

Somerset Academy Middle Eagle Campus  
(A charter school under Somerset Academy, Inc.)  
**(A Charter School and Component Unit  
of the School Board of Duval County, Florida)**

Jacksonville, Florida

Financial Statements and  
Independent Auditors' Report

June 30, 2013

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Somerset Academy Middle Eagle Campus  
(A charter school under Somerset Academy, Inc.)  
W/L# 1261  
8985 Lone Star Road  
Jacksonville, Florida 32211

2012-2013

BOARD OF DIRECTORS

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Lourdes Isla Marrero, Secretary and Vice - Chair  
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SCHOOL ADMINISTRATION

Tunji Williams, Principal

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Somerset Academy Middle Eagle Campus  
Jacksonville, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Somerset Academy Middle Eagle Campus (the "School"), a charter school under Somerset Academy, Inc., which is a component unit of the District School Board of Duval County, as of, and for the year ended June 30, 2013, which collectively comprises the School's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Somerset Academy Middle Eagle Campus at June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

As described in Note 1, the accompanying financial statements referred to above present only the financial position of Somerset Academy Middle Eagle Campus at June 30, 2013, 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. These financial statements do not purport to and do not present fairly the financial position of Somerset Academy, Inc. as of June 30, 2013 and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 28 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
September 30, 2013

**Management's Discussion and Analysis**  
Somerset Academy Middle Eagle Campus  
(A charter school under Somerset Academy, Inc.)  
June 30, 2013

The corporate officers of Somerset Academy Middle Eagle Campus have prepared this narrative overview and analysis of the school's financial activities for the fiscal ended June 30, 2013.

**Financial Highlights**

1. The net position of the School at June 30, 2013 was \$267,671.
2. At year-end, the School had current assets on hand of \$56,196.
3. The School had an increase in its net position of \$ 12,314 during the year.
4. The unassigned fund balance at year end was \$21,369.

**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, 2013 are presented in accordance with GASB Codification Section 2200. 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 Position* presents information on all of the School's assets, deferred outflows of resources, and liabilities and deferred inflow of resources. The difference between the two is reported as *net position*. Over time increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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. *Governmental Funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental 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 - 27 of this report.

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

As noted earlier, net position may serve over time as a useful indicator of a charter school's financial position. In the case of the School, the net position was \$267,671 at the close of the fiscal year. A summary of the School's net position as of June 30, 2013 and 2012 follows:

	2013	2012
Cash	\$ 37,553	\$ 84,625
Due from other governmental agencies	-	-
Due from other schools	15,059	122,684
Prepaid expenses	3,584	5,302
Accounts receivable	-	-
Capital assets	141,318	129,151
Long-term receivable	101,400	-
Total Assets	298,914	341,762
Deferred Outflows of Resources	-	-
Accounts payable and accrued liabilities	31,243	16,905
Due to related party	-	69,500
Total Liabilities	31,243	86,405
Deferred Inflows of Resources	-	-
Net Position		
Invested in capital Assets, net	242,718	129,151
Unrestricted	24,953	126,206
Total Net Position	\$ 267,671	\$ 255,357

At the end of the fiscal year, the School is able to report positive balances in total net position.



A summary and analysis of the School's revenues and expenses for the year ended June 30, 2013 and 2012 follows:

	2013	2012
<b>REVENUES</b>		
Program Revenues		
Capital outlay	\$ 38,679	\$ 41,679
Federal sources	75,000	100,911
Lunch program	39,597	26,284
Charges for services	30,190	5,729
General Revenues		
FTE nonspecific revenue	729,756	562,090
Other	-	48,153
Total Revenues	<u>\$ 913,222</u>	<u>\$ 784,846</u>
<b>EXPENSES</b>		
Component Unit Activities:		
Instruction	\$ 484,069	\$ 392,033
Instructional staff training	5,283	2,114
Board	11,281	6,585
School Administration	113,877	134,771
Fiscal Services	20,625	19,800
Food Services	64,667	41,759
Central Services	40,304	19,762
Operation of Plant	158,399	117,492
Maintenance of Plant	2,403	23,032
Total Expenses	<u>900,908</u>	<u>757,348</u>
Increase in Net Position	12,314	27,498
Net Position at Beginning of Year	<u>255,357</u>	<u>227,859</u>
Net Position at End of Year	<u>\$ 267,671</u>	<u>\$ 255,357</u>

Student enrollment increased for 2013 by approximately 31 students. As a result, The School's revenues and expenses increased by \$128,376 and \$143,560, respectively, in the current year. The School had an increase in its net position of \$12,314 for the year.



