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

Financial Statements And  
Independent Auditors' Report

June 30, 2010

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

2009-2010

BOARD OF DIRECTORS

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CERTIFIED PUBLIC ACCOUNTANTS

## 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, 2010, 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, 2010, 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 Charter Middle School, as of June 30, 2010, 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 30, 2010, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*HLB Gravin, LLP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 30, 2010

**Management's Discussion and Analysis**  
Somerset Academy Charter Middle School  
(A Charter School Under Somerset Academy, Inc.)  
June 30, 2010

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, 2010.

**Financial Highlights**

1. The assets of the School exceeded its liabilities at June 30, 2010 by \$462,737 (net assets).
2. At year-end, the School had current assets on hand of \$427,432.
3. The School had an increase in its net assets of \$76,462 for the year ended June 30, 2010.

**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, 2010 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 15-22 of this report.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a charter school’s financial position. In the case of the School, assets exceeded liabilities by \$462,737 at the close of the fiscal year. A summary of the School’s net assets as of June 30, 2010 follows:

	2010	2009
Cash	\$ 403,794	\$ 187,715
Due from other charter schools	294	12,770
Accounts receivable	-	50,000
Due from other agencies	5,146	1,234
Capital Assets	83,842	144,162
Prepaid expenses	18,075	32,807
Deposits	123	123
Total Assets	\$ 511,274	\$ 428,811
Accounts Payable and Salaries Payable	\$ 48,537	\$ 42,536
Due to other schools	-	-
Total Liabilities	\$ 48,537	\$ 42,536
Invested in Capital Assets, net of related debt	\$ 83,842	\$ 144,162
Unrestricted	378,895	242,113
Total Net Assets	\$ 462,737	\$ 386,275

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 for the years ended June 30, 2010 and 2009 follows:

	2010	2009
<b>REVENUES</b>		
Program Revenues		
Federal Sources	\$ 57,344	\$ 25,529
Capital Outlay	79,907	78,855
Charges for services	98,958	70,854
General Revenues		
FTE nonspecific revenues	841,111	759,621
Other Revenues	279	50,128
Total Revenues	<u>\$1,077,599</u>	<u>\$ 984,987</u>
<b>EXPENSES</b>		
Component Unit Activities:		
Instruction	\$ 465,877	\$ 461,177
Instructional Media Services	400	288
Instructional Staff Training Services	2,197	1,417
Board	12,047	11,155
School Administration	166,953	155,589
Facilities Acquisition and Construction	4,938	4,856
Fiscal Services	21,800	19,275
Food Services	45,171	34,435
Central Services	23,580	20,554
Operation of Plant	245,822	257,032
Maintenance of Plant	12,352	18,570
Total Expenses	<u>1,001,137</u>	<u>984,348</u>
Increase in Net Assets	76,462	639
Net Assets at Beginning of Year	<u>386,275</u>	<u>385,636</u>
Net Assets at End of Year	<u>\$ 462,737</u>	<u>\$ 386,275</u>

Somerset Academy Middle School's revenues and expenditures increased by \$92,612 and \$16,789, respectively, as a result of an increase in student enrollment. Somerset Academy Middle School had an increase in its net assets of \$ 76,462 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 \$378,895.

### Governmental Fund Budget Analysis and Highlights

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

	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
Program Revenues			
Capital Outlay	\$ 98,784	\$ 80,000	\$ 79,907
Charges for services	58,500	82,000	98,958
Federal School Lunch	-	40,000	40,308
Federal Sources	-	18,000	17,036
General Revenues			
FTE Nonspecific Revenues	756,452	835,000	841,111
Other Revenues	-	-	279
Total Revenues	<u>\$ 913,736</u>	<u>\$ 1,055,000</u>	<u>\$ 1,077,599</u>
<b>CURRENT EXPENDITURES</b>			
Component Unit Activities:			
Instruction	350,000	408,000	401,345
Instructional Media Services	-	-	-
Instructional Staff Training Services	2,500	2,500	2,197
Board	12,500	12,500	12,047
School Administration	170,000	170,000	166,953
Fiscal Services	22,500	22,500	21,800
Food Services	-	47,000	45,135
Central Services	25,000	25,000	23,580
Operation of Plant	238,610	245,000	243,275
Maintenance of Plant	10,000	10,000	9,870
Total Current Expenditures	<u>\$ 831,110</u>	<u>\$ 942,500</u>	<u>\$ 926,202</u>

