

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

Financial Statements And
Independent Auditors' Report

June 30, 2008

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

2007-2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Somerset Academy at Silver Palms
Miami, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Somerset Academy at Silver Palms (the "School"), a charter school under Somerset Academy, Inc., a component unit of the District School Board of Miami-Dade County, as of, and for the year ended June 30, 2008, which collectively comprises the School's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements referred to above present only the financial position of Somerset Academy at Silver Palms at June 30, 2008, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of Somerset Academy, Inc.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Somerset Academy, Inc., as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2008, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 4 through 8 and 23 through 24, respectively, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Quinn & Associates, LLP".

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 27, 2008

Management's Discussion and Analysis
Somerset Academy at Silver Palms
(A Charter school Under Somerset Academy, Inc.)
June 30, 2008

The corporate officers of Somerset Academy have prepared this narrative overview and analysis of the school's financial activities for the period ended June 30, 2008

Financial Highlights

1. The assets of the School exceeded its liabilities at June 30, 2008 by \$ 494,349 (net assets).
2. At year-end, the School had current assets on hand of \$ 733,063.
3. The School had an increase in its net assets of \$ 494,349 for the year ended June 30, 2008.

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, 2008 are presented under GASB. 34. The financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

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

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

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

Fund Financial Statements

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

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

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

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

Notes to Financial Statements

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

The notes to the financial statements can be found on pages 16 - 22 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a charter school’s financial position. In the case of the School, assets exceeded liabilities by \$ 494,349 at the close of the fiscal year. A summary of the School’s net assets as of June 30, 2008 follows:

	2008
Cash	\$ 436,205
Prepaid Expenses	41,633
Due from other charter schools	2,956
Due from other agencies	252,269
Capital Assets, net	420,728
Accounts receivable	-
Total Assets	<u>\$ 1,153,791</u>
Accrued Liabilities	578,144
Due to other Schools	2,920
Deposits	78,378
Total Liabilities	<u>\$ 659,442</u>
Invested in Capital Assets, net of related debt	\$ 420,728
Restricted	28,803
Unrestricted	44,818
Total Net Assets	<u>\$ 494,349</u>

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

A summary and analysis of the School's revenues and expenses from inception through June 30, 2008 follows:

	<u>2008</u>
REVENUES	
Program Revenues	
Capital Outlay funding	\$ 476,018
Operating Grants and Contributions	224,105
General Revenues	
FTE nonspecific revenues	4,727,377
Other Revenues	2,582
Charges for services	<u>330,534</u>
Total Revenues	<u>\$ 5,760,616</u>
EXPENSES	
Component Unit Activities:	
Instruction	\$ 2,265,262
Instructional Staff Training Services	5,807
Board	13,138
School Administration	726,809
Fiscal Services	111,450
Food Services	302,136
Central Services	114,390
Operation of Plant	1,551,608
Community Services	101,835
Maintenance of Plant	<u>73,832</u>
Total Expenses	<u>5,266,267</u>
Increase in Net Assets	494,349
Net Assets at Beginning of Year	-
Net Assets at End of Year	<u>\$ 494,349</u>

The 2007-2008 school year was the first year of operation for the School. Accordingly, the financial statement has no comparison with prior year results. Comparative analysis will be provided in future years when prior year information is available.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND

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

Governmental Funds

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

At the end of the fiscal year, the School's governmental fund reported a fund balance of \$ 73,621.

Achievements

Somerset Academy (Silver Palms) opened in 2008 with 800 students in grades K- 8. In only its first year of operation, the School earned a letter grade of "B," and was a few points shy of receiving an "A." Somerset provides its students with a rigorous curriculum, as well as an extra-curricular program of activities, including team sports and clubs. In only its first year, Somerset implemented a complete performance/sports program, which included jazz/hip-hop, ballet, cheerleading, karate, volleyball, soccer, basketball and flag football. The flag football team made Semi Finals in 2008.

