

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

**BASIC FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

June 30, 2008

SMART SCHOOL, INC.
BASIC FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
June 30, 2008

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements:

Statement of Net Assets (Deficit)	8
Statement of Activities	9

Fund Financial Statements:

Balance Sheet - Governmental Fund	10
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets (Deficit)	11
Statement of Revenues, Expenditures and Change in Fund Balance (Deficit) - Governmental Fund	12
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance (Deficit) of the Governmental Fund to the Statement of Activities	13

Notes to Basic Financial Statements	14-24
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REQUIRED SUPPLEMENTAL INFORMATION

Budgetary Comparison Schedule - Charter Middle School	25
Budgetary Comparison Schedule - Charter High School	26

OTHER AUDITORS' REPORTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	27-28
Independent Auditors' Report to the Board of Directors	29-30
Schedule of Findings and Recommendations	31

**BASIC
FINANCIAL STATEMENTS**



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities and the General Fund of Smart School, Inc. (the "School") (a component unit of the School Board of Broward County, Florida) as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities and the General Fund of the School as of June 30, 2008, 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 shown in the statement of net assets, the School incurred a decrease in net assets of \$ 534,621 for the year ended June 30, 2008, and, as of that date, had a net asset deficiency of \$ 1,172,352. In addition and described more fully in Note 13 to the financial statements, the School was required to close one of two campuses it operated subsequent to year end. These conditions raise substantial doubt about the School's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Smart School, Inc.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2008 on our consideration of the School's 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.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. 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
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
October 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

SMART SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

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 years ended June 30, 2008 and 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, 2008:

- The School's total liabilities exceeded its assets at June 30, 2008 by \$ 1,172,352.
- The School's total revenues were \$ 5,507,280, \$ 4,213,276 from FTE revenues, \$ 197,703 from grants and contributions not restricted to specific programs, \$ 451,474 from operating grants, \$ 629,260 from capital grants, \$ 14,181 from charges for services, and \$ 1,386 from interest income. The School's expenses for the year were \$ 6,041,901.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the School's 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 School's 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 School's 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 basic financial statements can be found on pages 8 and 9 of this report.

SMART SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Fund basic 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. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide basic financial statements. However, unlike the government-wide basic financial statements, governmental fund basic 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 School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide basic financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide basic 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.

SMART SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

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, 2008, the School had no restricted assets. The remaining unrestricted net assets (deficit) balance may 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, 2008 and 2007. Our analysis in the table below focuses on the net assets of the School's governmental activities:

Smart School, Inc. Net Assets (Deficit)			
	2008	2007	Variances
ASSETS:			
Current and other assets	\$ 586,414	\$ 578,816	\$ 7,598
Capital assets, net of depreciation	570,558	854,115	(283,557)
Total assets	1,156,972	1,432,931	(275,959)
LIABILITIES:			
Liabilities, excluding long-term liabilities	1,643,454	1,341,638	301,816
Long-term liabilities	685,870	729,024	(43,154)
Total liabilities	2,329,324	2,070,662	258,662
NET ASSETS (DEFICIT):			
Invested in property and equipment, net of related debt	482,722	725,465	(242,743)
Unrestricted (deficit)	(1,655,074)	(1,363,196)	(291,878)
Total net assets (deficit)	\$ (1,172,352)	\$ (637,731)	\$ (534,621)

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, 2008 and 2007:

Smart School, Inc. Change in Net Assets			
	2008	2007	Variances
REVENUES:			
General revenues	\$ 4,412,365	\$ 4,476,420	\$ (64,055)
Program revenues:			
Capital grants and contributions	629,260	624,998	4,262
Operating grants and contributions	451,474	356,289	95,185
Charges for services	14,181	151,584	(137,403)
Total revenues	5,507,280	5,609,291	(102,011)

SMART SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2008

Governmental activities: (continued)