## **Achievements**

Located in Southwest Miami-Dade, Somerset Academy Charter Middle School (Somerset Middle) is a prime example that all students can achieve academically when they are expected to succeed. In 2010, the school earned a letter grade of "A", and ranked among the top-performing public middle schools in Miami-Dade County, based on the points it received under the State of Florida Accountability Program. The school also achieved Adequate Yearly Progress under the *No Child Left Behind Act*.

This past year, Somerset students were winners of the Book with Wings Award, Science Fair, the Youth Fair Art Exhibition, and the Miami-Dade Spelling Bee. The school was also listed as one of the top 30 schools in Miami-Dade County's "Reading Plus-McDonald's Reading Challenge." The Somerset Soccer Team was also recognized when it won 1st place in Division U-10 for Co-Ed Soccer.

In addition, Somerset facilities have recognized nationally for "Outstanding Elementary and Middle School Building Design" in *The American School and University Magazine*, a national publication on educational facilities. The school is one of only a few public middle schools in Miami-Dade County to be accredited by the Southern Association of Colleges and Schools (SACS).

## **Requests for Information**

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

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

Statement of Net Assets  
June 30, 2010

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**Assets**

Current assets:

Cash	\$	403,794
Due from other charter schools		294
Prepaid expenses		18,075
Due from other agencies		5,146
Deposit		123
		<u>427,432</u>

Capital assets, depreciable		304,735
Less: accumulated depreciation		<u>(220,893)</u>
		<u>83,842</u>

Total Assets \$ 511,274

**Liabilities and Net assets**

Current liabilities:

Salaries and wages payable	\$	48,537
Due to other schools		-
Total Liabilities		<u>48,537</u>

Net assets:

Invested in capital assets		83,842
Unrestricted		<u>378,895</u>
Total Net Assets		<u>462,737</u>

Total Liabilities and Net Assets \$ 511,274

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, 2010

2010					
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	\$ 465,877	\$ 50,400	\$ 17,036	\$ -	\$ (398,441)
Instructional media services	400	-	-	-	(400)
Instructional staff training	2,197	-	-	-	(2,197)
Board	12,047	-	-	-	(12,047)
School administration	166,953	18,000	-	-	(148,953)
Facilities acquisition	4,938	-	-	-	(4,938)
Fiscal services	21,800	1,152	-	-	(20,648)
Food services	45,171	8,849	40,308	-	3,986
Central services	23,580	-	-	-	(23,580)
Pupil transportation services	-	-	-	-	-
Operation of plant	245,822	17,013	-	79,907	(148,902)
Maintenance of plant	12,352	3,544	-	-	(8,808)
<b>Total governmental activities</b>	<u>1,001,137</u>	<u>98,958</u>	<u>57,344</u>	<u>79,907</u>	<u>(764,928)</u>
					841,111
					279
					76,462
					386,275
					<u>\$ 462,737</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, 2010