### **Achievements**

In 2013, Somerset Eagle Academy Middle School completed its 3rd year of operations, serving approximately 130 students in grades 6-8. The school earned a letter grade of “A,” ranking among the highest-performing middle schools in Duval County.

As a member of the Somerset Academy network of high quality charter schools, Somerset Academy Middle School (Eagle Campus) is fully accredited by AdvancED under the Southern Association of Colleges and Schools Council on Accreditation and School Improvement (SACS-CASI) division. As with all the schools within the network, Somerset Academy Middle School (Eagle Campus) places high expectations for student learning and offers multiple opportunities for all students to acquire requisite knowledge, skills, and attitudes in a safe and nurturing environment. Key to achieving successful learning for all students is the school’s implementation of research-based instructional strategies by a highly qualified instructional staff, and the use of innovative resources in a technology-rich setting.

### **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. In particular, the *unassigned fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

Most of the School’s operations are funded in the General Fund. The majority of the General Fund revenues are distributed to the School by the District through the Florida Education Finance Program (FEFP), which uses formulas to distribute state funds and an amount of local property taxes (i.e., required local effort) established each year by the Florida Legislature.

At the end of the fiscal year, the School’s governmental general fund reported ending fund balance of 126,353. The fund balance unassigned and available for spending at the School’s discretion is \$122,769. These funds will be available for the School’s future ongoing operations.

### **Capital Assets**

The School’s investment in capital assets as of June 30, 2013 amounts to \$141,318 (net of accumulated depreciation). This investment in capital assets includes building and improvements and furniture, equipment, and textbooks. As of June 30, 2013, the School had no long-term debt associated to its capital assets.

## Governmental Fund Budget Analysis and Highlights

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

	Governmental Funds		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
Program Revenues			
Capital Outlay Funding	\$ 50,000	\$ 40,000	\$ 38,679
Federal Sources	75,000	75,000	75,000
Lunch program	50,000	38,888	39,597
Charges for services	6,000	10,000	30,190
General Revenues			
FTE Nonspecific Revenues	700,000	725,000	729,756
Other Revenues	-	-	-
Total Revenues	<u>\$ 881,000</u>	<u>\$ 888,888</u>	<u>\$ 913,222</u>
<b>EXPENDITURES</b>			
Component Unit Activities:			
Instruction	\$ 405,000	\$ 425,000	\$ 420,213
Instructional staff training	5,500	5,500	5,283
Board	10,000	12,000	11,281
School administration	115,000	115,000	113,877
Fiscal services	22,000	22,000	20,625
Food services	70,000	65,000	64,667
Central services	42,000	42,000	40,304
Operation of plant	170,000	160,000	158,399
Maintenance of plant	2,000	2,000	1,640
Total Current Expenditures(before capital outlay and debt service)	<u>\$ 841,500</u>	<u>\$ 848,500</u>	<u>\$ 836,289</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 Broward, LLC, 6340 Sunset Drive, Miami, Florida, 33143.

Somerset Academy Middle Eagle Campus  
(A charter school under Somerset Academy, Inc.)

Statement of Net Position  
June 30, 2013

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**Assets**

Current assets:

Cash	\$ 37,553
Due from other charter schools	15,059
Prepaid expenses and other current assets	<u>3,584</u>
	56,196

Capital assets, depreciable	288,555
Less: accumulated depreciation	<u>(147,237)</u>
	<u>141,318</u>

Long-term receivable from charter school	<u>101,400</u>
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Total Assets	<u>298,914</u>
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**Deferred Outflows of Resources**

-

**Liabilities**

Current liabilities:

Salaries and wages payable	<u>31,243</u>
Total Liabilities	31,243

**Deferred Inflows of Resources**

-

**Net Position**

Invested in capital assets and long-term receivable	242,718
Unrestricted	<u>24,953</u>
Total Net Position	<u>\$ 267,671</u>

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

Somerset Academy Middle Eagle Campus  
(A charter school under Somerset Academy, Inc.)

