

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

Financial Statements And
Independent Auditors' Report

June 30, 2007

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Somerset Academy
18491 SW 134 Avenue
Miami, Florida 33177

2006-2007

BOARD OF DIRECTORS

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Dina Miller Vice President
Shannie Sadesky, Vice President



INDEPENDENT AUDITORS' REPORT

Board of Directors
Somerset Academy
Miami, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Somerset Academy (the "School"), a charter school under Somerset Academy, Inc., a component unit of the District School Board of Miami-Dade County, as of, and for the year ended June 30, 2007, which collectively comprises the School's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

As described in Note 1, the accompanying financial statements referred to above present only the financial position of Somerset Academy at June 30, 2007, 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, 2007, 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.

**AUDIT COMPLETION CHECKLIST
FOR CHARTER SCHOOLS AND OTHER ORGANIZATIONS
MIAMI-DADE COUNTY PUBLIC SCHOOLS**

The following information should be included in the yearly audit by the organizations submitting their annual external audit. For charter schools, the Auditor General of the State of Florida has issued rules that must be complied with (Chapter 10.850). Please share this checklist with your external auditor.

- 1. The name and address of the school.
- 2. The name of the principal running the school.
- 3. Current list of the Board of Directors of the school.
- 4. If the school is operated by a management company:
 - a. Name of the company
 - b. Address
 - c. List of principal officials
 - d. Contractual arrangement with the company, such as length of contract, terms, total fees paid for the year, etc. (This information should be included in the footnotes to the financial statements).
- 5. The financial statements must include comparative totals for the prior year.
- 6. The financial statements must comply with GASB 34 requirements, if applicable.
- 7. In the footnotes of the financial statements, the following should be disclosed:
 - a. Total school enrollment and grade configuration. If separate facilities are in operation, disclose name, address, and the enrollment and grade configuration at each facility.
 - b. Full disclosure of related party transactions, which should include the related party's name and address, and disclosure of the transaction, particularly if it is a loan that needs to be repaid (principal and interest paid and unpaid). If the debt is in arrears, disclosure of arrangements made to satisfy the debt.
 - c. Full disclosure of any other debts in arrears, particularly as they relate to the payment of withholding/social security taxes. Arrangements made to pay the debt(s).
 - d. For charter schools, full disclosure in the notes or as a separate schedule in the audit of the tangible personal property purchased with public funds. (It is a current contractual requirement for charter schools; however, we recommend that it be part of the audit).
 - e. If there is a deficit cash position or significant losses shown in the financial statements, full disclosure as to how the school plans to keep operating. The current assets should be sufficient to cover the current liabilities. The issue is whether sufficient resources would be available to maintain the school open. This issue may be addressed in the Management Letter.
 - f. Any disclosures of events subsequent to the balance sheet date that the auditor believes are important to the readers of the financial statements (e.g., significant contractual arrangements and financing or refinancing of debt, payment of past due taxes, etc.).
- 8. If the audit is not submitted within the contractually required deadline, the Management Letter must comment on it with the appropriate response from the organization as to how it is going to be remedied in future audit submittals.
- 9. If there are Management Letter findings, each finding must include a response by the organization. If there were prior audit findings, the current audit must include the status of action taken, i.e., whether the recommendation was fully implemented and, if not, when (date) it will be fully implemented. Note that quarterly reports may be required on a case-by-case basis depending on the severity or lack of resolution of the issues noted in the Management Letter.
- 10. Please enter the following information about the Certified Public Accountant issuing the audit report:

N/A

N/A

N/A

N/A

CPA's Name GRAVIER AND ASSOCIATES, LLP
 CPA's Address 201 Alhambra Circle, Suite 901, Coral Gables, FL 33134
 License No. AD 64844 Status CURRENT
 Expiration Date 12/31/07

In reference to this checklist, please refer any questions to the Office of Management and Compliance Audits, attention Mr. Norberto Ferradaz, CPA (305) 995-1318.

Please forward a copy of the completed checklist with your audit.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2007, 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.

