

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

Financial Statements and  
Independent Auditors' Report

June 30, 2010

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Somerset Academy  
18491 SW 134 Avenue  
Miami, Florida 33177

2009-2010

BOARD OF DIRECTORS

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Somerset Academy  
Miami, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Somerset Academy (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 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, 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.

*HLB Duvall, LLP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 30, 2010

**Management's Discussion and Analysis**  
Somerset Academy  
(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 \$720,513 (net assets).
2. At year-end, the School had current assets on hand of \$734,857.
3. The School had an increase in its net assets of \$100,058 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 \$ 720,513 at the close of the fiscal year. A summary of the School’s net assets as of June 30, 2010 follows:

	2010	2009
Cash	\$ 590,706	\$ 287,908
Prepaid Expenses	82,347	163,635
Due from other charter schools	-	40,000
Due from other agencies	30,219	6,494
Capital Assets, net	249,516	379,993
Security deposits	31,585	19,036
Accounts receivable	-	7,080
Total Assets	<u>\$ 984,373</u>	<u>\$ 904,146</u>
Deposits	81,312	84,352
Due to other schools	294	9,770
Accrued Liabilities	182,254	189,569
Total Liabilities	<u>\$ 263,860</u>	<u>\$ 283,691</u>
Invested in Capital Assets, net of related debt	\$ 249,516	\$ 379,993
Restricted	104,323	83,568
Unrestricted	366,674	156,894
Total Net Assets	<u>\$ 720,513</u>	<u>\$ 620,455</u>

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>
<b>REVENUES</b>		
Program Revenues		
Capital Outlay funding	\$ 279,140	\$ 304,726
Operating Grants and Contributions	125,089	108,387
General Revenues		
FTE nonspecific revenues	3,499,916	3,441,697
Other Revenues	354	15,013
Charges for services	202,330	356,700
Total Revenues	<u>\$ 4,106,829</u>	<u>\$ 4,226,523</u>
<b>EXPENSES</b>		
Component Unit Activities:		
Instruction	\$ 1,868,883	\$ 2,011,748
Instructional Staff Training Services	5,363	3,345
Board	6,184	17,384
School Administration	622,898	621,636
Facilities Acquisition and Construction	3,039	254
Fiscal Services	81,500	77,000
Food Services	132,727	146,564
Central Services	87,486	79,642
Operation of Plant	973,864	992,598
Community Services	162,547	184,569
Maintenance of Plant	62,280	84,678
Total Expenses	<u>4,006,771</u>	<u>4,219,418</u>
Increase in Net Assets	100,058	7,105
Net Assets at Beginning of Year	<u>620,455</u>	<u>613,350</u>
Net Assets at End of Year	<u>\$ 720,513</u>	<u>\$ 620,455</u>

Somerset Academy "N.E.S.T.E.D" Somerset Country Palms in 08-09 and received a usage fee. Somerset Country Palms moved to a permanent location and as a result the School's revenue decreased by \$119,694 in the current year and expenses decreased by \$212,784. The largest decrease in expenses was Instruction. The School has an increase in its net assets of \$100,058 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 \$470,997.

### **Achievements**

Located in Southwest Miami-Dade, Somerset Academy is a prime example that all students can achieve academically when they are expected to succeed. In 2010, Somerset Academy received its fourth grade of "A," ranking among the top-performing public elementary schools in Miami-Dade County, based on the points it received under the State of Florida Accountability Program.

Somerset Academy students were recognized for various accomplishments throughout the year. Somerset students were winners of the Book with Wings Award, Science Fair, the Youth Fair Art Exhibition, and the Miami-Dade Spelling Bee. Somerset was also listed as one of the top 30 schools in Miami-Dade County's "Reading Plus-McDonald's Reading Challenge." The Somerset Soccer Team was also recognized when it won 1st place in Division U-10 for Co-Ed Soccer.

