

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

**BASIC FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION**

June 30, 2009

SMART SCHOOL, INC.  
BASIC FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION  
June 30, 2009

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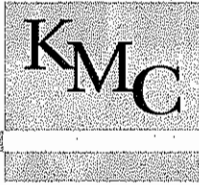
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**INDEPENDENT AUDITORS' REPORT**

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, 2009, 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 position of the governmental activities and the General Fund of the School as of June 30, 2009, and the respective change 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 activities, the School's net assets decreased by \$ 307,746 for the year ended June 30, 2009, and, as of that date, had a net assets deficiency of \$ 1,480,098. In addition and as described more fully in Notes 12 and 13 to the financial statements, certain contingencies, current financial performance/results and contractual violations with the sponsor charter contract 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 these uncertainties.

Smart School, Inc.

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2010 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 important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

  
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
April 21, 2010

**SMART SCHOOL, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2009

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 (this location closed during the fiscal year). 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, 2009 and 2008.

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, 2009:

- The School's total liabilities exceeded its assets at June 30, 2009 by \$ 1,480,098.
- The School's total revenues were \$ 3,060,247, \$ 1,354,943 from FTE revenues, \$ 1,176,085 from grants and contributions not restricted to specific programs, \$ 226,906 from operating grants, \$ 114,037 from capital grants, \$ 188,074 from charges for services, and \$ 202 from interest income. The School's expenses for the year were \$ 3,367,993.

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

The government-wide financial statements can be found on pages 9 and 10 of this report.

SMART SCHOOL, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009

**Fund financial statements:**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School has one category of funds - governmental funds. 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 financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements.

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

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

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

The government fund financial statements can be found on pages 11 through 14 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 15 through 26 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 27 and 28 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets (deficit) may serve over time as a useful indicator of financial position. A portion of the School's net assets (deficit) reflect its investment in capital assets, less any related outstanding debt used to acquire those assets. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

SMART SCHOOL, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

Resources that are subject to external restrictions on how they may be used are classified as restricted assets. For the year ended June 30, 2009, the School had no restricted assets. The remaining unrestricted net assets (deficit) balance may be used to meet the School's ongoing obligations, if any. The following table presents the change in net assets (deficit) for the years ended June 30, 2009 and 2008. Our analysis in the table below focuses on the net assets (deficit) of the School's governmental activities:

	Smart School, Inc. Net Assets (Deficit)		
	<u>2009</u>	<u>2008</u>	<u>Variances</u>
<b>ASSETS:</b>			
Current and other assets	\$ 53,160	\$ 586,414	\$ (533,254)
Capital assets, net of depreciation	<u>641,845</u>	<u>570,558</u>	<u>71,287</u>
Total assets	<u>695,005</u>	<u>1,156,972</u>	<u>(461,967)</u>
<b>LIABILITIES:</b>			
Liabilities, excluding long-term liabilities	2,105,256	1,643,454	461,802
Long-term liabilities	<u>69,847</u>	<u>685,870</u>	<u>(616,023)</u>
Total liabilities	<u>2,175,103</u>	<u>2,329,324</u>	<u>(154,221)</u>
<b>NET ASSETS (DEFICIT):</b>			
Invested in capital assets, net of related debt	257,106	482,722	(225,616)
Unrestricted (deficit)	<u>(1,737,204)</u>	<u>(1,655,074)</u>	<u>(82,130)</u>
Total net assets	<u>\$ (1,480,098)</u>	<u>\$ (1,172,352)</u>	<u>\$ (307,746)</u>

**Governmental activities:**

The results of this year's operations for the School as a whole are reported in the statement of activities on page 10. The table below provides a condensed presentation of the School's revenues and expenses for the years ended June 30, 2009 and 2008:

SMART SCHOOL, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009

Smart School, Inc.  
Change in Net Assets (Deficit)

	<u>2009</u>	<u>2008</u>	<u>Variances</u>
REVENUES:			
General revenues	\$ 2,531,230	\$ 4,412,365	\$ (1,881,135)
Program revenues:			
Capital grants and contributions	114,037	629,260	(515,223)
Operating grants and contributions	226,906	451,474	(224,568)
Charges for services	188,074	14,181	173,893
	<u>3,060,247</u>	<u>5,507,280</u>	<u>(2,447,033)</u>
Total revenues			
	<u>3,060,247</u>	<u>5,507,280</u>	<u>(2,447,033)</u>
<b>FUNCTIONS/PROGRAM</b>			
<b>EXPENSES:</b>			
Instruction	1,257,644	2,905,105	(1,647,461)
General administration	430,890	1,051,047	(620,157)
Facility operations	732,099	989,849	(257,750)
School administration	270,081	418,790	(148,709)
Pupil transportation services	79,284	172,106	(92,822)
Central services	108,146	158,720	(50,574)
Food services	100,561	120,906	(20,345)
Facility maintenance	53,084	83,585	(30,501)
Interest expense	12,386	62,663	(50,277)
Instructional support services	27,789	51,002	(23,213)
Payroll tax interest and penalties	268,800	-	268,800
Fiscal services	27,229	28,128	(899)
	<u>3,367,993</u>	<u>6,041,901</u>	<u>(2,673,908)</u>
Total expenses			
	<u>3,367,993</u>	<u>6,041,901</u>	<u>(2,673,908)</u>
Change in net assets	<u>(307,746)</u>	<u>(534,621)</u>	<u>226,875</u>
Net assets, beginning	<u>(1,172,352)</u>	<u>(637,731)</u>	<u>(534,621)</u>
Net assets, ending	\$ <u><u>(1,480,098)</u></u>	\$ <u><u>(1,172,352)</u></u>	\$ <u><u>(307,746)</u></u>