Somerset Academy showcased student talent in several events, including the "Holiday Under the Stars" extravaganza, the Hispanic Heritage Show, the Black History Show, and the Evening Art Show. Somerset students also participated in various community service projects and fundraisers, including "Hats on Day," which benefits the Foundation for Children with Cancer.

Capital Assets

The School's investment in capital assets as of June 30, 2008 amounts to \$ 420,728 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures and computer equipment.

Governmental Fund Budget Analysis and Highlights

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

	Original Budget	Final Budget	Actual
REVENUES			
Program Revenues			
Capital Outlay	\$ -	\$ 475,000	\$ 476,018
Federal Grants	150,000	150,000	224,105
General Revenues			
FTE Nonspecific Revenues	3,775,000	4,443,750	4,727,377
Other Revenues	-	-	2,582
Charges for Services	<u>75,000</u>	<u>300,000</u>	<u>330,534</u>
Total Revenues	4,000,000	5,368,750	5,760,616
CURRENT EXPENSES			
Component Unit Activities:			
Instruction	2,280,000	2,230,000	2,226,542
Instructional Staff Training Services	3,000	7,500	5,807
Board	3,000	15,000	13,138
School Administration	400,000	730,000	726,809
Fiscal Services	100,000	115,000	111,450
Food Services	75,000	212,200	299,120
Central Services	100,000	120,000	114,390
Operation of Plant	790,000	1,550,000	1,540,486
Community Services	100,000	105,000	101,835
Maintenance of Plant	<u>100,000</u>	<u>75,000</u>	<u>70,805</u>
Total Current Expenditures	<u>\$ 3,951,000</u>	<u>\$ 5,159,700</u>	<u>\$ 5,210,382</u>

Requests for Information

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

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

Statement of Net Assets
June 30, 2008

Assets

Current assets:

Cash	\$	436,205
Due from other agencies		252,269
Prepaid expenses		41,633
Due from other schools		2,956
		<u>733,063</u>

Capital assets, depreciable		476,613
Less: accumulated depreciation		(55,885)
		<u>420,728</u>

Total Assets \$ 1,153,791

Liabilities and Net assets

Current liabilities:

Salaries and wages payable	\$	243,358
Accounts payable		334,786
Due to other schools		2,920
Deposits		78,378
		<u>659,442</u>

Total Liabilities

Net assets:

Invested in capital assets		420,728
Restricted by lease agreement		28,803
Unrestricted		44,818
		<u>494,349</u>

Total Net Assets

Total Liabilities and Net Assets \$ 1,153,791

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, 2008

FUNCTIONS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					-
Instruction	\$ 2,265,262	\$ -	224,105	\$ -	\$ (2,041,157)
Instructional staff training	5,807	-	-	-	(5,807)
Board	13,138	-	-	-	(13,138)
School administration	726,809	-	-	-	(726,809)
Fiscal services	111,450	-	-	-	(111,450)
Food services	302,136	217,003	-	-	(85,133)
Central services	114,390	-	-	-	(114,390)
Operation of plant	1,551,608	-	-	476,018	(1,075,590)
Maintenance of plant	73,832	-	-	-	(73,832)
Community Services	101,835	113,531	-	-	11,696
Total governmental activities	<u>5,266,267</u>	<u>330,534</u>	<u>224,105</u>	<u>476,018</u>	<u>(4,235,610)</u>
					FTE nonspecific revenues 4,727,377
					Interest and other revenue 2,582
					<u>494,349</u>
					Change in net assets 494,349
					Net assets, beginning -
					Net assets, ending <u>\$ 494,349</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, 2008

