

Somerset Oaks Academy
(A charter school under Somerset Academy, Inc.)
**(A Charter School and Component Unit
of the School Board of Miami Dade County, Florida)**

Homestead, Florida

Financial Statements and
Independent Auditors' Report

June 30, 2014

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Somerset Oaks Academy
(A charter school under Somerset Academy, Inc.)
W/L # 3033
47 NW 16th Street
Homestead, Fl 33030

2013-2014

BOARD OF DIRECTORS

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SCHOOL ADMINISTRATION

Idalia Suarez, Principal



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Somerset Oaks Academy
Homestead, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Somerset Oaks Academy (the "School"), a charter school under Somerset Academy, Inc., which is a component unit of the District School Board of Miami-Dade County, as of, and for the year ended June 30, 2014, 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 Oaks Academy at June 30, 2014, 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 Oaks Academy at June 30, 2014, 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, 2014 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, 2014, 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 25 through 26 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, 2014

Management's Discussion and Analysis
Somerset Oaks Academy
(A charter school under Somerset Academy, Inc.)
June 30, 2014

The corporate officers of Somerset Oaks Academy have prepared this narrative overview and analysis of the school's financial activities for the period ended June 30, 2014.

Financial Highlights

1. The net position of the School at June 30, 2014 was \$243,022.
2. At year-end, the School had current assets on hand of \$114,845.
3. The School had an increase in its net position of \$41,944 for the period ended June 30, 2014.
4. The unassigned fund balance at year end was \$114,845.

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, 2014 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 – 14 of this report.

Notes to Financial Statements

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

The notes to the financial statements can be found on pages 15 - 24 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 \$243,022 at the close of the fiscal year. A summary of the School's net position as of June 30, 2014 and 2013 follows:

	2014	2013
Cash and cash equivalents	\$ 112,208	\$ 44,839
Due from other agencies	2,637	1,234
Capital Assets, net	128,177	155,005
Total Assets	243,022	201,078
Deferred outflows of resources	-	-
Accounts Payable	-	-
Total Liabilities	-	-
Deferred inflows of resources	-	-
Net Position:		
Net investment in capital assets	128,177	155,005
Unrestricted	114,845	46,073
Total Net Position	\$ 243,022	\$ 201,078

At the end of the year, 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 years ended through June 30, 2014 and 2013 follows:

	2014	2013
REVENUES		
Program Revenues		
Operating Grants and Contributions	\$ 1,776	\$ 236,155
Capital Outlay Funding	28,083	12,997
Lunch Program	13,907	2,950
General Revenues		
Local Sources(FTE non specific)	465,349	339,382
Other Revenues	-	-
Total Revenues	\$ 509,115	\$ 591,484
EXPENSES		
Component Unit Activities:		
Instruction	\$ 230,576	\$ 273,570
Instructional staff training	1,282	-
Board	9,752	7,406
School administration	116,109	50,621
Facilities acquisition	-	-
Fiscal services	10,200	7,950
Food services	16,794	16,658
Central services	10,200	7,950
Operation of plant	69,942	60,074
Maintenance of plant	2,316	-
Total Expenses	467,171	424,229
Increase in Net Position	41,944	167,255
Net Position at Beginning of Year	201,078	33,823
Net Position at End of Year	\$ 243,022	\$ 201,078

Somerset Oaks Academy's revenues decreased by \$82,369 as a result of no longer qualifying for the continuation grant. FTE non specific funding increased by \$125,967. The state appropriated a per student funding amount slightly larger than the amount appropriated for 2012 -2013 school year. Expenditures increased by \$42,942 as a result of an increase in student enrollment. Somerset Oaks Academy had an increase in its net position of \$ 41,944 for the year.

School Location and Lease of Facility

The School leases a facility located at 47 NW 16th Street, Homestead, Florida 33030.

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 68 students enrolled in grades kindergarten through second grade.

Achievements

In 2014, Somerset Oaks Academy completed its 3rd year, serving 68 students in Kindergarten through 2nd grade. The School, previously nested at the campus of Somerset Arts Conservatory, will launch the 2014-15 school year in its own state of the art facility.

