasota County which is a primary government entity for financial reporting. The School used the option to present the governmental standards and fund statement on the same page. The Statement of Net Assets and the Statement of Activities report provide information on the activities of the School. The fund financial statements reflect financing activities of the School by providing information on inflows and outflows of spendable resources.

NON FINANCIAL HIGHLIGHTS

The School's average daily enrollment for fiscal year ended June 30, 2007 was 225 students. This was approximately the same as budgeted. The School expects to have an enrollment of 250 students for the school year 2007-2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's financial position. Included in these statements are all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are recorded when received.

The Statement of Net Assets presents information on all of the School's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 government's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

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.

Governmental Funds – All of the School's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily

**SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd.)

Fund Financial Statements (Cont'd.)

Governmental Funds (Cont'd.) be converted to cash. The governmental fund statements provide a detailed short-term view of the School's governmental activities and the basic services it provides.

Notes to Financial statements

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 12-16 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the School's financial position. The School's assets exceeded liabilities by \$32,901 at June 30, 2007. This is a decrease of \$99,731 over the prior year.

NET ASSETS

	<u>JUNE 30, 2007</u>	<u>JUNE 30, 2006</u>
Current and other Assets	\$ 63,363	\$ 47,016
Capital Assets	259,526	293,979
Total Assets	<u>\$ 322,889</u>	<u>\$ 340,995</u>
Long-Term Liabilities	\$ 158,892	\$ 113,175
Other Liabilities	131,096	95,188
Total Liabilities	<u>\$ 289,988</u>	<u>\$ 208,363</u>
Investment in Capital Assets	\$ 100,634	\$ 293,979
Unrestricted	(67,733)	(161,347)
Total Net Assets	<u>\$ 32,901</u>	<u>\$ 132,632</u>

Revenues from governmental activities totaled \$1,761,751 for the year ended June 30, 2007, an increase of 35% over the prior year. The School did not receive any Federal funds for the year. The main source of revenue is from Florida Education Finance Program (FEFP). This revenue represented approximately 91.1% of total revenue compared to 82.7% in the prior year.

**SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd.)

<u>Revenue Source</u>	<u>6/30/07</u>	<u>Percent of Total 6/30/07</u>	<u>6/30/06</u>	<u>Percent of Total 6/30/06</u>
State Sources	\$ 1,761,751	89.4	\$ 1,272,294	82.7
Local Sources	209,043	10.6	266,014	17.3
Total	\$ 1,970,794	100.0	\$ 1,538,308	100.0

Local revenue sources are primarily pre school tuition fees of approximately \$158,037 and fund raising efforts conducted by the Board of Directors and parents on behalf of the School.

Changes in levels of expenses for major functions of the School are shown in the following table:

	<u>6/30/07</u>	<u>Percent of Total 6/30/07</u>	<u>6/30/06</u>	<u>Percent of Total 6/30/06</u>
Instruction	\$ 1,135,296	54.8	\$ 849,603	54.3
Pupil Personnel	-	-	39,354	2.6
Instructional Staff				
Training	3,868	.2	26,946	1.7
Board	4,456	.2	29,946	1.9
Fiscal Services	11,276	.5	17,910	1.1
School				
Administration	347,374	16.8	229,145	14.6
Pupil				
Transportation	108,515	5.2	-	-
Operation of Plant	329,728	15.9	311,226	19.9
Plant Maintenance	89,426	4.3	17,742	1.1
Depreciation	40,586	2.1	41,045	2.8
Total	\$ 2,070,525	100.0	\$ 1,562,917	100.0

BUDGETARY HIGHLIGHTS

Actual revenue was more than budgeted by \$154,294. This was due primarily to tuition income in the amount of \$158,000 from the preschool which was not budgeted.

Actual expenses were more than budget by \$352,774. Instructional expenses were over budget by \$113,432 because new teachers were employed as a result of increased enrollment and operation of the preschool which were not budgeted.