	General Fund	Special Revenue Fund	Total Governmental Funds
<u>Assets</u>			
Cash	\$ 436,205	\$ -	\$ 436,205
Accounts receivable	40,269	212,000	252,269
Due from other agencies	2,956	-	2,956
Due from other funds	212,000	-	212,000
Prepaid expenses	41,633	-	41,633
Total Assets	<u>\$ 733,063</u>	<u>\$ 212,000</u>	<u>\$ 945,063</u>
<u>Liabilities</u>			
Salaries and wages payable	\$ 243,358	\$ -	\$ 243,358
Deposits	78,378	-	78,378
Due to related parties	2,920	-	2,920
Due to other funds	-	212,000	212,000
Accounts payable	334,786	-	334,786
Total Liabilities	<u>659,442</u>	<u>212,000</u>	<u>871,442</u>
<u>Fund balance</u>			
Reserved	28,803	-	28,803
Unreserved	44,818	-	44,818
	<u>73,621</u>	<u>-</u>	<u>73,621</u>
Total Liabilities and Fund Balance	<u>\$ 733,063</u>	<u>\$ 212,000</u>	<u>\$ 945,063</u>

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

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

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets
For the year ended June 30, 2008

Total Fund Balance - Governmental Funds \$ 73,621

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

Capital assets of \$476,613 net of accumulated depreciation of \$55,885 used in governmental activities are not financial resources and therefore are not reported in the fund.

420,728

Total Net Assets - Governmental Activities

\$ 494,349

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

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2008

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
Capital outlay funding	\$ -	\$ 476,018	476,018
Local sources	4,727,377	-	4,727,377
Federal sources and other grants	-	224,105	224,105
Interest and other revenue	2,582	-	2,582
Charges for services	113,531	217,003	330,534
Total Revenues	4,843,490	917,126	5,760,616
Expenditures:			
Current			
Instruction	2,192,652	33,890	2,226,542
Instructional staff training services	5,807	-	5,807
Board	13,138	-	13,138
School administration	726,809	-	726,809
Fiscal services	111,450	-	111,450
Food services	82,117	217,003	299,120
Central services	114,390	-	114,390
Operation of plant	1,064,468	476,018	1,540,486
Maintenance of plant	70,805	-	70,805
Community services	101,835	-	101,835
Capital Outlay:			
Other capital outlay	286,398	190,215	476,613
Debt Service:			
Redemption of Principal Interest	-	-	-
Total Expenditures	4,769,869	917,126	5,686,995
Excess (deficit) of revenues over expenditures	73,621	-	73,621
Other financing sources	-	-	-
Net change in fund balance	73,621	-	73,621
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	\$ 73,621	\$ -	\$ 73,621

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 an Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the year ended June 30, 2008

Net Change in Fund Balance - Governmental Funds \$ 73,621

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 \$476,613 differed from depreciation expense of \$55,885.

420,728

Change in Net Assets of Governmental Activities

\$ 494,349

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

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

Statement of Net Assets - Fiduciary Funds
June 30, 2008

	<u>2008</u>
	Agency Funds
<u>Assets</u>	
Cash	<u>\$ 43,069</u>
Total Assets	<u><u>\$ 43,069</u></u>
<u>Liabilities</u>	
Due to students and clubs	<u>\$ 43,069</u>
Total Liabilities	<u>\$ 43,069</u>
<u>Net assets</u>	<u><u>\$ -</u></u>

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

Note 1 – Organization and Operations

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

These financial statements are for the year ended June 30, 2008 (first year of operations), when approximately 743 students were enrolled for the school year.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

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

Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

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

Special Revenue Fund - accounts for specific revenue, such as federal grants, capital outlay funding and federal lunch 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) pronouncements. The government-wide financial statements apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

Cash

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

Due from Other Governments or Agencies

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

Capital Assets

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

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

Revenue Sources

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

Note 2 – Summary of Significant Accounting Policies (continued)

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

Post-retirement Benefits

The School provides no post-retirement benefits to its employees.

Compensated Absences

The School grants a specific number of days for sick and personal leave. Full time instructional employees are eligible to one day per month to up to ten days of active work during the ten-month period. Employees wishing to carry forward unused days, at year-end, may do so. The employees may only cash out if they have used three days or less of their sick and personal leave in that school year. The employees cannot cash out more than ten days per school year and are required to always maintain a minimum of ten unused days. The cash out value is eighty percent of their daily rate.

