

Somerset Gables Academy  
(f/k/a Somerset Grace Academy)  
(A charter school under Somerset Academy, Inc.)  
(A Charter School and Component Unit  
of the School Board of Miami Dade County, Florida)

Miami, Florida

Financial Statements and  
Independent Auditors' Report

June 30, 2013

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Somerset Gables Academy  
(f/k/a Somerset Grace Academy)  
W/L# 5008  
624 Anastasia Avenue-Site 1  
950 University Drive-Site 2  
Coral Gables, Florida 33134

2012-2013

BOARD OF DIRECTORS

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SCHOOL ADMINISTRATION

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CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Somerset Gables Academy  
(f/k/a Somerset Grace Academy)  
Miami, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Somerset Gables 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, 2013, 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 Gables Academy at June 30, 2013, 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 Gables Academy at June 30, 2013, 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, 2013 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 30, 2013, 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 28 through 29 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 30, 2013

**Management's Discussion and Analysis**  
Somerset Gables Academy  
(f/k/a Somerset Grace Academy)  
(A Charter school Under Somerset Academy, Inc.)  
June 30, 2013

The corporate officers of Somerset Gables Academy have prepared this narrative overview and analysis of the school's financial activities for the period ended June 30, 2013.

**Financial Highlights**

1. The assets of the School exceeded its liabilities at June 30, 2013 by \$194,371 (net assets).
2. At year-end, the School had current assets on hand of \$478,348.
3. The School had an increase in its net assets of \$24,557 for the year ended June 30, 2013.
4. The unassigned fund balance at year end was \$321,017.

**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, 2013 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 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 - 27 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 \$ 194,371 at the close of the fiscal year. A summary of the School's net assets as of June 30, 2013 and 2012 follows:

	2013	2012
Cash	\$ 412,981	\$ 270,706
Prepaid Expenses	30,167	-
Due from other agencies	5,200	150,239
Deposits	30,000	-
Capital Assets, net	477,312	343,580
Total Assets	<u>\$ 955,660</u>	<u>\$ 764,525</u>
Salaries and wages payable	79,663	27,211
Due to management company	-	2,500
Accounts payable	17,501	100,875
Long-term debt to other charter schools	664,125	464,125
Total Liabilities	<u>\$ 761,289</u>	<u>\$ 594,711</u>
Invested in Capital Assets, net of related debt	-	-
Unrestricted	194,371	169,814
Total Net Assets	<u>\$ 194,371</u>	<u>\$ 169,814</u>

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

A summary and analysis of the School's revenues and expenses for the year ended June 30, 2013 and 2012 follows:

	<u>2013</u>	<u>2012</u>
<b>REVENUES</b>		
Program Revenues		
Capital Outlay funding	\$ 56,894	\$ 25,311
Operating Grants and Contributions	20,054	212,608
General Revenues		
FTE nonspecific revenues	1,468,081	456,815
Other Revenues	6,960	21,207
Charges for services	794,527	391,776
Total Revenues	<u>\$ 2,346,515</u>	<u>\$ 1,107,717</u>
<b>EXPENSES</b>		
Component Unit Activities:		
Instruction	\$ 1,356,917	\$ 596,878
Instructional Staff Training Services	646	6,479
Board	6,906	9,428
School Administration	240,757	78,844
Facilities Acquisition and Construction	28,981	23,117
Fiscal Services	34,800	8,850
Food Services	65,041	19,361
Central Services	45,371	17,153
Operation of Plant	383,195	160,924
Community Services	102,135	5,000
Maintenance of Plant	57,209	28,274
Total Expenses	<u>\$ 2,321,958</u>	<u>954,308</u>
Increase in Net Assets	24,557	153,409
Net Assets at Beginning of Year	169,814	16,405
Net Assets at End of Year	<u>\$ 194,371</u>	<u>\$ 169,814</u>

The School's revenue and expenditures increased by \$1,238,798 and \$1,356,274, respectively, as a result of increase in student enrollment (approximately 157 students) and federal funding. The School had an increase in its net assets of \$24,557 for the year.

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

The School leases facilities located at 624 Anastasia Avenue (Site 1), and 950 University Drive (Site 2), Coral Gables, Florida.

### **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 232 students enrolled in grades kindergarten to first, however the charter is approved as a kindergarten through eighth.



## **Achievements**

In 2013, Somerset Gables Academy completed its 3rd year of operation, serving 232 students in grades K-5. Student performance under the State of Florida Accountability Program was exceptional, as evidenced by the School earning 618 points and students achieving measurable learning gains.

