

**SOMERSET ACADEMY**  
(A Charter School Under Somerset Academy, Inc.)  
MIAMI, FLORIDA

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2006

MANAGEMENT AUDIT  
2006 SEP 13 PM 2:00

STUDENT SERVICES  
AND PARENTAL OPINIONS  
2006 SEP 12 AM 9:00

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**SOMERSET ACADEMY**  
(A Charter School Under Somerset Academy, Inc.)  
10870 S.W. 113<sup>th</sup> Place  
Miami, Florida 33176

**2005-2006**

BOARD OF DIRECTORS

Victor Barroso, Chairman  
Dr. "Angie" Hui Fang Su  
Lagarie Woodward  
Alejandra Salima Jacquinet  
Cyndy Hanson  
Carlos Resendez  
Kim Guilarte

SCHOOL ADMINISTRATION

Suzette Ruiz, Principal



INDEPENDENT AUDITORS' REPORT

PEDRO M. DE ARMAS, C.P.A.  
OCTAVIO A. VERDEJA, C.P.A.  
OCTAVIO F. VERDEJA, C.P.A.

Board of Directors  
Somerset Academy  
(A Charter School Under Somerset Academy, Inc.)  
Miami, Florida

JORGE M. MORALES, C.P.A.  
ALEJANDRO M. TRUJILLO, C.P.A.  
TAB VERDEJA, C.P.A.

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Somerset Academy (the "School"), a component unit of the District School Board of Miami-Dade County, as of, and for the year ended June 30, 2006, which collectively comprise 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 audits. The prior year summarized comparative informative has been derived from the School's 2005 financial statements and, in our report dated August 19, 2005, we expressed unqualified opinions on the respective financial statements of the governmental activities and the general fund.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinion.

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 the "School", as of June 30, 2006 and the respective change in financial position for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 4 through 8 and the Schedule of Revenues, Expenditures and Changes in Fund Balance—budget to actual on page 21 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, 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.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 25, 2006

**Management's Discussion and Analysis**  
Somerset Academy  
(A Charter school Under Somerset Academy, Inc.)  
June 30, 2006

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, 2006.

**Financial Highlights**

1. The assets of the School exceeded its liabilities at June 30, 2006 by \$382,017 (net assets).
2. At year-end, the School had current assets on hand of \$648,006.
3. The School had an increase in its net assets of \$339,239 for the year ended June 30, 2006.

**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, 2006 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 - 19 of this report.

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

As noted earlier, net assets may serve over time as a useful indicator of a charter school’s financial position. In the case of the School, assets exceeded liabilities by \$395,313 at the close of the fiscal year. A summary of the School’s net assets as of June 30, 2006 follows:

	<u>2006</u>	<u>2005</u>
Cash	\$ 368,981	\$ 84,496
Prepaid Expenses	30,000	55,369
Due from other agencies	249,025	-
Capital Assets	340,169	29,821
Deposits	19,436	1,955
Total Assets	<u>\$1,007,611</u>	<u>\$ 171,641</u>
Accounts Payable and Accrued Liabilities	<u>625,594</u>	<u>128,863</u>
Total Liabilities	<u>\$ 625,594</u>	<u>\$ 128,863</u>
Invested in Capital Assets, net of related debt	\$ 110,169	\$ 29,821
Unrestricted	271,848	12,957
Total Net Assets	<u>\$ 382,017</u>	<u>\$ 42,778</u>

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

A summary and analysis of the School's revenues and expenses for the year ended June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
<b>REVENUES</b>		
Program Revenues		
Capital Outlay	\$ 7,080	\$ -
Operating Grants and Contributions	311,081	179,880
General Revenues		
Government Grants Not Restricted to Specific Programs	2,822,151	208,781
Other	90,181	10,046
Changes for services	183,837	8,684
Total Revenues	<u>\$ 3,414,330</u>	<u>\$ 407,391</u>
<b>EXPENSES</b>		
Component Unit Activities:		
Instruction	\$ 1,524,710	\$ 102,316
Instructional Staff Training Services	24,214	1,470
Board	9,570	1,571
School Administration	305,600	72,449
Facilities Acquisition and Construction	3,517	
Fiscal Services	78,738	9,312
Food Services	122,955	10,735
Central Services	82,832	11,480
Operation of Plant	680,079	143,964
Community Services	156,080	5,660
Maintenance of Plant	86,796	5,656
Total Expenses	<u>3,075,091</u>	<u>364,613</u>
Increase in Net Assets	339,239	42,778
Net Assets at Beginning of Year	<u>42,778</u>	<u>-</u>
Net Assets at End of Year	<u>\$ 382,017</u>	<u>\$ 42,778</u>