Government Accounting Standards Board (GASB) Statement 16, Accounting for Compensated Absences, requires governmental agencies to record as a liability the vested and future rights to sick and/or vacation leave. Accordingly, the financial statements include an accrual for such vested rights.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Somerset Academy at Silver Palms
(A charter school under Somerset Academy, Inc.)
Notes to Financial Statements
June 30, 2008

Note 3 –Capital Assets

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the period ended June 30, 2008:

	Balance 7/1/07	Additions	Retirements	Balance 6/30/08
Capital Assets:				
Software	\$ -	\$ 20,469	\$ -	\$ 20,469
Furniture, equipment and textbooks	-	456,144	-	456,144
Total Capital Assets		476,613		476,613
Less Accumulated Depreciation:				
Software	-	(2,047)	-	(2,047)
Furniture, equipment and textbooks	-	(53,838)	-	(53,838)
Total Accumulated Depreciation	-	(55,885)	-	(55,885)
Capital Assets, net	<u>\$ -</u>	<u>\$ 420,728</u>	<u>\$ -</u>	<u>\$ 420,728</u>

Depreciation expense for the period ended June 30, 2008 was \$55,885 and is allocated in the Statement of Activities to instruction, plant maintenance and operation.

Note 4 –Management Agreement

Academica Dade, LLC, a professional charter school management company, provides management and administrative services to the School including, but not limited to, facility design, staffing recommendations, human resource coordination, regulatory compliance, legal and corporate upkeep, maintenance of the books and records, bookkeeping, budgeting and financial reporting. The agreement between the School and the management company calls for a fee of \$450 per full time equivalent (FTE) student per year. The agreement is for a period of five years, through July 2012, with options to renew for a three year period and a two year period. During the year ended June 30, 2008, the School incurred approximately \$334,000 in management fees, which was due to the management company at the end of the year.

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

- Fernando Zulueta, President
- Magdalena Fresen, Vice President
- Amy Nunez, Secretary

Note 5 – Transactions with Other Charter Schools and Other Revenues

The School entered into a usage and license agreement for facility usage with Somerset Academy Charter High School (a charter school under Somerset Academy, Inc.) for the 2007-2008 school year. The fee was based on a per-student cost allocation, calculated by dividing total facility costs (including payroll and other services) by the total number of students in the building. The usage fees received by the School during 2008 were \$10,035. In addition, Somerset Academy Charter High School also paid \$52,760 in rent payments directly to the landlord.

In addition, the School operates an after school program. Revenue from this program is recorded as charges for services, under the community services function. Total revenue from this program for 2008 was \$113,531. Finally, during the year the School received approximately \$161,000 from Somerset Academy (a charter school under Somerset Academy, Inc.) for the school's lunch program.

Note 6 – Deposits Policy and Credit Risk

It is the School's policy to maintain its cash and cash equivalents in major banks and in high grade investments. As of June 30, 2008, the carrying amount of the School's deposits was \$436,205 and the respective bank balances totaled \$574,424. Out of the total bank balances, \$100,000 was covered by the Federal Depository Insurance Corporation (FDIC).

Note 7 – Commitments and Contingencies

The School entered into a lease and security agreement with Southwestern Grant, LLC for its 70,685 square feet including all ancillary facilities, outdoor areas and other improvements. Presently, members of the Landlord are also stockholders of the company which is the sole owner of Academica Dade, LLC (See Note 4). Initial fixed annual payments under this agreement (based on \$19.10 per square foot) are approximately \$1,350,084 adjusted annually based on the Consumer Price Index (CPI) plus additional property costs including repairs, maintenance and insurance. The agreement continues through July 31, 2027 with an option to renew for an additional five-year term. Under the agreement, the School must meet certain covenants and requirements, including a "Lease Payment Coverage Ratio" of not less than 1.10 to 1.00 and maintaining a reserve for property expenses such as repairs, maintenance, taxes or insurance. Finally, under this agreement the School has granted a first lien on its pledged revenues, which include all revenues collected by the school from the Florida Department of Education, the District, and all other sources.