	<u>2008</u>	<u>2007</u>	<u>Variances</u>
FUNCTIONS/PROGRAM EXPENSES:			
Instruction	2,740,412	2,518,450	221,962
General administration	1,051,047	998,051	52,996
Facility operations	989,849	1,042,840	(52,991)
School administration	418,790	438,129	(19,339)
Pupil transportation services	172,106	248,456	(76,350)
Extended care programs	164,693	174,885	(10,192)
Central services	158,720	165,515	(6,795)
Food services	120,906	191,369	(70,463)
Facility maintenance	83,585	82,404	1,181
Interest expense	62,663	56,567	6,096
Instructional support services	51,002	128,777	(77,775)
Fiscal services	<u>28,128</u>	<u>22,184</u>	<u>5,944</u>
 Total expenses	 <u>6,041,901</u>	 <u>6,067,627</u>	 <u>(25,726)</u>
 Change in net assets	 <u>(534,621)</u>	 <u>(458,336)</u>	 <u>(76,285)</u>
 Net assets (deficit), beginning of year	 <u>(637,731)</u>	 <u>(179,395)</u>	 <u>(458,336)</u>
 Net assets (deficit), end of year	 <u>\$ (1,172,352)</u>	 <u>\$ (637,731)</u>	 <u>\$ (534,621)</u>

FINANCIAL HIGHLIGHTS - GOVERNMENTAL FUND

The following is condensed information regarding the Governmental Fund:

	<u>2008</u>	<u>2007</u>	<u>Variance</u>
REVENUES	\$ 5,507,280	\$ 5,609,291	\$ (102,011)
EXPENDITURES	(5,796,293)	(6,095,482)	299,189
OTHER FINANCING SOURCES	<u>--</u>	<u>849,038</u>	<u>(849,038)</u>
 Net change in fund balance (deficit)	 (289,013)	 362,847	 (651,860)
 FUND BALANCE (DEFICIT), beginning of year	 <u>(552,205)</u>	 <u>(915,052)</u>	 <u>362,847</u>
 FUND BALANCE (DEFICIT), end of year	 <u>\$ (841,218)</u>	 <u>\$ (552,205)</u>	 <u>\$ (289,013)</u>

Revenue and expenditure decreases were primarily related to the overall decrease in capital outlay expenditures and a decrease in the number of students attending the middle school.

SMART SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At June 30, 2008, the School had capital assets of \$ 570,558, net of accumulated depreciation, invested in a leasehold improvements, computers, transportation equipment, and furniture and equipment as compared to \$ 854,115 at June 30, 2007. A detailed schedule is on page 18 of the notes to basic financial statements.

Debt

At June 30, 2008, the School had debt of \$ 837,474, which consists of capital leases, as compared to \$ 907,532 at June 30, 2007. More information about the School's debt is on pages 19 and 20 of the notes to 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 below plan levels due to a decrease in student enrollment.
- Expenditures were slightly below plan levels due primarily to reduced payroll and benefits (staffing in line with reduced students) more than offsetting debt service and lunch expense.

High School

- Revenues were above plan levels primarily due to higher capital outlay funding.
- Expenses were above plan due to higher payroll and benefit costs of unfunded math and reading coaches.

ECONOMIC OUTLOOK

The High School was closed at the beginning of the 2008/2009 school year. The remaining Middle School has been adjusted to optimize revenues and costs through consolidation and leasing of excess space. Efforts will continue to increase the student enrollment at the Middle 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.

SMART SCHOOL, INC.
STATEMENT OF NET ASSETS (DEFICIT)
June 30, 2008

A S S E T S

CURRENT ASSETS:

Cash and cash equivalents	\$ 146,673
Accounts receivable, net	187,184
Prepaid expenses and other assets	<u>9,752</u>
Total current assets	343,609

NONCURRENT ASSETS:

Capital assets, less accumulated depreciation of \$ 1,784,265	570,558
Deposits	<u>242,805</u>
Total noncurrent assets	<u>813,363</u>
Total assets	<u>1,156,972</u>

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES:

Bank overdraft	87,473
Accounts payable	481,016
Accrued payroll and related payroll taxes	372,378
Accrued interest payable	64,218
Current portion of debt	151,604
Due to Lauderdale Lakes Academy, Inc.	247,649
Due to management company	<u>239,116</u>
Total current liabilities	<u>1,643,454</u>

NONCURRENT LIABILITIES:

Debt, less current portion	<u>685,870</u>
Total noncurrent liabilities	<u>685,870</u>
Total liabilities	<u>2,329,324</u>

COMMITMENTS AND CONTINGENCIES (Notes 10, 12 and 13)

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NET ASSETS (DEFICIT):

Invested in capital assets, net of related debt	482,722
Unrestricted (deficit)	<u>(1,655,074)</u>
Total net assets (deficit)	\$ <u>(1,172,352)</u>

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, 2008

	Program Revenues			Governmental Activities	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense) and Change in Net Assets (Deficit)	
FUNCTIONS/PROGRAMS:					
Governmental activities:					
Instruction	\$ 2,740,412	\$ 3,877	\$ --	\$ --	\$ (2,736,535)
General administration	1,051,047	--	--	--	(1,051,047)
Facility operations	989,849	--	--	629,260	(360,589)
School administration	418,790	--	--	--	(418,790)
Pupil transportation services	172,106	--	78,906	--	(93,200)
Extended care programs	164,693	--	202,758	--	38,065
Central services	158,720	--	--	--	(158,720)
Food services	120,906	10,304	169,810	--	59,208
Facility maintenance	83,585	--	--	--	(83,585)
Interest expense	62,663	--	--	--	(62,663)
Instructional support services	51,002	--	--	--	(51,002)
Fiscal services	28,128	--	--	--	(28,128)
Total governmental activities	\$ <u>6,041,901</u>	\$ <u>14,181</u>	\$ <u>451,474</u>	\$ <u>629,260</u>	<u>(4,946,986)</u>
 General revenues:					
FTE revenues					4,213,276
Grants and contributions, not restricted for specific programs					197,703
Interest income					<u>1,386</u>
Total general revenues					<u>4,412,365</u>
Change in net assets					(534,621)
Net assets (deficit), July 1, 2007					<u>(637,731)</u>
Net assets (deficit), June 30, 2008					\$ <u>(1,172,352)</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, 2008

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS (DEFICIT), PAGE 10 \$ (841,218)

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	\$ 2,354,823	
Less accumulated depreciation	<u>(1,784,265)</u>	570,558

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	(749,638)	
Capital lease payable	(87,836)	
Accrued interest payable	<u>(64,218)</u>	<u>(901,692)</u>

NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES, PAGE 8 \$ (1,172,352)

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 - GOVERNMENTAL FUND
For the Year Ended June 30, 2008

	<u>Charter Middle School</u>	<u>Charter High School</u>	<u>Total Governmental Fund</u>
REVENUES:			
State sources	\$ 1,710,218	\$ 3,248,468	\$ 4,958,686
Federal sources	368,316	90,441	458,757
Local sources	<u>79,880</u>	<u>9,957</u>	<u>89,837</u>
 Total revenues	 <u>2,158,414</u>	 <u>3,348,866</u>	 <u>5,507,280</u>
 EXPENDITURES:			
Current:			
Instruction	1,081,405	1,659,007	2,740,412
General administration	392,283	658,764	1,051,047
Facility operations	229,463	472,296	701,759
School administration	191,372	227,418	418,790
Pupil transportation services	75,828	96,278	172,106
Extended care programs	81,187	83,506	164,693
Central services	50,981	107,739	158,720
Food services	69,458	51,448	120,906
Facility maintenance	22,742	60,843	83,585
Instructional support services	23,266	27,736	51,002
Fiscal services	11,257	16,871	28,128
Debt service	70,058	--	70,058
Interest	30,554	--	30,554
Capital outlay	<u>--</u>	<u>4,533</u>	<u>4,533</u>
 Total expenditures	 <u>2,329,854</u>	 <u>3,466,439</u>	 <u>5,796,293</u>
 Net change in fund balance	 (171,440)	 (117,573)	 (289,013)
 FUND BALANCE (DEFICIT), July 1, 2007	 <u>(766,812)</u>	 <u>214,607</u>	 <u>(552,205)</u>
 FUND BALANCE (DEFICIT), June 30, 2008	 \$ <u><u>(938,252)</u></u>	 \$ <u><u>97,034</u></u>	 \$ <u><u>(841,218)</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 OF THE
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND, PAGE 12 \$ (289,013)