Somerset Academy School's revenue increased by \$3,006,939 in the current year and expenses increased by \$2,710,478. The largest increases in expenses were for Instruction, School Administration and Operation of Plant. The School has an increase in its fund balance (change in net assets) of \$339,239 for the year.



## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND**

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

### **Governmental Funds**

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

At the end of the fiscal year, the School's governmental fund reported a fund balance of \$271,848.

### **Achievements**

In the fall of 2005, Somerset Academy opened its doors to over 400 new students in a newly-built, state-of-the-art educational facility. In only its 2<sup>nd</sup> year of operation, the School received a grade of "A" during the 2005-2006 school year and received a School Recognition Award from the Florida Department of Education. It also achieved Adequate Yearly Progress under *No Child Left Behind*.

### **Capital Assets**

The School's investment in capital assets as of June 30, 2006 amounts to \$340,169 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures and computer equipment.

### **General Fund Budget Analysis and Highlights**

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

	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
Program Revenues			
Capital Outlay	\$ -	\$ -	\$ 7,080
Operating Grants and Contributions	250,000	250,000	311,081
General Revenues			
Government Grants Not Restricted to Specific Programs	2,609,775	2,750,000	2,822,151
Other	100,000	55,000	90,181
Changes for services	<u>270,000</u>	<u>150,000</u>	<u>183,837</u>
Total Revenues	<u>\$ 3,229,775</u>	<u>\$ 3,205,000</u>	<u>\$ 3,414,330</u>
<b>EXPENSES</b>			
Component Unit Activities:			
Instruction	\$ 1,468,509	\$ 1,543,500	\$ 1,524,710
Instructional Staff Training Services	30,000	27,500	24,214
Board	10,000	10,000	9,570
School Administration	300,000	315,250	305,600
Facilities Acquisition and Construction	4,000	4,000	3,517
Fiscal Services	80,000	80,000	78,738
Food Services	143,000	130,000	122,955
Central Services	90,000	86,000	82,832
Operation of Plant	685,300	688,250	680,079
Community Services	100,000	91,400	156,080
Maintenance of Plant	<u>66,000</u>	<u>160,000</u>	<u>86,796</u>
Total Expenses	<u>\$ 2,976,809</u>	<u>\$ 3,135,900</u>	<u>\$ 3,075,091</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 (f/k/a Academica, Corp.) 6255 Bird Road, Miami, Florida, 33155.

## STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>2006</u>	<u>2005</u> (Summarized Comparative Information)
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 368,981	\$ 84,496
Prepaid expenses	30,000	55,369
Due from other agencies	<u>249,025</u>	<u>-</u>
TOTAL CURRENT ASSETS	648,006	139,865
CAPITAL ASSETS		
Furniture, equipment and textbooks	301,364	33,134
Less accumulated depreciation	(36,624)	(3,313)
Audio visual materials	6,473	-
Less accumulated depreciation	(647)	-
Computer software	78,125	-
Less accumulated depreciation	<u>(8,522)</u>	<u>-</u>
	340,169	29,821
DEPOSITS	<u>19,436</u>	<u>1,955</u>
TOTAL ASSETS	<u>\$ 1,007,611</u>	<u>\$ 171,641</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Salaries and wages payable	\$ 91,216	\$ 7,361
Accounts payable	36,138	63,129
Deferred Revenue	68,240	58,373
Due to management company	<u>200,000</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	395,594	128,863
DUE TO OTHER CHARTER SCHOOLS	<u>230,000</u>	<u>-</u>
TOTAL LIABILITIES	625,594	128,863
NET ASSETS		
Invested in capital assets, net of related debt	110,169	29,821
Unrestricted	<u>271,848</u>	<u>12,957</u>
TOTAL NET ASSETS	<u>382,017</u>	<u>42,778</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,007,611</u>	<u>\$ 171,641</u>