Gravin E. Casade, CPA

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 23, 2007

Management's Discussion and Analysis
Somerset Academy
(A Charter school Under Somerset Academy, Inc.)
June 30, 2007

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, 2007.

Financial Highlights

1. The assets of the School exceeded its liabilities at June 30, 2007 by \$ 519,863 (net assets).
2. At year-end, the School had current assets on hand of \$ 265,223.
3. The School had an increase in its net assets of \$ 195,974 for the year ended June 30, 2007.

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, 2007 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 \$ 519,863 at the close of the fiscal year. A summary of the School’s net assets as of June 30, 2007 follows:

	2007	2006
Cash	\$ 150,133	\$ 368,981
Prepaid Expenses	71,523	30,000
Due from other charter schools	-	-
Due from other agencies	36,487	249,025
Capital Assets, net	429,461	340,169
Accounts receivable	7,080	19,436
Total Assets	<u>\$ 694,684</u>	<u>\$ 1,007,611</u>
Accrued Liabilities	<u>174,821</u>	<u>625,594</u>
Total Liabilities	<u>\$ 174,821</u>	<u>\$ 625,594</u>
Invested in Capital Assets, net of related debt	\$ 429,461	\$ 110,169
Restricted	38,919	
Unrestricted	51,483	271,848
Total Net Assets	<u>\$ 519,863</u>	<u>\$ 382,017</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, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
REVENUES		
Program Revenues		
Capital Outlay funding	\$ 18,657	\$ 7,080
Operating Grants and Contributions	-	311,081
General Revenues		
FTE nonspecific revenues	3,423,075	2,822,151
Other Revenues	61,402	90,181
Charges for services	<u>520,349</u>	<u>183,837</u>
Total Revenues	<u>\$ 4,023,483</u>	<u>\$ 3,414,330</u>
EXPENSES		
Component Unit Activities:		
Instruction	\$ 1,690,919	\$ 1,524,710
Instructional Staff Training Services	16,195	24,214
Board	8,955	9,570
School Administration	386,479	305,600
Facilities Acquisition and Construction	1,084	3,517
Fiscal Services	237,077	78,738
Food Services	167,124	122,955
Central Services	97,480	82,832
Operation of Plant	751,345	680,079
Community Services	332,258	156,080
Maintenance of Plant	<u>138,593</u>	<u>86,796</u>
Total Expenses	<u>3,827,509</u>	<u>3,075,091</u>
Increase in Net Assets	195,974	281,111
Net Assets at Beginning of Year	<u>323,889</u>	<u>42,778</u>
Net Assets at End of Year	<u>\$ 519,863</u>	<u>\$ 323,889</u>

Somerset Academy School's revenue increased by \$ 609,153 in the current year and expenses increased by \$ 752,418, as a result of an increase in student enrollment. The largest increases in expenses were for Instruction, School Administration and Operation of Plant. The large increase in Instructional was a result of a salary increase to match the Districts salary scale. The School has an increase in its net assets of \$ 195,974 for the year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND

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

Governmental Funds

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

At the end of the fiscal year, the School's governmental fund reported a fund balance of \$ 90,402.

Achievements

In 2007, Somerset Academy earned a letter grade of "A" for the second consecutive year, ranking among the top 20% of all public elementary schools in Miami-Dade County, based on the points it received under the State of Florida Accountability Program. Somerset also met Adequate Yearly Progress under No Child Left Behind. The School received a "School Recognition Award" from the State of Florida and the "Superintendent's Platinum Award" for its achievements. In addition, Somerset Academy's facilities were recognized nationally for "Outstanding Elementary and Middle School Building Design" in The American School and University Magazine, a national publication on educational facilities.

Capital Assets

The School's investment in capital assets as of June 30, 2007 amounts to \$ 429,461 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures and computer equipment.