This past year, Somerset Gables students were recognized for various academic and extracurricular achievements: They participated in the Somerset Reading Challenge, earned First Place in the Somerset Spelling Bee, and received the Gold, Silver and Bronze medals at the Somerset Academy Talent Show. Students also participated in school-based productions, such as the Somerset Gables Holiday Show, the Talent Show, and the Multicultural Day Performance.

Being helpful to others is important to students at Somerset Gables Academy. Throughout the year, students demonstrated the significance of giving back to their community by participating in and contributing to causes such as *iPads for Soldiers*, the *Feed Miami* food drive, and *Toys for Tots* toy drive. Students and parents also gave back to their school by participating in school-based fundraisers such as the *Scholastic Book Fair* and *World's Finest Chocolate Sale*.

As a member of the Somerset Academy network of charter schools, Somerset Gables Academy 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 its network, Somerset Gables Academy places high expectations for student learning and offers multiple opportunities for all students to acquire requisite knowledge, skills, and attitudes in a safe and enriching 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.

With the steadfast support of the many families who wanted Somerset Gables Academy to expand, the school obtained municipal approval to be able to expand its enrollment at its original campus in Coral Gables. In addition, the school opened a 2<sup>nd</sup> campus to over 60 students this past year. This additional campus will be moving in the fall to its permanent facility in the adjacent neighborhood of the City of West Miami, where it will be able to offer more families the opportunity to attend Somerset Gables Academy.

## **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 \$381,184. The fund balance unassigned and available for spending at the School's discretion is \$321,017. 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, 2013 amounts to \$477,312 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures and computer equipment. As of June 30, 2013, the School had long term debt totaling \$664,125 relating to current acquisitions of 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.

	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
Program Revenues			
Capital Outlay	\$ 51,975	\$ 57,000	\$ 56,894
Federal Sources	5,000	6,500	20,054
Charges for services and usage fees	700,000	792,900	794,527
General Revenues			-
FTE Nonspecific Revenues	1,312,200	1,447,000	1,468,081
Other Revenues		5,000	6,960
Total Revenues	<u>2,069,175</u>	<u>2,308,400</u>	<u>2,346,515</u>
<b>CURRENT EXPENDITURES</b>			
Component Unit Activities:			
Instruction	1,200,000	1,295,000	1,284,770
Instructional Staff Training Services	2,500	2,500	646
Board	10,000	7,500	6,906
School Administration	150,000	242,500	240,472
Fiscal Services	35,000	36,000	34,800
Food Services	50,000	71,000	65,041
Central Services	50,000	47,500	45,371
Operation of Plant	351,975	352,000	358,991
Community Services	120,000	115,000	102,135
Maintenance of Plant	60,000	60,000	57,209
Total Current Expenditures	<u>2,029,475</u>	<u>2,229,000</u>	<u>\$ 2,196,341</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 Gables Academy  
(A charter school under Somerset Academy, Inc)

Statement of Net Assets  
June 30, 2013

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**Assets**

Current assets:

Cash and cash equivalents	\$	412,981
Prepaid expenses		30,167
Due from other agencies		5,200
Security deposits		30,000
		<u>478,348</u>

Capital assets, depreciable		691,629
Less: accumulated depreciation		<u>(214,317)</u>
		<u>477,312</u>

Total Assets	\$	<u><u>955,660</u></u>
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**Liabilities and Net assets**

Current liabilities:

Salaries and wages payable	\$	79,663
Accounts payable		17,501
		<u>97,164</u>

Long-term debt due to other charter schools		664,125
Total Liabilities		<u>761,289</u>

Net assets:

Unrestricted		194,371
Total Net Assets		<u>194,371</u>

Total Liabilities and Net Assets	\$	<u><u>955,660</u></u>
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The accompanying notes are an integral part of this financial statement.

