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Somerset Academy Elementary School (South Miami Campus)
(A charter school under Somerset Academy, Inc.)
Miami, Florida

Financial Statements And
Independent Auditors' Report

June 30, 2010

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Somerset Academy Elementary School (South Miami Campus)
5876 Southwest 68th Street
Miami, Florida 33143

2009-2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Somerset Academy Elementary School (South Miami Campus)
Miami, Florida

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Somerset Academy Elementary School (South Miami Campus) (the "School"), a charter school under Somerset Academy, Inc., a component unit of the District School Board of 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 Elementary School (South Miami Campus) 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 Elementary School (South Miami Campus), 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 24 through 25, 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.

Handwritten signature in cursive script that reads "HLB Guarini LLP".

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
August 30, 2010

Management's Discussion and Analysis
Somerset Academy Elementary School (South Miami Campus)
(A Charter school Under Somerset Academy, Inc.)
June 30, 2010

The corporate officers of Somerset Academy have prepared this narrative overview and analysis of the school's financial activities for the period ended June 30, 2010.

Financial Highlights

1. The assets of the School exceeded its liabilities at June 30, 2010 by \$385,238 (net assets).
2. At year-end, the School had current assets on hand of \$349,831.
3. The School had an increase in its net assets of \$385,238 for the year ended June 30, 2010.

Overview of the Financial Statements

This discussion and analysis is 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 – 15 of this report.

Notes to Financial Statements

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

The notes to the financial statements can be found on pages 16 - 23 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 \$385,238 at the close of the fiscal year. A summary of the School’s net assets as of June 30, 2010 follows:

	2010
Cash	\$ 344,309
Due from other agencies	585
Prepaid expenses	4,937
Capital Assets, net	1,297,338
Total Assets	<u>\$ 1,647,169</u>
Accounts payable and salaries payable	134,200
Due to other schools	428,348
	699,383
Total Liabilities	<u>\$ 1,261,931</u>
Invested in Capital Assets, net of related debt	\$ 169,607
Unrestricted	215,631
Total Net Assets	<u>\$ 385,238</u>

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

A summary and analysis of the School's revenues and expenses from inception through June 30, 2010 follows:

	<u>2010</u>
REVENUES	
Program Revenues	
Operating Grants and Contributions	\$ 264,330
Capital Outlay Funding	-
Charges for Services	872,392
General Revenues	
FTE nonspecific revenues	1,919,455
Other Revenues	23,225
Total Revenues	<u>\$ 3,079,402</u>
EXPENSES	
Component Unit Activities:	
Instruction	\$ 1,381,779
Instruction Staff Training	4,103
Instructional Media Services	-
Board	6,390
School Administration	351,503
Facilities Acquisition and Construction	6,877
Fiscal Services	45,350
Food Services	82,942
Central Services	57,559
Operation of Plant	526,510
Community Services	212,143
Maintenance of Plant	19,008
Total Expenses	<u>2,694,164</u>
Increase in Net Assets	385,238
Net Assets at Beginning of Year	-
Net Assets at End of Year	<u>\$ 385,238</u>

The 2009-2010 school year was the first year of operation for the school. Accordingly, the financial statement has no comparison with prior year results. Comparative analysis will be provided in future years when prior year information is available.

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 \$215,631.

Achievements

Located in the heart of South Miami, Somerset Academy Elementary South Miami ("SoMi") opened its doors in August 2009 to over 300 students in grades K-5th. Although the School did not have enough students testing to receive a grade for 2010, the students scored enough points to receive an "A" had the School been graded. The School also met Adequate Yearly Progress under the federal *No Child Left Behind Act*.

Somerset SoMi offers a rigorous curriculum, featuring bilingual programs in both Spanish and Mandarin and the latest classroom technology, including Promethean Boards and laptop computers for all students in upper grades. In addition, Somerset SoMi provides its students with an extra-curricular program of activities, including team sports and clubs, such as volleyball, baseball, soccer, basketball, and flag football.

