

Somerset Academy at Silver Palms
(A charter school under Somerset Academy, Inc.)
Miami, Florida

Financial Statements And
Independent Auditors' Report

June 30, 2010

TABLE OF CONTENTS

General Information	1	
Independent Auditors' Report.	2-3	
Management's Discussion and Analysis (Required Supplementary Information)	4-8	
Basic Financial Statements:		
<i>Government-wide Financial Statement:</i>		
Statement of Net Assets	9	
Statement of Activities.	10	
<i>Fund Financial Statements:</i>		
Balance Sheet - Governmental Funds.	11	
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets.	12	
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds.	13	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities.	14	
Statement of Net Assets – Fiduciary Fund	15	
Notes to the Basic Financial Statements	16-23	
Required Supplementary Information:		
Budgetary comparison schedules.	24-25	
Schedule of Expenditures of Federal Awards	26	
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		27-28
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.		29-30
Schedule of Findings and Questioned Costs	31-33	
Management Letter	34-36	
Management Responses	37	

Somerset Academy at Silver Palms
11400 SW 232 Street
Miami, Florida 33177

2009-2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Somerset Academy at Silver Palms
Miami, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Somerset Academy at Silver Palms (the "School"), a charter school under Somerset Academy, Inc., a component unit of the District School Board of Miami-Dade County, as of, and for the year ended June 30, 2010, which collectively comprises 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements referred to above present only the financial position of Somerset Academy at Silver Palms at June 30, 2010, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of Somerset Academy, Inc.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Somerset Academy at Silver Palms, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2010, on our consideration of the School's internal control over financial reporting and on 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 in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 4 through 8 and 24 through 25, respectively, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Somerset Academy at Silver Palms basic financial statements. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations are presented for additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

HLB Dravin, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 30, 2010

Management's Discussion and Analysis
Somerset Academy at Silver Palms
(A Charter school Under Somerset Academy, Inc.)
June 30, 2010

The corporate officers of Somerset Academy have prepared this narrative overview and analysis of the school's financial activities for the period ended June 30, 2010

Financial Highlights

1. The assets of the School exceeded its liabilities at June 30, 2010 by \$1,927,614 (net assets).
2. At year-end, the School had current assets on hand of \$1,437,538.
3. The School had an increase in its net assets of \$920,273 for the year ended June 30, 2010.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The School's financial statements for the year ended June 30, 2010 are presented under GASB 34. The financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial 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* presents information on all of the School's assets and liabilities. The difference between the two is reported as *net assets*. Over time increases or decreases in net assets may serve as an indicator of whether the financial position of the School is improving or deteriorating.

The *Statement of Activities* presents information on how the School's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event occurs without regard to the timing of related cash flows. Accordingly, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

Fund Financial Statements

A "fund" is a collection of related accounts grouped to maintain control over resources that have been segregated for specific activities, projects, or objectives. The School like other state and local governments uses fund accounting to ensure and report compliance with finance-related legal requirements.

All of the funds of the School are governmental funds. *Government Funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Government Fund financial statements, however, focus on *near-term* inflows and outflows of spendable resources, as well as on the balances of spendable resources which are available at the end of the fiscal year. Such information may be used to evaluate a government's requirements for near-term financing.

The Board of the School adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the School's budget.

The basic governmental fund financial statements can be found on pages 11 – 15 of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 16 - 23 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a charter school's financial position. In the case of the School, assets exceeded liabilities by \$1,927,614 at the close of the fiscal year. A summary of the School's net assets as of June 30, 2010 and 2009 follows:

	2010	2009
Cash	\$ 1,294,429	\$ 626,708
Prepaid Expenses	143,109	125,023
Due from other charter schools	-	8,826
Due from other agencies	-	46,420
Capital Assets, net	940,098	967,941
Accounts receivable	-	32,530
Total Assets	\$ 2,377,636	\$ 1,807,448
Accounts payable and accrued liabilities	379,722	\$ 723,155
Due to other Schools	-	4,002
Deposits	70,300	72,950
Total Liabilities	\$ 450,022	\$ 800,107
Invested in Capital Assets, net of related debt	\$ 940,098	\$ 967,941
Restricted by lease agreement	102,315	-
Unrestricted	885,201	39,400
Total Net Assets	\$ 1,927,614	\$ 1,007,341

At the end of the period, the School is able to report positive balances in total net assets.