**FINANCIAL HIGHLIGHTS - GOVERNMENTAL FUND**

The following is condensed information regarding the Governmental Fund:

	<u>2009</u>	<u>2008</u>	<u>Variances</u>
REVENUES	\$ 2,353,847	\$ 5,507,280	\$ (3,153,433)
EXPENDITURES	<u>(3,249,833)</u>	<u>(5,796,293)</u>	<u>2,546,460</u>
	(895,986)	(289,013)	(606,973)

SMART SCHOOL, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009

**FINANCIAL HIGHLIGHTS - GOVERNMENTAL FUND (continued)**

FUND BALANCE (DEFICIT), beginning of year	<u>(841,218)</u>	<u>(552,205)</u>	<u>(289,013)</u>
FUND BALANCE (DEFICIT), end of year	\$ <u>(1,737,204)</u>	\$ <u>(841,218)</u>	\$ <u>(895,986)</u>

Revenue and expenditure decreases were due to the closing of the high school, SSITC, and a decrease in the number of students attending the middle school.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital assets*

At June 30, 2009, the School had capital assets of \$ 398,881, net of accumulated depreciation, invested in a leasehold improvements, computers, transportation equipment, and furniture and equipment as compared to \$ 570,560 at June 30, 2008. A detailed schedule is on page 19 of the notes to basic financial statements.

*Debt*

At June 30, 2009, the School had debt of \$ 141,775, which consists of capital leases, as compared to \$ 837,474 at June 30, 2008. More information about the School's debt is on pages 20 and 21 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 further decrease in student enrollment. The debt forgiveness by the Management Company made up for the FTE revenue decrease.
- Expenditures were higher than plan levels due primarily to interest and penalties on payroll taxes. Reductions were not made in time to reduce the impact of the reduced FTE.

*High School*

- High school was closed in September 2008. The budget was based on four hundred students and was not amended for the closure of the school.

**SMART SCHOOL, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2009

**ECONOMIC OUTLOOK**

Smart School Middle is a top academic performing “A” school with an outstanding reputation in the community it serves. The student enrollment for 2009-2010 has exceeded goal and is expected to increase in the upcoming 2010-2011 school year.

To improve the financial performance of Smart School Middle in the 2009-2010 school year and beyond, several actions have been taken: the expensive facilities lease for the site occupied in 2008-2009 has been terminated with minimal penalty; the middle school now occupies one of its lower cost modular facilities and rents the other one to another school; staff has been right-sized to match current student enrollment; and overhead operational expenses have been significantly reduced. Tight cost management and controls will continue to ensure that Smart Middle breaks even and begins to produce a surplus reserve in future years.

**REQUESTS FOR INFORMATION**

Questions about this report or requests for additional information should be directed to Mr. Edward Miller, Executive Director; Smart School, Inc.; 3020 N.W. 33<sup>rd</sup> Avenue; Lauderdale Lakes, Florida 33311.

SMART SCHOOL, INC.  
STATEMENT OF NET ASSETS (DEFICIT)  
June 30, 2009

A S S E T S

	<u>Governmental Activities</u>
<b>CURRENT ASSETS:</b>	
Accounts receivable, net	\$ 41,782
Prepaid expenses and other assets	<u>11,378</u>
Total current assets	53,160
<b>NONCURRENT ASSETS:</b>	
Capital assets, less accumulated depreciation of \$ 1,964,725	398,881
Deposits	<u>242,964</u>
Total noncurrent assets	<u>641,845</u>
Total assets	<u>695,005</u>
<b>L I A B I L I T I E S   A N D   N E T   A S S E T S   ( D E F I C I T )</b>	
<b>CURRENT LIABILITIES:</b>	
Bank overdraft	56,497
Accounts payable	115,785
Accrued payroll and related payroll taxes	1,074,048
Current portion of debt	71,928
Due to Lauderdale Lakes Academy, Inc.	<u>786,998</u>
Total current liabilities	<u>2,105,256</u>
<b>NONCURRENT LIABILITIES:</b>	
Debt, less current portion	<u>69,847</u>
Total noncurrent liabilities	<u>69,847</u>
Total liabilities	<u>2,175,103</u>
<b>COMMITMENTS AND CONTINGENCIES (Notes 6, 7, 10, 12 and 13)</b>	
	-
<b>NET ASSETS (DEFICIT):</b>	
Invested in capital assets, net of related debt	257,106
Unrestricted (deficit)	<u>(1,737,204)</u>
Total net assets (deficit)	\$ <u><u>(1,480,098)</u></u>

