

**Somerset Academy**  
**Middle School – Miramar Campus**  
(A charter school under Somerset Academy, Inc.)  
Miramar, Florida

Financial Statements and  
Independent Auditors' Report

June 30, 2010

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Somerset Academy Middle School - Miramar Campus  
12601 Somerset Blvd.  
Miramar, FL 33027

2009-2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Somerset Academy Middle School - Miramar Campus  
Miramar, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Somerset Academy Middle School - Miramar Campus (the "School"), a charter school under Somerset Academy, Inc., a component unit of the District School Board of Broward 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 Middle School - Miramar Campus 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 Middle School - Miramar Campus, 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 September 28, 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 23 through 24, 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.

*HLB Gravier LLP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
September 28, 2010

**Management's Discussion and Analysis**  
Somerset Academy Middle School - Miramar Campus  
(A charter school under Somerset Academy, Inc.)  
June 30, 2010

The corporate officers of Somerset Academy Middle School - Miramar Campus have prepared this narrative overview and analysis of the school's financial activities for the year ended June 30, 2010.

**Financial Highlights**

1. The assets of the School exceeded its liabilities at June 30, 2010 by \$699,207 (net assets).
2. At year-end, the School had current assets on hand of \$609,106.
3. The School had an increase in its net assets of \$267,378 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 years.

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 – 14 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 15 - 22 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 \$699,207 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	\$ 570,909	\$ 376,716
Due from other schools	21,392	-
Due from other agencies	816	-
Prepaid expenses	15,989	42,178
Capital Assets, net	285,225	234,206
Total Assets	<u>\$ 894,331</u>	<u>\$ 653,100</u>
Accrued Liabilities	195,124	221,271
Total Liabilities	<u>\$ 195,124</u>	<u>\$ 221,271</u>
Invested in Capital Assets, net of related debt	285,225	234,206
Unrestricted	413,982	197,623
Total Net Assets	<u>\$ 699,207</u>	<u>\$ 431,829</u>

At the end of the year, 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 years ended June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
<b>REVENUES</b>		
Program Revenues		
Capital outlay funding	\$ 234,171	\$ 202,947
Operating grants and contributions	57,151	26,826
Lunch program	104,926	-
General Revenues		
FTE nonspecific revenues	2,500,541	1,951,323
Other revenues	52	963
Total Revenues	<u>\$ 2,896,841</u>	<u>\$ 2,181,104</u>
<b>EXPENSES</b>		
Component Unit Activities:		
Instruction	\$ 1,200,131	\$ 979,410
Instructional staff training	6,505	4,810
Board	11,047	10,519
School administration	484,449	254,563
Facilities acquisition	3,600	-
Fiscal services	63,500	148,147
Food services	83,939	28,758
Central services	73,525	55,653
Operation of plant	662,530	633,116
Maintenance of plant	40,237	33,041
Total Expenses	<u>2,629,463</u>	<u>2,148,017</u>
Increase in Net Assets	267,378	33,087
Net Assets at Beginning of Year	431,829	398,742
Net Assets at End of Year	<u>\$ 699,207</u>	<u>\$ 431,829</u>

The School's revenue increased by \$715,737 in the current year and expenses increased by \$481,446, as a result of an increase in student enrollment. The largest increases in expenses were for Instruction and Operation of Plant. The School has an increase in its net assets of \$267,378 for the year.

## **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 \$413,982.

### **Achievements**

In 2010, Somerset Academy Middle School – Miramar Campus earned a letter grade of “A” for the 3rd consecutive year, ranking among the top middle schools in Broward County. The School also received a “School Recognition Award” from the Florida Department of Education. This past year, Somerset Academy students were recognized for their academic achievements, as well as their participation in various competitions and community service activities.

Somerset Academy Middle School -Miramar Campus opened in 2007, and currently operates in a brand new, state-of-the-art facility, featuring a media center, science labs, basketball courts, a playground, a computer lab, and high-tech classrooms equipped with Promethean Boards and LCD projectors. The School's mission is to set high academic and social expectations that together lead to the successful development of the whole child and create lifelong learners prepared to contribute in an ever-changing society. The School is fully accredited by the Southern Association of Colleges and Schools.

### **Capital Assets**

The School's investment in capital assets as of June 30, 2010 amounts to \$285,225 (net of accumulated depreciation). This investment in capital assets includes building and improvements, furniture, equipment and textbooks.