School Administration was \$85,986 more than budget primarily because School District Fees of \$80,000 were included.

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

BUDGETARY HIGHLIGHTS (Cont'd.)

Pupil Transportation expenses of \$108,515 were not budgeted and this is the School District's charge to transport 77 students.

There is a deficit in the General Fund of \$67,733 at June 30, 2007.

CAPITAL ASSETS

The School's investment in capital assets at June 30, 2007 was \$259,526 (net of accumulated depreciation). This investment includes leasehold improvement, furniture and equipment (all real property is leased). The School's investment in capital assets for the year ended June 30, 2007, was as follows:

Leasehold Improvements	\$ 364,749
Furniture and Equipment	34,775
Total	399,524
Less Accumulated Depreciation	139,998
Investment in Capital Assets	<u>\$ 259,526</u>

Capital additions for the year totaled \$6,133. Depreciation expense was \$40,586. There were no disposals.

DEBT ADMINISTRATION

The School has a long-term debt with its landlord for build out of its facilities. The amount of the debt is \$102,363 at June 30, 2007. The School took out a Line of Credit in the amount of \$125,000 with a local bank during the year. The balance at June 30, 2007 was \$56,529.

PROSPECTS FOR THE FUTURE

The School continues to receive funds from State sources in the form of Florida Education Finance Program Fees (FEFP). The fees are evaluated in October and February and are based on student enrollment.

- Administration believes that the School will receive a higher rating from the Department of Education, based on test scores and academic achievement.
- The Administration believes that higher test scores will continue to be achieved because of investments in reading and math computer based programs.
- The School should surpass its budgeted amount of 250 students for the 2007-2008 school year.
- The Administration believes that the School will continue to progress and contribute to the educational needs of Sarasota County.

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.

**Governmental Fund Balance Sheet/Statement of Net Assets
June 30, 2007**

	<u>Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash	\$289	\$	\$289
Accounts receivable	13,560		13,560
Capital Assets		259,526	259,526
Deposits	<u>49,514</u>		<u>49,514</u>
Total Assets	<u><u>\$63,363</u></u>	<u><u>\$259,526</u></u>	<u><u>\$322,889</u></u>
LIABILITIES			
Note payable		\$158,892	\$158,892
Cash overdraft	40,472		40,472
Accounts Payable	19,061		19,061
Accrued Salaries	<u>71,563</u>		<u>71,563</u>
Total Liabilities	<u><u>131,096</u></u>	<u><u>158,892</u></u>	<u><u>289,988</u></u>
FUND BALANCE/NET ASSETS			
Undesignated	<u>(67,733)</u>	<u>137,822</u>	<u> </u>
Total Liabilities and Fund Balance	<u><u>\$63,363</u></u>		
Net Assets			
Investment in capital assets		100,634	100,634
Unrestricted		<u>(67,733)</u>	<u>(67,733)</u>
Total Net Assets		<u><u>\$32,901</u></u>	<u><u>\$32,901</u></u>

The accompanying notes are an integral part of this statement

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
Reconciliation of the Governmental Funds
Balance Sheet To The Statement of Net Assets
June 30, 2007

Fund Balance- Governmental Funds		(\$67,733)
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds</p>		
Governmental capital assets	\$399,524	
Less accumulated depreciation	<u>(139,998)</u>	
		259,526
<p>Long-Term Liabilities not due and payable in the current period and therefore are not reported in the governmental funds</p>		
Notes payable		(158,892)
Net Assets of Governmental activities		<u><u>\$32,901</u></u>

The accompanying notes are an integral part of this statement

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
Statement of Governmental Fund/Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
Year ended June 30, 2007