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

SMART SCHOOL, INC.  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2009

	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)	
<b>FUNCTIONS/PROGRAMS:</b>					
Governmental activities:					
Instruction	\$ 1,257,644	\$ 15,161	\$ 147,345	\$ -	\$ (1,095,138)
General administration	430,890	-	-	-	(430,890)
Facility operations	732,099	172,913	-	114,037	(445,149)
School administration	270,081	-	-	-	(270,081)
Pupil transportation services	79,284	-	-	-	(79,284)
Central services	108,146	-	-	-	(108,146)
Food services	100,561	-	79,561	-	(21,000)
Facility maintenance	53,084	-	-	-	(53,084)
Interest expense	12,386	-	-	-	(12,386)
Instructional support services	27,789	-	-	-	(27,789)
Payroll tax interest and penalties	268,800	-	-	-	(268,800)
Fiscal services	27,229	-	-	-	(27,229)
	<u>\$ 3,367,993</u>	<u>\$ 188,074</u>	<u>\$ 226,906</u>	<u>\$ 114,037</u>	<u>(2,838,976)</u>
Total governmental activities					
	<u>\$ 3,367,993</u>	<u>\$ 188,074</u>	<u>\$ 226,906</u>	<u>\$ 114,037</u>	<u>(2,838,976)</u>
General revenues:					
					1,354,943
					1,176,085
					202
					Total general revenues
					2,531,230
					Change in net assets
					(307,746)
					Net assets (deficit), July 1, 2008
					(1,172,352)
					Net assets (deficit), June 30, 2009
					\$ (1,480,098)

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

SMART SCHOOL, INC.  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2009

A S S E T S

	<u>Charter Middle School</u>	<u>Charter High School</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Accounts receivable, net	\$ 41,782	\$ -	\$ 41,782
Prepaid expenditures and other assets	11,378	-	11,378
Deposits	<u>242,964</u>	<u>-</u>	<u>242,964</u>
Total assets	<u>\$ 296,124</u>	<u>\$ -</u>	<u>\$ 296,124</u>

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

<b>LIABILITIES:</b>			
Bank overdraft	\$ 56,497	\$ -	\$ 56,497
Accounts payable	115,785	-	115,785
Accrued payroll and related payroll taxes	1,074,048	-	1,074,048
Due to Lauderdale Lakes Academy, Inc.	<u>786,998</u>	<u>-</u>	<u>786,998</u>
Total liabilities	<u>2,033,328</u>	<u>-</u>	<u>2,033,328</u>

COMMITMENTS AND CONTINGENCIES,  
(Notes 6, 7, 10, 12 and 13)

-	-	-	-
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FUND BALANCE (DEFICIT):

Reserved for:

Prepaid expenditures and other assets	11,378	-	11,378
Unreserved (deficit)	<u>(1,748,582)</u>	<u>-</u>	<u>(1,748,582)</u>

Total fund balance (deficit)	<u>(1,737,204)</u>	<u>-</u>	<u>(1,737,204)</u>
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Total liabilities and fund balance (deficit)	<u>\$ 296,124</u>	<u>\$ -</u>	<u>\$ 296,124</u>
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The accompanying notes to the financial statements are an integral part of these statements.

SMART SCHOOL, INC.  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS (DEFICIT)  
June 30, 2009

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET  
ASSETS (DEFICIT), PAGE 11 \$ (1,737,204)

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	\$ 2,363,606	
Less accumulated depreciation	<u>1,964,725</u>	398,881

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	(91,358)	
Capital lease payable	<u>(50,417)</u>	<u>(141,775)</u>

NET ASSETS (DEFICIT) OF GOVERNMENTAL  
ACTIVITIES, PAGE 9 \$ (1,480,098)

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

**SMART SCHOOL, INC.**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGE IN FUND BALANCE (DEFICIT) - GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2009

	<u>Charter Middle School</u>	<u>Charter High School</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
State sources	\$ 1,040,988	\$ 512,413	\$ 1,553,401
Federal sources	220,269	-	220,269
Local sources	<u>423,918</u>	<u>156,259</u>	<u>580,177</u>
Total revenues	<u>1,685,175</u>	<u>668,672</u>	<u>2,353,847</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction	1,038,762	218,884	1,257,646
General administration	318,227	112,663	430,890
Facility operations	512,077	39,562	551,639
School administration	215,208	54,873	270,081
Pupil transportation services	71,992	7,292	79,284
Central services	87,443	20,703	108,146
Food services	98,807	1,754	100,561
Facility maintenance	38,860	14,224	53,084
Instructional support services	25,670	2,119	27,789
Fiscal services	23,084	4,145	27,229
Payroll tax interest and penalties	268,800	-	268,800
Debt service	53,517	-	53,517
Interest	12,386	-	12,386
Capital outlay	<u>533</u>	<u>8,248</u>	<u>8,781</u>
Total expenditures	<u>2,765,366</u>	<u>484,467</u>	<u>3,249,833</u>
Net change in fund balances before other sources (uses)	(1,080,191)	184,205	(895,986)
<b>OTHER SOURCES (USES):</b>			
Transfer in (out)	<u>281,239</u>	<u>(281,239)</u>	<u>-</u>
Net change in fund balance	(798,952)	(97,034)	(895,986)
FUND BALANCE (DEFICIT), July 1, 2008	<u>(938,252)</u>	<u>97,034</u>	<u>(841,218)</u>
FUND BALANCE (DEFICIT), June 30, 2009	<u>\$ (1,737,204)</u>	<u>\$ -</u>	<u>\$ (1,737,204)</u>