Statement of Activities

For the year ended June 30, 2013

FUNCTIONS	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
Instruction	\$ 484,069	\$ -	\$ 75,000	\$ -	\$ (409,069)
Instructional staff training	5,283	-	-	-	(5,283)
Board	11,281	-	-	-	(11,281)
School administration	113,877	-	-	-	(113,877)
Fiscal services	20,625	-	-	-	(20,625)
Food services	64,667	11,169	39,597	-	(13,901)
Central services	40,304	-	-	-	(40,304)
Operation of plant	158,399	19,021	-	38,679	(100,699)
Maintenance of plant	2,403	-	-	-	(2,403)
<b>Total governmental activities</b>	<b>900,908</b>	<b>30,190</b>	<b>114,597</b>	<b>38,679</b>	<b>(717,442)</b>
General revenues:					
FTE nonspecific revenues					729,756
Interest and other revenue					-
Change in net position					12,314
Net position, beginning					255,357
Net position, ending					<u>\$ 267,671</u>

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

Somerset Academy Middle Eagle Campus  
(A charter school under Somerset Academy, Inc.)

Balance Sheet - Governmental Funds  
June 30, 2013

		Special Revenue	Total Governmental
	General Fund	Fund	Funds
<b><u>Assets</u></b>			
Cash	\$ 37,553	\$ -	\$ 37,553
Due from other charter schools	15,059	-	15,059
Prepaid expenses	3,584	-	3,584
Due to / from funds	-	-	-
Total Assets	56,196	-	56,196
<b><u>Deferred Outflows of Resources</u></b>	-	-	-
<b><u>Liabilities</u></b>			
Salaries and wages payable	31,243	-	31,243
Due to / from funds	-	-	-
Total Liabilities	31,243	-	31,243
<b><u>Deferred Inflows of Resources</u></b>	-	-	-
<b><u>Fund balance</u></b>			
Nonspendable	3,584	-	3,584
Unassigned	21,369	-	21,369
	24,953	-	24,953
Total Liabilities, Deferred Inflows and Fund Balance	\$ 56,196	\$ -	\$ 56,196

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

Somerset Academy Middle Eagle Campus  
(A charter school under Somerset Academy, Inc.)

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position  
For the year ended June 30, 2013

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Total Fund Balance - Governmental Funds	\$ 24,953
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets of \$288,555 net of accumulated depreciation of \$147,237 used in governmental activities are not financial resources and therefore are not reported in the fund.	141,318
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Long-term receivables of \$101,400 used in governmental activities are not financial resources and therefore are not reported in the fund.	<u>101,400</u>
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Total Net Position - Governmental Activities	<u><u>\$ 267,671</u></u>
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The accompanying notes are an integral  
part of this financial statement.

Somerset Academy Middle Eagle Campus  
(A charter school under Somerset Academy, Inc.)

Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds  
For the year ended June 30, 2013

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
State capital outlay funding	\$ -	\$ 38,679	\$ 38,679
State passed through local	729,756	-	729,756
Federal sources	-	75,000	75,000
Federal lunch program	-	39,597	39,597
Charges for services	19,021	11,169	30,190
Total Revenues	748,777	164,445	913,222
Expenditures:			
Current			
Instruction	350,633	69,580	420,213
Instructional staff training services	5,283	-	5,283
Board	11,281	-	11,281
School administration	113,877	-	113,877
Fiscal services	20,625	-	20,625
Food services	-	64,667	64,667
Central services	40,304	-	40,304
Operation of plant	119,720	38,679	158,399
Maintenance of plant	1,640	-	1,640
Capital Outlay:			
Other capital outlay	20,330	56,456	76,786
Debt Service:			
Redemption of Principal	-	-	-
Total Expenditures	683,693	229,382	913,075
Excess (deficit) of revenues over expenditures	65,084	(64,937)	147
Other financing sources			
Long-term receivable from other school	(101,400)		(101,400)
Transfers in and (out)	(13,901)	13,901	-
Net change in fund balance	(50,217)	(51,036)	(101,253)
Fund Balance at beginning of year	75,170	51,036	126,206
Fund Balance at end of year	\$ 24,953	\$ -	\$ 24,953

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



Somerset Academy Middle Eagle 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, 2013

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Net Change in Fund Balance - Governmental Funds	\$ (101,253)
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Amounts reported for governmental activities in the statement of activities are different because:

Insurance of long-term receivables reduce current financial resources to governmental funds, but issuing such increases long-term receivables in the statement of net assets.	101,400
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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 \$76,786 differed from depreciation expense of \$64,617.	<u>12,167</u>
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Change in Net Position of Governmental Activities	<u><u>\$ 12,314</u></u>
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The accompanying notes are an integral part of this financial statement.