	General Fund	Special Revenue Fund	Total Governmental Funds
<b><u>Assets</u></b>			
Cash	\$ 403,794	\$ -	\$ 403,794
Due from other agencies		5,146	5,146
Due from other charter schools	294		294
Due from other funds	5,146		5,146
Prepaid expenses and deposits	18,198		18,198
Total Assets	<u>\$ 427,432</u>	<u>\$ 5,146</u>	<u>\$ 432,578</u>
<b><u>Liabilities</u></b>			
Salaries and wages payable	\$ 48,537	\$ -	\$ 48,537
Due to other funds		5,146	5,146
Total Liabilities	<u>48,537</u>	<u>5,146</u>	<u>53,683</u>
<b><u>Fund balance</u></b>			
Unreserved	<u>378,895</u>	-	<u>378,895</u>
	<u>378,895</u>	-	<u>378,895</u>
Total Liabilities and Fund Balance	<u>\$ 427,432</u>	<u>\$ 5,146</u>	<u>\$ 432,578</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, 2010

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Total Fund Balance - Governmental Funds \$ 378,895

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

Capital assets of \$304,735 net of accumulated depreciation of \$220,893 used in governmental activities are not financial resources and therefore are not reported in the fund.

83,842

Total Net Assets - Governmental Activities \$ 462,737

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, 2010

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>Revenues:</b>			
State capital outlay funding	\$ -	\$ 79,907	\$ 79,907
State passed through local	841,111	-	841,111
Federal school lunch	-	40,308	40,308
Federal sources	-	17,036	17,036
Charges for services	90,109	8,849	98,958
Interest and other revenue	279	-	279
<b>Total Revenues</b>	<b>931,499</b>	<b>146,100</b>	<b>1,077,599</b>
<b>Expenditures:</b>			
<b>Current</b>			
Instruction	384,309	17,036	401,345
Instructional staff training services	2,197	-	2,197
Board	12,047	-	12,047
School administration	166,953	-	166,953
Fiscal services	21,800	-	21,800
Food services	-	45,135	45,135
Central services	23,580	-	23,580
Pupil transportation services	-	-	-
Operation of plant	163,368	79,907	243,275
Maintenance of plant	9,870	-	9,870
<b>Capital Outlay:</b>			
Other capital outlay	14,615	-	14,615
<b>Total Expenditures</b>	<b>798,739</b>	<b>142,078</b>	<b>940,817</b>
Excess (deficit) of revenues over expenditures	132,760	4,022	136,782
<b>Other financing sources</b>			
Transfers in and (out)	4,022	(4,022)	-
<b>Net change in fund balance</b>	<b>136,782</b>	<b>-</b>	<b>136,782</b>
Fund Balance at beginning of year	242,113	-	242,113
<b>Fund Balance at end of year</b>	<b>\$ 378,895</b>	<b>\$ -</b>	<b>\$ 378,895</b>

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, 2010

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Net Change in Fund Balance - Governmental Funds \$ 136,782

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 \$14,615 differed from depreciation expense of \$74,935.

(60,320)

Change in Net Assets of Governmental Activities

\$ 76,462

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 various other 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 and is funded by the District.

These financial statements are for the year ended June 30, 2010, when approximately 144 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 and does not include fiduciary funds.

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 capital outlay funding 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 cost 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
Textbooks	3 Years
Furniture, Equipment and Software	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 may also receive 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 a defined contribution 401(k) plan sponsored through ADP TotalSource Group, Inc. covering employees who meet certain age and tenure requirements. Under the ADP TotalSource Retirement Savings Plan, the School will provide a match of 50% up to 4% of employee compensation. Contributions to the plan were \$2,974 for the year ended June 30, 2010. The school does not exercise any control or fiduciary responsibility over the plans' assets.

Compensated Absences

The School grants a specific number of sick days. Full time instructional employees are eligible to one day per month to up to ten days of active work during the ten-month period (a "benefit year"). In the event that available time is not used by the end of the benefit year, employees may "rollover" all unused days for use in future benefit years. There is an opportunity to "cash out" unused sick days however, the employees may only cash out if they have used three days or less of their sick leave in that benefit year. Employees may not cash out more than ten days per school year and are required to always maintain a minimum of twenty-one unused days. The cash out value is eighty percent of their current daily rate. There is no termination payment for accumulated unused sick days.

