

Somerset Academy Charter Middle 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 Middle School  
18491 SW 134 Avenue  
Miami, Florida 33177

**2006-2007**

BOARD OF DIRECTORS

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Dr. Angie Hui Fang Su  
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Dina Miller Vice President  
Shannie Sadesky, Vice President



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Somerset Academy Charter Middle School  
Miami, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Somerset Academy Charter Middle 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 Middle 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 8 and 22 through 23, 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.

*Crawley & Associates, LLP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 23, 2007

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

The corporate officers of Somerset Academy Middle School Charter have prepared this narrative overview and analysis of the school's financial activities for the fiscal year ended June 30, 2007.

**Financial Highlights**

1. The assets of the School exceeded its liabilities at June 30, 2007 by \$ 359,620 (net assets).
2. At year-end, the School had current assets on hand of \$ 247,401.
3. The School had an increase in its net assets of \$ 33,689 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 - 14 of this report.

### *Notes to Financial Statements*

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

The notes to the financial statements can be found on pages 15-21 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 \$359,320 at the close of the fiscal year. A summary of the School's net assets as of June 30, 2007 follows:

	2007	2006
Cash	\$ 229,708	\$ 10,079
Due from other charter schools	-	130,000
Due from other agencies	-	202,152
Capital Assets	133,752	68,177
Accounts receivable	17,693	20,523
Total Assets	<u>\$ 381,153</u>	<u>\$ 430,931</u>
Salaries Payable	\$ 21,533	\$ 13,675
Accounts Payable and Deferred Revenue	-	91,325
Total Liabilities	<u>\$ 21,533</u>	<u>\$ 105,000</u>
Invested in Capital Assets, net of related debt	\$ 133,752	\$ 68,177
Restricted	9,066	
Unrestricted	216,802	257,754
Total Net Assets	<u>\$ 359,620</u>	<u>\$ 325,931</u>

At the end of the fiscal year, 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 and 2006 follows:

	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>		
Program Revenues		
Federal Sources	\$ 86,754	\$ 280,398
General Revenues		
FTE nonspecific revenues	788,947	382,897
Other Revenues	<u>13,277</u>	<u>451</u>
Total Revenues	<u>\$ 888,978</u>	<u>\$ 663,746</u>
<b>EXPENSES</b>		
Component Unit Activities:		
Instruction	\$ 442,359	\$ 220,868
Instructional Media Services	177	88
Instructional Staff Training Services	10,356	481
Board	6,455	8,030
School Administration	91,185	37,832
Facilities Acquisition and Construction	826	723
Fiscal Services	59,936	11,204
Food Services	217	3,108
Central Services	27,275	11,900
Operation of Plant	206,569	106,925
Maintenance of Plant	<u>9,934</u>	<u>12,049</u>
Total Expenses	<u>855,289</u>	<u>413,208</u>
Increase in Net Assets	33,689	250,538
Net Assets at Beginning of Year	<u>325,931</u>	<u>75,393</u>
Net Assets at End of Year	<u>\$ 359,620</u>	<u>\$ 325,931</u>

Somerset Academy Middle School's revenue increased by \$ 225,232 in the current year and expenses increased by \$ 442,081, as a result of an increase in student enrollment. The large increase in Instructional expense was a result of a salary increase to match the Districts salary scale. The School was able to improve its financial position by decreasing its liabilities by \$ 83,467. Somerset Academy Middle School had an increase in its net assets of \$ 33,689 for the year.

**Lease of Facility**

Students are housed at 18491 S.W. 134<sup>th</sup> Avenue.



## 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 \$ 225,868.

### 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
<b>REVENUES</b>			
Program Revenues			
FTE Nonspecific Revenues	\$ 750,000	\$ 777,300	\$ 788,947
<b>General Revenues</b>			
Federal Sources	86,754	86,754	86,754
Other Revenues	-	10,000	13,277
Total Revenues	<u>\$ 836,754</u>	<u>\$ 874,054</u>	<u>\$ 888,978</u>
<b>EXPENSES</b>			
<b>Component Unit Activities:</b>			
Instruction	436,754	444,000	427,692
Instructional Media Services	300	300	-
Instructional Staff Training Services	11,000	11,000	10,356
Board	7,000	7,000	6,455
School Administration	69,000	97,500	91,185
Fiscal Services	60,000	60,000	59,936
Food Services	500	500	217
Central Services	30,000	30,000	27,275
Operation of Plant	208,100	208,100	206,039
Maintenance of Plant	11,500	11,500	9,605
Total Expenses	<u>\$ 834,154</u>	<u>\$ 869,900</u>	<u>\$ 838,760</u>

## **Achievements**

In 2007, Somerset Academy Middle School earned a letter grade of “B”, and ranked within the top 40% of public middle schools in Miami-Dade County, based on the points it received under the State of Florida Accountability Program. Somerset Middle also met Adequate Yearly Progress under No Child Left Behind. 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.