This past year, Somerset Oaks Academy students participated in various community service projects and fundraisers, including Scholastic Book Fair, Food Bank Drive, Food Trucks Event, Technology Fair and Toy Drives. Students also got to participate in clubs such as Student Council, Safety Patrol, National Elementary Honor Society, Lego Club, Soccer, Basketball and Dance, Acro.

As a member of the Somerset Academy network of high quality charter schools, Somerset Oaks is fully accredited by AdvancED under the Southern Association of Colleges and Schools Council on Accreditation and School Improvement (SACS-CASI) division. It is one of only a few public elementary schools in Miami-Dade County to be fully accredited by AdvancEd. As with all the schools within the network, Somerset Oaks 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.

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, 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 \$114,845. The fund balance unassigned and available for spending at the School's discretion is \$114,845. These funds will be available for the School's future ongoing operations.

Capital Assets

The School's investment in capital assets as of June 30, 2014 amounts to \$128,177 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures and computer equipment. As of June 30, 2014, the School had no 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
REVENUES			
Program Revenues			
State capital outlay funding	\$ 28,050	\$ 28,100	\$ 28,083
Federal sources	1,500	1,800	1,776
Lunch program	10,000	14,000	13,907
General Revenues			
FTE nonspecific revenues	404,535	431,025	465,349
Total Revenues	<u>444,085</u>	<u>474,925</u>	<u>509,115</u>
CURRENT EXPENDITURES			
Component Unit Activities			
Instruction	148,345	200,940	199,373
Instructional staff training	1,500	1,500	1,282
Board	10,000	10,000	9,752
School administration	100,000	118,000	116,109
Fiscal services	12,000	10,500	10,200
Food services	10,000	17,000	16,794
Central services	12,000	10,500	10,200
Operation of plant	63,050	70,100	69,942
Maintenance of plant	2,500	2,500	2,316
Total Current Expenditures	<u>\$ 359,395</u>	<u>\$ 441,040</u>	<u>\$ 435,968</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, 6340 Sunset Drive, Miami, Florida 33143.

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

Statement of Net Position
June 30, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 112,208
Due from other agencies	<u>2,637</u>
	114,845

Capital assets, depreciable	179,083
Less: accumulated depreciation	<u>(50,906)</u>
	<u>128,177</u>

Total Assets	<u>243,022</u>
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<u>Deferred Outflows of Resources</u>	<u>-</u>
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Liabilities

Current liabilities:

Accounts payable	<u>-</u>
Total Liabilities	-

<u>Deferred Inflows of Resources</u>	<u>-</u>
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Net Position

Net investment in capital assets	128,177
Unrestricted	<u>114,845</u>
Total Net Position	<u>\$ 243,022</u>

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

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

Statement of Activities
For the year ended June 30, 2014

FUNCTIONS	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 230,576	\$ -	\$ 1,776	\$ -	\$ (228,800)
Instructional staff training	1,282	-	-	-	(1,282)
Board	9,752	-	-	-	(9,752)
School administration	116,109	-	-	-	(116,109)
Facilities acquisition	-	-	-	-	-
Fiscal services	10,200	-	-	-	(10,200)
Food services	16,794	13,907	-	-	(2,887)
Central services	10,200	-	-	-	(10,200)
Operation of plant	69,942	-	-	28,083	(41,859)
Maintenance of plant	2,316	-	-	-	(2,316)
Total governmental activities	467,171	13,907	1,776	28,083	(423,405)
General revenues:					
FTE nonspecific revenues					465,349
Interest and other revenue					
Change in net position					41,944
Net position , beginning					201,078
Net position, ending					<u>\$ 243,022</u>

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

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

Balance Sheet - Governmental Funds
June 30, 2014

	General Fund	Special Revenue Fund	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 112,208	\$ -	\$ 112,208
Due from other agencies	-	2,637	2,637
Due from fund	2,637	-	2,637
Total Assets	114,845	2,637	117,482
<u>Deferred Outflows of Resources</u>	-	-	-
<u>Liabilities</u>			
Accounts payable	-	-	-
Due to fund	-	2,637	2,637
Total Liabilities	-	2,637	2,637
<u>Deferred Inflows of Resources</u>	-	-	-
<u>Fund balance</u>			
Nonspendable, not in spendable form	-	-	-
Unassigned	114,845	-	114,845
	114,845	-	114,845
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 114,845	\$ 2,637	\$ 117,482

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

Somerset Oaks Academy
(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, 2014

Total Fund Balance - Governmental Funds	\$ 114,845
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets of \$179,083 net of accumulated depreciation of \$50,906 used in governmental activities are not financial resources and therefore are not reported in the fund.	<u>128,177</u>
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Total Net Position - Governmental Activities	<u>\$ 243,022</u>
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The accompanying notes are an integral
part of this financial statement.