	<u>Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES:			
State sources	\$1,761,751	\$	1,761,751
Local sources	209,043		209,043
TOTAL REVENUES	<u>1,970,794</u>	<u> </u>	<u>1,970,794</u>
EXPENDITURES/EXPENSES			
Instruction	1,135,296		1,135,296
Instructional Staff Training	3,868		3,868
Board	4,456		4,456
School Administration	347,374		347,374
Fiscal Services	11,276		11,276
Pupil Transportation	108,515		108,515
Operation of Plant	329,728		329,728
Plant Maintenance	89,426		89,426
Capital Outlay	6,133	(6,133)	
Depreciation		40,586	40,586
TOTAL EXPENSES	<u>2,036,072</u>	<u>34,453</u>	<u>2,070,525</u>
EXCESS OF EXPENDITURES OVER REVENUES	(65,278)	(34,453)	(99,731)
Other Sources (Uses)			
Proceeds from note payable	197,000		
Payments on note payable	(151,283)		
Total other Sources	<u>45,717</u>		
Net change in Fund balance	(19,561)		
FUND BALANCE/NET ASSETS			
Beginning of Year	(48,172)		132,632
End of Year	<u>(\$67,733)</u>	<u>\$</u>	<u>\$32,901</u>

The accompanying notes are an integral part of this statement

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.

**Statement of Revenues, Expenditures and Changes
In Fund Balance-Budget (GAAP Basis) and Actual
All Governmental Fund Types
Year Ended June 30, 2007**

	Governmental Funds		
	Original and Final Budget	Actual	Variance
REVENUES:			
State sources	\$1,731,000	\$1,761,751	\$30,751
Local sources	85,500	209,043	123,543
TOTAL REVENUES	1,816,500	1,970,794	154,294
EXPENDITURES:			
Instructional	1,021,864	1,135,296	113,432
Instructional Staff Training Board		3,868	3,868
		4,456	4,456
School Administration	261,388	347,374	85,986
Fiscal Services		11,276	11,276
Pupil Transportation		108,515	108,515
Operation of Plant	331,000	329,728	(1,272)
Plant maintenance	69,046	89,426	20,380
Capital Outlay		6,133	6,133
TOTAL EXPENDITURES	1,683,298	2,036,072	352,774
EXCESS OF EXPENDITURES OVER REVENUES	\$133,202	(65,278)	(\$198,480)
Other Sources/(Uses)			
Proceeds from note payable		197,000	
Payments on note payable		(151,283)	
Total Other sources		45,717	
Net Change in Fund Balance		(19,561)	
Fund Balance, beginning of year		(48,172)	
Fund balance, end of year		(\$67,733)	

The accompanying notes are an integral part of this statement

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances
of Governmental Funds To The
Statement of Activities
June 30, 2007

Net Changes in Fund Balances- Governmental Funds (\$19,561)

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

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	\$6,133	
Less current year depreciation	<u>(40,586)</u>	
		<u>(34,453)</u>

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the Governmental Funds.

Proceeds from note payable	(197,000)	
Payments of Notes payable	<u>151,283</u>	
		<u>(45,717)</u>

Change in Net Assets of Governmental Activities (\$99,731)

The accompanying notes are an integral part of this statement

**SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
ENDED JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Suncoast School for Innovative Studies, Inc. (“the School”) was established as a nonprofit organization in January 1998 under the laws of the State of Florida and is the reporting entity.

The School operates as a Charter School pursuant to a Charter School Contract (the Contract) with the School District of Sarasota County, Florida. Under the Contract the School provides an integrated method of education by incorporating an experimental interdisciplinary curriculum, utilizing mentoring, multi-age classes and authentic assessment to children from Kindergarten through eight grade. For financial statement purposes the School is considered a component unit of the School District of Sarasota County which is a primary government entity for financial reporting.

The School District of Sarasota County received 5% of the Florida Education Finance Program (FEFP) revenue as an administrative fee.

The Contract is effective through June 2008. The Contract requires the School Board to provide the School’s primary source of funding based upon the number of full-time equivalent students (FTES) registered at the School.

The School is a tax exempt organization under 501(C)(3) of the Internal Revenue Code.

The School’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for school districts through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the School are discussed below.