In addition, 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 only a few public elementary 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 \$249,516 (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
<b>REVENUES</b>			
Program Revenues			
Capital Outlay	\$ 325,000	\$ 280,000	\$ 279,140
Federal School Lunch	120,000	100,000	125,089
Charges for services and usage fees	190,000	190,000	202,330
General Revenues			
FTE Nonspecific Revenues	3,209,182	3,475,000	3,499,916
Other Revenues	-	-	354
Total Revenues	<u>3,844,182</u>	<u>4,045,000</u>	<u>4,106,829</u>
<b>CURRENT EXPENDITURES</b>			
Component Unit Activities:			
Instruction	1,715,000	1,750,000	1,745,209
Instructional Staff Training Services	7,500	6,000	5,364
Board	6,500	6,500	6,184
School Administration	625,000	625,000	622,898
Fiscal Services	82,000	82,000	81,500
Food Services	140,000	120,000	117,097
Central Services	90,000	90,000	87,486
Operation of Plant	1,096,471	975,000	967,954
Community Services	-	165,000	162,547
Maintenance of Plant	35,000	40,000	34,925
Total Current Expenditures	<u>\$ 3,797,471</u>	<u>\$ 3,859,500</u>	<u>\$ 3,831,164</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  
(A charter school under Somerset Academy, Inc)

Statement of Net Assets  
June 30, 2010

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**Assets**

Current assets:

Cash	\$	590,706
Prepaid expenses		82,347
Due from other agencies		30,219
Security deposits		31,585
		<u>734,857</u>

Capital assets, depreciable		878,901
Less: accumulated depreciation		<u>(629,385)</u>
		<u>249,516</u>

Total Assets \$ 984,373

**Liabilities and Net assets**

Current liabilities:

Salaries and wages payable	\$	178,910
Due to other schools		294
Accounts payable		3,344
Deposits		81,312
Total Liabilities		<u>263,860</u>

Net assets:

Invested in capital assets		249,516
Restricted by lease agreement		104,323
Unrestricted		366,674
Total Net Assets		<u>720,513</u>

Total Liabilities and Net Assets \$ 984,373

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

Somerset Academy  
(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	\$ 1,868,883	\$ -	\$ -	\$ -	\$ (1,868,883)
Instructional staff training	5,365	-	-	-	(5,365)
Board	6,183	-	-	-	(6,183)
School administration	622,898	-	-	-	(622,898)
Facilities acquisition	3,039	-	-	-	(3,039)
Fiscal services	81,500	-	-	-	(81,500)
Food services	132,727	27,281	125,089	-	19,643
Central services	87,485	-	-	-	(87,485)
Operation of plant	973,864	-	-	279,140	(694,724)
Maintenance of plant	62,280	-	-	-	(62,280)
Community Services	162,547	175,049	-	-	12,502
<b>Total governmental activities</b>	<u>4,006,771</u>	<u>202,330</u>	<u>125,089</u>	<u>279,140</u>	<u>(3,400,212)</u>
					FTE nonspecific revenues 3,499,916
					Interest and other revenue 354
					<u>Change in net assets 100,058</u>
					Net assets, beginning 620,455
					<u>Net assets, ending \$ 720,513</u>

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

Somerset Academy  
(A charter school under Somerset Academy, Inc)

Balance Sheet - Governmental Funds  
June 30, 2010

	General Fund	Special Revenue Fund	Total Governmental Funds
<b><u>Assets</u></b>			
Cash	\$ 590,706	\$ -	\$ 590,706
Due from other agencies	-	30,219	30,219
Prepaid expenses	82,347		82,347
Due from funds	30,219		30,219
Security deposits	31,585		31,585
Total Assets	<u>\$ 734,857</u>	<u>\$ 30,219</u>	<u>\$ 765,076</u>
<b><u>Liabilities</u></b>			
Salaries and wages payable	\$ 178,910	\$ -	\$ 178,910
Due to funds	3,344	30,219	33,563
Deposits	81,312	-	81,312
Due to other schools	294		294
Total Liabilities	<u>263,860</u>	<u>30,219</u>	<u>294,079</u>
<b><u>Fund balance</u></b>			
Reserved	104,323		104,323
Unreserved	366,674	-	366,674
	<u>470,997</u>	<u>-</u>	<u>470,997</u>
Total Liabilities and Fund Balance	<u>\$ 734,857</u>	<u>\$ 30,219</u>	<u>\$ 765,076</u>

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

Somerset Academy  
(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 \$ 470,997

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

Capital assets of \$878,901 net of accumulated depreciation of \$629,385 used in governmental activities are not financial resources and therefore are not reported in the fund.