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

Statement of Activities  
For the year ended June 30, 2013

FUNCTIONS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
Instruction	\$ 1,356,917	\$ 575,821	\$ 6,865	\$ -	\$ (774,231)
Instructional media services	-	-	-	-	-
Instructional staff training	646	-	-	-	(646)
Board	6,906	-	-	-	(6,906)
School administration	240,757	-	-	-	(240,757)
Facilities acquisition	28,981	-	-	-	(28,981)
Fiscal services	34,800	-	-	-	(34,800)
Food services	65,041	58,268	13,189	-	6,415
Central services	45,371	-	-	-	(45,371)
Pupil transportation services	-	-	-	-	-
Operation of plant	383,195	-	-	56,894	(326,301)
Maintenance of plant	57,209	-	-	-	(57,209)
Community Services	102,135	160,438	-	-	58,303
Interest					-
<b>Total governmental activities</b>	<u>2,321,958</u>	<u>794,527</u>	<u>20,054</u>	<u>56,894</u>	<u>(1,450,484)</u>
					FTE nonspecific revenues
					1,468,081
					Interest and other revenue
					6,960
					<u>Change in net assets</u>
					24,557
					Net assets, beginning
					169,814
					<u>Net assets, ending</u>
					<u>\$ 194,371</u>

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

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

Balance Sheet - Governmental Funds  
June 30, 2013

	General Fund	Special Revenue Fund	Total Governmental Funds
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 412,981	\$ -	\$ 412,981
Accounts receivable	-		-
Due from other agencies	-	5,200	5,200
Prepaid expenses	30,167	-	30,167
Due from other schools and management company	-		-
Due from funds	5,200	-	5,200
Security deposits	30,000		30,000
Total Assets	<u>\$ 478,348</u>	<u>\$ 5,200</u>	<u>\$ 483,548</u>
<b><u>Liabilities</u></b>			
Salaries and wages payable	\$ 79,663	\$ -	\$ 79,663
Due to funds	17,501	5,200	22,701
Total Liabilities	<u>97,164</u>	<u>5,200</u>	<u>102,364</u>
<b><u>Fund balance</u></b>			
Unspendable, not in spendable form	60,167	-	60,167
Unassigned	321,017	-	321,017
	<u>381,184</u>	<u>-</u>	<u>381,184</u>
Total Liabilities and Fund Balance	<u>\$ 478,348</u>	<u>\$ 5,200</u>	<u>\$ 483,548</u>

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

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

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets  
For the year ended June 30, 2013

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Total Fund Balance - Governmental Funds \$ 381,184

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

Capital assets of \$691,629 net of accumulated depreciation of \$214,317 used in governmental activities are not financial resources and therefore are not reported in the fund. 477,312

The proceeds from/repayment of debt issuance provides current financial resources/expenditures to government funds, but issuing/repaying debt increases/decreases long-term liabilities in the statement of net assets. (664,125)

Total Net Assets - Governmental Activities \$ 194,371

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

Somerset Gables 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, 2013

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
State capital outlay funding	\$ -	\$ 56,894	\$ 56,894
State passed through local	1,468,081	-	1,468,081
Federal sources	-	20,054	20,054
Interest and other revenue	6,960	-	6,960
Charges for services and usage fees	736,259	58,268	794,527
<b>Total Revenues</b>	<b>2,211,300</b>	<b>135,215</b>	<b>2,346,515</b>
Expenditures:			
Current			
Instruction	1,284,770	-	1,284,770
Instructional staff training services	646	-	646
Board	6,906	-	6,906
School administration	240,472	-	240,472
Fiscal services	34,800	-	34,800
Food services	-	65,041	65,041
Central services	45,371	-	45,371
Operation of plant	302,097	56,894	358,991
Maintenance of plant	57,209	-	57,209
Community services	102,135	-	102,135
Capital Outlay:			
Other capital outlay	252,484	6,865	259,349
<b>Total Expenditures</b>	<b>2,326,890</b>	<b>128,800</b>	<b>2,455,690</b>
Excess (deficit) of revenues over expenditures	(115,590)	6,415	(109,175)
Other financing sources			
Long-term debt to other charter schools	200,000	-	200,000
Transfers in and (out)	6,415	(6,415)	(0)
Net change in fund balance	90,825	-	90,825
Fund Balance at beginning of year	290,359	-	290,359
Fund Balance at end of year	<u>\$ 381,184</u>	<u>\$ -</u>	<u>\$ 381,184</u>

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

Somerset Gables 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, 2013

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Net Change in Fund Balance - Governmental Funds \$ 90,825

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 \$259,349 differed from depreciation expense of \$125,617. 133,732

The proceeds from/repayment of debt issuance provides current financial resources/expenditures to government funds, but issuing/repaying debt increases/decreases long-term liabilities in the statement of net assets. (200,000)