Somerset Oaks 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, 2014

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
State capital outlay funding	\$ -	\$ 28,083	\$ 28,083
State passed through local	465,349	-	465,349
Federal sources	-	1,776	1,776
Lunch program	-	13,907	13,907
Total Revenues	465,349	43,766	509,115
Expenditures:			
Current			
Instruction	197,597	1,776	199,373
Board	9,752	-	9,752
Instructional staff training	1,282	-	1,282
School administration	116,109	-	116,109
Facilities acquisition	-	-	-
Fiscal services	10,200	-	10,200
Food services	-	16,794	16,794
Central services	10,200	-	10,200
Operation of plant	41,859	28,083	69,942
Maintenance of plant	2,316	-	2,316
Capital Outlay:			
Other capital outlay	4,375	-	4,375
Total Expenditures	393,690	46,653	440,343
Excess (deficit) of revenues over expenditures	71,659	(2,887)	68,772
Other financing sources (uses)			
Transfers in (out)	(2,887)	2,887	-
Net change in fund balance	68,772	-	68,772
Fund Balance at beginning of year	46,073	-	46,073
Fund Balance at end of year	\$ 114,845	\$ -	\$ 114,845

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

Somerset Oaks 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, 2014

Net Change in Fund Balance - Governmental Funds	\$ 68,772
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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 \$4,374 exceeded depreciation expense of \$31,202.	(26,828)
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Change in Net Position of Governmental Activities	\$ 41,944

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

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Somerset Oaks Academy (the "School"), is a component unit of 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, Florida Not-For-Profit Corporation Act. The governing body of the School is the board of directors of Somerset Academy, Inc., which is composed of ten members and also governs other charter schools.

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, 2015 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 charters expiration. During the term of the charter, the District may terminate the charter if good cause is shown.

The School is located in Homestead, Florida for students from kindergarten through eighth grade and is funded by the District. These financial statements are for the year ended June 30, 2014, when approximately 68 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.

New Accounting Pronouncements

For the year ended June 30, 2013, the School implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." GASB 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. Deferred outflows of resources represent consumption of resources that is applicable to future reporting periods that will be reported in a separate section after assets. Deferred inflows of resources represent acquisition of resources that is applicable to future reporting periods that will be reported in a separate section after liabilities. This change was incorporated in the School's financial statements; however there was no effect on beginning net position/fund balance.

Additionally, the School implemented GASB Statement No. 65, "Items previously reported as Assets and Liabilities". GASB 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously report as assets and liabilities. This change was incorporated in the School's financial statements; however there was no effect on beginning net position/fund balance.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-wide and Fund 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 funds. 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.

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. 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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.

Deposits and Investments

All deposits are held in major banks and high grade investments. The School has not adopted a formal investment policy; however the School invests excess deposit funds in collateralized repurchase agreements. Cash and cash equivalents include all highly liquid investments with a maturity of three months or less. All deposits and investments in repurchase agreements are carried at cost plus accrued interest.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

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 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 a 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

Compensated Absences

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

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 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 - 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.
- 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.

Note 1 – Summary of Significant Accounting Policies (continued)

- c) Unrestricted net position - all other balances that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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 list below:

- a) Nonspendable - includes amounts that cannot be spent because they are either not in 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. There are no restricted fund balances at year end.
- 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.