249,516

Total Net Assets - Governmental Activities

\$ 720,513

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

Somerset Academy  
(A charter school under Somerset Academy, Inc)

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

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>Revenues:</b>			
State capital outlay funding	\$ -	\$ 279,140	\$ 279,140
State passed through local	3,499,916	-	3,499,916
Federal school lunch	-	125,089	125,089
Interest and other revenue	354	-	354
Charges for services and usage fees	175,049	27,281	202,330
<b>Total Revenues</b>	<b>3,675,319</b>	<b>431,510</b>	<b>4,106,829</b>
<b>Expenditures:</b>			
<b>Current</b>			
Instruction	1,745,209	-	1,745,209
Instructional staff training services	5,364	-	5,364
Board	6,184	-	6,184
School administration	622,898	-	622,898
Fiscal services	81,500	-	81,500
Food services	-	117,097	117,097
Central services	87,486	-	87,486
Operation of plant	688,814	279,140	967,954
Maintenance of plant	34,925	-	34,925
Community services	162,547	-	162,547
<b>Capital Outlay:</b>			
Other capital outlay	44,408	722	45,130
<b>Debt Service:</b>			
Redemption of Principal	-	-	-
Interest	-	-	-
<b>Total Expenditures</b>	<b>3,479,335</b>	<b>396,959</b>	<b>3,876,294</b>
Excess (deficit) of revenues over expenditures	195,984	34,551	230,535
<b>Other financing sources</b>			
Transfers in and (out)	34,551	(34,551)	-
Net change in fund balance	230,535	-	230,535
Fund Balance at beginning of year	240,462	-	240,462
Fund Balance at end of year	<u>\$ 470,997</u>	<u>\$ -</u>	<u>\$ 470,997</u>

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

Somerset Academy  
(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 \$ 230,535

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 \$45,130 differed from depreciation expense of \$175,607.

(130,477)

Change in Net Assets of Governmental Activities

\$ 100,058

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

Somerset Academy  
(A charter school under Somerset Academy, Inc)

Statement of Net Assets - Fiduciary Funds  
June 30, 2010

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	<u>2010</u>
	Agency Funds
<b><u>Assets</u></b>	
Cash	\$ 64,081
Total Assets	<u>\$ 64,081</u>
<b><u>Liabilities</u></b>	
Due to students and clubs	\$ 64,081
Total Liabilities	\$ 64,081
<b><u>Net assets</u></b>	<u>\$ -</u>

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

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

Somerset Academy (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, 2013 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 kindergarten through fifth grades and is funded by the District.

These financial statements are for the year ended June 30, 2010, when approximately 542 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 and does not include fiduciary funds.

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 capital outlay funding and federal lunch program that are legally restricted to expenditures for particular purposes.

Fiduciary Fund – Schools internal funds accounts for resources of the schools' Internal Fund which is used to administer monies collected at the schools in connection with school, student activities, 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 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.

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 \$16,892 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:				
Improvements	\$ 49,186	\$ 5,798	\$ -	\$ 54,984
Furniture, equipment and textbooks	784,585	39,332	-	823,917
Total Capital Assets	<u>833,771</u>	<u>45,130</u>	<u>-</u>	<u>878,901</u>
Less Accumulated Depreciation:				
Improvements	(254)	(3,039)		(3,293)
Furniture, equipment and textbooks	<u>(453,524)</u>	<u>(172,568)</u>	-	<u>(626,092)</u>
Total Accumulated Depreciation	<u>(453,779)</u>	<u>(175,606)</u>	<u>-</u>	<u>(629,385)</u>
Capital Assets, net	<u>\$ 379,993</u>	<u>\$(130,477)</u>	<u>\$ -</u>	<u>\$ 249,516</u>

Depreciation expense for the period ended June 30, 2010 was \$175,608 and is allocated in the Statement of Activities to instruction, facilities acquisition, and 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 June 30, 2014, 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 \$243,400, in management fees. In addition, the school had approximately \$10,000 of prepaid management fees at year end.

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

Fernando Zulueta, President  
Magdalena Fresen, Vice President & 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 Middle School (another 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 Middle School. During the year the School received approximately \$84,000 of Federal school lunch funds from Somerset Academy Silver Palms (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, 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 \$306,000 was received by the School and transferred to the other schools. In addition, during the year, the school allocated \$49,157 of school lunch revenues and \$44,242 of associated food expense to Somerset Academy Middle School for use of its own lunch facilities.

In addition, the School operates an after school program. Revenues from these programs are recorded as charges for services, under the community services function. Total revenues from these programs for 2010 were \$175,049.

#### **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 \$654,787 and the respective bank balances totaled \$729,917. Out of the total bank balances, \$470,000 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 \$259,917.

