

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

Financial Statements And
Independent Auditors' Report

June 30, 2007

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Somerset Academy Charter High School
SW 117 Ave. & 232 St.
Miami, Florida 33170

Temporary locations:
2601 NW 112 Ave., Doral, FL 33172 and
11100 NW 27 St., Doral, FL 33172

2006-2007

BOARD OF DIRECTORS

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Alejandra Salima Jacquinet
Cyndy Hanson
Carlos Resendez
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SCHOOL ADMINISTRATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Somerset Academy Charter High School
Miami, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Somerset Academy Charter High School (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 Charter High School 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.

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 7 and 20 through 21, 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.

Grava & Curcote, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 23, 2007

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

The corporate officers of Somerset Academy High School 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 \$ 442,096 (net assets).
2. At year-end, the School had current assets on hand of \$ 377,967.
3. The School had an increase in its net assets of \$257,572.

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 period 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 10 - 13 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 14 - 19 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 \$ 482,868 at the close of the period. A summary of the School’s net assets as of June 30, 2007 follows:

| | <u>2007</u> | <u>2006</u> |
|--|-------------------|-------------------|
| Cash | \$ 318,672 | \$ 78,698 |
| Accounts receivable | - | - |
| Due from other charter schools | 55,255 | 100,000 |
| Capital Assets | 104,901 | 2,250 |
| Due from other agencies | <u>4,040</u> | <u>198,692</u> |
| Total Assets | <u>\$ 482,868</u> | <u>\$ 379,640</u> |
| | | |
| Accounts Payable and Deferred Revenue | <u>40,772</u> | <u>195,116</u> |
| Total Liabilities | <u>\$ 40,772</u> | <u>\$ 195,116</u> |
| | | |
| Invested in Capital Assets, net of related debt | \$ 104,901 | \$ 2,250 |
| Unrestricted | <u>337,195</u> | <u>182,274</u> |
| Total Net Assets | <u>\$ 442,096</u> | <u>\$ 184,524</u> |

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

A summary and analysis of the School's revenues and expenses from inception through June 30, 2007 follows:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------|-------------------|-------------------|
| REVENUES | | |
| Program Revenues | | |
| Federal Sources | \$ 153,982 | \$ 182,476 |
| General Revenues | | |
| FTE nonspecific revenues | 272,479 | 120,114 |
| Other revenues | <u>8,704</u> | <u>505</u> |
| Total Revenues | <u>\$ 435,165</u> | <u>\$ 303,095</u> |
| EXPENSES | | |
| Component Unit Activities: | | |
| Instruction | \$ 36,380 | \$ 45,621 |
| Instructional staff training | 1,391 | - |
| Board | 6,718 | 7,550 |
| School Administration | 26,619 | 73,459 |
| Fiscal Services | 20,061 | 3,263 |
| Central Services | 12,364 | 3,263 |
| Maintenance of Plant | 500 | 503 |
| Operation of Plant | <u>73,560</u> | <u>49,067</u> |
| Total Expenses | <u>177,593</u> | <u>182,726</u> |
| Increase in Net Assets | <u>257,572</u> | <u>120,369</u> |
| Net Assets at Beginning of Year | <u>184,524</u> | <u>64,155</u> |
| Net Assets at End of Year | <u>\$ 442,096</u> | <u>\$ 184,524</u> |

Somerset Academy High School's revenue increased by \$ 132,070 in the current year and expenses decreased by \$ 5,133. Somerset Academy High School had an increase in its net assets of \$ 257,572 for the year.

Lease of Facility

The School temporarily leases a facility from Doral Academy Charter High School. A permanent facility has been approved by Miami-Dade County.

Capital Improvement Requirements

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

Achievements

In 2007, Somerset Academy High School earned a letter grade of "A", and was the 4th highest-performing public high school in Miami-Dade County, based on the points it received under the State of Florida Accountability Program. The School received a "School Recognition Award" from the Florida Department of Education and the "Superintendent's Platinum Award" for its achievements. Somerset Academy High School also met "Adequate Yearly Progress" under the *No Child Left Behind Act*.

