

Somerset Academy at Silver Palms  
**W/L # 0332**  
(A charter school under Somerset Academy, Inc.)

Miami, Florida

Financial Statements and  
Independent Auditors' Report

June 30, 2016

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Somerset Academy at Silver Palms  
(A charter school under Somerset Academy, Inc.)  
W/L #0332  
23255 SW 115 Ave  
Miami, Florida 33032

2015-2016

BOARD OF DIRECTORS

**BOARD OF DIRECTORS**

David Concepcion, Board Chair  
Lourdes Isla, Director and Vice - Chair  
Ana Diaz, Director, Secretary  
Todd German, Treasurer  
Louis Marin, Director  
George Ozuna, Director  
Tony Morales, Student Alumni, Director  
Raul Martinez, Jr., Director, Parent, resigned April 15, 2016  
Jennifer Esquijarosa, Director

SCHOOL ADMINISTRATION

Kerry Ann O'Sullivan, Principal

OTHER NON-VOTING CORPORATE OFFICERS

Bernardo Montero, President

Suzette Ruiz, Vice-President



CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Somerset Academy at Silver Palms (the "School"), a charter school under Somerset Academy, Inc., as of, and for the year ended June 30, 2016, which collectively comprises the School's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Somerset Academy at Silver Palms at June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

As described in Note 1, the accompanying financial statements referred to above present only the financial position of Somerset Academy at Silver Palms at June 30, 2016, 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. These financial statements do not purport to and do not present fairly the financial position of Somerset Academy, Inc. as of June 30, 2016 and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## *Required Supplementary Information*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2016, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 29 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

  
CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 29, 2016

**Management's Discussion and Analysis**  
Somerset Academy at Silver Palms  
(A Charter school Under Somerset Academy, Inc.)  
June 30, 2016

The corporate officers of Somerset Academy at Silver Palms have prepared this narrative overview and analysis of the school's financial activities for the period ended June 30, 2016

**Financial Highlights**

1. The net position of the School at June 30, 2016 was \$2,404,015.
2. At year-end, the School had current assets on hand of \$668,178.
3. The School had an increase in its net position of \$127,117 for the year ended June 30, 2016.
4. The unassigned fund balance at year end was \$138,545.

**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, 2016 are presented in accordance with GASB Codification Section 2200. 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 Position* presents information on all of the School's assets, deferred outflows of resources, liabilities and deferred inflows of resources. The difference is reported as *net position*. Over time increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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 - 28 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a charter school's financial position. In the case of the School, the net position was \$2,404,015 at the close of the fiscal year. A summary of the School's net position as of June 30, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 351,324	\$ 415,098
Investments	158,707	-
Prepaid expenses	147,468	153,229
Due from other agencies	10,679	15,182
Due from other charter schools - long term	27,384	159,192
Capital assets, net	<u>2,857,038</u>	<u>2,368,391</u>
<b>Total Assets</b>	<u>3,552,600</u>	<u>3,111,092</u>
<b>Deferred outflows of resources</b>	-	-
Accounts payable and accrued liabilities	137,841	146,864
Due to other charter schools	100,000	100,000
Tenant improvement payable	336,458	-
Long term liabilities	<u>574,286</u>	<u>587,330</u>
<b>Total Liabilities</b>	<u>1,148,585</u>	<u>834,194</u>
<b>Deferred inflows of resources</b>	-	-
<b>Net Position:</b>		
Net investment in capital assets and long term receivables	1,973,678	1,940,253
Restricted by lease agreement	244,324	218,658
Unrestricted	<u>186,013</u>	<u>117,987</u>
<b>Total Net Position</b>	<u>\$ 2,404,015</u>	<u>\$ 2,276,898</u>

At the end of both years, the School is able to report positive balances in its net position.

A summary and analysis of the School's revenues and expenses for the year ended June 30, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>		
Program Revenues		
Operating Grants and Contributions	\$ 391,469	\$ 353,669
Capital Outlay Funding	165,910	241,498
Lunch Program	24,170	17,466
General Revenues		
Local Sources(FTE non specific)	4,415,618	3,748,426
Other Revenues	136,066	12,104
<b>Total Revenues</b>	<u>\$ 5,133,233</u>	<u>\$ 4,373,163</u>
<b>EXPENSES</b>		
Component Unit Activities:		
Instruction	\$ 1,791,118	\$ 1,823,184
Instructional staff training	1,757	6,105
Board	83,100	47,230
School administration	920,957	717,701
Facilities acquisition	97,639	73,438
Fiscal services	106,275	93,000
Food services	243,950	226,722
Central services	158,361	99,852
Operation of plant	1,479,820	1,196,586
Maintenance of plant	94,063	78,508
Community services	29,076	10,580
<b>Total Expenses</b>	<u>5,006,116</u>	<u>4,372,906</u>
Increase in Net Position	127,117	257
Net Position at Beginning of Year	<u>2,276,898</u>	<u>2,276,641</u>
Net Position at End of Year	<u>\$ 2,404,015</u>	<u>\$ 2,276,898</u>

The School's revenue increased by \$760,070 and their expenses increased by \$633,210 in the current year. The School's student enrollment increased by approximately 89 students.