General 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	\$ -	\$ 18,657	\$ 18,657
General Revenues			
FTE Nonspecific Revenues	3,200,000	3,418,250	3,423,075
Other Revenues	305,000	470,000	486,642
Lunch program	<u>75,000</u>	<u>75,000</u>	<u>95,109</u>
Total Revenues	3,580,000	3,981,907	4,023,483
EXPENSES			
Component Unit Activities:			
Instruction	1,500,000	1,699,500	1,623,659
Instructional Staff Training Services	17,500	17,500	16,195
Board	10,000	10,000	8,955
School Administration	360,000	391,000	386,479
Fiscal Services	240,000	240,000	237,077
Food Services	120,000	164,500	150,635
Central Services	100,000	100,000	97,480
Operation of Plant	740,000	755,200	750,443
Community Services	335,000	141,500	332,258
Maintenance of Plant	<u>145,000</u>	<u>335,000</u>	<u>131,365</u>
Total Expenditures	<u>\$ 3,567,500</u>	<u>\$ 3,854,200</u>	<u>\$ 3,734,546</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, 6255 Bird Road, Miami, Florida, 33155.

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

Statement of Net Assets
June 30, 2007

Assets

Current assets:

Cash	\$	150,133
Accounts receivable, no allowance necessary		7,080
Prepaid expenses		71,523
Due from other agencies		36,487
		<u>265,223</u>

Capital assets, depreciable		568,218
Less: accumulated depreciation		<u>(138,757)</u>
		<u>429,461</u>

Total Assets \$ 694,684

Liabilities and Net assets

Current liabilities:

Salaries and wages payable	\$	98,937
Deposits		75,884
Total Liabilities		<u>174,821</u>

Net assets:

Invested in capital assets		429,461
Restricted by lease agreement		38,919
Unrestricted		51,483
Total Net Assets		<u>519,863</u>

Total Liabilities and Net Assets \$ 694,684

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

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

Statement of Activities
For the year ended June 30, 2007

2007					
FUNCTIONS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					-
Instruction	\$ 1,690,919	\$ -	\$ -	\$ -	\$ (1,690,919)
Instructional staff training	16,195	-	-	-	(16,195)
Board	8,955	-	-	-	(8,955)
School administration	386,479	-	-	-	(386,479)
Facilities acquisition	1,084	-	-	-	(1,084)
Fiscal services	237,077	-	-	-	(237,077)
Food services	167,124	95,109	-	-	(72,015)
Central services	97,480	-	-	-	(97,480)
Operation of plant	751,345	-	-	18,657	(732,688)
Maintenance of plant	138,593	-	-	-	(138,593)
Community Services	332,258	425,240	-	-	92,982
Total governmental activities	<u>3,827,509</u>	<u>520,349</u>	<u>-</u>	<u>18,657</u>	<u>(3,288,503)</u>
					FTE nonspecific revenues 3,423,075
					Interest and other revenue 61,402
					<u>195,974</u>
					Change in net assets
					Net assets, beginning 323,889
					<u>\$ 519,863</u>

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

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

Balance Sheet - Governmental Funds
 June 30, 2007

	2007		
	General Fund	Special	Total Governmental
		Revenue Fund	Funds
<u>Assets</u>			
Cash	\$ 150,133	\$ -	\$ 150,133
Accounts receivable	7,080		7,080
Due from other agencies	36,487		36,487
Prepaid expenses	71,523		71,523
Total Assets	<u>\$ 265,223</u>	<u>\$ -</u>	<u>\$ 265,223</u>
<u>Liabilities</u>			
Salaries and wages payable	\$ 98,937	\$ -	\$ 98,937
Deposits	75,884		75,884
Total Liabilities	<u>174,821</u>	<u>-</u>	<u>174,821</u>
<u>Fund balance</u>			
Reserved	38,919		38,919
Unreserved	51,483	-	51,483
	<u>90,402</u>	<u>-</u>	<u>90,402</u>
Total Liabilities and Fund Balance	<u>\$ 265,223</u>	<u>\$ -</u>	<u>\$ 265,223</u>

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

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

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets
For the year ended June 30, 2007

Total Fund Balance - Governmental Funds \$ 90,402

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

Capital assets of \$568,218 net of accumulated depreciation of \$138,757 used in governmental activities are not financial resources and therefore are not reported in the fund.