Basic Financial Statements

The School’s basic financial statements are the Statements of Net Assets and the Statement of Activities. All the activities of the School are classified as governmental type activities. There are no business type activities of the School. All the School’s governmental type activities are included in the general fund. All other governmental fund types are not major funds. In the Statement of Net Assets, the governmental activities column is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The School’s net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities reports both the gross and net cost of each of the School’s functions. The functions are also supported by government revenues such as Florida Education Finance Program (FEFP), Capital Outlay Funds and Federal Grants. The Statement of Activities reduces

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basic Financial Statements (Cont'd.)

gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (after care and youth services, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Basis of Accounting

Basic of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounting and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

The governmental type activities in the financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. When both restricted and unrestricted resources are available for use, it is the policy of the School to use restricted resources first, the unrestricted resources as they are needed.

Measurement Focus

The accounting and financial reporting treatment is determined by applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities).

The Government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet and operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net assets.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statement of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financial uses) in current net assets.

Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to finance expenditures of the fiscal period. For this purpose, the School considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

**SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
FOR THE YEAR ENDED JUNE 30, 2007.**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles include the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that subject the School to concentrations of credit risk include cash and deposits. While the School attempts to limit its financial exposure, its cash balances may at times exceed federally insured limits. The School has not experienced any losses on such balances.

Cash deposits are held at banks qualified as public depositories under Florida law.

Contributed Services

The School does not recognize any support, revenue or expense from services contributed by individual volunteers because they do not meet the criteria for measurement.

Budgetary Basis of Accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year expenditures were controlled at the object level (i.e. salaries, purchased services and capital outlay).

Capital Assets

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Leasehold Improvements	20-50 Years
Furniture, Fixtures and Equipment	5-10 Years

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
FOR THE YEAR ENDED JUNE 30, 2007.

NOTE 2 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 were as follows:

	<u>Balance</u> <u>Beginning</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>Ending</u>
Leasehold Improvements	\$ 364,047	\$ 701	\$ -	\$ 364,748
Furniture, Fixtures and Equipment	29,342	5,432	-	34,774
	<u>393,389</u>	<u>6,133</u>	<u>-</u>	<u>399,522</u>
Less Accumulated Depreciation	99,410	40,586	-	139,996
Capital Net Assets	<u>\$ 293,979</u>	<u>\$ (34,453)</u>	<u>\$ -</u>	<u>\$ 259,526</u>

Depreciation expense of \$40,586 was charged to Operation of Plant during the year ended June 30, 2007.

NOTE 3 – LONG - TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Notes Payable	<u>\$ 113,175</u>	<u>\$197,000</u>	<u>\$151,283</u>	<u>\$158,892</u>	<u>\$68,009</u>

Debt Maturity

Debt service requirements at June 30, 2007 were as follows:

June 30,	<u>Principal</u>	<u>Interest</u>
2008	\$ 68,009	6,855
2009	12,188	5,121
2010	12,940	4,369
2011	13,738	3,571
2012	14,536	2,773
Thereafter	37,481	3,510
	<u>\$ 158,892</u>	<u>\$ 26,199</u>

**SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
FOR THE YEAR ENDED JUNE 30, 2007.**

NOTE 4 – OPERATING LEASE

The School leases its facility under a ten year operating lease that expires on April 30, 2015. Rent expense for the year ended June 30, 2007 was \$273,653. Future minimum lease payments are as follows:

JUNE 30		
	2008	\$ 274,000
	2009	283,000
	2010	291,000
	2011	300,000
	2012	309,000
	Thereafter	1,157,000
		<u>\$ 2,614,000</u>

NOTE 5 – GOING CONCERN

The School had a decrease in net assets of \$99,731. At June 30, 2007 the School had \$40,000 in cash overdraft and had fund deficits of \$67,733. The School has been able to secure long-term financing in the form of a Line of Credit in the amount of \$125,000. However, this has not reduced the School's negative fund balance and together with the cash overdraft and high occupancy expenses create an uncertain environment about the School's ability to continue as a going concern. The preschool was not profitable as of June 30, 2007. Management believes that the preschool will be profitable in the next school year.