### **School Location and Lease of Facility**

The School leases two facilities (shared with other schools). One facility is located at 23255 SW 115<sup>th</sup> Avenue, Miami, FL 33032 and the other new facility opened for the 2015-2016 school year is located at 11455 SW 232 Street, Miami, FL 33170.

### **Capital Improvement Requirements**

The School maintains a continuous capital improvements program to enhance facilities and update fixtures and equipment as required.

### **School Enrollment**

This past year, the School had approximately 706 students enrolled in grades kindergarten through eighth.

## **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 needs. In particular, the *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Most of the School's operations are funded in the General Fund. The majority of the General Fund revenues are distributed to the School by the District through the Florida Education Finance Program (FEFP), which uses formulas to distribute state funds and an amount of local property taxes (i.e., required local effort) established each year by the Florida Legislature. At the end of the fiscal year, the School's governmental general fund reported ending fund balance of \$530,337. The fund balance unassigned and available for spending at the School's discretion is \$138,545. These funds will be available for the School's future ongoing operations.

### **Achievements**

In 2016, Somerset Academy Silver Palms completed its ninth year of operation serving 709 students. The school earned a letter grade of "B."

This past year, Somerset Academy students participated in various community service projects and fundraisers such as the Scholastic Book Fair, United Way, World's Finest Chocolates, McDonalds Teacher Night, and the Harvest Festival. Students also got to participate in school-wide productions such as the Holiday Show, Somerset's Got Talent show, Music in School Show, End of Year Show, Career Day, Hispanic Heritage Show, Black History Month Show, and Spring Show.

With a core philosophy combining high expectations for both students and teachers, Somerset Academy also stresses character development and self-esteem. The school provides its students with a rigorous curriculum, as well as an extra-curricular program of activities, including team sports and over 25 active school clubs including -Student Council, Guitar Club, Art Club, Dance, Cheerleading, Spanish, National Junior Honor Society, Robotics Club, Recycling Club, Environmental Club, Safety Patrol, Future Educators of America, Newspaper Club, Future City, Math Club, Science Club, and Do It Yourself Club. Somerset students have also competed in many athletic and academic competitions, including the Somerset Spelling Bee, the Future City Competition and several Robotics Competitions.

The facilities of Somerset Academy Silver Palms have also been recognized nationally for "Outstanding Elementary and Middle School Building Design" in The American School and University Magazine, a national publication on educational facilities.

As a member of the Somerset Academy network of high quality charter schools, Somerset Academy Silver Palms is fully accredited by AdvancED under the Southern Association of Colleges and Schools Council on Accreditation and School Improvement (SACS-CASI) division. As with all the schools within the network, Somerset Academy Silver Palms places high expectations for student learning and offers multiple opportunities for all students to acquire requisite knowledge, skills, and attitudes in a safe and nurturing environment. Key to achieving successful learning for all students is the school's implementation of research-based instructional strategies by a highly qualified instructional staff, and the use of innovative resources in a technology-rich setting.

## Capital Assets

The School's investment in capital assets as of June 30, 2016 amounts to \$2,857,038 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures and computer equipment. As of June 30, 2016, the School had \$910,744 of long term debt relating to capital assets.

## 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.

	Governmental Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
Program Revenues			
State capital outlay funding	\$ 141,600	\$ 166,000	\$ 165,910
Federal sources	376,164	391,914	391,469
Lunch program	25,000	25,000	24,170
General Revenues			
FTE nonspecific revenues	4,385,040	4,406,048	4,415,618
Charges and other revenues	141,600	136,000	136,066
Total Revenues	<u>\$ 5,069,404</u>	<u>\$ 5,124,962</u>	<u>\$ 5,133,233</u>
<b>CURRENT EXPENDITURES</b>			
Component Unit Activities			
Instruction	\$ 1,691,914	\$ 1,695,299	\$ 1,686,160
Instructional staff training	18,000	18,119	1,757
Board	99,800	91,850	83,100
School administration	940,743	930,000	920,957
Fiscal services	106,200	106,275	106,275
Food services	242,714	270,000	235,010
Central services	163,850	160,654	158,361
Operation of plant	1,425,815	1,450,000	1,449,418
Maintenance of plant	80,000	80,000	78,133
Community services	30,000	30,000	29,076
Total Current Expenditures	<u>\$ 4,799,036</u>	<u>\$ 4,832,197</u>	<u>\$ 4,748,247</u>

Most variances occurred as a result of the Budget adopted being more conservative than actual results for the year.

## 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, 6340 Sunset Drive, Miami, Florida, 33143.

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

Statement of Net Position  
 June 30, 2016

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 351,324
Investments	158,707
Prepaid expenses	147,468
Due from other agencies	<u>10,679</u>
	668,178
Due from other charter schools - long term	27,384
Capital assets, depreciable	4,690,754
Less: accumulated depreciation	<u>(1,833,716)</u>
	<u>2,857,038</u>
Total Assets	<u>3,552,600</u>
<b><u>Deferred Outflows of Resources</u></b>	<u>-</u>
<b><u>Liabilities</u></b>	
Current liabilities:	
Salaries and wages payable	137,841
Tenant improvement payable-due within one year	106,250
Term loan payable-due within one year	<u>21,755</u>
Total Current Liabilities	265,846
Due to other charter schools	100,000
Tenant improvements payable	230,208
Term loan payable	<u>552,531</u>
Total Long-term Liabilities	882,739
<b><u>Deferred Inflows of Resources</u></b>	<u>-</u>
<b><u>Net Position</u></b>	
Net investment in capital assets and long term receivables	1,973,678
Restricted by lease agreement	244,324
Unrestricted	<u>186,013</u>
Total Net Position	<u>\$ 2,404,015</u>