## 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 total governmental funds (both general fund and special revenue funds) to demonstrate compliance with the School's budget.

	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
Program Revenues			
Capital outlay	\$ 215,000	\$ 235,000	\$ 234,171
Federal grants	50,000	57,500	57,151
Lunch program	85,000	85,000	104,926
General Revenues			
FTE nonspecific revenues	2,460,000	2,500,000	2,500,541
Other revenues	-	-	52
Total Revenues	<u>2,810,000</u>	<u>2,877,500</u>	<u>2,896,841</u>
<b>CURRENT EXPENDITURES</b>			
Component Unit Activities:			
Instruction	1,110,000	1,132,500	1,133,330
Instruction staff training services	7,500	7,500	6,505
Board	10,000	15,000	11,047
School Administration	460,000	490,000	484,450
Fiscal Services	65,000	65,000	63,500
Food Services	85,000	85,000	83,534
Central Services	68,000	75,000	73,525
Operation of Plant	615,000	665,000	659,102
Maintenance of Plant	40,000	36,000	33,509
Total Current Expenditures (before capital outlay and debt service)	<u>\$ 2,460,500</u>	<u>\$ 2,571,000</u>	<u>\$ 2,548,502</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 Broward, LLC, 6361 Sunset Drive, Miami, Florida 33143.

Somerset Academy Middle School - Miramar Campus  
(A charter school under Somerset Academy, Inc.)

Statement of Net Assets  
June 30, 2010

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**Assets**

Current assets:

Cash	\$	570,909
Due from other schools		21,392
Prepaid expenses		15,989
Due from other agencies		816
		<hr/>
		609,106

Capital assets, depreciable		478,006
Less: accumulated depreciation		(192,781)
		<hr/>
		285,225

Total Assets	\$	<u><u>894,331</u></u>
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**Liabilities and Net assets**

Current liabilities:

Salaries and wages payable	\$	85,022
Due to other charter schools		33,014
Accounts payable		77,088
		<hr/>
Total Liabilities		195,124

Net assets:

Invested in capital assets		285,225
Unrestricted		413,982
		<hr/>
Total Net Assets		699,207

Total Liabilities and Net Assets	\$	<u><u>894,331</u></u>
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The accompanying notes are an integral  
part of this financial statement.

Somerset Academy Middle School - Miramar Campus  
(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	
<b>Governmental activities:</b>					
Instruction	\$ 1,200,131	\$ -	\$ 57,151	\$ -	\$ (1,142,980)
Instructional staff training	6,505	-	-	-	(6,505)
Board	11,047	-	-	-	(11,047)
School administration	484,449	-	-	-	(484,449)
Facilities acquisition	3,600	-	-	-	(3,600)
Fiscal services	63,500	-	-	-	(63,500)
Food services	83,939	27,445	77,481	-	20,987
Central services	73,525	-	-	-	(73,525)
Operation of plant	662,530	-	-	234,171	(428,359)
Maintenance of plant	40,237	-	-	-	(40,237)
<b>Total governmental activities</b>	<b>2,629,463</b>	<b>27,445</b>	<b>134,632</b>	<b>234,171</b>	<b>(2,233,215)</b>
General revenues:					
FTE nonspecific revenues					2,500,541
Interest and other revenue					52
					<hr/>
Change in net assets					267,378
Net assets, beginning					431,829
Net assets, ending					<u><u>\$ 699,207</u></u>

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

Somerset Academy Middle School - Miramar Campus  
(A charter school under Somerset Academy, Inc.)

Balance Sheet - Governmental Funds  
June 30, 2010

	General Fund	Special Revenue	Total Governmental
	<u>                    </u>	<u>                    </u>	<u>                    </u>
		Fund	Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b><u>Assets</u></b>			
Cash	\$ 570,909	\$ -	\$ 570,909
Due from other schools	21,392	-	21,392
Due from other agencies	816	-	816
Prepaid expenses	15,989	-	15,989
Total Assets	<u>\$ 609,106</u>	<u>\$ -</u>	<u>\$ 609,106</u>
<b><u>Liabilities</u></b>			
Salaries and wages payable	\$ 85,022	\$ -	\$ 85,022
Due to other charter schools	33,014	-	33,014
Accounts payable	77,088	-	77,088
Total Liabilities	<u>195,124</u>	<u>-</u>	<u>195,124</u>
<b><u>Fund balance</u></b>			
Unreserved	413,982	-	413,982
	<u>413,982</u>	<u>-</u>	<u>413,982</u>
Total Liabilities and Fund Balance	<u>\$ 609,106</u>	<u>\$ -</u>	<u>\$ 609,106</u>