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

SOMERSET ACADEMY ( A Charter School Under Somerset Academy, Inc.)  
A NON-MAJOR COMPONENT UNIT OF THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006

FUNCTIONS	2006				2005	
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
<b>Component Unit Activities:</b>						
Instruction	\$ 1,524,710	\$ -	\$ 229,460	\$ -	(1,295,250)	\$ (200)
Instructional Staff Training Services	24,214	-	3,800	-	(20,414)	(1,270)
Board	9,570	-	9,570	-	-	(1,571)
School Administration	305,600	-	27,430	-	(278,170)	(38,063)
Facilities Acquisition and construction	3,517	-	-	-	(3,517)	-
Fiscal Services	78,738	-	-	-	(78,738)	(4,312)
Food Services	122,955	46,581	-	-	(76,374)	(5,767)
Central Services	82,832	-	-	-	(82,832)	(6,480)
Operation of Plant	680,079	-	40,821	7,080	(632,178)	(110,786)
Community Services	156,080	137,256	-	-	(18,824)	(1,944)
Maintenance of Plant	86,796	-	-	-	(86,796)	(5,656)
<b>Total Component Unit Activities</b>	<u>3,075,091</u>	<u>183,837</u>	<u>311,081</u>	<u>7,080</u>	<u>(2,573,093)</u>	<u>(176,049)</u>
GENERAL REVENUES:						
Government grants not restricted to specific programs					2,822,151	208,781
Other revenue					90,181	10,046
Change in Net Assets					<u>339,239</u>	<u>42,778</u>
NET ASSETS - BEGINNING					<u>42,778</u>	-
NET ASSETS - ENDING					<u>382,017</u>	<u>\$ 42,778</u>

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

**SOMERSET ACADEMY ( A Charter School Under Somerset Academy, Inc.)**  
**A NON-MAJOR COMPONENT UNIT OF THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY**  
**BALANCE SHEET**  
**JUNE 30, 2006**

	2006			2005
	General Fund	Special Revenue Fund	Total Governmental Funds	(Summarized Comparative Information)
<b>ASSETS</b>				
Cash	275,252	93,729	368,981	84,496
Accounts Receivable	46,561	-	46,561	-
Prepaid expenses	30,000	-	30,000	55,369
Due from other agencies	241,952	7,080	249,032	-
Deposits	19,436	-	19,436	1,955
Due to / from funds	7,080	(7,080)	-	0
<b>TOTAL ASSETS</b>	<b>620,281</b>	<b>93,729</b>	<b>714,010</b>	<b>141,820</b>
<b>LIABILITIES</b>				
Salaries and wages payable	91,216	-	91,216	7,361
Accounts payable	82,706	-	82,706	63,129
Due to management company	200,000	-	200,000	-
Deferred Revenue	68,240	-	68,240	58,373
<b>TOTAL LIABILITIES</b>	<b>442,162</b>	<b>-</b>	<b>442,162</b>	<b>128,863</b>
<b>FUND BALANCE</b>				
Unreserved	178,119	93,729	271,848	12,957
<b>TOTAL FUND BALANCE</b>	<b>178,119</b>	<b>93,729</b>	<b>271,848</b>	<b>12,957</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>620,281</b>	<b>93,729</b>	<b>714,010</b>	<b>141,820</b>

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

SOMERSET ACADEMY ( A Charter School Under Somerset Academy, Inc.)  
A NON-MAJOR COMPONENT UNIT OF THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006

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Total Fund Balance - Governmental Funds \$ 271,848

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

Capital assets of \$385,962, net of accumulated depreciation of \$45,793 used in governmental activities are not financial resources and therefore are not reported in the fund. 340,169

Debt of \$230,000 are not due and payable in the current period and, therefore, are not reported in the funds. (230,000)

Total Net Assets - Governmental Activities \$ 382,017

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

SOMERSET ACADEMY ( A Charter School Under Somerset Academy, Inc.)  
A NON-MAJOR COMPONENT UNIT OF THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2006