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

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

Statement of Activities  
For the year ended June 30, 2016

FUNCTIONS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
Instruction	\$ 1,791,118	\$ -	\$ 121,914	\$ -	\$ (1,669,204)
Instructional staff training	1,757	-	-	-	(1,757)
Board	83,100	-	-	-	(83,100)
School administration	920,957	-	-	-	(920,957)
Facilities acquisition	97,639	-	-	-	(97,639)
Fiscal services	106,275	-	-	-	(106,275)
Food services	243,950	24,170	269,555	-	49,775
Central services	158,361	-	-	-	(158,361)
Operation of plant	1,479,820	-	-	165,910	(1,313,910)
Maintenance of plant	94,063	-	-	-	(94,063)
Community services	29,076	-	-	-	(29,076)
<b>Total governmental activities</b>	<u>5,006,116</u>	<u>24,170</u>	<u>391,469</u>	<u>165,910</u>	<u>(4,424,567)</u>
General revenues:					
FTE nonspecific revenues					4,415,618
Interest and other revenue					<u>136,066</u>
Change in net position					127,117
Net position, beginning					<u>2,276,898</u>
Net position, ending					<u>\$ 2,404,015</u>

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

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

Balance Sheet - Governmental Funds  
June 30, 2016

	General Fund	Special Revenue Fund	Total Governmental Funds
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 351,324	\$ -	\$ 351,324
Investments	158,707	-	158,707
Due from other agencies	-	10,679	10,679
Due from fund	10,679	-	10,679
Prepaid expenses	147,468	-	147,468
Total Assets	<u>668,178</u>	<u>10,679</u>	<u>678,857</u>
<b><u>Deferred Outflows of Resources</u></b>			
	-	-	-
<b><u>Liabilities</u></b>			
Salaries and wages payable	137,841	-	137,841
Due to fund	-	10,679	10,679
Total Liabilities	<u>137,841</u>	<u>10,679</u>	<u>148,520</u>
<b><u>Deferred Inflows of Resources</u></b>			
	-	-	-
<b><u>Fund Balance</u></b>			
Nonspendable, not in spendable form	147,468	-	147,468
Restricted	244,324	-	244,324
Unassigned	138,545	-	138,545
	<u>530,337</u>	<u>-</u>	<u>530,337</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 668,178</u>	<u>\$ 10,679</u>	<u>\$ 678,857</u>

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

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

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position  
For the year ended June 30, 2016

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Total Fund Balance - Governmental Funds	\$ 530,337
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of \$4,690,754 net of accumulated depreciation of \$1,833,716 used in governmental activities are not financial resources and therefore are not reported in the fund.	2,857,038
Long term liabilities in governmental activities are not financial resources and therefore are not reported in the governmental funds.	(1,010,744)
Long term receivables from other charter schools in governmental activities are not financial resources and therefore are not reported in the governmental funds.	<u>27,384</u>
Total Net Position - Governmental Activities	<u>\$ 2,404,015</u>

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

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

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds  
For the year ended June 30, 2016

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>Revenues:</b>			
State capital outlay funding	\$ -	\$ 165,910	\$ 165,910
State passed through local	4,415,618	-	4,415,618
Federal sources	-	391,469	391,469
Lunch program	-	24,170	24,170
Charges for services and other revenue	136,066	-	136,066
<b>Total Revenues</b>	<b>4,551,684</b>	<b>581,549</b>	<b>5,133,233</b>
<b>Expenditures:</b>			
<b>Current</b>			
Instruction	1,564,246	121,914	1,686,160
Board	83,100	-	83,100
Instructional media services	-	-	-
Instructional staff training	1,757	-	1,757
School administration	920,957	-	920,957
Facilities acquisition	-	-	-
Fiscal services	106,275	-	106,275
Food services	-	235,010	235,010
Central services	158,361	-	158,361
Operation of plant	1,283,508	165,910	1,449,418
Maintenance of plant	78,133	-	78,133
Community Services	29,076	-	29,076
<b>Capital Outlay:</b>			
Other capital outlay	746,516	-	746,516
<b>Debt service:</b>			
Repayment of long-term debt	101,586	-	101,586
<b>Total Expenditures</b>	<b>5,073,515</b>	<b>522,834</b>	<b>5,596,349</b>
<b>Excess (deficit) of revenues over expenditures</b>	<b>(521,831)</b>	<b>58,715</b>	<b>(463,116)</b>
Other financing sources (uses)	425,000	-	425,000
Transfers in (out)	58,715	(58,715)	-
Receipts from long term receivables	131,808	-	131,808
<b>Net change in fund balance</b>	<b>93,692</b>	<b>-</b>	<b>93,692</b>
Fund Balance at beginning of year	436,645	-	436,645
<b>Fund Balance at end of year</b>	<b>\$ 530,337</b>	<b>\$ -</b>	<b>\$ 530,337</b>

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

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities  
For the year ended June 30, 2016