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, 2014, 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, 2014:

	Balance 07/01/13	Additions	Retirements	Balance 06/30/14
Capital Assets:				
Buildings and Improvements	\$ -	\$ -	\$ -	\$ -
Computer equipment and software	118,590	4,277		122,867
Furniture, equipment and textbooks	\$ 56,119	\$ 97	\$ -	\$ 56,216
Total Capital Assets	<u>\$ 174,709</u>	<u>\$ 4,374</u>	<u>\$ -</u>	<u>\$ 179,083</u>
Less Accumulated Depreciation:				
Buildings and Improvements	-	-	-	-
Computer equipment and software	(12,880)	(23,503)		(36,383)
Furniture, equipment and textbooks	(6,824)	(7,699)	-	(14,523)
	<u>(19,704)</u>	<u>(31,202)</u>	<u>-</u>	<u>(50,906)</u>
Capital Assets, net	<u>\$ 155,005</u>	<u>\$ (26,828)</u>	<u>\$ -</u>	<u>\$ 128,177</u>

For the fiscal year ended June 30, 2014, depreciation expense is allocated in the Statement of Activities by function as follows:

Instruction	<u>\$ 31,202</u>
Total Depreciation Expense	<u>\$ 31,202</u>

Note 3 – Deposits and Investments

Deposits

The School maintains its cash and cash equivalents in major banks and in high grade investments. As of June 30, 2014, the bank balance of the School's deposits and investments was \$204,831; of which \$14,831 consisted of bank balances and \$190,000 was fully collateralized under a repurchase agreement with Regions Bank (the "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, 2014, bank balances in potential excess of FDIC coverage totaled \$14,831.

Investments and Credit Risk

Custodial credit risk for deposits is the risk that in the event of a failure of a depository financial institution, 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. 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, 2014, all of the School's investments in repurchase agreements were held as part of the Bank's investment portfolio.

The School has not formally approved an investment policy regarding custodial credit risk; however it mitigates its credit risk by maintaining excess funds available in overnight repurchase agreements. Amounts invested in repurchase agreements are secured obligations collateralized by securities that include: non-callable U.S. Government and Agency Securities; Callable and Structured Agency Securities; Agency Mortgage-Backed Securities guaranteed by a federal agency, Bonds issued by government sponsored enterprises, Freddie Mac and Fannie Mae. Amounts invested in repurchase agreements are not insured by the FDIC and are subject to investment risks, including possible loss of principal invested, and if the Bank fails the School will become a secured creditor and may become an unsecured general creditor to the extent the market value of the securities used as collateral falls below the outstanding amount of repurchase obligations to the School.

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 with Somerset Academy, Inc. for a period of five years, through June 30, 2016, and unless terminated by the board shall be renewed along with any renewals to the charter agreement. During the year ended June 30, 2014, the School incurred approximately \$30,600, in management fees.

Academica Dade, LLC is located at 6340 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 School District and Other Divisions of Somerset Academy, Inc.

The School shares its facilities with Somerset Arts Academy and Somerset Academy Middle School (Country Palms) (other charter schools under Somerset Academy, Inc.). As a result, certain activities such as fundraising and internal fund activities are recorded in the books of Somerset Arts Academy and not by the School. In addition, the school was charged a usage fee by Somerset Arts Academy for use of its facilities, teachers, and resources. The total usage fee paid for the year was approximately \$328,000.

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.

Somerset Academy, Inc. (the "Corporation") charges an assessment to all its affiliated schools for shared corporate costs and accreditation expenses. During 2014, the School paid \$6,800 to the Corporation for these shared costs.

Pursuant to the Charter School contract with the School District, the District withholds an administrative fee of 5% of the qualifying revenues of the School. For the year ended June 30, 2014, administrative fees withheld by the School District totaled \$22,579.

Note 6 – Commitments and Contingencies

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.

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.

Subsequent to year end on August 4, 2014 the school entered into a new lease agreement with Homestead Charter, LLC. Annual payments under this agreement are approximately \$220,000. The school shall pay the organization an amount of \$800 per student per annum, with a minimum annual guarantee of 275 students. The Initial Term of the lease is 5 years beginning on July 1, 2014 and ending June 30, 2019. The school shall have the option to renew the term of this agreement for five (5) additional terms of five (5) years each. Future minimum payments under the lease are as follows:

<u>Year</u>	
2015	220,000
2016	220,000
2017	220,000
2018	220,000
2019	220,000

Note 7 – 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 8 – Defined Contribution Retirement Plan

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 Total Source Retirement Savings Plan, the School will provide a match of 50% up to 4% of employee compensation. Contributions to the plan were \$- for the year ended June 30, 2014. The school does not exercise any control or fiduciary responsibility over the plans' assets.