429,461

Total Net Assets - Governmental Activities \$ 519,863

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

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2007

	2007		
	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
Capital outlay funding	\$ -	\$ 18,657	18,657
Local sources	3,423,075	-	3,423,075
Federal sources	-	-	-
Interest and other revenue	61,402	-	61,402
Charges for services	425,240	95,109	520,349
Total Revenues	3,909,717	113,766	4,023,483
Expenditures:			
Current			
Instruction	1,623,659	-	1,623,659
Instructional staff training services	16,195	-	16,195
Board	8,955	-	8,955
School administration	386,479	-	386,479
Fiscal services	237,077	-	237,077
Food services	55,526	95,109	150,635
Central services	97,480	-	97,480
Operation of plant	731,786	18,657	750,443
Maintenance of plant	131,365	-	131,365
Community services	332,258	-	332,258
Capital Outlay:			
Other capital outlay	182,255	-	182,255
Debt Service:			
Redemption of Principal Interest	230,000	-	230,000
Total Expenditures	4,033,035	113,766	4,146,801
Excess (deficit) of revenues over expenditures	(123,318)	-	(123,318)
Other financing sources	-	-	-
Net change in fund balance	(123,318)	-	(123,318)
Fund Balance at beginning of year	213,720	-	213,720
Fund Balance at end of year	\$ 90,402	\$ -	\$ 90,402

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

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the year ended June 30, 2007

Net Change in Fund Balance - Governmental Funds \$ (123,318)

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

The proceeds from debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds of \$0 exceeded repayments of \$230,000 in the current period. 230,000

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 \$182,256 differed from depreciation expense of \$92,964. 89,292

Change in Net Assets of Governmental Activities \$ 195,974

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

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

Statement of Net Assets - Fiduciary Funds
June 30, 2007

	<u>2007</u>
	Agency Funds
<u>Assets</u>	
Cash	<u>\$ 82,419</u>
Total Assets	<u><u>\$ 82,419</u></u>
<u>Liabilities</u>	
Due to students and clubs	<u>\$ 82,419</u>
Total Liabilities	<u>\$ 82,419</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 (the "School"), is a charter school under Somerset Academy, Inc., a not-for-profit corporation organized in the State of Florida. The governing body of the School is the board of directors of Somerset Academy, Inc., which also governs other various charter schools. The School operates under a charter granted by the sponsoring district, the District School Board of Miami-Dade County (the "District"). The current charter expires on June 30, 2013 and is renewable for an additional 15 years by a mutual written agreement between the School and the District. During the term of the charter, the District may terminate the charter if good cause is shown. The School is considered a component unit of such District. The School is located in Miami, Florida for students from kindergarten through fifth grades and is funded by the District. These financial statements are for the year ended June 30, 2007, when approximately 560 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, that is 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
Software	3 Years
Furniture, Equipment and Textbooks	5 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 of 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.

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, 2007:

	Balance 7/1/06	Additions	Retirements	Balance 6/30/07
Capital Assets:				
Improvements	\$ -	\$ 43,370	\$ -	\$ 43,370
Software	78,125	254		78,379
Furniture, equipment and textbooks	<u>307,837</u>	<u>138,632</u>	-	<u>446,469</u>
Total Capital Assets	385,962	182,256		568,218
Less Accumulated Depreciation:				
Software	(8,522)	(16,449)	-	(24,971)
Furniture, equipment and textbooks	<u>(37,271)</u>	<u>(76,515)</u>	-	<u>(113,786)</u>
Total Accumulated Depreciation	<u>(45,793)</u>	<u>(92,964)</u>	-	<u>(138,757)</u>
Capital Assets, net	<u>\$340,169</u>	<u>\$ 89,292</u>	<u>\$ -</u>	<u>\$ 429,461</u>

Depreciation expense for the period ended June 30, 2007 was \$92,964 and is allocated in the Statement of Activities to instruction, facilities acquisition, and plant maintenance and operation.