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Net Change in Fund Balance - Governmental Funds \$ 93,692

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 \$746,516 exceeded depreciation expense of \$257,869. 488,647

Increase in long term payables is a resource in the governmental funds, but a increases of such increases long-term liabilities in the statement of net position. This is the amount by which increase in long-term payable of \$425,000 exceeded repayments of \$101,586 in the current period. (323,414)

Increase in long term receivables is an expenditure in the governmental funds, but a decrease or collections of such receivables reduces long-term assets in the statement of net position. This is the amount by which increase in long-term receivables of \$0 differed from collections of \$131,808 in the current period. (131,808)

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Change in Net Position of Governmental Activities \$ 127,117

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

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

Statement of Net Position - Fiduciary Funds  
June 30, 2016

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	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash	\$ 147,142
Total Assets	<u>147,142</u>
<b><u>Deferred Outflows of Resources</u></b>	
	<u>-</u>
<b><u>Liabilities</u></b>	
Due to students and clubs	147,142
Total Liabilities	<u>147,142</u>
<b><u>Deferred Inflows of Resources</u></b>	
	<u>-</u>
<b><u>Net Position</u></b>	
	<u>\$ -</u>

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

## **Note 1 – Summary of Significant Accounting Policies**

### Reporting Entity

Somerset Academy at Silver Palms (the "School"), is a charter school sponsored by the School Board of Miami-Dade County, Florida (the "District"). The School's charter is held by Somerset Academy, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, Not-For-Profit Corporation Act. The governing body of the School is the board of directors of Somerset Academy, Inc., which is composed of nine members and also governs other charter schools. The board of directors has determined that no component units exist that would require inclusion in the School's financial statements.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter granted by the sponsoring district, the School Board of Miami-Dade County, Florida. The current charter expires on June 30, 2031 and is renewable for an additional term pursuant to law and/or by a mutual written agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under the grounds specified in the charter in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may terminate the charter if good cause is shown.

The School is located in Miami, Florida for students from grades kindergarten through eighth and is funded by the District. These financial statements are for the year ended June 30, 2016, when approximately 706 students were enrolled for the school year.

### Basis of Presentation

The School's accounting policies conform to accounting principles generally accepted in the United States as applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School does not have any items that qualify for reporting in this category.

**Note 1 – Summary of Significant Accounting Policies (continued)**

Government-wide and Fund Financial Statements

*Government – wide Financial Statements*

The government-wide financial statements include the statement of net position and the statement of activities. These statements report information about the School as a whole. Any internal interfund activity has been eliminated from these financial statements. Both statements report only governmental activities as the School does not engage in any business type activities. These statements also do 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 such as the National School Lunch Program, Federal grants, and other state allocations; and (3) capital grants specific to capital outlay. Other revenue sources not properly included with program revenues are reported as general revenues.

*Fund Financial Statements*

Fund financial statements are provided for governmental and fiduciary funds, even though the fiduciary funds are not included in the government-wide financial statements. The operations of the funds are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 revenue, such as capital outlay funding and federal lunch program that are legally restricted to expenditures for particular purposes.

*Agency Fund* – School's internal funds accounts for resources of the school's 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) *Codification of Accounting and Financial Reporting Guidance*.

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.

The School recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met.

**Note 1 – Summary of Significant Accounting Policies (continued)**

Revenues are recognized, on the modified accrual basis, when they are measurable and available. Non-exchange transactions occur when the school provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. Most donations are examples of non-exchange transactions. Revenues from grants and donations are recognized on the accrual basis, 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 liabilities of the current period. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Florida Education Finance Program (FEFP) revenues are recognized when received. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Charges for services and fees are recognized when cash is collected as amounts are not measurable. When grant terms provide that the expenditure of funds is the prime factor for determining eligibility for federal, state, and other grant funds, revenue is recognized at the time the expenditure is made. 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.

Agency fund assets and liabilities are accounted for on the accrual basis of accounting.

Budgets and Budgetary Accounting

In compliance with Florida Statutes, the Board of Directors adopts an annual budget using the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g. salaries and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g. instruction, pupil personnel services and school administration). Revisions to the annual budget are approved by the Board.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, non-marketable time deposits with maturities of three months or less when purchased, and money market/savings accounts. The School has not adopted a formal investment policy; however the School invests excess deposit funds in a government money market mutual fund. The School has adopted GASB No. 72 *Fair Value Measurement and Application* (see Note 3).

Inter-fund Transfers

Outstanding balances between funds are reported as “due to/from” other funds. Inter-fund transfers are made to move any excess or shortage of funds derived from the National School Lunch Program from the Special Revenue Fund to the General Fund.

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.

**Note 1 – Summary of Significant Accounting Policies (continued)**

Long –Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

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 position 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:

Building & Improvements	20 Years
Furniture, Equipment and Software	5 Years
Textbooks	3 Years

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. Employees may 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.

GASB Codification Section C60, *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 matters 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 1 – Summary of Significant Accounting Policies (continued)**

Revenue Sources

Revenues for current operations are received primarily from the State through 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 FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. After review and verification of FTE reports and supporting documentation, the FDOE may adjust subsequent fiscal period allocations of FEFP funding for prior year errors disclosed by its review as well as to prevent statewide allocations from exceeding the amount authorized by the Legislature. Normally, such adjustments are treated as reductions of revenue in the year the adjustment is made.