This past year, Somerset SoMi students participated in various community service projects and fundraisers, including the Amigos for Kids Toy Drive, the South Miami Community Center Thanksgiving Drive, and the Haitian Relief Fund Drive. Students got to participate in Art Fair and Exhibition, Hispanic Heritage Celebration, "Read Across America Day," and Career Day.

Somerset SoMi is a member of the National Elementary Honor Society and is accredited by the Southern Association of Colleges and Schools.

Capital Assets

The School's investment in capital assets as of June 30, 2010 amounts to \$1,297,338 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures and computer equipment.

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 total governmental funds (both general fund and special revenue funds) to demonstrate compliance with the School's budget.

	Original Budget	Final Budget	Actual
REVENUES			
Program Revenues			
Federal School Lunch Program	\$ 15,000	\$ 15,000	\$ 15,820
Federal Sources	250,000	250,000	248,510
General Revenues			
FTE Nonspecific Revenues	1,850,000	1,900,000	1,919,455
Charges for Services	748,000	840,000	888,212
Other Revenues	-	15,000	23,225
Total Revenues	<u>2,863,000</u>	<u>3,020,000</u>	<u>3,079,402</u>
EXPENDITURES			
Component Unit Activities:			
Instruction	1,150,000	1,375,000	1,360,496
Instructional staff training	4,000	5,000	4,103
Board	6,500	7,500	6,390
School Administration	250,000	360,000	351,503
Fiscal Services	45,000	50,000	45,350
Food Services	75,000	80,000	80,215
Central Services	50,000	60,000	57,559
Operation of Plant	443,500	485,000	478,097
Community Services	215,000	215,000	212,143
Maintenance of Plant	20,000	25,000	19,009
Total Current Expenditures (before capital outlay and debt service)	<u>\$ 2,259,000</u>	<u>\$ 2,662,500</u>	<u>\$ 2,614,865</u>

Requests for Information

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

Somerset Academy Elementary School (South Miami Campus)
(A charter school under Somerset Academy, Inc.)

Statement of Net Assets
June 30, 2010

Assets

Current assets:

Cash	\$	344,309
Prepaid expenses		4,937
Due from other agencies		585
		<u>349,831</u>

Capital assets, depreciable		1,376,637
Less: accumulated depreciation		(79,299)
		<u>1,297,338</u>

Total Assets \$ 1,647,169

Liabilities and Net Assets

Current liabilities:

Salaries and wages payable	\$	87,508
Accounts payable		46,692
		<u>134,200</u>

Long-term debt due to other charter school		428,348
Other long-term debt		699,383
Total liabilities		<u>1,261,931</u>

Net assets:

Invested in capital assets net of related debt		169,607
Unrestricted		215,631
Total Net Assets		<u>385,238</u>

Total Liabilities and Net Assets \$ 1,647,169

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

Somerset Academy Elementary School (South Miami Campus)
(A charter school under Somerset Academy, Inc.)

Statement of Activities
For the year ended June 30, 2010

FUNCTIONS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 1,381,779	\$ 48,000	\$ 248,510	\$ -
Instructional media services	-	-	-	-
Instructional staff training	4,103	-	-	(4,103)
Board	6,390	-	-	(6,390)
School administration	351,503	24,000	-	(327,503)
Facilities acquisition	6,877	-	-	(6,877)
Fiscal services	45,350	2,584	-	(42,766)
Food services	82,942	66,203	15,820	(919)
Central services	57,559	-	-	(57,559)
Operation of plant	526,510	20,382	-	(506,128)
Maintenance of plant	19,008	5,169	-	(13,839)
Community services	212,143	706,054	-	493,911
Total governmental activities	2,694,164	872,392	264,330	(1,557,442)
General revenues:				
FTE nonspecific revenues				1,919,455
Interest, fundraising and other revenue				23,225
Change in net assets				385,238
Net assets, beginning				-
Net assets, ending				<u>\$ 385,238</u>

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

Somerset Academy Elementary School (South Miami Campus)
 (A charter school under Somerset Academy, Inc.)