Note 4 –Management Agreement

Academica Dade, LLC, a professional charter school management company, provides management and administrative services to the School including, but not limited to, facility design, staffing recommendations, human resource coordination, regulatory compliance, legal and corporate upkeep, maintenance of the books and records, bookkeeping, budgeting and financial reporting. The agreement between the School and the management company calls for a fee of \$450 per full time equivalent (FTE) student per year. The agreement is for a period of five years, through July 2009, with options to renew for a three year period and a two year period. During the year ended June 30, 2007, the School incurred approximately \$252,000, in management fees, of which no amounts were due as of the end of the year

Academica Dade, LLC is located at 6255 Bird Road, Miami, Florida 33155 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 shares its facility with Somerset Academy Charter Middle School (another charter school under Somerset Academy, Inc.). As result certain activities such as fundraising activities and the lunch program are recorded in the books of the School and not in those of Somerset Academy Charter Middle School.

In addition, the School operates a Pre-K and 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 2007 were \$425,240. Finally, during the year the School received a \$50,000 grant from Academica Dade, LLC.

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, 2007, the carrying amount of the School's deposits was 150,133 and the respective bank balances totaled \$100,832. Out of the total bank balances, \$100,000 was covered by the Federal Depository Insurance Corporation (FDIC). An additional balance of \$1,688,000 was fully collateralized by U.S. Government obligations under a repurchase agreement with Wachovia Bank.

Note 7 – Commitments and Contingencies

The School entered into a lease and security agreement with Valencia School Development, LLC for its 51,200 square feet including all ancillary facilities, outdoor areas and other improvements. Presently, members of the Landlord are also stockholders of the company which is the sole owner of Academica Dade, LLC (See Note 4). This facility is shared with Somerset Academy Charter Middle School (a charter school under Somerset Academy, Inc.). Initial fixed annual payments under this agreement (based on \$13.50 per square foot) are approximately \$691,000 adjusted annually based on the Consumer Price Index (CPI) plus additional property costs including repairs, maintenance and insurance. The agreement continues through August 2026 with an option to renew for an additional five-year term. Under the agreement, the School must meet certain covenants and requirements, including a "Lease Payment Coverage Ratio" of not less than 1.10 to 1.00 and maintaining a reserve for property expenses such as repairs, maintenance, taxes or insurance. Finally, under this agreement the School has granted a first lien on its pledged revenues, which include all revenues collected by the school from the Florida Department of Education, the District, and all other sources.

Lease payments are allocated among the two schools based on enrollment and usage of facility. The allocation used for 2007, was 80% for the School and 20% for Somerset Academy Charter Middle School.

Note 7 – Commitments and Contingencies (continued)

For 2007, rent expense totaled \$586,388, out which approximately \$578,000 related to facility lease. Future minimum payments for the full lease (shared with Somerset Academy Charter Middle School) are as follows:

<u>Year</u>	
2008	\$738,915
2009	\$738,915
2010	\$738,915
2011	\$738,915
2012	\$738,915
2013-2017	\$3,694,577 (Total for five-year period)
2018-2022	\$3,694,577 (Total for five-year period)
2023-2024	\$2,647,780 (Total for two-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.

Note 9 – Prior Year Adjustment

The School's beginning fund balance in the statement of revenues, expenditures, and changes in fund balance – governmental funds and beginning net assets in the statement of activities have been restated to reflect the balance of internal funds as liabilities (fiduciary funds). The following table summarizes the adjustment:

Statement of Activities	<u>2007</u>
Net assets at beginning of year, as previously reported	\$382,017
Prior period adjustment	(58,128)
Net assets at beginning of year, as restated	<u>\$323,889</u>
Balance Sheet – Governmental Funds	<u>2007</u>
Fund balance at beginning of year, as previously reported	\$271,848
Prior period adjustment	(58,128)
Fund balance at beginning of year, as restated	<u>\$213,720</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2007