A summary and analysis of the School's revenues and expenses for the year ended June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
REVENUES		
Program Revenues		
Capital Outlay funding	\$ 724,183	\$ 644,863
Operating Grants and Contributions	123,713	184,087
Federal Sources	360,506	-
Charges for services	347,975	240,000
General Revenues		
FTE nonspecific revenues	6,554,655	5,635,710
Other Revenues	791	3,740
Total Revenues	<u>\$ 7,751,317</u>	<u>\$ 6,708,400</u>
EXPENSES		
Component Unit Activities:		
Instruction	\$ 3,743,348	\$ 2,789,967
Instructional media services	8,746	4,373
Instructional Staff Training Services	15,069	19,580
Board	15,382	17,846
School Administration	1,110,390	1,023,090
Facilities acquisition	15,854	7,104
Fiscal Services	157,100	137,400
Food Services	284,089	232,020
Central Services	167,635	141,758
Operation of Plant	1,520,815	1,641,576
Community Services	83,005	80,266
Maintenance of Plant	70,117	100,428
Total Expenses	<u>7,191,550</u>	<u>6,195,408</u>
Increase in Net Assets	920,273	512,992
Net Assets at Beginning of Year	<u>1,007,341</u>	<u>494,349</u>
Net Assets at End of Year	<u>\$ 1,927,614</u>	<u>\$ 1,007,341</u>

The School's revenue and expenses increased by \$1,403,423 and \$996,142 respectively in the current year as a result of a large increase in student enrollment. The School had an increase in its net assets of \$920,273.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the School's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the School's governmental fund reported a fund balance of \$987,516.

Achievements

In 2010, Somerset Academy (Silver Palms) earned a letter grade of "A," ranking among the top-performing public elementary and middle schools in Miami-Dade County. The School received a "School Recognition Award" from the Florida Department of Education for its achievements.

Somerset provides its students with a rigorous curriculum, as well as an extra-curricular program of activities, including team sports and clubs. Somerset has implemented a complete performance/sports program, which includes jazz/hip-hop, ballet, cheerleading, karate, volleyball, soccer, basketball, and flag football. This past year Somerset students participated in various community service projects and fundraisers, including its Annual Book Fair, which helped raise over \$5,000. Several Somerset students received awards and distinctions, including the Fairchild Challenge Award for Middle School (Science), Math Competition Award, and the National Assessment of Educational Progress Award.

Somerset Academy's facilities have recognized nationally for "Outstanding Elementary and Middle School Building Design" in *The American School and University Magazine*, a national publication on educational facilities. The school is one of very few public elementary/middle schools in Miami-Dade County to be accredited by the Southern Association of Colleges and Schools (SACS).

Capital Assets

The School's investment in capital assets as of June 30, 2010 amounts to \$940,098 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures and computer equipment.

Governmental Fund Budget Analysis and Highlights

Prior to the start of the School's fiscal year, the Board of the Charter School adopted an annual budget. A budgetary comparison statement has been provided for the governmental funds to demonstrate compliance with the School's budget.

	Original Budget	Final Budget	Actual
REVENUES			
Program Revenues			
Capital Outlay funding	\$ 636,000	\$ 725,000	\$ 724,183
Federal Lunch Program	205,000	270,000	347,975
Federal Sources	-	362,000	360,506
Charges for services	150,000	130,000	123,713
General Revenues			
FTE nonspecific revenues	5,673,436	6,500,000	6,554,655
Other Revenues	-	-	791
Total Revenues	<u>\$ 6,664,436</u>	<u>\$ 7,987,000</u>	<u>\$ 8,111,823</u>
CURRENT EXPENSES			
Component Unit Activities:			
Instruction	\$ 3,150,000	\$ 3,582,000	\$ 3,574,112
Instructional Staff Training Services	15,000	20,000	15,069
Board	15,000	20,000	15,382
School Administration	1,000,000	1,125,000	1,110,390
Fiscal Services	160,000	165,000	157,100
Food Services	205,000	275,000	273,986
Central Services	170,000	175,000	167,635
Operation of Plant	1,371,456	1,525,000	1,484,714
Community Services	100,000	95,000	83,005
Maintenance of Plant	60,000	65,000	57,858
Total Current Expenditures	<u>\$ 6,246,456</u>	<u>\$ 7,047,000</u>	<u>\$ 6,939,251</u>

Requests for Information

This financial report is intended to provide a general overview of the finances of the Charter School. Requests for additional information may be addressed to Ms. Ana Martinez at Academica Dade, LLC, 6361 Sunset Drive, Miami, Florida, 33143.