Balance Sheet - Governmental Funds
 June 30, 2010

	General Fund	Special Revenue	Total Governmental
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<u>Assets</u>			
Cash	\$ 344,309	\$ -	\$ 344,309
Prepaid expenses	4,937	-	4,937
Due from other agencies	-	585	585
Due from funds	585	-	585
Total Assets	<u>\$ 349,831</u>	<u>\$ 585</u>	<u>\$ 350,416</u>
<u>Liabilities</u>			
Salaries and wages payable	\$ 87,508	\$ -	\$ 87,508
Due to funds	-	585	585
Accounts payable	46,692	-	46,692
Total Liabilities	<u>134,200</u>	<u>585</u>	<u>134,785</u>
<u>Fund balance</u>			
Unreserved	<u>215,631</u>	-	<u>215,631</u>
	<u>215,631</u>	-	<u>215,631</u>
Total Liabilities and Fund Balance	<u>\$ 349,831</u>	<u>\$ 585</u>	<u>\$ 350,416</u>

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

Somerset Academy Elementary School (South Miami Campus)
(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

Total Fund Balance - Governmental Funds \$ 215,631

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

Capital assets of \$1,376,637 net of accumulated depreciation of \$79,299 used in governmental activities are not financial resources and therefore are not reported in the fund. 1,297,338

The proceeds from debt issuance provides current financial resources to government funds, but issuing debt increases long-term liabilities in the statement of net assets. (1,127,731)

Total Net Assets - Governmental Activities \$ 385,238

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

Somerset Academy Elementary School (South Miami Campus)
(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
Revenues:			
State capital outlay funding	\$ -	\$ -	\$ -
State passed through local	1,919,455	-	1,919,455
Federal sources	-	248,510	248,510
Federal school lunch	-	15,820	15,820
Interest and other revenue	23,225	-	23,225
Charges for services and usage fees	806,189	66,203	872,392
Total Revenues	2,748,869	330,533	3,079,402
Expenditures:			
Current			
Instruction	1,336,311	24,185	1,360,496
Instructional staff training services	4,103	-	4,103
Board	6,390	-	6,390
School administration	351,503	-	351,503
Fiscal services	45,350	-	45,350
Food services	-	80,215	80,215
Central services	57,559	-	57,559
Operation of plant	478,097	-	478,097
Maintenance of plant	19,009	-	19,009
Community services	212,143	-	212,143
Capital Outlay:			
Other capital outlay	1,125,040	251,597	1,376,637
Debt Service:			
Redemption of Principal	-	-	-
Interest	-	-	-
Total Expenditures	3,635,505	355,997	3,991,502
Excess (deficit) of revenues over expenditures	(886,636)	(25,464)	(912,100)
Other financing sources			
Transfers in and (out)	1,102,267	25,464	1,127,731
Net change in fund balance	215,631	-	215,631
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	\$ 215,631	\$ -	\$ 215,631

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

Somerset Academy Elementary School (South Miami Campus)
(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

Net Change in Fund Balance - Governmental Funds \$ 215,631

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 \$1,376,637 differed from depreciation expense of \$79,299.

1,297,338

The proceeds from debt issuance provides current financial resources to government funds, but issuing debt increases long-term liabilities in the statement of net assets.

(1,127,731)

Change in Net Assets of Governmental Activities

\$ 385,238

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

Somerset Academy Elementary School (South Miami Campus)
(A charter school under Somerset Academy, Inc.)