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Local Sources	\$ 3,200,000	\$ 3,418,250	\$ 3,423,075
Interest and other revenues	305,000	470,000	486,642
Total Revenues	<u>3,505,000</u>	<u>3,888,250</u>	<u>3,909,717</u>
EXPENDITURES			
Current:			
Instruction	1,500,000	1,699,500	1,623,659
Instructional Staff			
Training Services	17,500	17,500	16,195
Board	10,000	10,000	8,955
General Administration			
School Administration	360,000	391,000	386,479
Fiscal Services	240,000	240,000	237,077
Food Services	45,000	89,500	55,526
Central Services	100,000	100,000	97,480
Operation of Plant	740,000	736,543	731,786
Maintenance of Plant	145,000	141,500	131,365
Community Services	335,000	335,000	332,258
Total Current Expenditures	<u>3,492,500</u>	<u>3,760,543</u>	<u>3,620,780</u>
Excess of Revenues Over Current Expenditures	<u>12,500</u>	<u>127,707</u>	<u>288,937</u>
Debt Service:			
Redemption of Principal			230,000
Capital Outlay:			
Other Capital Outlay	185,000	185,000	182,255
Total Capital Outlay and Debt Service Expenditures	<u>185,000</u>	<u>185,000</u>	<u>412,255</u>
Total Expenditures	<u>3,677,500</u>	<u>3,945,543</u>	<u>4,033,035</u>
Excess of Revenues Over Expenditures	(172,500)	(57,293)	(123,318)
Fund Balance at beginning of year	<u>213,720</u>	<u>213,720</u>	<u>213,720</u>
Fund Balance at end of year	<u>\$ 41,220</u>	<u>\$ 156,427</u>	<u>\$ 90,402</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2007

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Capital outlay funding	\$ -	\$ 18,657	\$ 18,657
Local Sources	-		
Other revenues			
Lunch Program	75,000	75,000	95,109
Total Revenues	<u>75,000</u>	<u>93,657</u>	<u>113,766</u>
EXPENDITURES			
Current:			
Instruction			
Pupil Personnel Services			
Board			
General Administration			
School Administration			
Facilities Acquisition & Construction			
Fiscal Services			
Food Services	75,000	75,000	95,109
Central Services	-	-	
Operation of Plant	-	18,657	18,657
Maintenance of Plant	-	-	
Total Current Expenditures	<u>75,000</u>	<u>93,657</u>	<u>113,766</u>
Excess of Revenues			
Over Current Expenditures	-	-	-
Capital Outlay:			
Other Capital Outlay			
Total Capital Outlay and			
Debt Service Expenditures	-	-	-
Total Expenditures	<u>75,000</u>	<u>93,657</u>	<u>113,766</u>
Excess of Revenues			
Over Expenditures	-	-	-
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



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
Doral, Florida

We have audited the financial statements of Somerset Academy (the "School") as of, and for the year ended June 30, 2007, and have issued our report thereon dated August 23, 2007. 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. Significant deficiencies are described in the accompanying management letter as item 07-01.

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.

Grani & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 23, 2007



MANAGEMENT LETTER

Board of Directors of Somerset Academy
Doral, Florida

We have audited the accompanying basic financial statements of Somerset Academy as of and for the year ended June 30, 2007 and have issued our report thereon dated August 23, 2007.

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 23, 2007. 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.

The recommendations made in the preceding annual financial audit report have been corrected.

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 07-01 FIDUCIARY FUND

Observation

We noted that cash held in the internal fund account, which primarily represents fiduciary type activity does not match the liability. This resulted in a restatement of prior year beginning net assets and fund balance.

Recommendation

Correction of this will necessitate a prior period adjustment. Going forward, management should ensure that all funds held in a fiduciary capacity are reflected as a liability.

ML 07-02 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.

ML 07-03 ESOL SERVICES

Observation

We noted that the Miami-Dade County Public School Compliance Review Form indicated a limited number of deficiencies with regards to ESOL services regarding evidence of written parental notification, LEP folder maintenance, On-line records, post program reviews, teacher certification and endorsement, and LEP Committee.