Somerset Academy at Silver Palms
(A charter school under Somerset Academy, Inc)

Statement of Net Assets
June 30, 2010

Assets

Current assets:

Cash	\$ 1,294,429
Prepaid expenses	143,109
	<hr/>
	1,437,538

Capital assets, depreciable	1,415,539
Less: accumulated depreciation	(475,441)
	<hr/>
	940,098

Total Assets \$ 2,377,636

Liabilities and Net assets

Current liabilities:

Salaries and wages payable	\$ 358,446
Accounts payable	21,276
Deposits	70,300
	<hr/>
Total Liabilities	450,022

Net assets:

Invested in capital assets	940,098
Restricted by lease agreement	102,315
Unrestricted	885,201
	<hr/>
Total Net Assets	1,927,614

Total Liabilities and Net Assets \$ 2,377,636

The accompanying notes are an integral
part of this financial statement.

Somerset Academy at Silver Palms
(A charter school under Somerset Academy, Inc)

Statement of Activities
For the year ended June 30, 2010

FUNCTIONS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					-
Instruction	\$ 3,743,348	\$ -	\$ 360,506	\$ -	\$ (3,382,842)
Instructional media services	8,746	-	-	-	(8,746)
Instructional staff training	15,069	-	-	-	(15,069)
Board	15,382	-	-	-	(15,382)
School administration	1,110,390	-	-	-	(1,110,390)
Facilities acquisition	15,854	-	-	-	(15,854)
Fiscal services	157,100	-	-	-	(157,100)
Food services	284,089	29,408	312,209	35,766	93,294
Central services	167,635	-	-	-	(167,635)
Pupil transportation services	-	-	-	-	-
Operation of plant	1,520,815	-	-	724,183	(796,632)
Maintenance of plant	70,117	-	-	-	(70,117)
Community Services	83,005	94,305	-	-	11,300
Interest	-	-	-	-	-
Total governmental activities	<u>7,191,550</u>	<u>123,713</u>	<u>672,715</u>	<u>759,949</u>	<u>(5,635,173)</u>
					6,554,655
FTE nonspecific revenues					791
Interest and other revenue					
					920,273
					1,007,341
Net assets, beginning					<u>\$ 1,927,614</u>
Net assets, ending					

The accompanying notes are an integral part of this financial statement.

Somerset Academy at Silver Palms
(A charter school under Somerset Academy, Inc)

Balance Sheet - Governmental Funds
June 30, 2010

	General Fund	Special	Total Governmental
		Revenue Fund	Funds
<u>Assets</u>			
Cash	\$ 1,294,429	\$ -	\$ 1,294,429
Prepaid expenses	143,109	-	143,109
Total Assets	<u>\$ 1,437,538</u>	<u>\$ -</u>	<u>\$ 1,437,538</u>
<u>Liabilities</u>			
Salaries and wages payable	\$ 358,446	\$ -	\$ 358,446
Deposits	70,300	-	70,300
Accounts payable	21,276	-	21,276
Total Liabilities	<u>450,022</u>	<u>-</u>	<u>450,022</u>
<u>Fund balance</u>			
Reserved	102,315	-	102,315
Unreserved	885,201	-	885,201
	<u>987,516</u>	<u>-</u>	<u>987,516</u>
Total Liabilities and Fund Balance	<u>\$ 1,437,538</u>	<u>\$ -</u>	<u>\$ 1,437,538</u>

The accompanying notes are an integral part of this financial statement.

Somerset Academy at Silver Palms
(A charter school under Somerset Academy, Inc)

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets
For the year ended June 30, 2010

Total Fund Balance - Governmental Funds \$ 987,516

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

Capital assets of \$1,415,539 net of accumulated depreciation of \$475,441 used in governmental activities are not financial resources and therefore are not reported in the fund.

940,098

Total Net Assets - Governmental Activities

\$ 1,927,614

The accompanying notes are an integral part of this financial statement.

Somerset Academy at Silver Palms
(A charter school under Somerset Academy, Inc)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2010

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
State capital outlay funding	\$ -	\$ 724,183	\$ 724,183
State passed through local	6,554,655	-	6,554,655
Federal lunch program	-	347,975	347,975
Federal sources	87,451	273,055	360,506
Interest and other revenue	791	-	791
Charges for services	94,305	29,408	123,713
Total Revenues	6,737,202	1,374,621	8,111,823
Expenditures:			
Current			
Instruction	3,367,625	206,487	3,574,112
Instructional staff training services	15,069	-	15,069
Board	15,382	-	15,382
School administration	1,110,390	-	1,110,390
Fiscal services	157,100	-	157,100
Food services	-	273,986	273,986
Central services	167,635	-	167,635
Operation of plant	760,531	724,183	1,484,714
Maintenance of plant	57,858	-	57,858
Community services	83,005	-	83,005
Capital Outlay:			
Other capital outlay	122,122	102,334	224,456
Debt Service:			
Redemption of Principal	-	-	-
Interest	-	-	-
Total Expenditures	5,856,717	1,306,990	7,163,707
Excess (deficit) of revenues over expenditures	880,485	67,631	948,116
Other financing sources			
Transfers in and (out)	67,631	(67,631)	-
Net change in fund balance	948,116	-	948,116
Fund Balance at beginning of year	39,400	-	39,400
Fund Balance at end of year	<u>\$ 987,516</u>	<u>\$ -</u>	<u>\$ 987,516</u>

The accompanying notes are an integral part of this financial statement.