Statement of Net Assets - Fiduciary Funds
June 30, 2010

	Agency Funds
<u>Assets</u>	
Cash	<u>\$ 46,423</u>
Total Assets	<u><u>\$ 46,423</u></u>
<u>Liabilities</u>	
Due to students and clubs	<u>46,423</u>
Total Liabilities	46,423
<u>Net assets</u>	<u><u>\$ -</u></u>

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

Note 1 – Organization and Operations

Somerset Academy Elementary School (South Miami Campus) (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 Dade County (the "District"). The current charter expires on June 30, 2018 and is renewable for an additional 15 years by mutual written agreement between the School and the District. During the term of the charter, the District may terminate the charter if good cause is shown. The School is considered a component unit of such District. The School is located in Miami, Florida for students from kindergarten through fifth grades and is funded by the District.

These financial statements are from inception through June 30, 2010, when approximately 301 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 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 and capital outlay funding that are legally restricted to expenditures for particular purposes.

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

Measurement Focus and Basis of Accounting

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

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 and Textbooks	3 Years
Furniture and Equipment	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.

Note 2 – Summary of Significant Accounting Policies (continued)

Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. In addition, the school receives an annual allocation of charter school capital outlay funds for leasing of school facilities.

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.

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

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.

Somerset Academy Elementary School (South Miami Campus)
 (A charter school under Somerset Academy, Inc.)
 Notes to Financial Statements
 June 30, 2010

Note 2 – Summary of Significant Accounting Policies (continued)

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 period ended June 30, 2010:

	Balance 07/1/09	Additions	Retirements	Balance 06/30/10
Capital Assets				
Improvements	\$ -	\$ 955,189	\$ -	\$ 955,189
Software	-	-	-	-
Furniture, equipment and textbooks	-	421,448	-	421,448
Total Capital Assets	-	1,376,637	-	1,376,637
Less Accumulated Depreciation:				
Software	-	(2,056)	-	(2,056)
Improvements	-	(54,707)	-	(54,707)
Furniture, equipment and textbooks	-	(22,536)	-	(22,536)
Total Accumulated Depreciation	-	(79,299)	-	(79,299)
Capital Assets, net	\$ -	\$1,297,338	\$ -	\$1,297,338

Depreciation expense for the period ended June 30, 2010 was \$79,299 and is allocated in the Statement of Activities to instruction, facilities acquisition, plant operation and maintenance.

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 four years, through June 30, 2013, and unless terminated by the board shall be renewed along with any renewals to the charter agreement. During the year ended June 30, 2010, the School incurred approximately \$135,450, in management fees. In addition, the school had approximately \$33,000 of prepaid management fees at year end. 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 Schools and Other Revenues

During the year the School received \$15,821 in Federal school lunch funds from Somerset Academy and Somerset Academy Silver Palms (charter schools under Somerset Academy, Inc.) for the school's lunch program. Somerset South Miami Middle School used the School's lunch program during the year at no cost. In addition, the School operates an after school program. Revenues from these programs are recorded as charges for services, under the community services function. Total revenues from the aftercare program for 2010 were \$240,557.

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 \$390,732 and the respective bank balances totaled \$428,768.

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 \$428,768.

Note 7 – Commitments and Contingencies

The School entered into a lease and security agreement with Somi Group, LLC, Inc. for its 27,269 square feet facility. The facility will be shared with Somerset South Miami Middle and Integrated Science and Asian Culture Academy. Presently, members of the landlord are also stockholders of the entity which is the sole owner of Academica Dade, LLC, the School's management company (See Note 4). Fixed annual payments under this agreement (based on \$19.50 per square foot) are approximately \$267,700, net of enrollment discounts, adjusted annually based on Consumer Price Index (CPI). The agreement continues through July 31, 2014 with the option to renew for an additional five years. 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.

Under the agreement, the School will reimburse the landlord for tenant improvements. As of June 30, 2010, the School capitalized \$934,633 of tenant improvements of which approximately \$699,383 were payable at year end over the remaining term of the initial lease.