The ability of the School to continue as a going concern is dependent on increased enrollment, fundraising, and the ability to reduce occupancy costs. The financial statements do not include any adjustments that might be necessary if the School is not able to continue as a going concern.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Risk Management

The School is exposed to various risks of loss related to theft, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The School purchases commercial insurance for all material risks of loss to which the School is exposed, including general liability, property, auto and workers compensation. A review of the last three years reveals that settled claims have not exceeded insurance coverage.

The School receives funding from the State of Florida based on the number of full time equivalent (FTE) students who attend the Charter School. The data is compiled by the School and is subject to audit by the State and if errors are found this could result in amounts having to be repaid to the State or decrease in future allocations. Management believes that the amounts that would have to be remitted to the State due to errors in their FTE count would not be material to the financial position of the School.

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
Supplemental Schedule of Expenditures
Budget and Actual- Governmental Funds
Year Ended June 30, 2007

	Governmental Funds		
	Original and Final Budget	Actual	Variance
Instructional			
Salaries	\$860,016	\$884,415	\$24,399
Payroll Taxes	75,936	76,682	746
Fringe Benefits	58,248	80,644	22,396
Workers Compensation	12,864	10,794	(2,070)
Instructional materials	10,000	22,476	12,476
Purchased Services	4,800	22,018	17,218
Professional fees		38,267	38,267
Total Instructional	<u>\$1,021,864</u>	<u>\$1,135,296</u>	<u>\$113,432</u>
Instructional Staff Training			
Purchased Services		<u>\$3,868</u>	<u>\$3,868</u>
Board			
Professional		<u>\$4,456</u>	<u>\$4,456</u>
School Administration			
Salaries	\$191,568	\$183,708	-\$7,860
Payroll Taxes	17,688	14,415	(3,273)
Fringe benefits	15,408	15,051	(357)
Workers Compensation	3,988	2,620	(1,368)
Administrative Costs		80,248	80,248
Purchased Services	32,736	51,332	18,596
Total School Administration	<u>\$261,388</u>	<u>\$347,374</u>	<u>\$85,986</u>
Fiscal Services			
Professional & Technical		<u>\$11,276</u>	<u>\$11,276</u>

SUNCOAST SCHOOL FOR INNOVATIVE STUDIES, INC.
Supplemental Schedule of Expenditures
Budget and Actual- Governmental Funds
Year Ended June 30, 2007

	Governmental Funds		
	Original and Final Budget	Actual	Variance
Operation of Plant			
Rental	\$276,000	\$273,652	(\$2,348)
Communication	6,000	\$3,695	(2,305)
Utilities	36,000	38,470	2,470
Insurance	13,000	10,445	(2,555)
Other expenses		3,466	3,466
Total Operation of Plant	<u>\$331,000</u>	<u>\$329,728</u>	<u>(\$1,272)</u>
Pupil Transportation			
Purchased Services		\$103,727	\$103,727
Insurance		4,788	4,788
		<u>\$108,515</u>	<u>\$108,515</u>
Plant Maintenance			
Salaries	\$41,370	\$42,534	\$1,164
Payroll Taxes	10,176	7,113	(3,063)
Custodial service	17,500	26,709	9,209
Repairs and Maintenance		10,252	10,252
Purchased services		2,818	2,818
	<u>\$69,046</u>	<u>\$89,426</u>	<u>\$20,380</u>
Capital Outlay			
Building and Equipment		<u>\$6,133</u>	<u>\$6,133</u>

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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 Members of Suncoast School for
Innovative Studies, Inc.
Sarasota, Florida

I have audited the basic financial statements of the Suncoast School for Innovative Studies, Inc., (“the School”) as of and for the year ended June 30, 2007, and have issued my report thereon dated October 12, 2007. I conducted my 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 of America.