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

**SMART SCHOOL, INC.**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGE IN FUND BALANCE (DEFICIT)**  
**OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2009

NET CHANGE IN FUND BALANCE - TOTAL \$ (895,986)  
GOVERNMENTAL FUNDS, PAGE 13

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	\$ 8,781	
Less provision for depreciation	<u>(180,460)</u>	(171,679)

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	53,517	
Forgiveness of debt (Note 9)	<u>642,182</u>	695,699

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 governmental funds.

Forgiveness in accrued interest (Note 9)		<u>64,220</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL \$ (307,746)  
ACTIVITIES, PAGE 10

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

SMART SCHOOL, INC.  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2009

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 offered grades nine through twelve at another location in Broward County under a separate charter contract. During the fiscal year, the School was required to close its high school facility. As of June 30, 2009, approximately 135 children were enrolled in the middle school. The School is funded primarily through the School Board of Broward County, Florida, contributions and other governmental grants.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity:

The School operates under two charters granted by the sponsoring school district, the 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 allowing the Sponsor to terminate the high school charter based on the results on the annual Florida A+ Plan. During the fiscal year, the Sponsor exercised their option to terminate the high school charter and the high school was closed in September 2008. At the end of the term of the existing charter, the Sponsor may choose not to renew the charter under grounds specified in the contracts, in which case the Sponsor is required to notify the School in writing at least ninety days prior to the charter's expiration. During the term of the charter, the Sponsor may also terminate the charter 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, 2009

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, 2009, the School's net assets (deficit) were classified as:

Invested in capital assets, net of related debt	\$ 257,106
Unrestricted (deficit)	<u>(1,737,204)</u>
	\$ <u><u>(1,480,098)</u></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 grants and contributions, investment income, other revenue, etc.). The statement of activities reduces gross expenses (including provision for depreciation) by related program revenues such as operating and capital grants and charges for services. 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 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, 2009

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, 2009, there was no allowance for doubtful accounts.

SMART SCHOOL, INC.  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2009.

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, 2009. The budgets have been prepared in accordance with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the budgeted amounts for the major fund is presented as required supplemental information on pages 27 and 28.

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 Federal Deposit Insurance Corporation (FDIC). On May 20, 2009, the temporary increase in the standard maximum deposit insurance amount to \$ 250,000 per depositor was extended through December 31, 2013. At year end, the School had a carrying overdraft balance of \$ 56,497 and the bank balance was an overdraft of \$ 58,907.

SMART SCHOOL, INC.  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2009

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets, being depreciated:				
Leasehold improvements	\$ 1,359,373	\$ -	\$ -	\$ 1,359,373
Computer equipment	794,550	7,816	-	802,366
Transportation equipment	104,217	-	-	104,217
Furniture and equipment	96,685	965	-	97,650
	<u>2,354,825</u>	<u>8,781</u>	<u>-</u>	<u>2,363,606</u>
Total capital assets, being depreciated				
Accumulated depreciation:				
Leasehold improvements	960,703	77,350	-	1,038,053
Computer equipment	666,031	82,152	-	748,183
Transportation equipment	89,974	6,356	-	96,330
Furniture and equipment	67,557	14,602	-	82,159
	<u>1,784,265</u>	<u>180,460</u>	<u>-</u>	<u>1,964,725</u>
Total accumulated depreciation				
Capital assets, net	\$ <u>570,560</u>	\$ <u>(171,679)</u>	\$ <u>-</u>	\$ <u>398,881</u>

The provision for depreciation for the year ended June 30, 2009, amounted to \$ 180,460. The School allocated the provision for depreciation of \$ 174,104 and \$ 6,356 to facility operations and pupil 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, now for its middle school. The lease calls for monthly payments of approximately \$ 9,100 (Note 10) and automatically renews annually until June 2012. The School also paid for certain operating costs incurred and vice-versa. Subsequent to year end, the School ceased paying payroll out of the School for Lauderdale Lakes Academy, Inc. and Lauderdale Lakes Academy, Inc. took over all payroll functions primarily as a result of the Internal Revenue Service contingencies incurred in the current year (Note 13). The following is a summary of such transactions:

Amount due to Lauderdale Lakes Academy, Inc. as of July 1, 2008	\$ (247,649)
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SMART SCHOOL, INC.  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2009

NOTE 6 - DUE TO LAUDERDALE LAKES ACADEMY, INC. (continued)

Expenses paid by Smart School, Inc. on behalf of Lauderdale Lakes Academy, Inc.:				
Payroll and related benefits			2,105,120	
Operating expenses			<u>155,297</u>	
Rent incurred by Smart School, Inc. for use of the School's facility			(22,750)	
Expenses paid by Lauderdale Lakes Academy, Inc. on behalf of Smart School, Inc.			(186,516)	
Reimbursements paid to Smart School, Inc.			<u>(2,590,500)</u>	
Amount due to Lauderdale Lakes Academy, Inc. as of June 30, 2009			\$ <u><u>(786,998)</u></u>	

Smart School has property and equipment that they believe could be used to remit to Lauderdale Lakes Academy, if necessary, to resolve the amount owed.