	2006				2005	
	General	Fund	Special Revenue	Capital Outlay	Total Governmental Funds	(Summarized Comparative Information)
		Fund		Fund		
<b>REVENUES</b>						
Capital Outlay		-	-	7,080	7,080	-
Local Sources	2,822,151	-	-	-	2,822,151	208,781
Other Revenue	90,181	-	-	-	90,181	10,046
Federal Grants	-	311,081	-	-	311,081	179,880
Charges for Services	-	183,837	-	-	183,837	8,684
<b>Total Revenues</b>	<b>2,912,332</b>	<b>494,918</b>		<b>7,080</b>	<b>3,414,330</b>	<b>407,391</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
Instruction	1,262,882	229,460	-	-	1,492,342	99,261
Instructional Staff						
Training Services	20,414	3,800	-	-	24,214	1,470
Board	-	9,570	-	-	9,570	1,571
School Administration	278,170	27,430	-	-	305,600	72,449
Facilities acquisition and construction	3,517	-	-	-	3,517	-
Fiscal Services	78,738	-	-	-	78,738	9,312
Food Services	68,130	46,581	-	-	114,711	10,735
Central Services	82,832	-	-	-	82,832	11,480
Operation of Plant	631,660	40,821	7,080	-	679,561	143,705
Maintenance of Plant	85,445	-	-	-	85,445	5,657
Community Services	18,825	137,256	-	-	156,081	5,660
<b>Capital Outlay:</b>						
Other Capital Outlay	352,828	-	-	-	352,828	33,134
<b>Total Expenditures</b>	<b>2,883,441</b>	<b>494,918</b>		<b>7,080</b>	<b>3,385,439</b>	<b>394,434</b>
Excess of Revenues Over Expenditures	28,891	-	-	-	28,891	12,957
<b>OTHER FINANCING SOURCES</b>	<b>230,000</b>	<b>-</b>		<b>-</b>	<b>230,000</b>	<b>-</b>
Net change in fund balance	258,891	-	-	-	258,891	12,957
Fund Balance at beginning of year	2,911	10,046			12,957	-
Fund Balance at end of year	<u>261,802</u>	<u>10,046</u>		<u>-</u>	<u>271,848</u>	<u>12,957</u>

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

**A NON-MAJOR COMPONENT UNIT OF THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

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Change in Fund Balance - Governmental Funds \$ 258,891

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 \$352,828 exceed depreciation expense of \$42,480 in the current period. 310,348

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

Change in Net Assets of Governmental Activities \$ 339,239

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



NOTE 1 – ORGANIZATION AND OPERATIONS

Somerset Academy (A Charter school Under Somerset Academy, Inc.), (the "School"), is a not-for-profit charter school located in Miami, Florida for children from kindergarten through fifth grade. The School operates under a charter granted by the sponsoring district, the Miami-Dade County Public School District (the "District"). The current charter expires on June 30, 2013 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 also terminate the charter if good cause is shown. The School is considered a component unit of such District. Somerset Academy is funded by the Miami-Dade County Public School District and in addition, receives government grants.

These financial statements are for the year ended June 30, 2006 when 526 students, were enrolled for the school year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**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 and changes in net assets. These statements report information for the School as a whole.

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.

*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, special revenue funds and capital project are reported as separate columns in the fund financial statements:

General Fund - is the School's primary operating fund. It accounts for all financial resources of the school, except those required to be accounted for in another fund.

Special Revenue Fund - accounts for specific revenue, such as federal grants, that is legally restricted to expenditures for particular purposes.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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 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.

**Budgetary Basis Accounting**

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries, purchased services, and capital outlay).

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.

Other Assets

Other assets consist mainly of prepaid expenses or deposits, which are paid upon the receipt of the goods or services that were received but not consumed at year end. The expenditure will be recorded when the asset is used.

Long-term Debt

In the government-wide financial statements, outstanding debt is reported as liabilities. Long term liabilities are due in more than one year.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Financing costs are reported as expenditures.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets, Depreciation and Amortization

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 assets are stated at fair value on the date donated. The School generally capitalizes assets with cost of \$500 or more. Building improvements, additions and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Furniture, Equipment and Textbooks	5 Years
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Revenue Sources

Revenues for operations will be received primarily from the Miami-Dade County District School Board pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School will report the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of the full-time equivalent (FTE) students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. In addition, the school receives an annual allocation of charter school capital outlay funds for leasing of school facilities.