Government Accounting Standards Board (GASB) Statement 16, Accounting for Compensated Absences, provides that compensated absences that are contingent on a specific event that is outside the control of the employer and employee should be accounted for in the period those events take place. Accordingly, these financial statements do not include an accrual for sick days available to be used in future benefits years.

The School also provides days to be used for specific personal matter such as family death and jury duty. Because the use of such days is contingent upon those events taking place and such events are out of the control of both the employer and the employee, there is no accrual for such days.

Somerset Academy Charter Middle School  
(A charter school under Somerset Academy, Inc.)  
Notes to Financial Statements  
June 30, 2010

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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.

Subsequent Events

In accordance with GASB No. 56, the School has evaluated subsequent events and transactions for potential recognition or disclosure through August 30, 2010, which is the date the financial statements were available to be issued.

**Note 3 –Capital Assets**

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the year ended June 30, 2010:

	Balance 07/1/09	Additions	Retirements	Balance 06/30/10
Capital Assets:				
Improvements	\$ 3,324	\$ 814	\$ -	\$ 4,138
Software	467	2,497	-	2,964
Furniture, equipment and textbooks	286,329	11,304	-	297,633
Total Capital Assets	<u>290,120</u>	<u>14,615</u>	<u>-</u>	<u>304,735</u>
Less Accumulated Depreciation:				
Improvements	( 322)	( 91)		(413)
Software	-	( 572)	-	(572)
Furniture, equipment and textbooks	(145,636)	( 74,272)	-	(219,908)
Total Accumulated Depreciation	<u>(145,958)</u>	<u>( 74,935)</u>	<u>-</u>	<u>(220,893)</u>
Capital Assets, net	<u>\$144,162</u>	<u>\$ (60,320)</u>	<u>\$ -</u>	<u>\$ 83,842</u>

Depreciation expense for the year ended June 30, 2010 was \$74,935 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 June 30, 2014, with options to renew for a three year period and a two year period. During the year ended June 30, 2010, the School incurred approximately \$64,800, in management fees. At June 30, 2010 the School had a management fee payable of approximately \$3,000.

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

Fernando Zulueta, President  
Magdalena Fresen, Vice President and Treasurer  
Ignacio Zulueta, Vice President  
Collette Papa, 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 are recorded in the books of Somerset Academy and not in those of the School. Revenues of \$49,157 and costs of \$44,242 related to the lunch program were allocated to the School from Somerset Academy. As of June 30, 2010, the School had receivables from other schools of \$12,770. Additionally, the School charged a usage fee to Somerset Middle Country Palms (another charter school under Somerset Academy, Inc.) for use of its facilities, teachers and resources. The total usage fee charged was approximately \$90,000.

**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, 2010, the carrying amount of the School's deposits was \$403,794 and the respective bank balances totaled \$372,430. Out of the total bank balances, \$360,000 was fully collateralized by U.S. Government obligations under a repurchase agreement with Regions Bank.

**Note 6 – Deposits Policy and Credit Risk (Continued)**

Deposits at FDIC-insured institutions are insured up to \$250,000 per depositor, per financial institution. The School is a charter school under Somerset Academy, Inc., which also operates various other charter schools. All bank accounts are opened under the account ownership of Somerset Academy, Inc., therefore, bank balances at times may potentially be in excess of FDIC coverage. As of June 30, 2010, bank balances in potential excess of FDIC coverage totaled \$12,430.