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 \$ 377,967.

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 general fund to demonstrate compliance with the School's budget.

| | Original Budget | Final Budget | Actual |
|---------------------------------------|--------------------|-------------------|-------------------|
| REVENUES | | | |
| Program Revenues | | | |
| Federal Sources | \$ 194,754 | \$ 194,754 | \$ 153,982 |
| General Revenues | | | |
| FTE Nonspecific Revenues | 222,000 | 270,000 | 272,479 |
| Other | - | 5,000 | 8,704 |
| Total Revenues | <u>\$ 416,754</u> | <u>\$ 469,754</u> | <u>\$ 435,165</u> |
| EXPENSES | | | |
| Component Unit Activities: | | | |
| Instruction | 74,919 | 37,550 | 24,919 |
| Instructional Staff Training Services | 1,391 | 1,391 | 1,391 |
| Board | 7,000 | 5,609 | 6,718 |
| School Administration | 27,000 | 28,500 | 26,619 |
| Fiscal Services | 21,000 | 20,000 | 20,061 |
| Central Services | 15,000 | 12,500 | 12,364 |
| Operation of Plant | 78,060 | 74,060 | 73,560 |
| Total Expenses | <u>\$ 224,370</u> | <u>\$ 179,610</u> | <u>\$ 165,632</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 Corporation, 6255 Bird Road, Miami, Florida, 33155.

Somerset Academy Charter High School
(A charter school under Somerset Academy, Inc)

Statement of Net Assets
June 30, 2007

Assets

Current assets:

| | | |
|--------------------------------|----|----------------|
| Cash | \$ | 318,672 |
| Due from other charter schools | | 55,255 |
| Due from other agencies | | 4,040 |
| | | <u>377,967</u> |

| | | |
|--------------------------------|--|-----------------|
| Capital assets, depreciable | | 117,112 |
| Less: accumulated depreciation | | <u>(12,211)</u> |
| | | <u>104,901</u> |

Total Assets \$ 482,868

Liabilities and Net assets

Current liabilities:

| | | |
|-------------------|----|---------------|
| Deferred revenue | \$ | 40,772 |
| Total Liabilities | | <u>40,772</u> |

Net assets:

| | | |
|----------------------------|--|----------------|
| Invested in capital assets | | 104,901 |
| Unrestricted | | 337,195 |
| Total Net Assets | | <u>442,096</u> |

Total Liabilities and Net Assets \$ 482,868

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

Somerset Academy Charter High School
 (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 | |
| Governmental activities: | | | | - |
| Instruction | \$ 36,380 | \$ - | \$ 139,531 | \$ - |
| Instructional staff training | 1,391 | - | 1,391 | - |
| Board | 6,718 | - | 5,000 | (1,718) |
| School administration | 26,619 | - | - | (26,619) |
| Fiscal services | 20,061 | - | - | (20,061) |
| Central services | 12,364 | - | - | (12,364) |
| Operation of plant | 73,560 | - | 8,060 | (65,500) |
| Maintenance of plant | 500 | - | - | (500) |
| Total governmental activities | <u>177,593</u> | <u>-</u> | <u>153,982</u> | <u>(23,611)</u> |
| | | | | 272,479 |
| | | | | <u>8,704</u> |
| | | | | 257,572 |
| | | | | 184,524 |
| | | | | <u>\$ 442,096</u> |

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

Somerset Academy Charter High School
 (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 | \$ 318,672 | \$ - | \$ 318,672 |
| Due from other agencies | 4,040 | | 4,040 |
| Due from other charter schools | 55,255 | | 55,255 |
| Total Assets | <u>\$ 377,967</u> | <u>\$ -</u> | <u>\$ 377,967</u> |
| <u>Liabilities</u> | | | |
| Deferred revenue | \$ 40,772 | \$ - | \$ 40,772 |
| Total Liabilities | <u>40,772</u> | <u>-</u> | <u>40,772</u> |
| <u>Fund balance</u> | | | |
| Unreserved | 337,195 | - | 337,195 |
| | <u>337,195</u> | <u>-</u> | <u>337,195</u> |
| Total Liabilities and Fund Balance | <u>\$ 377,967</u> | <u>\$ -</u> | <u>\$ 377,967</u> |