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

Somerset Academy Middle School - Miramar Campus  
(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

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Total Fund Balance - Governmental Funds \$ 413,982

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

Capital assets of \$478,006 net of accumulated depreciation of \$192,781 used in governmental activities are not financial resources and therefore are not reported in the fund.

285,225

Total Net Assets - Governmental Activities

\$ 699,207

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

Somerset Academy Middle School - Miramar Campus  
(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
<b>Revenues:</b>			
State passed through local	\$ 2,500,541		\$ 2,500,541
State capital outlay funding		234,171	234,171
Federal sources	-	57,151	57,151
Interest and other revenue	52	-	52
Federal lunch program	-	104,926	104,926
<b>Total Revenues</b>	<b>2,500,593</b>	<b>396,248</b>	<b>2,896,841</b>
<b>Expenditures:</b>			
<b>Current</b>			
Instruction	1,076,179	57,151	1,133,330
Instructional staff training services	6,505	-	6,505
Board	11,047	-	11,047
School administration	484,450	-	484,450
Fiscal services	63,500	-	63,500
Food services	-	83,534	83,534
Central services	73,525	-	73,525
Operation of plant	424,931	234,171	659,102
Maintenance of plant	33,509	-	33,509
<b>Capital Outlay:</b>			
Other capital outlay	131,980	-	131,980
<b>Debt Service:</b>			
Interest	-	-	-
<b>Total Expenditures</b>	<b>2,305,626</b>	<b>374,856</b>	<b>2,680,482</b>
Excess (deficit) of revenues over expenditures	194,967	21,392	216,359
<b>Other financing sources</b>			
Transfers in and (out)	21,392	(21,392)	-
Net change in fund balance	216,359	-	216,359
Fund Balance at beginning of year	197,623	-	197,623
Fund Balance at end of year	<u>\$ 413,982</u>	<u>\$ -</u>	<u>\$ 413,982</u>

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

Somerset Academy Middle School - Miramar Campus  
(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

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Net Change in Fund Balance - Governmental Funds \$ 216,359

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 \$131,980 differed from depreciation expense of \$80,961.

51,019

Change in Net Assets of Governmental Activities

\$ 267,378

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

## **Note 1 – Organization and Operations**

Somerset Academy Middle School - Miramar Campus (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 Broward County (the "District"). The current charter expires on June 30, 2011 and is renewable for additional five-year periods by 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 Miramar, Florida for students from sixth through ninth grades and is funded by the District.

These financial statements are for the year ended June 30, 2010, when approximately 422 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. Also, these statements do not include fiduciary 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 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 revenues, such as federal grants and capital outlay funding that are legally restricted to expenditures for particular purposes.

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 or contradict 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.

**Note 2 – Summary of Significant Accounting Policies (continued)**

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 fund liability is incurred, except for long-term debt principal and interest which are reported as expenditures in the year due.

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:

Leasehold Improvements	20 Years
Furniture, Equipment, and Textbooks	3-5 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 may also receive 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.

Compensated Absences

The School grants a specific number of sick days. 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.

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.

**Note 2 – Summary of Significant Accounting Policies (continued)**

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 September 28, 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 year ended June 30, 2010:

	Balance 7/1/09	Additions	Retirements	Balance 6/30/10
Capital Assets:				
Building and improvements	\$ 56,572	\$ 15,068	\$ -	\$ 71,640
Furniture, equipment and textbooks	289,454	116,912	-	406,366
Total Capital Assets	346,026	131,980	-	478,006
Less Accumulated Depreciation:				
Building and improvements	(637)	(4,845)	-	(5,482)
Furniture, equipment and textbooks	(111,183)	(76,116)	-	(187,299)
Total Accumulated Depreciation	(111,820)	(80,961)	-	(192,781)
Capital Assets, net	\$ 234,206	\$ 51,019	\$ -	\$ 285,225

Depreciation expense for the year ended June 30, 2010 was \$80,961 and is allocated in the Statement of Activities to instruction, food services, plant operation and maintenance.