#### **Note 7 – Commitments and Contingencies**

The School entered into a lease and security agreement with Valencia School Development, LLC for its 51,200 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). This facility is shared with Somerset Academy Charter Middle School (a charter school under Somerset Academy, Inc.). Initial fixed annual payments under this agreement (based on \$13.50 per square foot) or approximately \$691,000 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 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 80% for the School and 20% for Somerset Academy Charter Middle School. For 2010, rent expense totaled \$625,750, out which approximately \$620,000 related to facility lease.

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

Future minimum payments for the full lease (shared with Somerset Academy Charter Middle School) are as follows:

<u>Year</u>	
2010	\$778,334
2011	\$778,334
2012	\$778,334
2013	\$778,334
2014-2018	\$3,891,668 (Total for five-year period)
2019-2023	\$3,891,668 (Total for five-year period)
2024-2026	\$1,297,223 (Total for three-year period)

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  
(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
<b>REVENUES</b>			
State passed through local	\$ 3,209,182	\$ 3,475,000	\$ 3,499,916
Charges for services and usage fees	170,000	170,000	175,049
Interest and other revenues	-	-	354
<b>Total Revenues</b>	<b><u>3,379,182</u></b>	<b><u>3,645,000</u></b>	<b><u>3,675,319</u></b>
<b>EXPENDITURES</b>			
Current:			
Instruction	1,715,000	1,750,000	1,745,209
Instructional Staff			
Training Services	7,500	6,000	5,364
Board	6,500	6,500	6,184
School Administration	625,000	625,000	622,898
Fiscal Services	82,000	82,000	81,500
Food Services	-	-	-
Central Services	90,000	90,000	87,486
Operation of Plant	771,471	695,000	688,814
Maintenance of Plant	35,000	40,000	34,925
Community Services	-	165,000	162,547
<b>Total Current Expenditures</b>	<b><u>3,332,471</u></b>	<b><u>3,459,500</u></b>	<b><u>3,434,927</u></b>
Excess of Revenues Over Current Expenditures	<u>46,711</u>	<u>185,500</u>	<u>240,392</u>
Debt Service:			
Redemption of Principal	-	-	-
Capital Outlay:			
Other Capital Outlay	45,000	45,000	44,408
<b>Total Capital Outlay and Debt Service Expenditures</b>	<b><u>45,000</u></b>	<b><u>45,000</u></b>	<b><u>44,408</u></b>
<b>Total Expenditures</b>	<b><u>3,377,471</u></b>	<b><u>3,504,500</u></b>	<b><u>3,479,335</u></b>
Excess of Revenues Over Expenditures	1,711	140,500	195,984
Other financing sources:			
Transfers out	-	-	34,551
Fund Balance at beginning of year	<u>240,462</u>	<u>240,462</u>	<u>240,462</u>
Fund Balance at end of year	<b><u>\$ 242,173</u></b>	<b><u>\$ 380,962</u></b>	<b><u>\$ 470,997</u></b>

Somerset Academy  
(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
<b>REVENUES</b>			
State capital outlay funding	\$ 325,000	\$ 280,000	\$ 279,140
Lunch fees	20,000	20,000	27,281
Federal school lunch	120,000	100,000	125,089
<b>Total Revenues</b>	<b>465,000</b>	<b>400,000</b>	<b>431,510</b>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Instruction	-	-	-
Pupil Personnel Services	-	-	-
Board	-	-	-
General Administration	-	-	-
School Administration	-	-	-
Facilities Acquisition & Construction	-	-	-
Fiscal Services	-	-	-
Food Services	140,000	120,000	117,097
Central Services	-	-	-
Operation of Plant	325,000	280,000	279,140
Maintenance of Plant	-	-	-
<b>Total Current Expenditures</b>	<b>465,000</b>	<b>400,000</b>	<b>396,237</b>
Excess of Revenues Over Current Expenditures	-	-	35,273
<b>Capital Outlay:</b>			
Other Capital Outlay	-	-	722
<b>Total Expenditures</b>	<b>465,000</b>	<b>400,000</b>	<b>396,959</b>
Excess of Revenues Over Expenditures	-	-	34,551
<b>Other financing sources:</b>			
Transfers in	-	-	(34,551)
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	\$ -	\$ -	\$ -

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  
Miami, Florida

We have audited the financial statements of Somerset Academy (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 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 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

MANAGEMENT LETTER

Board of Directors of Somerset Academy  
Miami, Florida

We have audited the accompanying basic financial statements of Somerset Academy 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.

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

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 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