Finally, the School also receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to and approved by various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred. Any excess amounts are recorded as deferred revenues until expended.

Compensated Absences

The School grants a specific number of days of vacation/sick/personal leave. Full time instructional employees are eligible for one day per month up to ten days of active work during the ten month period. Employees and administrators wishing to carry forward unused vacation days, at year-end, may do so. The employee can only cash out if they have used three days or less of their vacation days in that school year. The employees cannot cash out more than ten days per school year and are required to always maintain a minimum of ten days unused vacation. The cash out value is eighty percent of their daily rate.

Government Accounting Standards Board (GASB) Statement 16, Accounting for Compensated Absences, requires governmental agencies to record as a liability the vested and future rights to sick and/or vacation leave. Accordingly, the financial statements include an accrual for such vested rights.

SOMERSET ACADEMY (A Charter School Under Somerset Academy, Inc.)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transactions with Affiliates

The School has been granted a Charter by the sponsoring district and operates and reports under that charter. However, the School may be part of a corporation which includes several other charter schools. These financial statements report the financial condition and operations of the charter school only and not of the corporation. In the normal course of its business, the School may transact with other affiliated charter schools that are part of the corporation including the sharing of facilities and expenses. See notes in these financial statements as to transactions with other schools and operating leases and other commitments.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles 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.

Reclassifications

Certain accounts in the June 30, 2005 financial statements have been reclassified to conform to the June 30, 2006 presentation

NOTE 3 – DUE FROM OTHER AGENCIES

Due from other agencies is comprised of amounts due to the school as follows:

Start up Grant and Capital Outlay	\$ 201,725
School Recognition	<u>47,300</u>
	<u>\$ 249,025</u>

NOTE 4 – INCOME TAXES

The School 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.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 5 – CHANGES IN CAPITAL ASSETS

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, from inception through June 30, 2006:

	Balance 07/01/05	Additions	Retirements	Balance 06/30/06
Capital Assets				
Audio Visual Materials	\$ -	\$ 6,473	\$ -	\$ 6,473
Computer Software	-	78,125	-	78,125
Furniture, Equipment and Textbooks	<u>\$ 33,134</u>	<u>268,230</u>	<u>-</u>	<u>301,364</u>
Total Capital Assets	33,134	352,828	-	385,962
Less Accumulated Depreciation				
Audio Visual Materials	-	( 647)	-	( 647)
Computer Software	-	( 8,522)	-	( 8,522)
Furniture, Equipment and Textbooks	<u>( 3,313)</u>	<u>( 33,311)</u>	<u>-</u>	<u>( 36,624)</u>
Total Accumulated Depreciation	<u>( 3,313)</u>	<u>( 42,480)</u>	<u>-</u>	<u>( 45,793)</u>
Capital Assets, net	<u>\$ 29,821</u>	<u>\$ 310,348</u>	<u>\$ -</u>	<u>\$ 340,169</u>

Depreciation expense from inception through June 30, 2006 was \$42,480 and is allocated to various functions in the Statement of Activities.

NOTE 6 – ORGANIZATION’S MANAGEMENT

Academica Dade, LLC (f/k/a Academica, Corp.), a professional charter school management company, provided management and administrative services to the School. In providing management services to the School, officers of the management company may not serve as members of the Board of Directors of a school. The management company charges a fee of \$450 per student per year. From inception through June 30, 2006, the School incurred approximately \$237,000, in management fees, of which \$11,681 were due as of that date. (See Note 8)

Academica Dade, LLC (f/k/a Academica, Corp.) is located at 6255 Bird Road, Miami, Florida 33155 as of June 30, 2006 their officers are:

Fernando Zulueta, President  
 Magdalena Fresen, Vice President and Treasurer  
 Amy Nunez, Secretary

NOTE 7 – 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, 2006, the carrying amount of the School’s deposits was \$383,278 and the respective bank balances totaled \$344,498. Out of the total bank balances, \$100,000 was covered by the Federal Depository Insurance Corporation (FDIC). The remainder was partially collateralized by U.S. Government obligations under a repurchase agreement with Wachovia Bank.