**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 2010, was 19% for the School and 81% for Somerset Academy. As of June 30, 2010, the School had a prepaid to the landlord of \$12,972. For 2010, rent expense totaled \$156,598, out which approximately \$155,000 related to the facility lease. Future minimum payments for the full lease (shared with Somerset Academy) are as follows:

<u>Year</u>	
2011	\$767,406
2012	\$767,406
2013	\$767,406
2014	\$767,406
2015-2019	\$3,837,030 (Total for five-year period)
2020-2024	\$3,837,030 (Total for five-year period)
2025-2026	\$1,279,010 (Total for two-year period)

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

Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the year ended June 30, 2010

	General Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
State passed through local	\$ 756,452	\$ 835,000	\$ 841,111
Charges for services	58,500	75,000	90,109
Interest and other revenues	-	-	279
<b>Total Revenues</b>	<b>814,952</b>	<b>910,000</b>	<b>931,499</b>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Instruction	350,000	390,000	384,309
Instructional staff training services	2,500	2,500	2,197
Board	12,500	12,500	12,047
School Administration	170,000	170,000	166,953
Fiscal Services	22,500	22,500	21,800
Food Services	-	-	-
Central Services	25,000	25,000	23,580
Operation of Plant	139,826	165,000	163,368
Maintenance of Plant	10,000	10,000	9,870
<b>Total Current Expenditures</b>	<b>732,326</b>	<b>797,500</b>	<b>784,124</b>
Excess of Revenues Over Current Expenditures	<b>82,626</b>	<b>112,500</b>	<b>147,375</b>
<b>Debt Service:</b>			
Redemption of Principal	-	-	-
<b>Capital Outlay:</b>			
Other Capital Outlay	15,000	15,000	14,615
<b>Total Capital Outlay and Debt Service Expenditures</b>	<b>15,000</b>	<b>15,000</b>	<b>14,615</b>
<b>Total Expenditures</b>	<b>747,326</b>	<b>812,500</b>	<b>798,739</b>
Excess of Revenues Over Expenditures	67,626	97,500	132,760
<b>Other financing sources:</b>			
Transfers in	-	-	4,022
Fund Balance at beginning of year	242,113	242,113	242,113
Fund Balance at end of year	\$ 309,739	\$ 339,613	\$ 378,895

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, 2010

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
State capital outlay funding	\$ 98,784	\$ 80,000	\$ 79,907
Federal school lunch	-	40,000	40,308
Federal sources	-	18,000	17,036
Lunch Program	-	7,000	8,849
Total Revenues	<u>98,784</u>	<u>145,000</u>	<u>146,100</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	-	18,000	17,036
Instructional Staff	-	-	-
Training Services	-	-	-
Board	-	-	-
School Administration	-	-	-
Fiscal Services	-	-	-
Food Services	-	47,000	45,135
Central Services	-	-	-
Operation of Plant	98,784	80,000	79,907
Maintenance of Plant	-	-	-
Total Current Expenditures	<u>98,784</u>	<u>145,000</u>	<u>142,078</u>
Excess of Revenues Over Current Expenditures	<u>-</u>	<u>-</u>	<u>4,022</u>
Capital Outlay:			
Other Capital Outlay	-	-	-
Total Expenditures	<u>98,784</u>	<u>145,000</u>	<u>142,078</u>
Excess of Revenues Over Expenditures	-	-	4,022
Other financing sources:			
Transfers out	-	-	(4,022)
Fund Balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
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 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") as of, and for the year ended June 30, 2010, and have issued our report thereon dated August 30, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, 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.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 30, 2010

## 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, 2010 and have issued our report thereon dated August 30, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosure in those reports, which are dated August 30, 2010, should be considered in conjunction with this management letter.

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

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

No significant findings or recommendations were made in the preceding annual financial audit report.

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

In connection with our audit, we did not have any such recommendations.

3. Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential.

In connection with our audit, we did not have any such violations.

4. Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement accounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

In connection with our audit, we did not have any such findings.

5. Section 10854.(1)(e)6., Rules of the Auditor General, requires the name or official title of the school.

The official title of the school is disclosed in the accompanying financial statements.

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

In connection with our audit, no such conditions were noted.

7. Pursuant to Sections 10.854(1)(3)7.a. and 10.855(10)., Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter 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.

*HLB Gravin, LLP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 30, 2010