Internal Control over financial Reporting

In planning and performing my audit, I considered the School’s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operations that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School’s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of law, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

To the Board Members of Suncoast School for
Innovative Studies, Inc.
Sarasota, Florida
Page 2

This report is intended solely for the information and use of the Board Members, Management, others within the School and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Palm Beach Gardens, Florida
October 12, 2007

Mark Escoffery, P.A.

Certified Public Accountant

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Palm Beach Gardens, FL 33410

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MANAGEMENT LETTER

To the Board Members of Suncoast School for
Innovative Studies, Inc.
Sarasota Florida

I have audited the basic financial statements of the Suncoast School for Innovative Studies, Inc., as of and for the year ended June 30, 2007, and have issued my report thereon dated October 12, 2007.

I have issued my Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance dated October 12, 2007. Disclosures in that report, if any, should be considered in conjunction with this Management Letter.

I conducted my 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 of America. Additionally, my audit was conducted in accordance with the Provisions of Chapter 10.850, **Rules of the Auditor General**, which govern the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter.

The **Rules of the Auditor General** Section 10.854(1)(d)1 require that I comment as to whether or not recommendations made in the preceding annual financial report have been followed. The recommendations made in the prior year have been implemented, except for the Observations listed on Pages 22 and 23 under Going Concern, Property and Equipment and Disaster Recovery Contingency Planning.

The **Rules of the Auditor General** Section 10.854(1)(d)2 require that I comment on whether the School has met any of the conditions described in Section 218.503(1), Florida Statutes. The School has met some of the conditions described in Section 218.503(1), Florida Statutes and these are included under Going Concern on Page 22.

The **Rules of the Auditor General** Section 10.854(1)(d)5 require that I state whether there were any findings or recommendations made for the current year. There are no findings or recommendations made for the current year ended June 30, 2007.

**PRIOR YEAR COMMENTS
(That Continue to Apply)**

GOING CONCERN

Observation

It was observed during the audit that the going concern issues continue to apply for the year ended June 30, 2007. The School continues to have deficit unrestricted net assets and deficit unreserved fund balances and low cash balances. In addition the actual expenditures of the School exceeded budget by approximately 20% or \$352,000. The signs regarding the future viability of the School continue to be significant. The preschool activities are not profitable and continue to contribute to the fund deficit.

RECOMMENDATION

Management should pursue fundraising activities to reduce or erase the deficit fund balances. In addition, they should also evaluate the School's leasing arrangement and formulate a plan to reduce the cost of occupancy.

The Board should establish controls over budget overages, consider budget amendments in mid-year to adapt to changing economic and financial conditions, and budget its preschool activities. This should increase control over budget overages and increase internal accounting control over the budgetary process.

PROPERTY AND EQUIPMENT

Observation

It was noted during the audit that fixed assets were not tagged.

RECOMMENDATION

Fixed assets capitalized should be tagged. This would facilitate reconciliation of fixed assets with inventory control and the general ledger. The tag would include a number for each asset which could then be used to identify fixed assets when the periodic physical inventory observation is done. This will increase internal accounting control over fixed assets.

DISASTER RECOVERY CONTINGENCY PLANNING

Observation

It was noted during the audit that the School did not have a disaster recovery contingency plan to back up all their computer programs and data.

MANAGEMENT LETTER
(Continued)

DISASTER RECOVERY CONTINGENCY PLANNING (Cont'd.)

RECOMMENDATION

It is important that master files and transaction files be backed up and stored off site so that in the event of an emergency the records can be retrieved and restored. The files should be tested periodically to ensure that they are useable.

My report did not disclose any additional items that would be required to be reported under Chapter 10.854(1)(d) *Rules of the Auditor General*.

This report is intended solely for the information and use of the School's Board Members, Management, pass-through entities and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Palm Beach Gardens, Florida
October 12, 2007