In addition, the School receives state funds through the District under charter school capital outlay funding pursuant to Section 1013.62, Florida Statutes. Funds are based on a capital outlay plan submitted to the District and are to be used for lease of school facilities.

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

Net Position and Fund balance classifications

*Government-wide financial statements*

Equity is classified as net position and displayed in three (3) components:

- a) Net investment in capital assets and long-term receivables - consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition or improvement of those assets and long-term receivables.
- b) Restricted net position - consists of balances with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments. Restricted net position of the School relate to reserves required by the landlord for property maintenance and repairs.
- c) Unrestricted net position - all other balances that do not meet the definition of "restricted" or "invested in capital assets and long term receivables."

**Note 1 – Summary of Significant Accounting Policies (continued)**

*Fund financial statements*

Under GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

- a) Nonspendable - includes amounts that cannot be spent because they are either not spendable form or legally or contractually required to be maintained intact. Consists of fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
- b) Restricted - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Restricted fund balance of the School relate to reserves required by the landlord for property maintenance and repairs.
- c) Committed - fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School's Board of Directors. There are no committed fund balances at year end.
- d) Assigned - fund balance classification are intended to be used by the School's management for specific purposes but do not meet the criteria to be classified as restricted or committed. There are no assigned fund balances at year end.
- e) Unassigned - portion of the fund balance that has not been restricted, committed or assigned for a specific purpose. This is the residual classification for the School's general fund.

Order of Fund Balance Spending Policy

The School's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries. First Non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

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.

Somerset Academy at Silver Palms  
(A charter school under Somerset Academy, Inc.)  
Notes to Financial Statements  
June 30, 2016

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**Note 1 – 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 Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through August 29, 2016, which is the date the financial statements were available to be issued.

**Note 2 –Capital Assets**

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the period ended June 30, 2016:

	Balance 07/01/15	Additions	Transfers	Balance 06/30/16
Capital Assets:				
Land, buildings and improvements	\$ 2,430,566	\$ 452,363	\$ -	\$ 2,882,929
Computer equipment and software	150,186	56,869	-	207,055
Furniture, equipment and textbooks	1,363,486	237,284	-	1,600,770
Total Capital Assets	<u>3,944,238</u>	<u>746,516</u>	<u>-</u>	<u>4,690,754</u>
Less Accumulated Depreciation:				
Buildings and improvements	(250,631)	(113,400)	-	(364,031)
Computer equipment and software	(123,210)	(21,355)	-	(144,565)
Furniture, equipment and textbooks	(1,202,006)	(123,114)	-	(1,325,120)
	<u>(1,575,847)</u>	<u>(257,869)</u>	<u>-</u>	<u>(1,833,716)</u>
Capital Assets, net	<u>\$ 2,368,391</u>	<u>\$ 488,647</u>	<u>\$ -</u>	<u>\$ 2,857,038</u>

For the fiscal year ended June 30, 2016, depreciation expense is allocated in the Statement of Activities by function as follows:

Instruction	\$ 104,958
Facilities acquisition	97,639
Food service	8,940
Operation of plant	30,402
Maintenance of plant	15,930
Total Depreciation Expense	<u>\$ 257,869</u>

### **Note 3 – Cash, Cash Equivalents and Investments**

#### Deposits

The School maintains its cash and cash equivalents in two financial institutions. As of June 30, 2016, the School's deposits consisted of cash balances of \$526,225.

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, 2016, bank balances in potential excess of FDIC coverage was approximately \$795,000; including fiduciary account bank balances.

#### Investments

The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in markets for identical assets; Level 2 inputs are significant other observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.); Level 3 inputs are significant unobservable inputs.

At June 30, 2016, the School has the following recurring fair value measurements:

- Government money market mutual fund of \$340,000 valued using Level 2 inputs.

The government money market mutual fund values its portfolio securities at amortized cost which approximates fair value. The government money market mutual fund primarily invests in cash, high quality, short-term U.S. government securities and/or repurchase agreements that are collateralized fully by government securities that have been valued by the fund as Level 2. As of January 1, 2016, the fund's annual report, maturities of the fund's portfolio holdings are approximately 83% within 30 days.

#### Credit Risk

*Concentration of credit risk* is the risk of loss attributed to the magnitude of investments in a single issuer. The School manages its exposure to credit risk by limiting investments to highly rated government money market mutual funds. The fund is rated Aaa-mf by Moody's.

*Custodial credit risk* is the risk that in the event of a failure of a depository financial institution or counterparty that is in possession of investment or collateral securities, the School will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

**Note 3 – Cash, Cash Equivalents and Investments (continued)**

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the School will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. At June 30, 2016, all of the School's investments in government money market mutual funds were held in a separate account and designated as assets of the School.

*Interest rate risk* is the risk that changes in interest rate will adversely affect the fair value of an investment. The School manages its exposure to declines in fair values by limiting all investments to government money market mutual funds that can be redeemed daily.

**Note 4 – Education Services and Support Provider Agreement**

Academica Dade, LLC, a professional education service and support provider, offers 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 and virtual education services. The agreement calls for a fee on a per student basis. The agreement is with Somerset Academy, Inc. for a period of five years, through June 30, 2021, and unless terminated by the board shall be renewed along with any renewals to the charter agreement. During the year ended June 30, 2016, the School incurred approximately \$318,825 in fees.