NOTE 7 - DEBT

The following is a summary of the changes in debt of the School for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Retirements	Balance, June 30, 2009	Due Within One Year
Obligations under capital leases	\$ 87,836	\$ -	\$ 37,419	\$ 50,417	\$ 46,936
Notes payable	<u>749,638</u>	<u>-</u>	<u>658,280</u>	<u>91,358</u>	<u>24,992</u>
Total debt	\$ <u><u>837,474</u></u>	\$ <u><u>-</u></u>	\$ <u><u>695,699</u></u>	\$ <u><u>141,775</u></u>	\$ <u><u>71,928</u></u>

During the current year, a note payable to Teched-Ventures, Inc., a related party, in the amount of \$ 642,182 was forgiven to help the solvency of the School (Note 9).

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 (3.25% at June 30, 2009).					\$ 91,358
Three installment contracts payable in monthly installment aggregating \$ 3,626, including interest ranging from 12.06% to 13.41% until May 2010 and at lesser amounts thereafter through August 2010. These obligations are collateralized by computer equipment with a net book value of approximately \$ 33,900.					<u>50,417</u>
					<u>141,775</u>
Less amount due within one year					<u>71,928</u>
					\$ <u><u>69,847</u></u>

SMART SCHOOL, INC.  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2009

NOTE 7 – DEBT (continued)

Future debt principal and interest payments are approximately as follows:

Year Ending <u>June 30,</u>		
2010	\$	71,900
2011	\$	28,500
2012	\$	25,000
2013	\$	16,400
Thereafter	\$	NONE

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. (Note 7) 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%) on the gross revenues received from the School Board of Broward County, Florida. For the year ended June 30, 2009, these fees amounted to \$ 60,855. In addition, the School had a note payable, bearing interest of the lesser of the prime rate or 5% annually, payable to Teched-Ventures, Inc. The principal balance and accrued interest on the note totaling approximately \$ 706,400 at June 30, 2009 was forgiven by Teched-Ventures, Inc. during the current year ended June 30, 2009.

The School's Executive Director and management company are also guarantors 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 agreements:

Smart School, Inc. leased its City of Lauderhill facility for a monthly rental payment of \$ 29,020, including common area maintenance. Subsequent to year end, the School terminated this lease and moved the operations of the middle school to the same facility that was used by the high school. Lease termination costs were incurred as a result of this early cancellation along with a settlement of past due rent. Past due rent included in accounts payable related to this lease is approximately \$ 94,600. The settlement, inclusive of the past due rent, is \$ 240,000 and is payable at a rate of \$ 4,000, per month, for sixty months and bears no interest.

SMART SCHOOL, INC.  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2009

NOTE 10 - LEASE COMMITMENTS (continued)

The School has a land lease associated with its high school facility that was closed during the year. The property has since been taken over by the middle school to house operations. The lease called for a monthly payment of approximately \$ 9,100 (Note 6) until June 2009 where it automatically renews annually until June 2012. In addition, the School is required to pay its proportional share of utility expenses.

The School leases modular facilities (Note 9), previously occupied by the high school and now used by the middle school. The lease calls for a monthly rental payment of \$ 12,320 until September 2010. 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. Subsequent to year end, this lease and the land lease expenses have been shared by Lauderdale Lakes Academy, Inc. as they have occupied a certain part of the facility.

The School leases certain office equipment items requiring aggregate monthly rental payments of approximately \$ 1,000 through November 2012. Total expenditures related to these obligations for the year ended June 30, 2009 were approximately \$ 11,400.

Total rent expense associated with the above leases for the year were approximately \$ 475,000.

Approximate future minimum lease payments, exclusive of the lease termination settlement, required for all leases as of June 30, 2009 are as follows:

Year Ending June 30,	Amount
2010	\$ 269,000
2011	\$ 274,800
2012	\$ 40,200
Thereafter	\$ NONE

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%

SMART SCHOOL, INC.  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2009

NOTE 11 - PENSION PLAN (continued)

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.

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, 2009, 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:

	FY 2009	FY 2008	FY 2007
Contribution requirements	\$ <u>265,420</u>	\$ <u>298,963</u>	\$ <u>245,531</u>
Contributions made (100%)	\$ <u>265,420</u>	\$ <u>298,963</u>	\$ <u>245,531</u>
Total covered payroll	\$ <u>2,694,619</u>	\$ <u>3,544,090</u>	\$ <u>3,268,563</u>
Percent of contributions to total covered payroll	9.85%	8.44%	7.51%

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 and the State of Florida Single Audit Act, the School is not required to conduct a "single audit" since the required threshold of Federal and/or state money is currently \$ 500,000 and the School did not exceed such threshold.

SMART SCHOOL, INC.  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2009

NOTE 12 - CONTINGENCIES AND RISK MANAGEMENT (continued)

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.

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 three years.