REQUIRED SUPPLEMENTARY INFORMATION

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2014

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State passed through local	\$ 404,535	\$ 431,025	\$ 465,349
Charges and other revenue			-
Total Revenues	404,535	431,025	465,349
EXPENDITURES			
Current:			
Instruction	146,845	199,140	197,597
Instructional Staff Training	1,500	1,500	1,282
Board	10,000	10,000	9,752
School Administration	100,000	118,000	116,109
Fiscal Services	12,000	10,500	10,200
Food Services			-
Central Services	12,000	10,500	10,200
Operation of Plant	35,000	42,000	41,859
Maintenance of Plant	2,500	2,500	2,316
Community Services			-
Total Current Expenditures	319,845	394,140	389,315
Excess of Revenues			
Over Current Expenditures	84,690	36,885	76,034
Debt Service:			
Redemption of Principal	-	-	-
Capital Outlay	15,000	5,000	4,375
Other Capital Outlay			
Total Capital Outlay and			
Debt Service Expenditures	15,000	5,000	4,375
Total Expenditures	334,845	399,140	393,690
Excess of Revenues Over Expenditures	69,690	31,885	71,659
Other financing sources (uses):			
Transfers in (out)	-	(3,000)	(2,887)
Long term advances to related party			-
Net change in fund balance	69,690	28,885	68,772
Fund Balance at beginning of year	46,073	46,073	46,073
Fund Balance at end of year	\$ 115,763	\$ 74,958	\$ 114,845

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2014

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State capital outlay funding	\$ 28,050	\$ 28,100	\$ 28,083
Federal sources	1,500	1,800	1,776
Lunch program	10,000	14,000	13,907
Total Revenues	39,550	43,900	43,766
EXPENDITURES			
Current:			
Instruction	1,500	1,800	1,776
Food services	10,000	17,000	16,794
Operation of Plant	28,050	28,100	28,083
Total Current Expenditures	39,550	46,900	46,653
Excess of Revenues			
Over Current Expenditures	-	(3,000)	(2,887)
Capital Outlay			-
Total Expenditures	39,550	46,900	46,653
Excess of Revenues Over Expenditures	-	(3,000)	(2,887)
Other financing sources (uses)			
Transfers in (out)	-	3,000	2,887
Net change in fund balance	-	-	-
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	\$ -	\$ -	\$ -

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

Board of Directors of
Somerset Oaks Academy
Homestead, 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 Oaks Academy (the "School") as of, and for the year ended June 30, 2014, 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, 2014.

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 controls. 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 in a separate management letter pursuant to Chapter 10.850, Rules of the Auditor General dated August 29, 2014.

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, 2014

MANAGEMENT LETTER

Board of Directors of
Somerset Oaks Academy
Homestead, Florida

Report on the Financial Statements

We have audited the financial statements of the governmental activities and each major fund of Somerset Oaks Academy as of and for the year ended June 30, 2014 and have issued our report thereon dated August 29, 2014.

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.

Other Reporting Required by *Government Auditing Standards*

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, 2014, 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. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

Financial Condition

Sections 10.854(1)(e)2, and 10.855(11), Rules of the Auditor General, require that we apply appropriate procedures to determine whether or not Somerset Oaks Academy 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 Oaks Academy did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Financial Condition (Continued)

Sections 10.854(1)(e)6.a and 10.855(12), Rules of the Auditor General, require that we apply financial condition assessment procedures for Somerset Oaks Academy. It is management's responsibility to monitor Somerset Oaks Academy 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 apply appropriate procedures to determine whether Somerset Oaks Academy 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 Oaks Academy 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 did not have any such recommendations.

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.

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 Oaks Academy

Status of Prior Year Findings and Recommendations

ML 13-01 – CAPITAL ASSETS

Observation

We noted that the school uses asset manager software to keep track of capital assets and compute depreciation. We noted that there is no procedure to reconcile the capital asset totals in the asset manager to the school's trial balance.

Recommendation

We recommend that the asset manager total be reconciled to the trial balance at least annually.

Status

During the current year audit, we noted that the reconciliation was performed and the asset manager totals agreed to the trial balance.

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 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.

HLB Shavitt, CP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 29, 2014