**SOMERSET ACADEMY (A Charter School Under Somerset Academy, Inc.)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 8 – LINE OF CREDIT**

The School has a line of credit from the management company (See Note 6) provided on a as-needed basis. At June 30, 2006, the outstanding balance was \$200,000.

**NOTE 9 – COMMITMENTS UNDER OPERATING LEASE/CONTINGENCIES**

The School entered into lease agreement with Valencia School Development, LLC, as landlord, for its facilities expiring on July 31, 2005. The School and Somerset Academy Middle School share facilities and prorate the lease based on students at each school. The School's prorated share represents 88% of the total lease payments. The middle school is allocated 12% of the expense. In addition, the School leases equipment with monthly payments ranging from \$186 to \$287 through August 2009.

At the time the lease was signed, a relative of Mr. Fernando Zulueta (See Note 6) represented the landlord. Neither Mr. Zulueta or that relative participated in the School's decision to enter into the lease, which was approved by the School's independent Board of Directors. Neither Mr. Zulueta or his relative were on the Board of Directors at the time, and neither Mr. Zulueta or his relative had a direct or indirect interest in the landlord.

Future minimum payments under operating leases are as follows:

<u>Fiscal Year</u>	
2007	617,076
2008	617,076
2009	612,110
2010	608,492
2011	608,076
2012-2016	3,040,380
2017-2021	3,040,380
2022-2025	2,438,638

Rent expense and other operating lease expenses for the year ended June 30, 2006 was approximately \$442,000.

Finally, the School carries comprehensive liability insurance for claims that may arise in the regular course of business. At the present time, management believes that any claims the school may have are insured and that any expense associated therewith will not materially affect the financial position of the School.

**NOTE 10 – GRANTS**

In the normal course of operations, the School receives grant funds from various federal, state and local agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not reflected in these financial statements.

**NOTE 11 – TRANSACTIONS WITH OTHER SCHOOLS**

The School received \$130,000 from Somerset Academy Middle School and \$100,000 from Somerset Academy High School for the purpose of acquiring and improving its capital assets. Such amount of \$230,000 has been recorded as a long-term liability. In addition, the Board Chair of the School serves as Board Chair of an affiliated School.

REQUIRED SUPPLEMENTARY INFORMATION

SOMERSET ACADEMY ( A Charter School Under Somerset Academy, Inc.)

A NON-MAJOR COMPONENT UNIT OF THE DISTRICT SCHOOL BOARD OF MIAMI-DADE COUNTY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Funds		
	Original Budget	Final Budget	Actual
REVENUES			
Program Revenues			
Capital Outlay	\$ -	\$ -	\$ 7,080
Operating Grants and Contributions	250,000	250,000	311,081
General Revenues			
Government Grants Not Restricted to			
Specific Programs	2,609,775	2,750,000	2,822,151
Other	100,000	55,000	90,181
Charges for Services	270,000	150,000	183,837
TOTAL REVENUES	<u>\$ 3,229,775</u>	<u>\$ 3,205,000</u>	<u>\$ 3,414,330</u>
EXPENDITURES			
Component Unit Activities:			
Instruction	\$ 1,468,509	1,543,500	1,524,710
Instruction Staff Training Services	30,000	27,500	24,214
Board	10,000	10,000	9,570
School Administration	300,000	315,250	305,600
Facilitation Acquisition and Construction	4,000	4,000	3,517
Fiscal Services	80,000	80,000	78,738
Food Services	143,000	130,000	122,955
Central Services	90,000	86,000	82,832
Operation of Plant	685,300	688,250	680,079
Community Services	100,000	91,400	156,080
Maintenance of Plant	66,000	160,000	86,796
TOTAL EXPENDITURES	<u>\$ 2,976,809</u>	<u>\$ 3,135,900</u>	<u>\$ 3,075,091</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

PEDRO M. DE ARMAS, C.P.A.  
OCTAVIO A. VERDEJA, C.P.A.  
OCTAVIO F. VERDEJA, C.P.A.

JORGE M. MORALES, C.P.A.  
ALEJANDRO M. TRUJILLO, C.P.A.  
TAB VERDEJA, C.P.A.