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

Somerset Academy Charter High School
(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 \$ 337,195

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

Capital assets of \$117,112 net of accumulated depreciation of \$12,211 used in governmental activities are not financial resources and therefore are not reported in the fund. 104,901

Total Net Assets - Governmental Activities \$ 442,096

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

Somerset Academy Charter High School
(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: | | | |
| Local sources | \$ 272,479 | \$ - | \$ 272,479 |
| Federal sources | - | 153,982 | 153,982 |
| Interest and other revenue | 8,704 | - | 8,704 |
| Total Revenues | 281,183 | 153,982 | 435,165 |
| Expenditures: | | | |
| Current | | | |
| Instruction | - | 24,919 | 24,919 |
| Instructional staff training services | - | 1,391 | 1,391 |
| Board | 1,718 | 5,000 | 6,718 |
| School administration | 26,619 | - | 26,619 |
| Fiscal services | 20,061 | - | 20,061 |
| Central services | 12,364 | - | 12,364 |
| Operation of plant | 65,500 | 8,060 | 73,560 |
| Maintenance of plant | - | - | - |
| Capital Outlay: | | | |
| Other capital outlay | - | 114,612 | 114,612 |
| Total Expenditures | 126,262 | 153,982 | 280,244 |
| Excess (deficit) of revenues over expenditures | 154,921 | - | 154,921 |
| Other financing sources | - | - | - |
| Net change in fund balance | 154,921 | - | 154,921 |
| Fund Balance at beginning of year | 182,274 | - | 182,274 |
| Fund Balance at end of year | <u>\$ 337,195</u> | <u>\$ -</u> | <u>\$ 337,195</u> |

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

Somerset Academy Charter High School
(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 \$ 154,921

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 \$114,612 differed from depreciation expense of \$11,961.

102,651

Change in Net Assets of Governmental Activities

\$ 257,572

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

Note 1 – Organization and Operations

Somerset Academy Charter High School (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, 2014 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 ninth through twelfth grades grade and is funded by the District. These financial statements are for the year ended June 30, 2007, when approximately 40 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:

| | |
|------------------------------------|---------|
| 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.

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.

Somerset Academy Charter High School
(A charter school under Somerset Academy, Inc.)
Notes to Financial Statements
June 30, 2007

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:

| | <u>Balance</u> 7/1/06 | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> 6/30/07 |
|------------------------------------|--------------------------|-------------------|--------------------|---------------------------|
| Capital Assets: | | | | |
| Furniture, equipment and textbooks | <u>\$ 2,500</u> | <u>\$ 114,612</u> | <u>-</u> | <u>\$ 117,112</u> |
| Total Capital Assets | 2,500 | 114,612 | | 117,112 |
| Less Accumulated Depreciation: | | | | |
| Software | - | - | - | - |
| Furniture, equipment and textbooks | <u>(250)</u> | <u>(11,961)</u> | <u>-</u> | <u>(12,211)</u> |
| Total Accumulated Depreciation | <u>(250)</u> | <u>(11,961)</u> | <u>-</u> | <u>(12,211)</u> |
| Capital Assets, net | <u>\$ 2,250</u> | <u>\$ 102,651</u> | <u>\$ -</u> | <u>\$ 104,901</u> |

Depreciation expense for the period ended June 30, 2007 was \$11,961 and is allocated in the Statement of Activities to instruction.

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 \$20,000, 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

The School entered into a usage and license agreement for facilities with Doral Academy High School (charter school operated by the same management company) for the 2006-2007 school year. The fee was based on a per-student cost allocation, calculated by dividing total facility costs (including payroll and other services) by the total number of students in the building. The usage fee paid by the School during 2007 was \$117,659.