Change in Net Assets of Governmental Activities \$ 24,557

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



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

Statement of Net Assets - Fiduciary Funds  
June 30, 2013

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	<u>2013</u>
	Agency Funds
<b><u>Assets</u></b>	
Cash	<u>\$ 14,584</u>
Total Assets	<u><u>\$ 14,584</u></u>
<b><u>Liabilities</u></b>	
Due to students and clubs	<u>\$ 14,584</u>
Total Liabilities	<u>\$ 14,584</u>
<b><u>Net assets</u></b>	<u><u>\$ -</u></u>

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

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

### Reporting Entity

Somerset Gables(f/k/a Somerset Grace Academy) (the "School"), is a component unit of the School Board of Miami-Dade County, Florida (the "District"). The Schools' charter is held by Somerset Academy, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the 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 nine 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, 2019 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 Coral Gables, Florida for students from kindergarten through eighth grades and is funded by the District. On June 13, 2012, the District approved an amendment to officially change the name of the School to Somerset Gables Academy.

These financial statements are for the year ended June 30, 2013, when approximately 232 students were enrolled for the school year. Approximately, 164 students in grades kindergarten through fourth grade were enrolled in Site 1 and 68 students in Kindergarten were enrolled in Site 2.

### 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.

### Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets 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.

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

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees; (2) operating grants such as the National School Lunch Program, Federal grants, and other state allocations; and (3) capital grants specific to capital outlay. Other revenue sources not properly included with program revenues are reported as general revenues.

*Fund Financial Statements*

Fund financial statements are provided for governmental and fiduciary funds, even though the fiduciary funds are not included in the government-wide financial statements. The operations of the funds are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues and expenditures. Major individual governmental funds are reported as separate columns in the fund financial statements:

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

*Special Revenue Fund* - accounts for specific revenue, such as capital outlay funding and federal lunch program that are legally restricted to expenditures for particular purposes.

*Agency Fund* - Schools internal funds accounts for resources of the schools' Internal Fund which is used to administer monies collected at the schools in connection with school, student activities, class, and club activities.

Measurement Focus and Basis of Accounting

The financial statements of the School are prepared in accordance with generally accepted accounting principles (GAAP). The School's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) *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.

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

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. Most donations are examples of non-exchange transactions. Revenues from grants and donations are recognized on the accrual basis, in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. “Measurable” means the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Florida Education Finance Program (FEFP) revenues are recognized when received. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Charges for services and fees are recognized when cash is collected as amounts are not measurable. When grant terms provide that the expenditure of funds is the prime factor for determining eligibility for federal, state, and other grant funds, revenue is recognized at the time the expenditure is made. Expenditures are recorded when the related fund liability is incurred, except for long-term debt principal and interest which are reported as expenditures in the year due.

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

Budgets and Budgetary Accounting

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

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.

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

Inter-fund Transfers

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

Due from Other Governments or Agencies

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

Long –Term Debt

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

Capital Assets

The School’s property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the statement of net 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	3 Years
Furniture, Equipment and Software	5 Years
Textbooks	3 Years

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

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 (“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.

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.

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

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 assets and Fund balance classifications

*Government-wide financial statements*

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

- a) Invested in capital assets, net of related debt - 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 assets - consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments.
- c) Unrestricted net assets - all other net assets 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)

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

- 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.

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.



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

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 30, 2013, 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, 2013:

	Balance 7/1/12	Additions	Retirements	Balance 6/30/13
Capital Assets:				
Improvements	\$ 133,315	\$ 163,345	\$(1,745)	\$ 294,915
Furniture, equipment and textbooks	298,966	109,124	\$(11,376)	396,714
Total Capital Assets	432,281	272,469	(13,121)	691,629
Less Accumulated Depreciation:				
Improvements	(31,749)	(40,474)	-	(72,223)
Furniture, equipment and textbooks	(56,950)	(85,142)	-	(142,092)
Total Accumulated Depreciation	(88,701)	(125,616)		(214,315)
Capital Assets, net	<u>\$ 343,580</u>	<u>\$ 146,853</u>	<u>\$(13,121)</u>	<u>\$ 477,313</u>

For the fiscal year ended June 30, 2013, depreciation expense is allocated in the Statement of Activities by function as follows:

Instruction	\$ 72,146
School administration	284
Facilities acquisition	28,981
Operation of plant	24,205
Total Depreciation Expense	<u>\$ 125,616</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, 2013, the bank balance of the School's deposits and investments was \$652,350; of which \$542,350 consisted of bank balances and \$110,000 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, 2013, bank balances in potential excess of FDIC coverage totaled \$556,934; including fiduciary account bank balances.