#### **Note 4 –Management Agreement**

Academica Broward, 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 June 30, 2011, 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 \$189,900 in management fees, of which approximately \$10,163 were due as of the end of the year.

Academica Broward, 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**

Somerset Academy, Inc. operates various charter schools. During 2010, the School shared its facility with Somerset Academy – Miramar Campus (another charter school under Somerset Academy, Inc.). Management allocates a proportionate share of leases, salaries, lunch receipts, food and supplies, and other expenses based on student enrollment and usage of facilities and staff to the School. In addition, the School's student activities account is recorded in Somerset Academy – Miramar Campus' books. As of June 30, 2010, approximately \$32,800 was due to Somerset Academy – Miramar Campus related to the facility lease allocation at year-end.

In addition, the School's lunch program is also shared with Somerset Academy – Miramar Campus. Revenues and expenses related to such programs have been allocated based on FTE equivalent for purposes of presentation in the financial statements. As of June 30, 2010, approximately \$21,400 was due to the School from Somerset Academy – Miramar Campus related to the lunch program allocation.

**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 \$570,909 and the respective bank balances totaled \$575,546. Out of total bank balances, \$315,000 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 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 \$260,546.

**Note 7 – Commitments and Contingencies**

The School, together with another school (See Note 5), entered into a lease agreement with Film, LLC for its 56,012 square feet facility including all ancillary facilities, outdoor areas and other improvements. Presently, members of the landlord are also stockholders of the entity which is the sole owner of Academica Broward, LLC, the School's management company (See Note 4). This facility is shared with Somerset Academy Miramar (another charter school under Somerset Academy, Inc.). Initial fixed annual payments under this agreement (based on \$23.95 per square foot) are approximately \$1,341,340 adjusted annually based on the Consumer Price Index (CPI) plus additional property costs including repairs, maintenance and insurance. The agreement continues through August 2026 with an option to renew for an additional five-year term. Under the lease agreement, the School must meet certain requirements and covenants including maintaining a "Lease Payment Coverage Ratio" of not less than 1.10 to 1.00.

Lease payments will be allocated among the two schools based on enrollment and usage of facility. The allocation used for 2010, was 36% for the School and 64% for Somerset Academy Miramar.

**Note 7 – Commitments and Contingencies (continued)**

For 2010, rent expense totaled \$514,454 of which approximately \$512,000 pertained to the facility lease. Future minimum payments under the full amount of the lease (to be shared with Somerset Academy Miramar) are as follows:

<u>Year</u>	
2011	\$1,414,870
2012	\$1,414,870
2013	\$1,414,870
2014	\$1,414,870
2015	\$1,414,870
2016-2020	\$7,074,350 (Total for five-year period)
2021-2025	\$7,074,350 (Total for five-year period)
2026	\$707,440

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.

**Note 9 – Defined Contribution Retirement Plan**

The School's personnel, which are leased through ADP TotalSource Group, Inc., are eligible to participate in a defined contribution 401(k) plan sponsored by the leasing company, covering employees who meet certain age and tenure requirements. Under the ADP TotalSource Retirement Savings Plan (the "Plan"), the School provides a match of 50% of the employee's contribution up to 4% of the employee's compensation. The School contributed to the Plan \$4,834 for the year ended June 30, 2010. The School does not exercise any control or fiduciary responsibility over the Plans' assets, which are administered by MassMutual Financial Group.

REQUIRED SUPPLEMENTARY INFORMATION

Somerset Academy Middle School - Miramar Campus  
(A charter school under Somerset Academy, Inc.)