Internal Revenue Service Contingency 1:

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 outside 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 affected under similar circumstances and have filed claims, Smart School, Inc. does not believe that it will be reimbursed for the any 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.

Internal Revenue Service Contingency 2:

During the second fiscal quarter (4<sup>th</sup> calendar quarter of 2008) of the School's fiscal year end June 2009, the School failed to properly deposit payroll taxes on compensation paid which continued until the first fiscal quarter (third calendar quarter of 2009) of the fiscal year end June 2010. The School has hired legal council and is currently in communications with the Internal Revenue Service in order to negotiate terms of repayment. The current amount recorded as a liability as of June 30, 2009 is approximately \$ 601,000 exclusive of interest and penalties that may be statutorily incurred. Interest and penalties assessed as of June 30, 2009 are estimated to be approximately \$ 269,000 and have been recorded in the accompanying financial statements. Subsequent to year end, additional payroll taxes were not paid and additional interest and penalties have accrued in connection with this liability. Additional unpaid taxes for the subsequent fiscal year amounted to \$ 155,000 and additional interest and penalties incurred are approximately \$ 31,000. The School has no assurance that the interest and penalties will not be levied by the Internal Revenue Service. The School is currently paying \$ 9,100 monthly towards the trust fund portion of the outstanding tax liability which is estimated to be approximately \$ 514,000. In addition, the School is pursuing the possibility to recover monies from insurance coverage (fidelity bond) in place at the time of the lapse in depositing the taxes.

SMART SCHOOL, INC.  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2009

NOTE 12 - CONTINGENCIES AND RISK MANAGEMENT (continued)

Depending on the Internal Revenue Service, the School is hopeful that they are only held responsible for the trust fund portion of this liability and the remaining amounts are abated.

NOTE 13 - GOING CONCERN

As noted in the accompanying government-wide financial statements, the School's activities for the fiscal year ended June 30, 2009 resulted in a decrease in net assets of \$ 307,746, inclusive of a forgiveness of debt and accrued interest of \$ 706,400 (Notes 7 and 9), a nonrecurring item. In addition, the School's government-wide total net assets (deficit) were \$ (1,480,098) including unrestricted net assets (deficit) of \$ (1,737,704) and invested in capital assets, net of related debt of \$ 257,106 . The School's current liabilities exceed its current assets by \$ 2,052,096.

In addition to the above deteriorating financial conditions, there are contractual violations with the Sponsor's charter contract and contingencies with the Internal Revenue Service over past due payroll taxes (Note 12) that could execute authority to interrupt the operations of the School based on noncompliance. These circumstances create an uncertainty about the School's ability to continue as a going concern.

Smart School, Inc. is one of the highest performing schools in its community with multiple "A" grades. Management of the School has developed a financial recovery plan (**unaudited**) to optimize revenue and expense levels through the following activities:

- Significant marketing efforts have begun that capitalize on the Schools top academic performance and reputation. Increased enrollment, with the physical move already accomplished, is expected to follow.
- Developed \$ 140,000 in new grants and contributions through golf tournaments and SOAR fund development campaign to offset the ending of CCLC grant of \$ 200,000 (refer to Revenue section).
- Reduced leased facilities expenses by over \$ 200,000 per year by terminating one of the building leases and instead occupying one of the modular facilities.
- Lowered maintenance costs by \$ 24,000 per year by limiting maintenance to health and safety repairs, not facility improvements.
- Reduced utilities expense by \$ 65,000 per year through conservation, new meters, and move into modular building.
- Rented out a second modular facility to another charter school for \$ 125,000.
- Reduced instructional and support staff in line with October FTE count and lowered benefits from 28% to 15% of salary by eliminating retirement contribution and changing medical and disability coverage - \$ 92,000 impact in 2009/2010, \$ 144,000 in 2010/11.
- Reduced expenditures on materials and supplies by \$ 25,000 per year reflecting student enrollment, longer use/reuse of existing materials, donations/use of used materials, and lower cost sources

The ability of the School to continue as a going concern is dependent on the execution of the above-mentioned activities, active involvement of the Board of Directors and on-going revisions/updates on the plan. The financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

SMART SCHOOL, INC.  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2009

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events that have been discussed in other notes to the financial statements are as follows:

<u>Event</u>	<u>Note Reference</u>
Lease termination and sharing of expenses	Note 10
Internal Revenue Service- Additional unpaid taxes penalties and interest	Notes 12 and 13
Payroll functions - payroll functions terminated and taken over by related party	Note 6

Subsequent events have been considered by management up until the date of the auditors' report.