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	\$ 4,533	
Less provision for depreciation	<u>(288,090)</u>	(283,557)

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

Repayments of debt		70,058
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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 ON THE STATEMENT OF ACTIVITIES, PAGE 9 \$ (534,621)

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

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

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, 2008, approximately 195 children were enrolled in the middle school and 450 in the high school. The School is funded primarily through the School Board of Broward County, Florida contributions and other governmental grants. Subsequent to year end, the high school was closed (Note 13).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity:

The School operates under two charters granted by the sponsoring school district, the School Board of Broward County, Florida (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 was effective until June 30, 2013. An amendment to the high school agreement was issued during the fiscal year allowing the Sponsor to terminate the high school charter based on the its results on the annual Florida A+ Plan during the next three academic school years (Note 13). At the end of the Charters' terms, the Sponsor may choose not to renew them under grounds specified in the contracts, in which case the Sponsor is required to notify the schools in writing at least ninety days prior to the charters' expiration. During the terms of the charters, the Sponsor may also terminate them 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 School is such that exclusion would cause the reporting entity's 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 School is financially accountable, which would require inclusion in the School's financial statements.

Basis of presentation:

Based on the contractual provisions within the School's contract with the School Board of Broward County, Florida 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 School's major fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. All of the School's activities are classified as governmental activities.

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

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 School's 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, 2008, the School's net assets (deficit) were classified as:

Invested in capital assets, net of related debt	\$ 482,722
Unrestricted (deficit)	<u>(1,655,074)</u>
	\$ <u>(1,172,352)</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 sixty days after year end or soon enough thereafter to be used to pay liabilities of the current period.

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

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. As of June 30, 2008, there was no allowance for doubtful accounts.

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, 2008

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, 2008.

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, 2008. 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 \$ 87,473 and the bank balance was \$ 10,340. The deposits were fully insured by the FDIC.

Investments

Investments as of June 30, 2008 were in money market mutual funds and are reported at the fair value or amortized cost of \$ 143,212.

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 - DEPOSITS (continued)

These deposits and investments are reflected in the accompanying statement of net assets and balance sheet - governmental fund as cash and cash equivalents and bank overdraft of \$ 59,200.

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:

	Balance, July 1, 2007	Additions	Deletions	Balance, June 30, 2008
Capital assets, being depreciated:				
Leasehold improvements	\$ 1,359,373	\$ --	\$ --	\$ 1,359,373
Computer equipment	791,737	2,813	--	794,550
Transportation equipment	104,217	--	--	104,217
Furniture and equipment	<u>94,963</u>	<u>1,720</u>	<u>--</u>	<u>96,683</u>
Total capital assets, being depreciated	<u>2,350,290</u>	<u>4,533</u>	<u>--</u>	<u>2,354,823</u>
Accumulated depreciation:				
Leasehold improvements	810,673	150,030	--	960,703
Computer equipment	556,808	109,223	--	666,031
Transportation equipment	78,825	11,149	--	89,974
Furniture and equipment	<u>49,869</u>	<u>17,688</u>	<u>--</u>	<u>67,557</u>
Total accumulated depreciation	<u>1,496,175</u>	<u>288,090</u>	<u>--</u>	<u>1,784,265</u>
Capital assets, net	\$ <u>854,115</u>	\$ <u>(283,557)</u>	\$ <u>--</u>	\$ <u>570,558</u>

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - CAPITAL ASSETS (continued)

The provision for depreciation for the year ended June 30, 2008, amounted to \$ 288,090. The School allocated the provision for depreciation of \$ 276,941 and \$ 11,149 to facility operations and transportation services, respectively.