#### 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, 2013, 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, 2013, the School incurred approximately \$104,400, 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 –Related Party Transactions**

During the period, the school entered into Promissory Note Agreements with four other schools under Somerset Academy, Inc. totaling \$664,125. The notes are non-interest bearing and mature during the fiscal year ending June 30, 2014. Future maturities of the promissory note under the agreements are as follows as of June 30, 2013:

2014	\$	664,125
Total	\$	<u>664,125</u>

In addition, the School operates an after school program. Revenues from these programs are recorded as charges for services, under the community services function. Total revenues from these programs for 2013 were \$160,438.

Somerset Academy, Inc. (the “Corporation”) charges an assessment to all its affiliated schools for shared corporate costs and accreditation expenses. During 2013, the School paid \$5,800 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, 2013, administrative fees withheld by the School District totaled \$73,277.

**Note 5 – Related Party Transactions (Continued)**

The following schedule provides a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance 07/01/12	Additions	Deletions	Balance 06/30/13
Somerset Academy Silver Palms	\$ 147,125	\$ -	\$ -	\$ 147,125
Somerset Academy Dade	62,000	175,000	-	237,000
Somerset High Dade	135,000	25,000	-	160,000
South Academy Middle Dade	120,000	-	-	120,000
Total Long Term Debt	<u>\$ 464,125</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 664,125</u>

**Note 6 – Commitments and Contingencies**

The School entered into an educational facilities lease agreement with The University Baptist Church of Coral Gables, Inc. Initial fixed annual payments under this agreement are \$700 per student for 110 students, for a minimum annual base rent of \$77,000, adjusted annually based on the Consumer Price Index (CPI). The agreement continues through August 16, 2015 with an automatic two year renewal period unless terminated. For 2013, rent expense totaled \$259,953, out of which approximately \$164,503 related to this facility lease. Future minimum payments for the lease are as follows:

<u>Year</u>	
2014	\$77,000
2015	\$77,000
2019-2023	\$4,081,244 (Total for five-year period)
2024-2026	\$2,448,746 (Total for three-year period)

The School had entered into an educational facilities lease agreement with the Granada Continuing Presbyterian Church, Inc. The lease terminated in July 2013 and the school paid \$94,807 in rent payments during the school year.

The School entered into an educational facilities lease agreement with the Centro Cristiano de Amor y Fe, Inc. The minimum annual base rent is \$180,000, which will be adjusted annually based on the Consumer Price Index (CPI) starting in the third year of the initial term (June 1, 2015) and in each year thereafter, the usage fee will increase by 4%. The agreement continues through May 31, 2016 with an automatic three year renewal period unless terminated. For 2013, rent expense totaled 15,000. Future minimum payments for the lease are as follows:

<u>Year</u>	
2014	\$180,000
2015	\$180,000
2016	\$75,000

**Note 6 – Commitments and Contingencies (continued)**

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.

**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 TotalSource Retirement Savings Plan, the School will provide a match of 50% up to 4% of employee compensation. Contributions to the plan were \$2,730 for the year ended June 30, 2013. The school does not exercise any control or fiduciary responsibility over the plans’ assets.

REQUIRED SUPPLEMENTARY INFORMATION

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

Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the year ended June 30, 2013

	General Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
State passed through local	\$ 1,312,200	\$ 1,447,000	\$ 1,468,081
Charges for services and usage fees	650,000	721,400	736,259
Interest and other revenues	-	5,000	6,960
<b>Total Revenues</b>	<b>1,962,200</b>	<b>2,173,400</b>	<b>2,211,300</b>
<b>EXPENDITURES</b>			
Current:			
Instruction	1,200,000	1,295,000	1,284,770
Instructional Staff			
Training Services	2,500	2,500	646
Board	10,000	7,500	6,906
School Administration	150,000	242,500	240,472
Fiscal Services	35,000	36,000	34,800
Food Services			-
Central Services	50,000	47,500	45,371
Operation of Plant	300,000	295,000	302,097
Maintenance of Plant	60,000	60,000	57,209
Community Services	120,000	115,000	102,135
<b>Total Current Expenditures</b>	<b>1,927,500</b>	<b>2,101,000</b>	<b>2,074,406</b>
Excess of Revenues Over Current Expenditures	34,700	72,400	136,894
Capital Outlay:			
Other Capital Outlay	200,000	265,000	252,484
<b>Total Expenditures</b>	<b>2,127,500</b>	<b>2,366,000</b>	<b>2,326,890</b>
Excess of Revenues Over Expenditures	(165,300)	(192,600)	(115,590)
Other financing sources:			
Long-term debt to other charter schools	200,000	200,000	200,000
Transfers in (out)	-	-	6,415
<b>Net change in fund balance</b>	<b>34,700</b>	<b>7,400</b>	<b>90,825</b>
Fund Balance at beginning of year	290,359	290,359	290,359
<b>Fund Balance at end of year</b>	<b>\$ 325,059</b>	<b>\$ 297,759</b>	<b>\$ 381,184</b>