SMART SCHOOL, INC.  
 BUDGETARY COMPARISON SCHEDULE -  
 CHARTER MIDDLE SCHOOL  
 For the Year Ended June 30, 2009

	Original and Final Budget	Actual Amounts	Variance
<b>REVENUES:</b>			
FTE revenue	\$ 1,839,000	\$ 870,375	\$ (968,625)
Grants and program fees	219,557	525,190	305,633
Capital grants	217,500	84,005	(133,495)
Other income	255,000	205,605	(49,395)
Total revenues	<u>2,531,057</u>	<u>1,685,175</u>	<u>(845,882)</u>
<b>EXPENDITURES:</b>			
Current:			
Salaries and related benefits	1,493,228	1,686,640	(193,412)
Rent	388,490	453,004	(64,514)
Management fees	183,900	87,726	96,174
School activities	10,500	1,038	9,462
Utilities	87,000	79,032	7,968
Transportation	105,505	70,474	35,031
Repairs and maintenance	42,000	47,781	(5,781)
Lunch expense	12,500	98,807	(86,307)
Insurance	49,775	39,218	10,557
Office expense	34,500	10,879	23,621
Textbooks	79,659	28,430	51,229
Professional services	17,000	39,284	(22,284)
Telephone	-	14,766	(14,766)
Training	-	12,421	(12,421)
Small equipment	27,000	19,496	7,504
Printing	-	2,675	(2,675)
Supplies	-	7,259	(7,259)
Capital outlay	-	533	(533)
Debt service:			
Principal	-	53,517	(53,517)
Interest	-	12,386	(12,386)
Total expenditures	<u>2,531,057</u>	<u>2,765,366</u>	<u>(234,309)</u>
Net change in fund balances before other sources	-	(1,080,191)	(1,080,191)
<b>OTHER SOURCES:</b>			
Transfers in	-	281,239	281,239
Net change in fund balance	-	(798,952)	(798,952)
FUND BALANCE (DEFICIT), July 1, 2008	<u>-</u>	<u>(938,252)</u>	<u>(938,252)</u>
FUND BALANCE (DEFICIT), June 30, 2009	<u>\$ -</u>	<u>\$ (1,737,204)</u>	<u>\$ (1,737,204)</u>

SMART SCHOOL, INC.  
 BUDGETARY COMPARISON SCHEDULE -  
 CHARTER HIGH SCHOOL  
 For the Year Ended June 30, 2009

	Original and Final Budget	Actual Amounts	Variance
<b>REVENUES:</b>			
FTE revenue	\$ 2,505,000	\$ 512,413	\$ (1,992,587)
Grants and program fees		-	-
Capital grants	380,000	-	(380,000)
Other income		-	-
Contributions		156,259	156,259
Total revenues	<u>2,885,000</u>	<u>668,672</u>	<u>(2,216,328)</u>
<b>EXPENDITURES:</b>			
Current:			
Salaries and related benefits	1,879,125	344,849	1,534,276
Rent	259,000	22,195	236,805
Management fees	250,500	33,984	216,516
School activities	25,000	1,686	23,314
Utilities	85,000	20,590	64,410
Transportation	105,625	7,098	98,527
Repairs and maintenance	65,000	14,855	50,145
Lunch expense		1,754	(1,754)
Insurance	52,000	13,473	38,527
Office expense		(1,728)	1,728
Textbooks	51,500	3,546	47,954
Professional services	18,000	6,908	11,092
Telephone	18,500	2,050	16,450
Training	12,500	1,917	10,583
Small equipment	5,000	1,979	3,021
Printing	10,250	848	9,402
Supplies	43,500	215	43,285
Marketing/revenue development	4,500	-	4,500
Capital outlay	-	8,248	(8,248)
Total expenditures	<u>2,885,000</u>	<u>484,467</u>	<u>2,400,533</u>
Net change in fund balances before other uses	-	184,205	184,205
<b>OTHER USES:</b>			
Transfers out	-	(281,239)	(281,239)
Net change in fund balance	-	(97,034)	(97,034)
FUND BALANCE (DEFICIT), July 1, 2008		<u>97,034</u>	<u>97,034</u>
FUND BALANCE (DEFICIT), June 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SMART SCHOOL, INC.  
NOTES TO BUDGETARY SCHEDULES  
June 30, 2009

Note 1    FUND BALANCE DEFICIT:

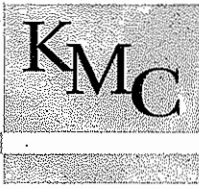
The unrestricted fund balance deficit at June 30, 2009 is \$ 1,737,204

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.



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**INDEPENDENT AUDITORS' 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. (the "School"), a component unit of the School Board of Broward County, as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements, and have issued our report thereon dated April 21, 2010. 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. However, as discussed below, we identified 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 the 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 Responses on pages 34 and 35 to be significant deficiencies in internal control over financial reporting including items 2009-2 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.

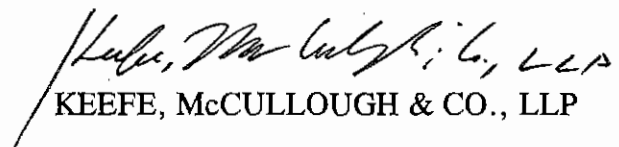
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described on the previous page, we consider item 2008-4 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether School's 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 2009-1, 2009-2 and 2008-1.

Smart School, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses on pages 34 and 35. 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, Florida, and is not intended to be and should not be used by anyone other than these specified parties.

  
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
April 21, 2010



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**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS**

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

We have audited the financial statements of Smart School, Inc. (the "School"), a component unit of the School Board of Broward County, Florida, as of June 30, 2009, and have issued our report thereon dated April 21, 2010.