As part of the School's charter contracts, all capital assets purchased with public funds will automatically revert to the School Board of Broward County, Florida 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 lease agreement with Lauderdale Lakes Academy, Inc. for use of their facility for a high school. The 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 to Lauderdale Lakes Academy, Inc. as of July 1, 2007		\$	(242,970)
Expenses paid by Smart School, Inc. on behalf of Lauderdale Lakes Academy, Inc.:			
Payroll and related benefits			1,632,698
Operating expenses			<u>224,740</u>
			<u>1,857,438</u>
Rent incurred by Smart School, Inc. for use of the School's facility			(110,000)
Expenses paid on behalf of Smart School, Inc.			(198,495)
Reimbursement paid to Smart School, Inc.			<u>(1,553,622)</u>
Amount due to Lauderdale Lakes Academy, Inc. as of June 30, 2008		\$	<u>(247,649)</u>

NOTE 7 - DEBT

The following is a summary of the changes in debt of the School for the year ended June 30, 2008:

	Balance, July 1, 2007	Additions	Retirements	Balance, June 30, 2008	Due Within One Year
Obligations under capital leases	\$ 128,650	\$ --	\$ 40,814	\$ 87,836	\$ 44,149
Notes payable	<u>778,882</u>	<u>--</u>	<u>29,244</u>	<u>749,638</u>	<u>107,455</u>
Total debt	\$ <u>907,532</u>	\$ <u>--</u>	\$ <u>70,058</u>	\$ <u>837,474</u>	\$ <u>151,604</u>

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 7 - DEBT (continued)

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 (5.00% at June 30, 2008). \$ 99,967

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. 7,488

Four installment contracts payable in monthly installment aggregating \$ 5,359, including interest ranging from 10.61% to 13.41% until November 2008 and at lesser amounts thereafter through August 2010. These obligations are collateralized by computer equipment with a net book value of approximately \$ 80,950. 87,836

Note payable to Teched-Ventures for management fees payable at 10% of balance including interest at the lesser of the prime rate (5.0% at June 30, 2008) 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

Less amount due within one year 837,474

151,604

\$ 685,870

Future debt principal and interest payments are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 151,604	\$ 8,454	\$ 160,058
2010	40,206	67,519	107,725
2011	3,481	64,277	67,758
2012	—	64,219	64,219
2013	32,110	32,109	64,219
2014-2018	138,012	138,012	276,024
2019-2023	106,790	106,790	213,580
2024-2025	<u>365,271</u>	<u>31,795</u>	<u>397,066</u>
	<u>\$ 837,474</u>	<u>\$ 513,175</u>	<u>\$ 1,350,649</u>

SMART SCHOOL, INC.
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 - INCOME TAXES

Smart School, Inc. has qualified as tax exempt organization under Internal Revenue Code Section 501(c)(3), and is, therefore, exempt from income taxes. Accordingly, no tax provision has been made in the accompanying basic 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 School Board of Broward County, Florida gross revenue. For the year ended June 30, 2008, these fees amounted to \$ 210,937. Unpaid management fees and other amounts due at June 30, 2008 totaled \$ 239,116. In addition, the School has a note payable, bearing interest of the lesser of the prime rate or 5% annually, payable to Teched-Ventures, Inc. 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, 2008.

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 \$ 938 for the year ended June 30, 2008.

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

The School is also related to Lauderdale Lakes Academy, Inc. through common management. Balances and transactions with Lauderdale Lakes Academy, Inc. 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 \$ 29,020, including common area maintenance. This amount increases annually by 6% until the lease expires in August 2017. Rent expense relative to this lease was \$ 357,528 for the year ended June 30, 2008.

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, 2008.

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, 2008. 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.

SMART SCHOOL, INC.
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2008

NOTE 10 - LEASE COMMITMENTS (continued)

The School leases certain office equipment items requiring aggregate monthly rental payments of approximately \$ 1,418 through September 2008 and lesser amounts thereafter until November 2012. Total expenditures related to these obligations for the year ended June 30, 2008 was \$ 18,547.