For 2010, rent expense net of enrollment discounts totaled \$229,668, out of which of approximately \$220,500 related to facility lease. Future minimum payments for the full lease, net of enrollment discounts (excluding common area maintenance costs) are as follows:

<u>Year</u>	
2011	\$317,242
2012	\$359,239
2013	\$400,396
2014	\$508,075

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

Note 8 – Risk Management

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

Note 9 – Defined Contribution Retirement Plan

The School's personnel, who are leased through ADP TotalSource Group, Inc., are eligible to participate in a defined contribution 401(k) plan sponsored by the leasing company, covering employees who meet certain age and tenure requirements. Under the ADP TotalSource Retirement Savings Plan (the "Plan"), the School provides a match of 50% of the employee's contribution up to 4% of the employee's compensation. The School contributed to the Plan \$6,669 for the year ended June 30, 2010. The School does not exercise any control or fiduciary responsibility over the Plans' assets, which are administered by MassMutual Financial Group

REQUIRED SUPPLEMENTARY INFORMATION

Somerset Academy Elementary School (South Miami Campus)
(A charter school under Somerset Academy, Inc.)

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

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State passed through local	\$ 1,850,000	\$ 1,900,000	\$ 1,919,455
Charges for services	688,000	775,000	806,189
Interest and other revenues	-	15,000	23,225
Total Revenues	2,538,000	2,690,000	2,748,869
EXPENDITURES			
Current:			
Instruction	1,150,000	1,350,000	1,336,311
Instructional Staff			
Training Services	4,000	5,000	4,103
Board	6,500	7,500	6,390
School administration	250,000	360,000	351,503
Fiscal services	45,000	50,000	45,350
Central services	50,000	60,000	57,559
Operation of plant	443,500	485,000	478,097
Maintenance of plant	20,000	25,000	19,009
Community services	215,000	215,000	212,143
Total current expenditures	2,184,000	2,557,500	2,510,465
Excess of revenues			
Over current expenditures	354,000	132,500	238,404
Debt service:			
Redemption of principal	-	-	-
Capital outlay:			
Other capital outlay	400,000	430,000	1,125,040
Total expenditures	2,584,000	2,987,500	3,635,505
Excess of revenues over expenditures	(46,000)	(297,500)	(886,636)
Other financing sources			
Transfers in	400,000	400,000	1,102,267
Net change in fund balance	354,000	102,500	215,631
Fund balance at beginning of year	-	-	-
Fund balance at end of year	\$ 354,000	\$ 102,500	\$ 215,631

Somerset Academy Elementary School (South Miami Campus)
 (A charter school under Somerset Academy, Inc.)

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

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Federal sources	250,000	250,000	248,510
Federal school lunch program	15,000	15,000	15,820
Charges for services and usage fees	60,000	65,000	66,203
Total Revenues	325,000	330,000	330,533
EXPENDITURES			
Current:			
Instruction	-	25,000	24,185
Food services	75,000	80,000	80,215
Total current expenditures	75,000	105,000	104,400
Excess of revenues Over current expenditures	250,000	225,000	226,133
Capital outlay:			
Other capital outlay	250,000	250,000	251,597
Total capital outlay and Debt service expenditures	250,000	250,000	251,597
Total expenditures	325,000	355,000	355,997
Excess of revenues over expenditures	-	(25,000)	(25,464)
Other financing sources			
Transfers out	-	25,000	25,464
Net change in fund balance	-	-	-
Fund balance at beginning of year	-	-	-
Fund balance at end of year	\$ -	\$ -	\$ -



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 Elementary School (South Miami Campus)
Miami, Florida

We have audited the financial statements of Somerset Academy Elementary School (South Miami Campus) (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 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

MANAGEMENT LETTER

Board of Directors of
Somerset Academy Elementary School (South Miami Campus)
Miami, Florida

We have audited the accompanying basic financial statements of Somerset Academy Elementary School (South Miami Campus) 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.

Not applicable since this is the first year of operations.

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 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