Academica Dade, LLC is located at 6340 Sunset Drive, Miami, Florida 33143.

**Note 5 – Transactions with other divisions of Somerset Academy, Inc.**

The School leases two facilities. One is shared with Somerset Academy Charter High School and Somerset Academy High School (South Campus) and the other is shared with Somerset Preparatory Academy at Silver Palms (all are charter schools under Somerset Academy, Inc.). As a result, certain activities such as fundraising activities are recorded in the books of the School and not in those of the other charter schools. During the year, Somerset Academy Charter High School, Somerset Academy High School (South Campus) and Somerset Preparatory Academy at Silver Palms paid \$504,791, \$43,032 and \$189,754, respectively in rent payments directly to the landlords.

The School also has long-term receivables from Somerset Preparatory Academy at Silver Palms for \$27,384 and a long-term payable to Somerset Academy Charter High School for \$100,000. These are School's under Somerset Academy, Inc.

Somerset Academy at Silver Palms  
(A charter school under Somerset Academy, Inc.)  
Notes to Financial Statements  
June 30, 2016

**Note 5 – Transactions with other divisions of Somerset Academy, Inc. (continued)**

The following summarizes the activity during the year.

	Balance 07/01/15	Additions	Deletions	Balance 06/30/16
Somerset Preparatory Silver Palms	\$ 127,384	\$ -	\$ 100,000	\$ 27,384
Somerset City Arts	31,808	-	31,808	-
Total Long Term Receivables	<u>\$ 159,192</u>	<u>\$ -</u>	<u>\$ 131,808</u>	<u>\$ 27,384</u>

	Balance 07/01/15	Additions	Deletions	Balance 06/30/16
Somerset High Dade (LT)	\$ 100,000	\$ -	\$ -	\$ 100,000
	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000</u>

Somerset Academy, Inc. (the “Corporation”) charges an assessment to all of its affiliated schools for shared corporate costs and accreditation expenses. During 2016, the School paid \$70,850 to the Corporation for these shared costs.

The school received a recoverable grant from the Corporation in 2012 with repayment contingent on the school subsequently meeting certain financial conditions. To date, management has determined that the school has not met the requirements for repayment under the grant terms. The maximum amount the School may be required to pay in the future should the school meet the requirements for repayment is \$275,000.

The School’s lunch program is shared with various schools. Revenues and expenses related to such program have been allocated based on FTE equivalent for purposes of presentation in the financial statements.

**Note 6 – Long Term Debt**

Somerset Academy, Inc. obtained a term loan from Region’s Bank in the amount of \$600,000. This note matures on March 12, 2020 and accrues interest at 3.60%. This note is secured by the School’s assets:

	Balance 07/01/15	Additions	Deletions	Balance 06/30/16
Regions term loan	\$ 587,330	\$ -	\$ 13,044	\$ 574,286
	<u>\$ 587,330</u>	<u>\$ -</u>	<u>\$ 13,044</u>	<u>\$ 574,286</u>

Interest expense for the year ended June 30, 2016 was approximately \$26,936.

Future minimum principal payments under the term loan are as follows:

<u>Year</u>	
2017	\$21,755
2018	\$22,552
2019	\$23,377
2020	\$506,602

**Note 7 – Commitments, Contingencies and Concentrations**

The School’s shares one of its two facilities with Somerset Academy Charter High School and Somerset Academy High School (South Campus) (charter schools under Somerset Academy, Inc.). The School entered into a lease and security agreement with Southwestern Grant, LLC (the “Landlord”) for this 70,685 square feet building including all ancillary facilities, outdoor areas and other improvements. The Landlord is an affiliate of the School’s educational service provider (See Note 4). Initial fixed annual payments under this agreement (based on \$19.10 per square foot) are approximately \$1,350,084 adjusted annually based on the Consumer Price Index (“CPI”) plus additional property costs including repairs, maintenance and insurance. The agreement continues through July 31, 2027 with an option to renew for an additional five-year term. Under the agreement, the School must meet certain covenants and requirements, including a “Lease Payment Coverage Ratio” of not less than 1.10 to 1.00 and maintaining a reserve for property expenses such as repairs, maintenance, taxes or insurance. Finally, under this agreement the School has granted a first lien on its pledged revenues, which include all revenues collected by the school from the Florida Department of Education, the District, and all other sources.

Lease payments are allocated between the three schools based on enrollment and usage of facility. The allocation used for 2016, was 66% for the School, 31% for Somerset Academy Charter High School and 3% for Somerset Academy High School (South Campus). Future minimum payments for the full lease are as follows:

<u>Year</u>	<u>Southwestern Grant LLC</u>
2017	\$1,554,891
2018	\$1,554,891
2019	\$1,554,891
2020	\$1,554,891
2021	\$1,554,891
2022-2026	\$7,774,455 (total for five year period)
2027	\$1,554,891

The School shares a second facility with Somerset Preparatory Academy at Silver Palms (a charter schools under Somerset Academy, Inc.) and shares in the related lease entered into with Southwestern Grant II, LLC (Phase II). This lease includes a 21,058 square feet building including all ancillary facilities, outdoor areas and other improvements. The Landlord is an affiliate of the School's education services and support provider. (See Note 4). Initial fixed annual payments under this agreement (based on \$19.12 per square foot) are approximately \$402,629 adjusted annually based on the greater of 3% or the Consumer Price Index (CPI) plus additional property costs including repairs, maintenance and insurance. The agreement continues through July 31, 2031 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.