Approximate future minimum lease payments required for all leases as of June 30, 2008 are as follows:

Year ending June 30,	Amount
2009	\$ 633,100
2010	\$ 648,500
2011	\$ 556,100
2012	\$ 425,600
2013	\$ 439,300
Thereafter	\$ 2,012,300

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

SMART SCHOOL, INC.
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2008

NOTE 11 - PENSION PLAN (continued)

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 8.44%. No employee contributions are required. Additionally, the School is required to contribute 12.50% for all DROP participants. At June 30, 2008, the School had 78 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 30 were as follows:

	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>
Contribution requirements	\$ <u>298,963</u>	\$ <u>245,531</u>	\$ <u>330,204</u>
Contributions made (100%)	\$ <u>298,963</u>	\$ <u>245,531</u>	\$ <u>330,204</u>
Total covered payroll	\$ <u>3,544,090</u>	\$ <u>3,268,563</u>	\$ <u>3,802,292</u>
Percent of contributions to total covered payroll	8.44%	7.51%	8.68%

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, 2008

NOTE 12 - CONTINGENCIES AND RISK MANAGEMENT (continued)

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.

Internal Revenue Service Levy:

Smart School, Inc. used an outside organization, Firstpay, Inc. to process payroll, remit payroll deposits to the Internal Revenue Service and perform other related services during the fiscal year ended June 30, 2003. It was discovered that the Organization was delinquent in remitting the payroll taxes that Smart School, Inc. paid to Firstpay, Inc. Firstpay, Inc. filed bankruptcy soon thereafter and is now the subject of various Federal and State investigations. Smart School, Inc. has engaged an attorney to represent their claim against Firstpay, Inc.'s bankruptcy trustee. Because many other entities that were using Firstpay, Inc.'s services were effected under similar circumstances and have filed claims, Smart School, Inc. does not believe that it will be reimbursed for the full amount of the now delinquent taxes. Smart School, Inc. had contacted the Internal Revenue Service and has had any potential collection action frozen until more is known about the outcome of the ongoing investigations. Additionally, the Internal Revenue Service has been cooperating with victims and is aware of their situation regarding Firstpay, Inc. The total amount Smart School, Inc. estimates they owe to the Internal Revenue Service for these unpaid taxes is approximately \$ 80,000, which has been recorded in the accompanying financial statements. Additional interest and other charges may be applied by the Internal Revenue Service.

NOTE 13 - GOING CONCERN

As indicated in the accompanying government-wide financial statements, the School's activities for the year resulted in a decrease in net assets of \$ 534,621 and as of June 30, 2008, the School had a deficit in unrestricted net assets totaling \$ 1,172,352. In addition, the School's current liabilities exceeded its current assets by \$ 1,299,845. Subsequent to year end, the School received notification that they were required to close the high school due to the fact that they did not receive a passing result on the annual Florida A + Plan (Note 2). These circumstances create an uncertainty about the School's ability to continue as a going concern.

Management of the School is developing a plan to optimize revenue and expense levels through the following activities:

- Restructuring of operations - resizing of staff, expense cost reductions
- Restructuring of debt - analyze current and future opportunities
- Immediate recruiting of middle-school-age students to increase enrollment
- Increase levels of fund raising and contributions - campaigns and functions
- Facility and facility operating cost sharing - already in effect with new charter school

The ability of the School to continue as a going concern is dependent on continued execution of the above-mentioned activities. The financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

**REQUIRED SUPPLEMENTAL
INFORMATION**

SMART SCHOOL, INC.
BUDGETARY COMPARISON SCHEDULE -
CHARTER MIDDLE SCHOOL
For the Year Ended June 30, 2008

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
REVENUES:			
FTE revenue	\$ 1,842,834	\$ 1,538,511	\$ (304,323)
Grants and program fees	258,887	480,817	221,930
Capital grants	<u>232,200</u>	<u>139,086</u>	<u>(93,114)</u>
Total revenues	<u>2,333,921</u>	<u>2,158,414</u>	<u>(175,507)</u>
EXPENDITURES:			
Current:			
Salaries and related benefits	1,559,187	1,338,027	221,160
Rent	178,320	178,761	(441)
Management fees	184,283	143,797	40,486
School activities	123,000	126,217	(3,217)
Transportation	105,505	70,064	35,441
Lunch expense	12,500	69,458	(56,958)
Office expense	32,250	54,317	(22,067)
Insurance	39,776	53,209	(13,433)
Utilities	42,500	44,918	(2,418)
Repairs and maintenance	22,000	32,764	(10,764)
Small equipment	--	23,067	(23,067)
Professional services	17,000	21,653	(4,653)
Training	--	20,683	(20,683)
Telephone	--	20,539	(20,539)
Textbooks	17,600	18,015	(415)
Supplies	--	10,203	(10,203)
Printing	--	3,550	(3,550)
Marketing/revenue development	--	--	--
Capital outlay	--	--	--
Debt service:			
Principal	--	70,058	(70,058)
Interest	<u>--</u>	<u>30,554</u>	<u>(30,554)</u>
Total expenditures	<u>2,333,921</u>	<u>2,329,854</u>	<u>4,067</u>
Net change in fund balance	--	(171,440)	(171,440)
FUND BALANCE (DEFICIT), July 1, 2007	<u>(104,120)</u>	<u>(766,812)</u>	<u>(662,692)</u>
FUND BALANCE (DEFICIT), June 30, 2008	\$ <u><u>(104,120)</u></u>	\$ <u><u>(938,252)</u></u>	\$ <u><u>(834,132)</u></u>