Recommendation

We noted corrective action had been implemented. Management may consider perform periodic self reviews.

ML 07-04 FRAUD AND WHISTLEBLOWER POLICY

Observation

We noted the Faculty Handbook does not establish a policy and/or process by which personnel can anonymously report suspected fraud and abuse.

Recommendation

Personnel are often in the best position to identify and report fraud and abuse. Therefore, such a policy will enhance internal controls.

ML 07-05 FTE REVENUE RECOGNITION

Observation

We noted that FTE revenues are recorded net of the 5% Administrative Overhead charged by MDCPS.

Recommendation

Although this does not impact the Schools fund balance, a better reflection of revenues and costs can be achieved by recording the revenues gross with a corresponding charge administrative fees.

ML 07-06 CAPITAL ASSETS

Observation

We noted that a periodic inventory of capital assets is not performed for the purpose of identifying serviceable assets and removing those that are obsolete or have been disposed of.

Recommendation

Although removing fully depreciated capital assets does not impact the reported net book value, the gross capital assets and accumulated depreciation account will continue to grow infinitely unless a periodic "clean-out" is not performed. Management should consider implementing a physical inventory at least annually.

4. Matters that are not clearly inconsequential considering both quantitative and qualitative factors, including the following:
 - a. Violations of laws, rules, regulations and contractual provisions or abuse that:
 - i. have occurred, or are likely to have occurred,
 - ii. that were discovered within the scope of the financial audit and,
 - iii. may or may not have materially affected the financial statements.
 - b. Illegal or improper expenditures
 - c. Improper or inadequate accounting procedures
 - d. Failure to properly record financial transactions, and

- e. Other 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.

- 5. The name or official title of the School.

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

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 23, 2007

Somerset Academy

September 1, 2007

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

07-1 Recommendation – Fiduciary Fund

Correction of this will necessitate a prior period adjustment. Going forward, management should ensure that all funds held in a fiduciary capacity are reflected as a liability.

Management Response

Management will follow the auditor's recommendation and will ensure that all funds held in a fiduciary capacity are reflected as a liability.

07-2 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 on the accrual basis with the 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. Recently, the School held a three-day mandatory workshop on internal accounting procedures for all school site administrators. Presented by a Certified Public Accountant expert in accounting for Florida public schools and familiar with the Internal Accounting Procedures Guide of M-DCPS. The administrators received in-service points for this workshop.

07-3 Recommendation – ESOL Services

We noted corrective action had been implemented. Management may consider performing periodic self reviews.

Management Response

The School's management will consider performing performing periodic self reviews

07-4 Recommendation – Fraud and Whistleblower Policy

Personnel are often in the best position to identify and report fraud and abuse. Therefore, such a policy will enhance internal controls.

Management Response

The Board of Directors adopted a Whistle Blower policy during the 2006-2007 school year, subsequent to the publication of the staff handbook. The meeting was publicly noticed, and open to the public. A resolution regarding the Board's adoption of the policy, along with a copy of the policy, was made available at the school site, where copies of the meeting minutes are kept. The current staff handbook has been updated and includes the Whistle Blower Policy.

07-5 Recommendation – FTE Revenue Recognition

Although this does not impact the Schools fund balance, a better reflection of revenues and costs can be achieved by recording the revenues gross with a corresponding charge administrative fees.

Management Response

Management will follow the auditor's recommendation.

07-6 Recommendation – Capital Assets

Although removing fully depreciated capital assets does not impact the reported net book value, the gross capital assets and accumulated depreciation account will continue to grow infinitely unless a periodic "clean out" is not performed. Management should consider implementing a physical inventory at least annually.

Management Response

The Schools' perform a physical inventory annually however, Management will follow the auditor's recommendation and perform a periodic "clean out" in order to remove those capital assets that are obsolete or no longer in service

Sincerely,



Ana Maria Martinez
Authorized Signor for Somerset Academy, Inc.