Somerset Academy at Silver Palms
(A charter school under Somerset Academy, Inc)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the year ended June 30, 2010

Net Change in Fund Balance - Governmental Funds \$ 948,116

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$224,456 differed from depreciation expense of \$252,302.

(27,843)

Change in Net Assets of Governmental Activities

\$ 920,273

The accompanying notes are an integral part of this financial statement.

Somerset Academy at Silver Palms
 (A charter school under Somerset Academy, Inc)

Statement of Net Assets - Fiduciary Funds
 June 30, 2010

	<u>2010</u>
	Agency Funds
<u>Assets</u>	
Cash	<u>\$ 97,057</u>
Total Assets	<u><u>\$ 97,057</u></u>
<u>Liabilities</u>	
Due to students and clubs	<u>\$ 97,057</u>
Total Liabilities	<u><u>\$ 97,057</u></u>
<u>Net assets</u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this financial statement.

Note 1 – Organization and Operations

Somerset Academy at Silver Palms (the "School"), is a charter school under Somerset Academy, Inc., a not-for-profit corporation organized in the State of Florida. The governing body of the School is the board of directors of Somerset Academy, Inc., which also governs other various charter schools. The School operates under a charter granted by the sponsoring district, the District School Board of Miami-Dade County (the "District"). The current charter expires on June 30, 2017 and is renewable for an additional 15 years by a mutual written agreement between the School and the District. During the term of the charter, the District may terminate the charter if good cause is shown. The School is considered a component unit of such District. The School is located in Miami, Florida for students from grades kindergarten through eighth and is funded by the District.

These financial statements are for the year ended June 30, 2010, when approximately 1,046 students were enrolled for the school year.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – Audits for States and Local Governments and provisions of Florida Statutes, the School is presented as a governmental organization for financial statement reporting purposes.

Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report information for the School as a whole. Both statements report only governmental activities as the School does not engage in any business type activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Note 2 – Summary of Significant Accounting Policies (continued)

Fund Financial Statements

Fund financial statements are provided for governmental funds. The operations of the funds are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues and expenditures. Major individual governmental funds, namely, the general and special revenue funds are reported as separate columns in the fund financial statements:

General Fund - is the School's primary operating fund. It accounts for all financial resources of the school, except those required to be accounted for in another fund.

Special Revenue Fund - accounts for specific revenue, such as federal grants, capital outlay funding and federal lunch programs legally restricted for particular purposes.

Fiduciary Fund – School's Internal Fund accounts for resources of the schools' Internal Fund which is used to administer monies collected at the schools in connection with school, student athletics, class, and club activities.

Measurement Focus and Basis of Accounting

The financial statements of the School are prepared in accordance with generally accepted accounting principles (GAAP). The School's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The government-wide financial statements apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements, in which case, GASB prevails.

The government-wide statements report using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from non-exchange transactions are reported according to Governmental Accounting Standards Board (GASB) Statement No. 33 Accounting and Financial Reporting for Non-Exchange Transactions, as amended by GASB Statement No. 36 Recipient Reporting for Certain Shared Non-Exchange Revenues, they include grants and donations. On the accrual basis, revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. "Measurable" means the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, except for long-term debt principal and interest which are reported as expenditures in the year due.

Note 2 – Summary of Significant Accounting Policies (continued)

Cash

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less.

Due from Other Governments or Agencies

Amounts due to the School by other governments or agencies are for grants or programs under which the services have been provided by the School.

Capital Assets

The School's property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the statement of net assets in the government-wide financial statements. Donated capital assets are recorded at their estimated fair market value on the date donated. The School generally capitalizes assets with cost of \$500 or more. Building improvements, additions and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Improvements	10-15 Years
Furniture, Equipment and Software	5 Years
Textbooks	3 Years

Revenue Sources

Revenues for operations will be received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School will report the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of the full-time equivalent (FTE) students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. In addition, the school receives an annual allocation of charter school capital outlay funds for leasing of school facilities.

Note 2 – Summary of Significant Accounting Policies (continued)

Finally, the School also receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to and approved by various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred. Any excess amounts are recorded as deferred revenues until expended. Additionally, other revenues may be derived from various fundraising activities and certain other programs.