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

Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the year ended June 30, 2013

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
State capital outlay funding	\$ 51,975	\$ 57,000	\$ 56,894
Lunch fees	50,000	71,500	58,268
Federal sources	5,000	6,500	20,054
Total Revenues	<u>106,975</u>	<u>135,000</u>	<u>135,215</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	-	-	-
Food Services	50,000	71,000	65,041
Operation of Plant	51,975	57,000	56,894
Total Current Expenditures	<u>101,975</u>	<u>128,000</u>	<u>121,935</u>
Excess of Revenues Over Current Expenditures	<u>5,000</u>	<u>7,000.00</u>	<u>13,280</u>
Capital Outlay:			
Other Capital Outlay	-	-	6,865
Total Expenditures	<u>101,975</u>	<u>128,000</u>	<u>128,800</u>
Excess of Revenues Over Expenditures	5,000	7,000	6,415
Other financing sources:			
Transfers in	(5,000)	(7,000)	(6,415)
Fund Balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Budgetary Comparison Schedule

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



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

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Board of Directors of  
Somerset Gables Academy  
Miami, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Somerset Gables Academy (the "School") as of, and for the year ended June 30, 2013, 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 30, 2013.

Internal Control Over Financial Reporting

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate management letter dated August 30, 2013 pursuant to Chapter 10.850, Rules of the Auditor General.

Purpose of this report

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

*HLB Davin, LLP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 30, 2013

MANAGEMENT LETTER

Board of Directors of  
Somerset Gables Academy  
Miami, Florida

We have audited the financial statements of the governmental activities and each major fund of Somerset Gables Academy as of and for the year ended June 30, 2013 and have issued our report thereon dated August 30, 2013.

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. 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 30, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report or schedule:

1. Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

**Status of Prior Year Findings and Recommendations**

ML 2012-01 – Education Jobs Fund – Special Revenue Funds: During the current year audit procedures, we noted that the School implemented our recommendation and properly included all federal funds in the special revenue fund.

**Uncorrected Audit Findings**

Current year ML 2013-1, preceding fiscal year 2011-2012 finding ML 2012-2: During the current year audit procedures, we noted exceptions regarding dual signature for internal account disbursements. This was not a finding in the second preceding fiscal year. However, it should be noted that the number of exceptions found in this year's audit was far less than in the preceding year's audit.

2. Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met.

In connection with our audit, we determined that Somerset Gables Academy did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

3. Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management.

In connection with our audit, we have the following observations and recommendations.

#### **ML 13-01 – INTERNAL ACCOUNT**

##### Observation

Control over the internal account needs 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. In addition, we noted instances of disbursements that did not have required dual signature, and also noted instances of deposit recap sheets that did not agree with deposit slip.

##### Recommendation

Although generally not material to the financial statements 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.

#### **ML 13-02 – 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.

4. 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.

5. Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the school.

The official title of the school is Somerset Gables Academy.

6. Pursuant to Sections 10.854(1)(e)6.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor Somerset Gables 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 and no deteriorating financial condition has been noted.

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 and applicable management 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 30, 2013

**Somerset Gables Academy**

August 29<sup>th</sup>, 2013

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

**RE: MANAGEMENT'S RESPONSES TO AUDITOR'S RECOMMENDATION**

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

**ML 2013-01 – INTERNAL  
Recommendation**

Although generally not material to the financial statements 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 statements performed monthly.

**Management Response**

Management will adhere to auditor's recommendation and Management has assigned staff to work specifically on this project.

**ML 13-02 – CAPITAL ASSETS  
Recommendation**

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

**Management Response**

While Management does reconcile the asset manager to the trial balance, Management will adhere to auditor's recommendation and reconcile the asset manager to the trial balance, at minimum, annually. Management is also purchasing a new asset manager software.

Sincerely,



Ana Maria Martinez  
Authorized Signor for Somerset Academy, Inc.