## **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 Charter Middle School  
(A charter school under Somerset Academy, Inc)

Statement of Net Assets  
June 30, 2007

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**Assets**

Current assets:

Cash	\$	229,708
Prepaid expense		17,693
		<u>247,401</u>

Capital assets, depreciable		165,675
Less: accumulated depreciation		(31,923)
		<u>133,752</u>

Total Assets \$ 381,153

**Liabilities and Net assets**

Current liabilities:

Salaries and wages payable	\$	21,533
Total Liabilities		<u>21,533</u>

Net assets:

Invested in capital assets		133,752
Restricted by lease agreement		9,066
Unrestricted		216,802
Total Net Assets		<u>359,620</u>

Total Liabilities and Net Assets \$ 381,153

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

Somerset Academy Charter Middle 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	Capital Grants and Contributions	
<b>Governmental activities:</b>					-
Instruction	\$ 442,359	\$ -	\$ 51,754	\$ -	\$ (390,605)
Instructional media services	177	-	-	-	(177)
Instructional staff training	10,356	-	10,000	-	(356)
Board	6,455	-	-	-	(6,455)
School administration	91,185	-	10,000	-	(81,185)
Facilities acquisition	826	-	-	-	(826)
Fiscal services	59,936	-	15,000	-	(44,936)
Food services	217	-	-	-	(217)
Central services	27,275	-	-	-	(27,275)
Operation of plant	206,569	-	-	-	(206,569)
Maintenance of plant	9,934	-	-	-	(9,934)
<b>Total governmental activities</b>	<u>855,289</u>	<u>-</u>	<u>86,754</u>	<u>-</u>	<u>(768,535)</u>
					788,947
					<u>13,277</u>
					33,689
					325,931
					<u>\$ 359,620</u>

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

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

Balance Sheet - Governmental Funds  
 June 30, 2007

	2007		
	General Fund	Special Revenue Fund	Total Governmental Funds
<b><u>Assets</u></b>			
Cash	\$ 229,708	\$ -	\$ 229,708
Prepaid expense	17,693		17,693
Total Assets	<u>\$ 247,401</u>	<u>\$ -</u>	<u>\$ 247,401</u>
<b><u>Liabilities</u></b>			
Salaries and wages payable	\$ 21,533		\$ 21,533
Total Liabilities	<u>21,533</u>	<u>-</u>	<u>21,533</u>
<b><u>Fund balance</u></b>			
Reserved	9,066		9,066
Unreserved	216,802	-	216,802
	<u>225,868</u>	<u>-</u>	<u>225,868</u>
Total Liabilities and Fund Balance	<u>\$ 247,401</u>	<u>\$ -</u>	<u>\$ 247,401</u>

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

Somerset Academy Charter Middle 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

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Total Fund Balance - Governmental Funds \$ 225,868

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

Capital assets of \$165,675 net of accumulated depreciation  
of \$31,923 used in governmental activities are not financial  
resources and therefore are not reported in the fund. 133,752

Total Net Assets - Governmental Activities \$ 359,620

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

Somerset Academy Charter Middle 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
<b>Revenues:</b>			
Local sources	\$ 788,947	\$ -	\$ 788,947
Federal sources	-	86,754	86,754
Interest and other revenue	13,277	-	13,277
<b>Total Revenues</b>	<b>802,224</b>	<b>86,754</b>	<b>888,978</b>
<b>Expenditures:</b>			
<b>Current</b>			
Instruction	375,938	51,754	427,692
Instructional staff training services	356	10,000	10,356
Board	6,455		6,455
School administration	81,185	10,000	91,185
Fiscal services	44,936	15,000	59,936
Food services	217		217
Central services	27,275		27,275
Operation of plant	206,039		206,039
Maintenance of plant	9,605		9,605
<b>Capital Outlay:</b>			
Other capital outlay	82,104		82,104
<b>Total Expenditures</b>	<b>834,110</b>	<b>86,754</b>	<b>920,864</b>
Excess (deficit) of revenues over expenditures	(31,886)	-	(31,886)
Other financing sources	-	-	-
Net change in fund balance	(31,886)	-	(31,886)
Fund Balance at beginning of year	257,754	-	257,754
Fund Balance at end of year	<u>\$ 225,868</u>	<u>\$ -</u>	<u>\$ 225,868</u>

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

Somerset Academy Charter Middle 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

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Net Change in Fund Balance - Governmental Funds \$ (31,886)

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 \$82,104 differed from depreciation expense of \$16,530.

65,575

Change in Net Assets of Governmental Activities

\$ 33,689

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



### **Note 1 – Organization and Operations**

Somerset Academy Charter Middle 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 sixth through eighth grades grade and is funded by the District. These financial statements are for the year ended June 30, 2007, when approximately 137 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.

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

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**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 7/1/06</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/07</u>
Capital Assets:				
Improvements	\$ -	\$ 3,323	\$ -	\$ 3,323
Software	467	-		467
Furniture, equipment and textbooks	<u>83,103</u>	<u>78,782</u>	<u>-</u>	<u>161,885</u>
Total Capital Assets	83,570	82,105		165,675
Less Accumulated Depreciation:				
Software	-	(156)	-	(156)
Furniture, equipment and textbooks	<u>(15,393)</u>	<u>(16,374)</u>	<u>-</u>	<u>(31,767)</u>
Total Accumulated Depreciation	<u>(15,393)</u>	<u>(16,530)</u>	<u>-</u>	<u>(31,923)</u>
Capital Assets, net	<u>\$68,177</u>	<u>\$ 65,575</u>	<u>\$ -</u>	<u>\$ 133,752</u>

Depreciation expense for the period ended June 30, 2007 was \$16,530 and is allocated in the Statement of Activities to instruction 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 \$62,000, in management fees, of which at year end the School had a prepaid of \$1,950.