Somerset Academy at Silver Palms  
(A charter school under Somerset Academy, Inc.)  
Notes to Financial Statements  
June 30, 2016

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

Lease payments are allocated between the two schools based on enrollment and usage of facility. The allocation used for 2016, was 47% for the School and 53% for Somerset Preparatory Academy at Silver Palms. Future minimum payments for the full lease are as follows:

<u>Year</u>	<u>Southwestern Grant LLC Phase II</u>
2017	\$427,149
2018	\$427,149
2019	\$427,149
2020	\$427,149
2021	\$427,149
2022-2026	\$2,135,745 (total for five year period)
2027-2031	\$2,135,745 (total for five year period)

Under the agreement, the School will reimburse the landlord for tenant improvements. As of June 30, 2016, the School capitalized approximately \$425,000 of tenant improvements, of which approximately \$336,458 were payable at year end. The following summarizes the activity in the tenant improvement liability.

	<u>Balance</u> <u>07/01/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/16</u>
Due to landlord	\$ -	\$ 425,000	\$ 88,542	\$ 336,458
	\$ -	\$ 425,000	\$ 88,542	\$ 336,458

Future minimum principal payments for the tenant improvement are as follows:

<u>Year</u>	
2017	\$106,250
2018	\$106,250
2019	\$106,250
2020	\$17,708

For 2016, rent expense for all leases totaled \$1,185,158. The School had prepaid rent expense of approximately \$101,566 at June 30, 2016.

Contingencies

The School receives substantially all of its funding from the District under the Florida Education Finance Program (FEFP), which is based in part on a computation of the number of full-time equivalent (FTE) students attending different instructional programs. The accuracy of FTE student data submitted by individual schools and used in the FEFP computations is subject to audit by the state and, if found to be in error, could result in refunds to the state or in decreases to future funding allocations. Additionally, the School participates in a number of federal, state and local grants which are subject to financial and compliance audits. It is the opinion of management that the amount of revenue, if any, which may be remitted back to the state due to errors in the FTE student data or the amount of grant expenditures which may be disallowed by grantor agencies would not be material to the financial position of the School.

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

The School participates in a number of Federal and State grant programs which are subject to audit in accordance with Office of Management and Budget Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations”. The School expects such expenditures, if any, which may be disallowed by the granting agencies to be immaterial.

Pursuant to the Charter School contract with the School District, the District withholds an administrative fee of 2% of the qualifying revenues of the School. For the year ended June 30, 2016, administrative fees withheld by the School District totaled \$31,155.

**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**

Post-retirement Benefits

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 will up to 2% of the employee’s compensation. The School contributed to the Plan \$13,189 for the year ended June 30, 2016 . 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 at Silver Palms  
(A charter school under Somerset Academy, Inc.)

Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the year ended June 30, 2016

	General Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
State passed through local	\$ 4,385,040	\$ 4,406,048	\$ 4,415,618
Charges and other revenue	141,600	136,000	136,066
Total Revenues	<u>4,526,640</u>	<u>4,542,048</u>	<u>4,551,684</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	1,570,000	1,573,385	1,564,246
Instructional Staff Training	18,000	18,119	1,757
Board	99,800	91,850	83,100
School Administration	940,743	930,000	920,957
Fiscal Services	106,200	106,275	106,275
Central Services	163,850	160,654	158,361
Operation of Plant	1,284,215	1,284,000	1,283,508
Maintenance of Plant	80,000	80,000	78,133
Community Services	30,000	30,000	29,076
Total Current Expenditures	<u>4,292,808</u>	<u>4,274,283</u>	<u>4,225,413</u>
Excess of Revenues Over Current Expenditures	<u>233,832</u>	<u>267,765</u>	<u>326,271</u>
Debt Service:			
Redemption of Principal	100,000	101,586	101,586
Capital Outlay	<u>300,000</u>	<u>750,000</u>	<u>746,516</u>
Other Capital Outlay			
Total Capital Outlay and Debt Service Expenditures	<u>400,000</u>	<u>851,586</u>	<u>848,102</u>
Total Expenditures	<u>4,592,808</u>	<u>5,024,283</u>	<u>5,073,515</u>
Excess of Revenues Over Expenditures	(66,168)	(482,235)	(521,831)
Other financing sources (uses):			
Other financing sources (uses)	-	425,000	425,000
Transfers in (out)	36,536	25,000	58,715
Receipts from long term receivables	<u>130,000</u>	<u>131,808</u>	<u>131,808</u>
Net change in fund balance	100,368	99,573	93,692
Fund Balance at beginning of year	<u>436,645</u>	<u>436,645</u>	<u>436,645</u>
Fund Balance at end of year	<u>\$ 537,013</u>	<u>\$ 536,218</u>	<u>\$ 530,337</u>

Notes to Budgetary Comparison Schedule

An annual budget is adopted on the modified accrual basis of accounting, consistent with generally accepted accounting principles. Amendments to the budget can only be made with the approval of the Board of Directors.