Post-retirement Benefits

The School provides a defined contribution 401(k) plan sponsored through ADP TotalSource Group, Inc. covering employees who meet certain age and tenure requirements. Under the ADP TotalSource Retirement Savings Plan, the School will provide a match of 50% up to 4% of employee compensation. Contributions to the plan were \$20,835 for the year ended June 30, 2010. The school does not exercise any control or fiduciary responsibility over the plans' assets.

Compensated Absences

The School grants a specific number of days of sick. Full time instructional employees are eligible to one day per month to up to ten days of active work during the ten-month period (a "benefit year"). In the event that available time is not used by the end of the benefit year, employees may "rollover" all unused days for use in future benefit years. There is an opportunity to "cash out" unused sick days however, the employees may only cash out if they have used three days or less of their sick leave in that benefit year. Employees may not cash out more than ten days per school year and are required to always maintain a minimum of twenty-one unused days. The cash out value is eighty percent of their current daily rate. There is no termination payment for accumulated unused sick days.

Government Accounting Standards Board (GASB) Statement 16, Accounting for Compensated Absences, provides that compensated absences that are contingent on a specific event that is outside the control of the employer and employee should be accounted for in the period those events take place. Accordingly, these financial statements do not include an accrual for sick days available to be used in future benefits years.

The School also provides certain days to be used for specific personal matter such as family death and jury duty. Because the use of such days is contingent upon those events taking place and such events are out of the control of both the employer and the employee, there is no accrual for such days.

Note 2 – Summary of Significant Accounting Policies (continued)

Income Taxes

Somerset Academy, Inc. qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In accordance with GASB No. 56, the School has evaluated subsequent events and transactions for potential recognition or disclosure through August 30, 2010, which is the date the financial statements were available to be issued.

Note 3 –Capital Assets

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the period ended June 30, 2010:

	Balance 7/1/09	Additions	Retirements	Balance 6/30/10
Capital Assets:				
Building and Improvements	\$ 263,585	\$ 34,851	\$ -	\$298,436
Furniture, equipment and textbooks	927,497	189,605	-	1,117,102
Total Capital Assets	<u>1,191,082</u>	<u>224,456</u>	<u>-</u>	<u>\$1,415,538</u>
Less Accumulated Depreciation:				
Building and Improvements	(6,590)	(13,179)	-	(19,769)
Furniture, equipment and textbooks	(216,551)	(239,122)	-	(455,673)
Total Accumulated Depreciation	<u>(223,141)</u>	<u>(252,301)</u>	<u>-</u>	<u>(475,442)</u>
Capital Assets, net	<u>\$ 967,941</u>	<u>(\$ 27,845)</u>	<u>\$ -</u>	<u>\$ 940,098</u>

Depreciation expense for the period ended June 30, 2010 was \$252,301 and is allocated in the Statement of Activities to instruction, plant maintenance and operation.

Note 4 –Management Agreement

Academica Dade, LLC, a professional charter school management company, provides management and administrative services to the School including, but not limited to, facility design, staffing recommendations, human resource coordination, regulatory compliance, legal and corporate upkeep, maintenance of the books and records, bookkeeping, budgeting and financial reporting. The agreement between the School and the management company calls for a fee of \$450 per full time equivalent (FTE) student per year. The agreement is for a period of five years, through July 2012, and unless terminated by the board shall be renewed along with any renewals to the charter agreement. During the year ended June 30, 2010, the School incurred approximately \$470,700 in management fees, of which \$18,712 was due to the management company at the end of the year.

Academica Dade, LLC is located at 6361 Sunset Drive, Miami, Florida 33143 and its officers are:

Fernando Zulueta, President
Magdalena Fresen, Vice President and Treasurer
Ignacio Zulueta, Vice-President
Collette Papa, Secretary

Note 5 –Transactions with Other Charter Schools and Other Revenues

The School shares its facility with Somerset Academy Charter High School (other charter school under Somerset Academy, Inc.). As result, certain activities such as fundraising activities are recorded in the books of the School and not in those of Somerset Academy Charter High School. During the year, Somerset Academy Charter High School also paid \$197,000 in rent payments directly to the landlord.

During the year the School received approximately \$120,000 of Federal school lunch funds from Somerset Academy (a charter school under Somerset Academy, Inc.) for the school's lunch program. The School also received Federal lunch funds for itself and nine other schools (Somerset Academy Chapel Trail, Somerset Academy, Somerset Academy Davie, Somerset Academy East Preparatory, Somerset Academy Miramar, Somerset Academy South Homestead, Somerset Academy South Miami, Somerset Academy Wilton Manors, and Somerset Academy Arts Conservatory). The lunch funds are received by the School and transferred to these other schools to run their own lunch program. A total of \$539,000 was received by the School and transferred to the other schools. In addition, during the year, the school allocated \$69,482 of school lunch revenues and \$50,100 of associated food expense to Somerset Academy High School for use of its lunch facilities.