The School entered into a facility usage agreement with Somerset Academy Charter High School (See Note 5) and is allocating the lease payments as follows. Lease payments are allocated among the two schools based on enrollment and usage of facility. The allocation used for 2008, was 95.5% for the School and 4.5% for Somerset Academy Charter High School.

Note 7 – Commitments and Contingencies (continued)

For 2008, rent expense totaled \$1,228,357, out which approximately \$1,203,000 related to facility lease. Future minimum payments for the full lease are as follows:

<u>Year</u>	
2009	\$1,350,780
2010	\$1,350,780
2011	\$1,350,780
2012	\$1,350,780
2013	\$1,350,780
2014-2018	\$6,753,900 (Total for five-year period)
2019-2023	\$6,753,900 (Total for five-year period)
2024-2027	\$5,403,120 (Total for four-year period)

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

Note 8 – Risk Management

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

REQUIRED SUPPLEMENTARY INFORMATION

Somerset Academy 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, 2008

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Local Sources	\$ 3,775,000	\$ 4,443,750	\$ 4,727,377
Charges for services	-	100,000	113,531
Interest and other revenues	-	-	2,582
Total Revenues	3,775,000	4,543,750	4,843,490
EXPENDITURES			
Current:			
Instruction	2,130,000	2,080,000	2,192,652
Instructional Staff			
Training Services	3,000	7,500	5,807
Board	3,000	15,000	13,138
School Administration	400,000	730,000	726,809
Fiscal Services	100,000	115,000	111,450
Food Services	-	12,200	82,117
Central Services	100,000	120,000	114,390
Operation of Plant	790,000	1,075,000	1,064,468
Maintenance of Plant	100,000	75,000	70,805
Community Services	100,000	105,000	101,835
Total Current Expenditures	3,726,000	4,334,700	4,483,471
Excess of Revenues Over Current Expenditures	49,000	209,050	360,019
Debt Service:			
Redemption of Principal			-
Capital Outlay:			
Other Capital Outlay	-	150,000	286,398
Total Capital Outlay and Debt Service Expenditures	-	150,000	286,398
Total Expenditures	3,726,000	4,484,700	4,769,869
Excess of Revenues Over Expenditures	49,000	59,050	73,621
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	\$ 49,000	\$ 59,050	\$ 73,621

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, 2008

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Capital outlay funding	\$ -	\$ 475,000	\$ 476,018
Federal sources and other grants	150,000	150,000	224,105
Lunch Program	75,000	200,000	217,003
Total Revenues	225,000	825,000	917,126
EXPENDITURES			
Current:			
Instruction	150,000	150,000	33,890
Pupil Personnel Services	-	-	-
Board	-	-	-
General Administration	-	-	-
School Administration	-	-	-
Facilities Acquisition & Construction	-	-	-
Fiscal Services	-	-	-
Food Services	75,000	200,000	217,003
Central Services	-	-	-
Operation of Plant	-	475,000	476,018
Maintenance of Plant	-	-	-
Total Current Expenditures	225,000	825,000	726,911
Excess of Revenues Over Current Expenditures	-	-	190,215
Capital Outlay:			
Other Capital Outlay	-	-	-
Total Capital Outlay and Debt Service Expenditures	-	-	-
Total Expenditures	225,000	825,000	726,911
Excess of Revenues Over Expenditures	-	-	190,215
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	\$ -	\$ -	\$ 190,215

GRAVIER
— & —
Associates
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Somerset Academy at Silver Palms (the "School") as of, and for the year ended June 30, 2008, and have issued our report thereon dated August 27, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We also consider the significant deficiency described above at item 07-01, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 27, 2008

MANAGEMENT LETTER

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

We have audited the accompanying basic financial statements of Somerset Academy at Silver Palms as of and for the year ended June 30, 2008 and have issued our report thereon dated August 27, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters dated August 27, 2008. Disclosures in that report, if any, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General which govern the conduct of charter school audits performed in the State of Florida and require that certain items be addressed in this letter. Those items, as outlined in Section 10.854, are as follows:

1. A statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

Not applicable since this is the first year of operations for the School

2. A statement as to whether the School has met one or more conditions described in Section 218.503 (1) Florida Statutes, and identification of the specific condition.