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

Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the year ended June 30, 2016

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
State capital outlay funding	\$ 141,600	\$ 166,000	\$ 165,910
Federal sources	376,164	391,914	391,469
Lunch program	25,000	25,000	24,170
Total Revenues	<u>542,764</u>	<u>582,914</u>	<u>581,549</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	121,914	121,914	121,914
Food services	242,714	270,000	235,010
Operation of Plant	141,600	166,000	165,910
Total Current Expenditures	<u>506,228</u>	<u>557,914</u>	<u>522,834</u>
Excess of Revenues Over Current Expenditures	<u>36,536</u>	<u>25,000</u>	<u>58,715</u>
Capital Outlay			-
Total Expenditures	<u>506,228</u>	<u>557,914</u>	<u>522,834</u>
Excess of Revenues Over Expenditures	36,536	25,000	58,715
Other financing sources (uses)			
Transfers in (out)	<u>(36,536)</u>	<u>(25,000)</u>	<u>(58,715)</u>
Net change in fund balance	-	-	-
Fund Balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Budgetary Comparison Schedule

An annual budget is adopted on the modified accrual basis of accounting, consistent with generally accepted accounting principles. Amendments to the budget can only be made with the approval of the Board of Directors.

INDEPENDENT AUDITOR'S 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*

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

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Somerset Academy at Silver Palms (the "School") as of, and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

*A deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

We noted certain matters that we reported to management of Somerset Academy at Silver Palms in a separate management letter dated August 29, 2016 pursuant to Chapter 10.850, Rules of the Auditor General.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 29, 2016



CERTIFIED PUBLIC ACCOUNTANTS

## MANAGEMENT LETTER

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

### **Report on the Financial Statements**

We have audited the financial statements of the governmental activities and each major fund of Somerset Academy at Silver Palms as of and for the year ended June 30, 2016 and have issued our report thereon dated August 29, 2016.

### **Auditor's Responsibility**

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; and Chapter 10.850, Rules of the Auditor General

### **Other Reports and Schedules**

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosure in those reports, which are dated August 29, 2016, should be considered in conjunction with this management letter.

### **Prior Audit Findings**

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 or recommendation made in the preceding annual financial audit report.

### **Official Title**

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Somerset Academy at Silver Palms.

### **Financial Condition**

Sections 10.854(1)(e)2, Rules of the Auditor General, requires that we report the results of our determination as to whether or not Somerset Academy at Silver Palms has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that Somerset Academy at Silver Palms did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

## **Financial Condition (Continued)**

Pursuant to Sections 10.854(1)(e)6.a and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for Somerset Academy at Silver Palms. It is management's responsibility to monitor Somerset Academy at Silver Palms's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. We have applied such procedures as of the fiscal year end and no deteriorating financial condition has been noted.

## **Transparency**

Sections 10.854(1)(e)7 and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether Somerset Academy at Silver Palms maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that Somerset Academy at Silver Palms maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

## **Other Matters**

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 have the following finding and recommendation.

### **ML 16-01 – INTERNAL ACCOUNT**

#### Observation

We noted that during the first part of the school year from approximately July 2015 to October 2015, the School's treasurer was not reconciling, in a timely manner, the on-line deposits to the internal account bank statement. As a result, the documentation provided to support deposits could not be traced to the bank statements. In some cases, documentation to support deposits was missing or not provided.

#### Recommendation

It was determined that the School addressed this matter by replacing the treasurer responsible for this matter and it was noted in our audit that subsequent to such replacement, deposits were properly and timely supported and reconciled to the bank statements. Accordingly, our only recommendation is for a third person to periodically perform an internal spot check of activity to determine that the new treasurer continues to apply the established controls.

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

**Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and Florida House of Representatives, the Florida Auditor General, School Board of Miami-Dade County, Federal and other granting agencies, the Board of Directors, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Coral Gables, Florida  
August 29, 2016

*HLB Crawley, LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

**Somerset Academy at Silver Palms**

August 30<sup>th</sup>, 2016

HLB Gravier, LLP  
396 Alhambra Circle, 9<sup>th</sup> Floor  
Coral Gables, FL 33134

RE: MANAGEMENT'S RESPONSE TO AUDITOR'S RECOMMENDATION

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

**ML 16-01 – INTERNAL ACCOUNT**

**Recommendation**

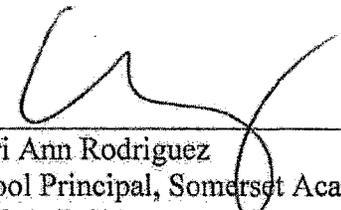
It was determined that the School addressed this matter by replacing the Treasurer responsible for this matter and it was noted in our audit that subsequent to such replacement, deposits were properly and timely supported and reconciled to the bank statements. Accordingly, our only recommendation is for a third person to periodically perform an internal spot check of activity to determine that the new Treasurer continues to apply the established controls.

**Management Response**

Management will adhere to Auditor's recommendation and shall perform a periodic internal spot check of activity to ensure that the Treasurer continues to adhere to established controls.

Sincerely,

  
\_\_\_\_\_  
Lourdes Isla  
Board Chair, Somerset Academy, Inc.

  
\_\_\_\_\_  
Kerri Ann Rodriguez  
School Principal, Somerset Academy  
at Silver Palms