The School also operates an after school program. Revenue from this program is recorded as charges for services, under the community services function. Total revenue from this program for 2010 was \$94,305.

Note 6 – Deposits Policy and Credit Risk

It is the School’s policy to maintain its cash and cash equivalents in major banks and in high grade investments. As of June 30, 2010, the carrying amount of the School’s deposits was \$1,391,486 and the respective bank balances totaled \$1,709,004. Out of the total bank balances, \$980,000 was fully collateralized by U.S. Government obligations under a repurchase agreement with Regions Bank.

Deposits at FDIC-insured institutions are insured up to \$250,000 per depositor, per financial institution. The School is a charter school under Somerset Academy, Inc., which also operates various other charter schools. All bank accounts are opened under the account ownership of Somerset Academy, Inc., therefore, bank balances at times may potentially be in excess of FDIC coverage. As of June 30, 2010, bank balances in potential excess of FDIC coverage totaled \$479,004.

Note 7 – Commitments and Contingencies

The school shares its facility with Somerset Academy Charter High School (a charter school under Somerset Academy, Inc.). Somerset Academy at Silver Palms entered into a lease and security agreement with Southwestern Grant, LLC for its 70,685 square feet including all ancillary facilities, outdoor areas and other improvements. Presently, members of the Landlord are also stockholders of the company which is the sole owner of Academica Dade, LLC (See Note 4). Initial fixed annual payments under this agreement (based on \$19.10 per square foot) are approximately \$1,350,084 adjusted annually based on the Consumer Price Index (CPI) plus additional property costs including repairs, maintenance and insurance. The agreement continues through July 31, 2027 with an option to renew for an additional five-year term. Under the agreement, the School must meet certain covenants and requirements, including a “Lease Payment Coverage Ratio” of not less than 1.10 to 1.00 and maintaining a reserve for property expenses such as repairs, maintenance, taxes or insurance. Finally, under this agreement the School has granted a first lien on its pledged revenues, which include all revenues collected by the school from the Florida Department of Education, the District, and all other sources. Lease payments are allocated among the two schools based on enrollment and usage of facility. The allocation used for 2010, was 84% for the School and 16% for Somerset Academy Charter High School. For 2010, rent expense totaled \$1,135,112, of which approximately \$1,100,000 related to facility lease. The School had prepaid rent expense of approximately \$103,100 at June 30, 2010. Future minimum payments for the full lease are as follows:

<u>Year</u>	
2011	\$1,402,139
2012	\$1,402,139
2013	\$1,402,139
2014	\$1,402,139
2015-2019	\$7,110,694 (Total for five-year period)
2020-2024	\$7,110,694 (Total for five-year period)
2025-2027	\$3,622,192 (Total for three-year period)

Note 7 – Commitments and Contingencies (Continued)

The School received substantially all of its revenues from Federal and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies.

Note 8 – Risk Management

The School is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, errors and omissions and natural disasters for which the School carries commercial insurance. Settlement amounts have not exceeded insurance coverage for the past years. In addition, there were no reductions in insurance coverage from those in the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

Somerset Academy at Silver Palms
(A charter school under Somerset Academy, Inc)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2010

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State passed through local	\$ 5,673,436	\$ 6,500,000	\$ 6,554,655
Charges for services	150,000	90,000	94,305
Interest and other revenues	-	-	791
Total Revenues	<u>5,823,436</u>	<u>6,590,000</u>	<u>6,649,751</u>
EXPENDITURES			
Current:			
Instruction	3,150,000	3,220,000	3,367,625
Instructional Staff			
Training Services	15,000	20,000	15,069
Board	15,000	20,000	15,382
School Administration	1,000,000	1,125,000	1,110,390
Fiscal Services	160,000	165,000	157,100
Food Services	-	-	-
Central Services	170,000	175,000	167,635
Operation of Plant	735,456	800,000	760,531
Maintenance of Plant	60,000	65,000	57,858
Community Services	100,000	95,000	83,005
Total Current Expenditures	<u>5,405,456</u>	<u>5,685,000</u>	<u>5,734,595</u>
Excess of Revenues Over Current Expenditures	<u>417,980</u>	<u>905,000</u>	<u>915,156</u>
Capital Outlay:			
Other Capital Outlay	190,000	200,000	122,122
Total Expenditures	<u>5,595,456</u>	<u>5,885,000</u>	<u>5,856,717</u>
Excess of Revenues Over Expenditures	227,980	705,000	793,034
Other financing sources:			
Transfers in	-	-	67,631
Fund Balance at beginning of year	<u>39,400</u>	<u>39,400</u>	<u>39,400</u>
Fund Balance at end of year	<u>\$ 267,380</u>	<u>\$ 744,400</u>	<u>\$ 900,065</u>