Note 1 - FUND BALANCE DEFICIT:

The fund balance deficit at June 30, 2008 is \$ 938,252

Note 2 - BUDGETARY LEVEL OF CONTROL

The level at which the School controls its expenditures is at the overall expenditure level.

Note 3 - ENCUMBRANCE ACCOUNTING

The School does not use encumbrance accounting.

SMART SCHOOL, INC.
BUDGETARY COMPARISON SCHEDULE -
CHARTER HIGH SCHOOL
For the Year Ended June 30, 2008

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
REVENUES:			
FTE revenue	\$ 2,789,734	\$ 2,753,671	\$ (36,063)
Capital grants	431,327	490,175	58,848
Grants and program fees	77,100	95,063	17,963
Miscellaneous income	<u>--</u>	<u>9,957</u>	<u>9,957</u>
Total revenues	<u>3,298,161</u>	<u>3,348,866</u>	<u>50,705</u>
EXPENDITURES:			
Current:			
Salaries and related benefits	1,973,723	2,106,162	(132,439)
Rent	448,000	427,701	20,299
Management fees	278,973	278,076	897
School activities	136,510	114,197	22,313
Utilities	115,700	103,114	12,586
Transportation	105,505	93,238	12,267
Repairs and maintenance	70,300	68,485	1,815
Lunch expense	12,500	51,448	(38,948)
Insurance	54,505	48,932	5,573
Office expense	49,750	37,857	11,893
Textbooks	36,695	30,697	5,998
Professional services	16,000	30,060	(14,060)
Telephone	--	21,199	(21,199)
Training	--	20,668	(20,668)
Small equipment	--	20,213	(20,213)
Printing	--	5,045	(5,045)
Supplies	--	4,814	(4,814)
Marketing/revenue development	--	--	--
Capital outlay	<u>--</u>	<u>4,533</u>	<u>(4,533)</u>
Total expenditures	<u>3,298,161</u>	<u>3,466,439</u>	<u>(168,278)</u>
Change in fund balance	--	(117,573)	(117,573)
FUND BALANCE (DEFICIT), July 1, 2007	<u>(9,156)</u>	<u>214,607</u>	<u>223,763</u>
FUND BALANCE (DEFICIT), June 30, 2008	\$ <u>(9,156)</u>	\$ <u>97,034</u>	\$ <u>106,190</u>

Note 1 - BUDGETARY LEVEL OF CONTROL

The level at which the School controls its expenditures is at the overall expenditure level. The School exceeded its budgeted expenditures by \$ 168,278.

Note 2 - ENCUMBRANCE ACCOUNTING

The School does not use encumbrance accounting.

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 the governmental activities and the General Fund of Smart School, Inc., a component unit of the School Board of Broward County, as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 31, 2008. 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Smart School, Inc.'s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting 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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of School's financial statements that is more than inconsequential will not be prevented or detected by School's internal control. We consider two of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs on page 30 to be significant deficiencies in internal control over financial reporting. (2008-2 and 2008-4).

Smart School, Inc.

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 School'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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether School'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.