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 shares its facility with Somerset Academy (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 Somerset Academy and not in those of the School. As of June 30, 2007, the School had a receivable from Somerset Academy Silver Palms of \$2,920. 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 229,708 and the respective bank balances totaled \$100,831. Out of the total bank balances, \$100,000 was covered by the Federal Depository Insurance Corporation (FDIC). The School also had additional balance of \$159,000 that 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 facility 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 (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 20% for the School and 80% for Somerset Academy. As of June 30, 2007, the School had a prepaid to the landlord of \$12,035.

**Note 7 – Commitments and Contingencies (continued)**

For 2007, rent expense totaled \$143,156, out which approximately \$137,000 related to the facility lease. Future minimum payments for the full lease (shared with Somerset Academy) 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.

REQUIRED SUPPLEMENTARY INFORMATION



Somerset Academy Charter Middle 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
<b>REVENUES</b>			
Local Sources	\$ 750,000	\$ 777,300	\$ 788,947
Interest and other revenues		10,000	13,277
Total Revenues	<u>750,000</u>	<u>787,300</u>	<u>802,224</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	385,000	392,246	375,938
Instructional Media Services	300	300	-
Instructional Staff			
Training Services	1,000	1,000	356
Board	7,000	7,000	6,455
School Administration	59,000	87,500	81,185
Fiscal Services	45,000	45,000	44,936
Food Services	500	500	217
Central Services	30,000	30,000	27,275
Operation of Plant	208,100	208,100	206,039
Maintenance of Plant	11,500	11,500	9,605
Total Current Expenditures	<u>747,400</u>	<u>783,146</u>	<u>752,006</u>
Excess of Revenues Over Current Expenditures	<u>2,600</u>	<u>4,154</u>	<u>50,218</u>
Debt Service:			
Redemption of Principal			
Capital Outlay:			
Other Capital Outlay	85,000	85,000	82,104
Total Capital Outlay and Debt Service Expenditures	<u>85,000</u>	<u>85,000</u>	<u>82,104</u>
Total Expenditures	<u>832,400</u>	<u>868,146</u>	<u>834,110</u>
Excess of Revenues Over Expenditures	(82,400)	(80,846)	(31,886)
Fund Balance at beginning of year	<u>257,754</u>	<u>257,754</u>	<u>257,754</u>
Fund Balance at end of year	<u>\$ 175,354</u>	<u>\$ 176,908</u>	<u>\$ 225,868</u>

Somerset Academy Charter Middle 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
<b>REVENUES</b>			
Capital outlay funding	\$ -	\$ -	\$ -
Federal sources	86,754	86,754	86,754
Lunch Program	-	-	-
<b>Total Revenues</b>	<u>86,754</u>	<u>86,754</u>	<u>86,754</u>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Instruction	51,754	51,754	51,754
Instructional Staff	-	-	-
Training Services	10,000	10,000	10,000
Board	-	-	-
School Administration	10,000	10,000	10,000
Fiscal Services	15,000	15,000	15,000
Food Services	-	-	-
Central Services	-	-	-
Operation of Plant	-	-	-
Maintenance of Plant	-	-	-
<b>Total Current Expenditures</b>	<u>86,754</u>	<u>86,754</u>	<u>86,754</u>
Excess of Revenues Over Current Expenditures	-	-	-
<b>Debt Service:</b>			
Redemption of Principal	-	-	-
<b>Capital Outlay:</b>			
Other Capital Outlay	-	-	-
<b>Total Capital Outlay and Debt Service Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Expenditures</b>	<u>86,754</u>	<u>86,754</u>	<u>86,754</u>
Excess of Revenues Over Expenditures	-	-	-
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

GRAVIER  
— & —  
Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of Somerset Academy Charter Middle 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.

*Grady & Associates, LLP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 23, 2007



## MANAGEMENT LETTER

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

We have audited the accompanying basic financial statements of Somerset Academy Charter Middle 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 recommendation 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.

**ML 07-04 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.

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.

*Graven & Associates, LLP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 23, 2007

**Somerset Academy Charter Middle 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

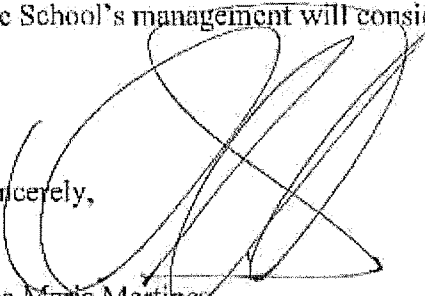
**07-4 Recommendation – ESOL Services**

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

**Management Response**

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

Sincerely,



Ana Maria Martinez  
Authorized Signor for Somerset Academy, Inc.