Board of Directors of  
Somerset Academy  
(A Charter School Under Somerset Academy, Inc.)  
Miami, Florida

We have audited the financial statements of Somerset Academy (A Charter School Under Somerset Academy, Inc.) as of, and for the year ended June 30, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Somerset Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we reported to management of Somerset Academy in a separate management letter which is included in this reporting package.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Somerset Academy'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 the audit committee, management and regulatory bodies. However, this report is a matter of public record and its distribution is not limited.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 25, 2006

MANAGEMENT LETTER

Board of Directors of  
Somerset Academy  
(A Charter School Under Somerset Academy, Inc.)  
Miami, Florida

PEDRO M. DE ARMAS, C.P.A.  
OCTAVIO A. VERDEJA, C.P.A.  
OCTAVIO F. VERDEJA, C.P.A.

JORGE M. MORALES, C.P.A.  
ALEJANDRO M. TRUJILLO, C.P.A.  
TAB VERDEJA, C.P.A.

This letter is written in connection with our audit of the basic financial statements of Somerset Academy (A Charter School Under Somerset Academy, Inc.) as of and for the period ended June 30, 2006. The purpose for this letter is to communicate to you any comments and recommendations, and to comply with the requirements of Chapter 10.850 Rules of the Auditor General, Charter School Audits which requires that this report specifically address but not limit to the matters outlined in Rule 10.854(i)(d).

The following statements relate to requirements of the Auditor General:

1. There were no inaccuracies, irregularities, shortages, defalcations and/or violations of laws, rules, regulations or contractual provisions reported for the preceding audit.
2. Prior year findings and recommendations were followed. (See below.)
3. The following are recommendations to improve the School's financial management, accounting procedures and internal controls:

**CURRENT YEAR FINDINGS**

**Transactions with Affiliates**

Observation

During our audit, we noted certain transactions with affiliated entities. In addition, we became aware that certain board members and employees of the School serve as board members of other schools.

Recommendation

The Board of Directors of the School should ensure that policies are developed and adopted whereby transactions between a school and any affiliated entity is reviewed for objectivity in order to avoid any potential conflict of interests.

**PRIOR YEAR FINDINGS**

**Segregation of Duties**

Observation

Due to the limited number of personnel, certain duties are performed by one individual, such as signing checks and recording transactions in the general ledger.

Recommendation

To the extent possible, the custody, authorization and record keeping of the cash disbursement function should be segregated.

4. There were no violations of laws, rules, regulations or contractual provisions discovered during our audit.
5. There were no illegal or improper expenditures discovered during our audit, relating to improper or inadequate accounting procedures, improperly recorded transactions, fraud or other reportable conditions.

  
CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
August 25, 2006

**Somerset Academy**

September 5, 2006

Mr. Octavio Verdeja, Jr.  
Verdeja & Gravier, CPA  
201 Alhambra Circle, Ste 901  
Coral Gables, FL 33134

RE: MANAGEMENT'S RESPONSES TO AUDITOR'S OBSERVATIONS

Dear Mr. Verdeja:

The following is the response by the School's Board of Directors to your observations:

**CURRENT YEAR FINDINGS**

**Observation**

During our audit, we noted certain transactions with affiliated entities. In addition, we became aware that certain board members and employees of the School serve as board members of other schools.

**Management Response**

The Board of the School will develop and adopt a comprehensive policy addressing transactions with affiliated entities to ensure that any such transactions are evaluated for objectivity and reasonableness.

**PRIOR YEAR FINDINGS**

**Observation**

Due to the limited number of personnel, certain duties are performed by one individual, such as signing checks and recording transactions in the general ledger.

**Management Response**

The prior year findings regarding segregation of duties were resolved by allocating segregated tasks to new staff members.

Sincerely,

Victor Barroso  
Somerset Academy, Inc.

## SOMERSET ACADEMY (Dade)

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

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

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

CPA's Name: **Verdeja & De Armas, LLP**

CPA's Address: **255 Alhambra Circle, Suite 424, Coral Gables, FL 33134**

License No.: **AD 64730**

Status: **Active**

Expiration Date: **December 31, 2007**

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

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