Smart School, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs on page 30. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended solely 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
October 31, 2008



KEEFE, McCULLOUGH & CO., LLP
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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. (the "School") a component unit of the School Board of Broward County, Florida, as of and for the year ended June 30, 2008. 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, Rule 10.854(1)(d).

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 no recommendations made relating to the preceding audit and their status is listed on page 31.
3. There were recommendations to improve the School's financial management and they are listed on the Schedule of Findings on page 31.
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 discovered during our audit relating to improper or inadequate accounting procedures, failures to properly record financial transactions, or other inaccuracies, shortages, defalcations and instances of fraud or other reportable conditions, other than the significant deficiencies denoted as 2008-2 and 2008-4 on page 31.
7. As required by the Rules of the Auditor General (Section 10.854(1)(d)2), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the Middle School did meet one of the conditions described in Section 218.503(1), Florida Statutes. The Middle School currently has an unreserved fund deficit of \$ 943,128. This is disclosed in Note 13 to the financial statements of the School. The rules of the Auditor General also require that a statement be made, as to whether or not this condition is a result of deteriorating financial conditions. We believe

Smart School, Inc.

that the financial emergency is a result of deteriorating financial conditions, primarily due to the lack of anticipated enrolled students and the corresponding additional revenue. Management's plan to address this situation is discussed in Note 13 to the financial statements.

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

Fort Lauderdale, Florida
October 31, 2008

SMART SCHOOL, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2008

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

2008-1 Compliance Finding - Audited Financial Statements

In accordance with the Schools Charter Agreement with the School Board, the School is required to provide the School Board with annual financial statements by September 30 of each year, in compliance with the School Board of Broward County's Charter School Charter Agreement. The School did not submit the audited financial statements to the School Board by September 30, 2008.

Management's Response:

Past audits and other financial reports were always submitted in a timely manner. The audit was delayed primarily due to the activities involved with the shutdown of the High School and the addition of the ninth through twelfth grade for Lauderdale Lakes Academy, Inc. The School will strive to comply with all contractual provisions, including filing timely reports with oversight agencies.

***2008-2 Investigate Old Outstanding Checks and Other Old Uncleared Reconciling Items**

We noted that many old outstanding checks and other old uncleared reconciling items, some over one year old, are being carried on monthly cash reconciliations. This causes additional time to be spent by personnel to reconcile the bank accounts each month. We recommend that checks and other uncleared reconciling items which are over one year old be investigated and removed from the bank reconciliation and that the original transaction be reversed. Research should be done periodically to eliminate large numbers of old items being carried from month to month.

Management's Response:

We have instituted a monthly procedure of resolving outstanding transactions in excess of 90 days. This applies to checks and accounts payable. Items are written off at the appropriate time.

2008-3 Lunch Cash Receipts Reconciliations

We noted that lunch cash receipts from students were not reconciled with the list prepared by cafeteria personnel. We recommend that the person who received the daily lunch list reconcile it with the daily cash receipts. The reconciliation should include tests of mechanical accuracy. The composition of unrecognized differences should be determined and followed up. Any journal entries deemed necessary as a result should be recorded.

Management's Response:

Manual systems reconciliations are now properly documented. A lunch management system (QSP) was installed last year and is being reconfigured. This will eliminate the labor intensive manual system. The QSP system is a POS (point of sale) system, which utilizes student badges and scanning. The QSP System will be utilized starting in December 2008.

*significant deficiency

SMART SCHOOL, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
(continued)
June 30, 2008

*** 2008-4 Prepare More Complete Interim Financial Statements**

It appears from the number of year-end adjustments required that the School's interim financial statements are not comparable to the audited financial statements distributed to the Board and other outside users. This could result in conflicting information for management, Board members, and other outside users. We recommend that the School review the content of the audited adjustments made to the year-end statements and incorporate many of them into the monthly closing process.

Management's Response:

The integrity of our interim internal and external reporting has been accomplished using existing manual systems. The large number of year-end adjustments were primarily due to some disconnects caused by a mid-year conversion to our new fund accounting financial and accounting system. As 2008 was the start-up, all of our future reporting will be facilitated by the new financial reporting systems. The School has reviewed all of the audit adjustments and has adjusted our general ledger.

*significant deficiency