As of June 30, 2007, the School had a receivable from Somerset Academy Silver Palms for \$55,255. This is a new charter school that will begin operations on the 2007-08 school year. Funds were advanced to assist the school with start-up expenses.

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 318,672 and the respective bank balances totaled \$100,116. Out of the total bank balances, \$100,000 was covered by the Federal Depository Insurance Corporation (FDIC). An additional \$192,000 was fully collateralized by U.S. Government obligations under a repurchase agreement with Wachovia Bank.

Note 7 – Commitments and Contingencies

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

Note 8 – Risk Management

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

REQUIRED SUPPLEMENTARY INFORMATION

Somerset Academy Charter High School
(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 | \$ 222,000 | \$ 270,000 | \$ 272,479 |
| Interest and other revenues | | 5,000 | 8,704 |
| Total Revenues | <u>222,000</u> | <u>275,000</u> | <u>281,183</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Instruction | 50,000 | 12,631 | - |
| Board | 2,000 | 609 | 1,718 |
| School Administration | 27,000 | 28,500 | 26,619 |
| Fiscal Services | 21,000 | 20,000 | 20,061 |
| Food Services | - | - | - |
| Central Services | 15,000 | 12,500 | 12,364 |
| Operation of Plant | 70,000 | 66,000 | 65,500 |
| Maintenance of Plant | - | - | - |
| Total Current Expenditures | <u>185,000</u> | <u>140,240</u> | <u>126,262</u> |
| Excess of Revenues Over Current Expenditures | <u>37,000</u> | <u>134,760</u> | <u>154,921</u> |
| Debt Service: | | | |
| Redemption of Principal | - | - | - |
| Capital Outlay: | | | |
| Other Capital Outlay | - | - | - |
| Total Capital Outlay and Debt Service Expenditures | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Expenditures | <u>185,000</u> | <u>140,240</u> | <u>126,262</u> |
| Excess of Revenues Over Expenditures | 37,000 | 134,760 | 154,921 |
| Fund Balance at beginning of year | <u>182,274</u> | <u>182,274</u> | <u>182,274</u> |
| Fund Balance at end of year | <u>\$ 219,274</u> | <u>\$ 317,034</u> | <u>\$ 337,195</u> |

Somerset Academy Charter High School
 (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 | \$ - | \$ - | \$ - |
| Federal sources | 194,754 | 194,754 | 153,982 |
| Lunch Program | - | - | - |
| Total Revenues | <u>194,754</u> | <u>194,754</u> | <u>153,982</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Instruction | 24,919 | 24,919 | 24,919 |
| Instructional Staff | | | |
| Training Services | 1,391 | 1,391 | 1,391 |
| Board | 5,000 | 5,000 | 5,000 |
| School Administration | - | - | - |
| Fiscal Services | - | - | - |
| Food Services | - | - | - |
| Central Services | - | - | - |
| Operation of Plant | 8,060 | 8,060 | 8,060 |
| Maintenance of Plant | - | - | - |
| Total Current Expenditures | <u>39,370</u> | <u>39,370</u> | <u>39,370</u> |
| Excess of Revenues | | | |
| Over Current Expenditures | <u>155,384</u> | <u>155,384</u> | <u>114,612</u> |
| Debt Service: | | | |
| Redemption of Principal | | | |
| Capital Outlay: | | | |
| Other Capital Outlay | 155,384 | 155,384 | 114,612 |
| Total Capital Outlay and | | | |
| Debt Service Expenditures | <u>155,384</u> | <u>155,384</u> | <u>114,612</u> |
| Total Expenditures | <u>194,754</u> | <u>194,754</u> | <u>153,982</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 Charter High School
Miami, Florida

We have audited the financial statements of Somerset Academy Charter High School (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.

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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

Graver & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 23, 2007



MANAGEMENT LETTER

Board of Directors of
Somerset Academy Charter High School
Miami, Florida

We have audited the accompanying basic financial statements of Somerset Academy Charter High School 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 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 07-02 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 07-03 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 Charter High School

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 – 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.

07-2 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.

07-3 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.