Somerset Academy at Silver Palms
(A charter school under Somerset Academy, Inc)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2010

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State capital outlay funding	\$ 636,000	\$ 725,000	\$ 724,183
Federal lunch program	205,000	270,000	347,975
Federal sources	-	362,000	273,055
Charges for services	-	40,000	29,408
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 841,000</u>	<u>\$ 1,397,000</u>	<u>\$ 1,374,621</u>
EXPENDITURES			
Current:			
Instruction	-	362,000	206,487
Pupil Personnel Services	-	-	-
Board	-	-	-
General Administration	-	-	-
School Administration	-	-	-
Facilities Acquisition & Construction	-	-	-
Fiscal Services	-	-	-
Food Services	205,000	275,000	273,986
Central Services	-	-	-
Operation of Plant	636,000	725,000	724,183
Maintenance of Plant	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Current Expenditures	<u>841,000</u>	<u>1,362,000</u>	<u>1,204,656</u>
Excess of Revenues Over Current Expenditures	<u>-</u>	<u>35,000</u>	<u>169,965</u>
Capital Outlay:			
Other Capital Outlay	-	35,000	102,334
Total Expenditures	<u>841,000</u>	<u>1,397,000</u>	<u>1,306,990</u>
Excess of Revenues Over Expenditures	-	-	67,631
Other financing sources:			
Transfers out	-	-	(67,631)
Fund Balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Somerset Academy at Silver Palms
 (A charter school under Mater Academy, Inc.)

Schedule of Expenditure of Federal Awards
 For the year ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA	
	Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE/PASS THROUGH FLORIDA DEPARTMENT OF EDUCATION		
National School Lunch Program	10.555	\$ 309,752
U.S. DEPARTMENT OF EDUCATION/PASS THROUGH DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY		
Title I - Grants to Local Educational Agencies	84.010	150,142
Title I - Reading Leader	84.010	56,345
Charter Schools	84.282	66,568
		<u>\$ 582,807</u>

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the School during its fiscal year July 1, 2009 through June 30, 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.



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

Board of Directors of
Somerset Academy at Silver Palms
Miami, Florida

We have audited the financial statements of Somerset Academy at Silver Palms (the "School") as of, and for the year ended June 30, 2010, and have issued our report thereon dated August 30, 2010. We conducted our audits 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 audits, we considered the School'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 the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects 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 the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 questioned costs as items **2010-1**.

This report is intended solely for the information and use of management, the audit committee, the Auditor General of the State of Florida and the School Board of Miami-Dade County and is not intended to be and should not be used by anyone other than these specified parties.

HLB Gravin, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 30, 2010



REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Somerset Academy at Silver Palms
Miami, Florida

Compliance

We have audited the compliance of Somerset Academy at Silver Palms with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Somerset Academy at Silver Palms major federal program are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Somerset Academy at Silver Palms management. Our responsibility is to express an opinion on Somerset Academy at Silver Palms compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Somerset Academy at Silver Palms compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Somerset Academy at Silver Palms compliance with those requirements.

In our opinion, Somerset Academy at Silver Palms complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Somerset Academy at Silver Palms is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Somerset Academy at Silver Palms internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Somerset Academy at Silver Palms internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal controls that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined below.

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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the organization's internal control.

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



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 30, 2010

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major program: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number(s)	Expenditures
National School Lunch Program	10.555	\$309,752

Dollar threshold used to distinguish between type A and type B projects. \$ 300,000

Auditee qualified as low-risk auditee? yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

2010-1 – INTERNAL ACCOUNT CONTROLS

Criteria: The School's internal account activity is subject to policies and procedures established by the sponsoring district.

Condition: Our testing disclosed the following matters:

- o Check requisition forms for payments made from the internal account were found with the signature of the treasurer only with no approval or (apparent) notification of the principal.
- o There was a practice of holding on to cash collected from various activities and maintaining a 'petty cash' on hand that was used to reimburse teachers that had purchased supplies for the students. No accurate records were maintained for these reimbursements.
- o Blank checks were given to personnel at the school for the purpose of purchasing school items. They would then bring receipts back to the treasurer after purchasing.
- o Parents made donations to the school. Accurate record of these donations was not maintained.
- o No accounting software was used to record transaction and balance accounts. Transactions were kept in manual spreadsheets and were not reconciled to bank statements.
- o Documentation for purchases was not properly maintained.

Context: Failure to control activity in the internal account increases the risk of misstating liabilities due to programs, clubs, and deposits for textbooks. In addition, it increases the risk of unauthorized use of fundraising proceeds and increases the risk of fraud such as misuse of funds or theft.