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

	General Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
State passed through local	\$ 2,460,000	\$ 2,500,000	\$ 2,500,541
Interest and other revenues	-	-	52
<b>Total Revenues</b>	<b>2,460,000</b>	<b>2,500,000</b>	<b>2,500,593</b>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Instruction	1,060,000	1,075,000	1,076,179
Instructional Staff			
Training Services	7,500	7,500	6,505
Board	10,000	15,000	11,047
School administration	460,000	490,000	484,450
Fiscal services	65,000	65,000	63,500
Food services	-	-	-
Central services	68,000	75,000	73,525
Operation of plant	400,000	430,000	424,931
Maintenance of plant	40,000	36,000	33,509
<b>Total current expenditures</b>	<b>2,110,500</b>	<b>2,193,500</b>	<b>2,173,646</b>
Excess of revenues			
Over current expenditures	349,500	306,500	326,947
<b>Capital outlay:</b>			
Other capital outlay	120,000	135,000	131,980
<b>Total capital outlay and</b>			
Debt service expenditures	120,000	135,000	131,980
<b>Total expenditures</b>	<b>2,230,500</b>	<b>2,328,500</b>	<b>2,305,626</b>
Excess of revenues			
Over expenditures	229,500	171,500	194,967
<b>Other financing sources</b>			
Transfers in and (out)	-	-	21,392
<b>Net change in fund balance</b>	<b>229,500</b>	<b>171,500</b>	<b>216,359</b>
Fund balance at beginning of year	197,623	197,623	197,623
Fund balance at end of year	\$ 427,123	\$ 369,123	\$ 413,982

Somerset Academy Middle School - Miramar Campus  
(A charter school under Somerset Academy, Inc.)

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

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
State capital outlay funding	\$ 215,000	\$ 235,000	\$ 234,171
Federal sources	50,000	57,500	57,151
Lunch program	85,000	85,000	104,926
<b>Total Revenues</b>	<b>350,000</b>	<b>377,500</b>	<b>396,248</b>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Instruction	50,000	57,500	57,151
Instructional media services	-	-	-
Food services	85,000	85,000	83,534
Central services	-	-	-
Operation of plant	215,000	235,000	234,171
Maintenance of plant	-	-	-
<b>Total current expenditures</b>	<b>350,000</b>	<b>377,500</b>	<b>374,856</b>
Excess of revenues Over current expenditures	-	-	21,392
<b>Capital outlay:</b>			
Other capital outlay	-	-	-
<b>Total capital outlay and Debt service expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total expenditures</b>	<b>350,000</b>	<b>377,500</b>	<b>374,856</b>
Excess of revenues Over expenditures	-	-	21,392
<b>Other financing sources</b>			
Transfers in and (out)	-	-	(21,392)
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balance at beginning of year</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balance at end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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 Middle School - Miramar Campus  
Miramar, Florida

We have audited the financial statements of Somerset Academy Middle School - Miramar Campus (the "School") as of, and for the year ended June 30, 2010, and have issued our report thereon dated September 28, 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Broward County and is not intended to be and should not be used by anyone other than these specified parties.

*HLB Gravier, CP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
September 28, 2010

MANAGEMENT LETTER

Board of Directors of  
Somerset Academy Middle School - Miramar Campus  
Miramar, Florida

We have audited the accompanying basic financial statements of Somerset Academy Middle School - Miramar Campus as of and for the year ended June 30, 2010 and have issued our report thereon dated September 28, 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 September 28, 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.

No significant findings or recommendations were 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.

Observation

We noted errors in the calculation of depreciation expense on capital assets purchased during the current year. The errors resulted from utilizing a depreciation report that was run on a basis that used different useful live than the useful live assigned to the assets.

Recommendation

It was determined that the depreciation expense was not materially misstated and therefore, no adjustment was proposed. However, management should ensure that the correct report is used to record future period depreciation expense.

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.

In connection with our audit, we did not have any such violations.

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.

In connection with our audit, we did not have any such findings.

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 Broward County, and is not intended to be and should not be used by anyone other than these specified parties.

*HLB Graven, LLP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
September 28, 2010

**Somerset Academy Middle School – Miramar Campus**

September 29, 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:

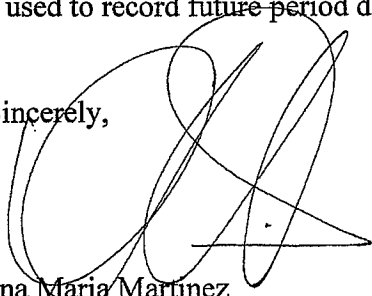
**Recommendation**

It was determined that the depreciation expense was not materially misstated and therefore, no audit adjustment was proposed. However, management should ensure that the correct report is used to record future period depreciation expense.

**Management Response**

Management will follow the auditor's recommendation and ensure that the correct report is used to record future period depreciation expense.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ana Maria Martinez', written over a horizontal line. The signature is stylized and somewhat cursive.

Ana Maria Martinez  
Authorized Signor for Somerset Academy, Inc.