The School has not met one or more of the conditions described in Section 218.503 (1) Florida Statutes.

3. Recommendations to improve the School's present financial management, accounting procedures and internal controls.

The following are recommendations to improve the School's financial management, accounting procedures and internal controls:

ML 08-01 INTERNAL FUND

Observation

Controls over the internal fund need improvement. We noted that activity in the School's internal fund includes both fiduciary activity and general fundraising activity. The accounting treatment is being applied in the same way for both as funds held in the School's internal account are reported as a liability and the activity is not reflected as revenues or expenses. The activity is also recorded in one general ledger account on a cash basis.

Recommendation

Although generally not material to the financial statement taken as a whole, the activity related to general fundraising should be treated separately from fiduciary type activity. Funds accumulated by fundraising activity should be reflected in the School's net assets as either unrestricted or restricted net assets. In addition, general fundraising revenues and expenses should be reflected in the statement of activities and should be recorded on the accrual basis with reconciliation to the bank statement performed monthly.

4. Violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial amounts that are less than material but more than inconsequential.

No such violations have been noted during the audit.

5. Matters that are inconsequential to the determination of financial statement amounts considering both quantitative and qualitative factors, including the following:
 - a. Violations of laws, rules, regulations and contractual provisions or abuse that have occurred, or are likely to have occurred,
 - b. Improper expenditures or illegal acts that would have an immaterial effect on the financial statements.
 - c. Control deficiencies that are not significant deficiencies, including, but not limited to:
 - i. Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 - ii. Failures to properly record financial transactions.
 - iii. Inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

No such conditions were noted during the audit.

6. The name or official title of the School.

The name and title are disclosed in the accompanying financial statements.

7. A statement that the auditor applied financial condition assessment procedures pursuant to Rule 10.855(10).

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

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

Gravin & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 27, 2008

Somerset Academy at Silver Palms

September 3, 2008

Gravier & Associates
201 Alhambra Circle, Suite 901
Coral Gables, FL 33134

RE: MANAGEMENT'S RESPONSES TO AUDITOR'S RECOMMENDATIONS

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

CURRENT YEAR RECOMMENDATIONS

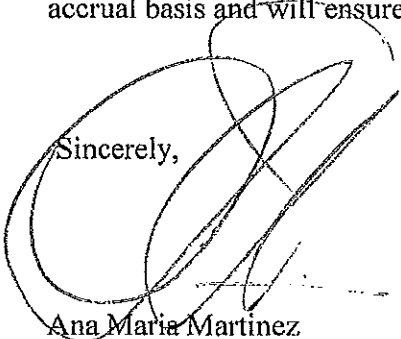
08-01 Recommendation – Internal Fund

Although generally not material to the financial statement taken as a whole, the activity related to general fundraising should be treated separately from fiduciary type activity. Funds accumulated by fundraising activity should be reflected in the School's net assets as either unrestricted or restricted net assets. In addition, general fundraising revenues and expenses should be reflected in the statement of activities and should be recorded on the accrual basis with reconciliation to the bank statement performed monthly.

Management Response

Management agrees with the Auditors recommendation and will treat general fundraising separately from fiduciary type activity and will record in the statement of activities in the accrual basis and will ensure that bank statements are reconciled monthly.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'Ana Maria Martinez', is written over the word 'Sincerely,' and extends into the name block below.

Ana Maria Martinez
Authorized Signor for Somerset Academy, Inc.