Effect: Although the activity in the internal account is not considered material to the financial statements taken as a whole, the current amount reflected in the internal accounts may not be fairly stated in the financial statements.

Cause: The condition results from the lack of training and lack of adequate supervision. The school's treasurer and principal that were present during the time of the violation are no longer with the school.

Recom-
mendation: Management should work to replace the treasurer with a qualified and trained individual.

Management Response: Management replaced the treasurer with an individual that has extensive experience maintaining internal accounts.

Response:

SECTION III – FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS

None

SECTION IV – OTHER ISSUES

1. We have issued a management letter dated August 30, 2010.
2. No Summary Schedule of Prior Audit Findings is required because there were no single audit performed in the prior audit.
3. No Corrective Action Plan is required because there were no findings required to be reported under the Federal Single Audit Act.

MANAGEMENT LETTER

Board of Directors of
Somerset Academy at Silver Palms
Miami, Florida

We have audited the accompanying basic financial statements of Somerset Academy at Silver Palms as of and for the year ended June 30, 2010 and have issued our report thereon dated August 30, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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. Disclosure in those reports, which are dated August 30, 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 govern the conduct of charter school audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report 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.

There were no findings and recommendations made in the preceding annual financial audit report.

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.

ML 10-01 – DISBURSEMENTS FOR FOOD SERVICE

Observation

During our testing of disbursement for the food service operations, it was noted that purchase order are not utilized.

Recommendation

While it was noted that all invoices were properly approved for payment once received, the use of purchase order ensures that purchases are authorized and necessary.

ML 10-2 – SCHOOL LUNCH VERIFICATION

Observation

In testing the school's process for school lunch verification, we noted an instance whereby the parent was not responsive to the information request letter sent by the school. The parent was ultimately contacted via telephone and the student was changed to paid status. The communication with the parent was not properly documented in the back of the free or reduced lunch application, as required.

Recommendation

Management should ensure that school lunch personnel are adequately trained in school lunch verification procedures.

ML 10-03 – SCHOOL LUNCH APPLICATION APPROVAL

Observation

Family applications for free or reduced lunch should be adequately reviewed and approved by appropriate officials. In order to ensure the accuracy of determination (Free, Reduced or Denied), the applications should be reviewed and signed by a determining official and a confirming official. The majority of applications tested were signed by only one official.

Recommendation

Our testing did not disclose any instances whereby an incorrect determination of eligibility status (free, reduced) was made. However, the Free and Reduced Price School Meals Family Application provides a space for a determining official's signature and a confirming official's signature. We recommend that management implement a consistent review process of applications to ensure that all applications are properly reviewed and signed off.

3. Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential.
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 are inconsequential to the determination of financial statement accounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

5. Section 10854.(1)(e)6., Rules of the Auditor General, requires the name or official title of the school.

The official title of the school is disclosed in the accompanying financial statements.

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, no such conditions were noted.

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 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.

We have applied such procedures and no deteriorating financial condition has been noted.

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 require us to indicate that this letter is intended solely for the information and use of management, the audit committee, the Auditor General of the State of Florida and the School Board of Miami-Dade County, and is not intended to be and should not be used by anyone other than these specified parties.

HLB Gravin, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 30, 2010

Somerset Academy at Silver Palms

August 31, 2010

HLB Gravier, LLP
201 Alhambra Circle, Suite 901
Coral Gables, FL 33134

RE: MANAGEMENT'S RESPONSES TO AUDITOR'S RECOMMENDATION

The following is the response by the School's Board of Directors to your recommendations:

ML 10-01 Recommendation –

While it was noted that all invoices were properly approved for payment once received, the use of purchase order ensures that purchases are authorized and necessary.

Management Response

Management will follow the auditor's recommendation and utilize purchase orders.

ML 10-02 Recommendation –

Management should ensure that school lunch personnel are adequately trained in school lunch verification procedures.

Management Response

Management will follow the auditor's recommendation and ensure proper training for all lunch personnel.

ML 10-03 Recommendation –

Our testing did not disclose any instances whereby an incorrect determination of eligibility status (free, reduced) was made. However, the Free and Reduced Price School Meals Family Application provides a space for determining official's signature and a confirming official's signature. We recommend that management implement a consistent review process of applications to ensure that all applications are properly reviewed and signed off.

Management Response

Management did consult and receive confirmation from FLDOE food and nutrition management office that the confirming official does not need to sign the lunch application when it is determined. Management has and will continue to adhere to NSLP guidelines and will further review Auditor's recommendation.

Sincerely,

Ana Maria Martínez

Authorized Signor for Somerset Academy, Inc.