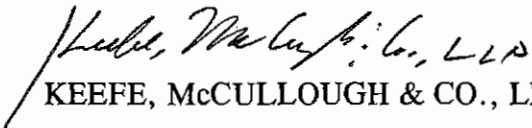
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters and Schedule of Findings and Responses. Disclosures in those reports and schedule, which are dated April 21, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule.

1. Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective action has been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted on the Schedule of Findings and Responses on pages 34 and 35.
2. Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we had such recommendations and it is reported on the accompanying Schedule of Findings and Responses on pages 34 and 35.
3. Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings other than 2009-1, 2009-2 and 2008-1 as reported on pages 34 and 35.

4. Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statement considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings except as reported in the accompanying Schedule of Findings and Responses on pages 34 and 35.
5. Section 10.854(1)(e)6., Rules of the Auditor General, requires the name or official title of the school. The official title of the school is Smart School, Inc..
6. Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School did meet two of the conditions described in Section 218.503(1), Florida Statutes. The School currently has an unreserved fund balance deficit of \$ 1,748,582 (page 11) and an unrestricted net assets deficit of \$ 1,737,204 (page 9). This is disclosed in Note 13 to the financial statements of the School. In addition, the School did not pay their payroll taxes as noted in the financial statements in Note 12. 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 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, loss of the High School and delay in cost reductions from loss of the High School. Management's plan to address this situation is discussed in Note 13 to the financial statements.
7. Pursuant to Sections 10.854(1)(3)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Smart School, Inc.'s financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Our assessment disclosed that the School's overall financial condition is deteriorating as fully disclosed in Notes 12 and 13 to the financial statements. The views of responsible officials are included in such notes to the financial statements along with our findings and responses on pages 34 and 35. The assessment was dated as of the fiscal year-end.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America requires us to indicate that this letter is intended solely for the information and use of the management, the Board of Directors, the Florida Auditor General, and the School Board of Broward County, Florida, and is not intended to be and should not be used by anyone other than these specified parties.

  
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
April 21, 2010

SMART SCHOOL, INC.  
 SCHEDULE OF FINDINGS AND RESPONSES  
 June 30, 2009

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS:

	IMPLEMENTED OR NO LONGER RELEVANT	STILL APPLICABLE
2008-1: Compliance Finding – Audited Financial Statements		X
2008-2: Investigate Old Outstanding Checks	X	
2008-3: Lunch Cash Receipts Reconciliations	X	
2004-4: Internal Controls Over Financial Reporting – Prepare More Accurate Financial Statements		X

PRIOR YEAR COMMENTS AND RECOMMENDATIONS:

**2008-1: Compliance Finding - Audited Financial Statements**

In accordance with the School's Charter Agreement with the School Board of Broward County, Florida, the School is required to provide the School Board with annual financial statements by September 30 of each year. The School did not submit the audited financial statements to the School Board by September 30, 2009 or 2008.

**Management’s Response:**

The delay was due a late start, and change in financial management. The audit for June 30, 2010 will start in June 2010. This should not be an issue again.

**\* 2008-4: Internal Controls Finding - Prepare More Accurate Interim Financial Statements**

In 2008 and 2009, it appeared that from the number of audit year-end adjustments required, the School’s interim financial statements are not comparable to the audited financial statements distributed to the Board and other outside users. Based on the number of audit adjustments recorded to the School’s financial records, financial information presented on an interim basis was not accurate. This resulted in conflicting information for management, Board members, and other outside users. We recommend that the School incorporate new accounting procedures and include properly trained personnel to prepare all financial information.

**Management’s Response:**

The accounting system used the last two years has been eliminated. We did not get from it what was expected. We have converted back to Quickbooks, which has simplified matters. Monthly reporting and reconciliations are being performed by an independent outside consultant.

SMART SCHOOL, INC.  
SCHEDULE OF FINDINGS AND RESPONSES  
(continued)  
June 30, 2009

CURRENT YEAR COMMENTS AND RECOMMENDATIONS:

**2009-1: Compliance Finding – Deposit of Payroll Taxes and Filing of Payroll Tax Reports**

The School did not deposit payroll taxes in accordance with Federal law. In addition, the School did not file certain quarterly reports with the Internal Revenue Service timely. These instances of non-compliance have resulted in substantial penalties and interest. We recommend that the School implement procedures to assure all filings with the Internal Revenue Service are completed.

**Management’s Response:**

All filings and tax payments are being done by the outside payroll company. The actions taken in 2008/2009 allowed the tax service function by the payroll company to be stopped. Currently, this cannot be done without approval of the Executive Director. Reports and tax deposit summaries are being reviewed with the Executive Director with each payroll.

**# 2009-2: Internal Control and Compliance Finding – Custody of Capital Assets**

The School has not conducted an inventory of capital assets recently and many of the items on the subsidiary ledger appear old and most likely been sold or scrapped and not removed from the ledger. Many of the items in question have been fully depreciated but are still being carried on the ledger.

**Management’s Response:**

Capital asset sub-ledgers will be adjusted, based on a full physical inventory, which will be completed by May 31, 2010.

\*reported as significant deficiency in 2008 and material weakness in 2009  
#reported as a significant deficiency in 2009