Somerset Academy Middle Eagle Campus  
(A charter school under Somerset Academy, Inc)

Statement of Net Position - Fiduciary Funds  
June 30, 2013

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	Agency Funds
<b><u>Assets</u></b>	
Cash	\$ 1,337
Total Assets	1,337
<b><u>Deferred Outflows of Resources</u></b>	-
<b><u>Liabilities</u></b>	
Due to students and clubs	1,337
Total Liabilities	1,337
<b><u>Deferred Inflows of Resources</u></b>	-
<b><u>Net Position</u></b>	\$ -

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

## **Note 1 – Summary of Significant Accounting Policies**

### Reporting Entity

Somerset Academy Middle Eagle Campus (the "School"), is a component unit of the School Board of Duval County, Florida (the "District"). The Schools charter is held by Somerset Academy, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act. The governing body of the School is the board of directors of Somerset Academy Middle Eagle Campus, which is composed of five members and also governs other charter schools.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter granted by the sponsoring district, the School Board of Duval County, Florida. The current charter expires on June 30, 2015 and is renewable for an additional term pursuant to law and/or by a mutual written agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under the grounds specified in the charter in which case the District is required to notify the School in writing at least 90 days prior to the charters expiration. During the term of the charter, the District may terminate the charter if good cause is shown.

The School is located in Jacksonville, Florida for students from sixth through eighth grades and is funded by the District. These financial statements are for the year ended June 30, 2013, when approximately 138 students were enrolled for the school year.

### Basis of presentation

The School's accounting policies conform to accounting principles generally accepted in the United States as applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

### Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report information about the School as a whole. Any internal interfund activity has been eliminated from these financial statements. Both statements report only governmental activities as the School does not engage in any business type activities. These statements also do not include fiduciary funds.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees; (2) operating grants such as the National School Lunch Program, Federal grants, and other state allocations; and (3) capital grants specific to capital outlay. Other revenue sources not properly included with program revenues are reported as general revenues.

**Note 1 – Summary of Significant Accounting Policies (continued)**

New Accounting Pronouncements

For the year ended June 30, 2013, the School implemented GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” GASB 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. Deferred outflows of resources represent consumption of resources that is applicable to future reporting periods that will be reported in a separate section after assets. Deferred inflows of resources represent acquisition of resources that is applicable to future reporting periods that will be reported in a separate section after liabilities. This change was incorporated in the Schools financial statements; however there was no effect on beginning net position/fund balance.

Additionally, the School implemented GASB Statement No. 65, “Items previously reported as Assets and Liabilities”. GASB 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously report as assets and liabilities. This change was incorporated in the Schools financial statements; however there was no effect on beginning net position/fund balance.

*Fund Financial Statements*

Fund financial statements are provided for governmental and fiduciary funds, even though the fiduciary funds are not included in the government-wide financial statements. The operations of the funds are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, 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 capital outlay funding and federal lunch program that are legally restricted to expenditures for particular purposes.

*Agency Fund* – Schools internal funds accounts for resources of the schools’ Internal Fund which is used to administer monies collected at the schools in connection with school, student activities, 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) *Codification of Accounting and Financial Reporting Guidance*.

**Note 1 – Summary of Significant Accounting Policies (continued)**

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.

The School recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized, on the modified accrual basis, when they are measurable and available. Non-exchange transactions occur when the school provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. Most donations are examples of non-exchange transactions. Revenues from grants and donations are recognized on the accrual basis, 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 liabilities of the current period. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Florida Education Finance Program (FEFP) revenues are recognized when received. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Charges for services and fees are recognized when cash is collected as amounts are not measurable. When grant terms provide that the expenditure of funds is the prime factor for determining eligibility for federal, state, and other grant funds, revenue is recognized at the time the expenditure is made. 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.

Agency fund assets and liabilities are accounted for on the accrual basis of accounting.

**Budgets and Budgetary Accounting**

In compliance with Florida Statutes, the Board of Directors adopts an annual budget using the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g. salaries and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g. instruction, pupil personnel services and school administration). Revisions to the annual budget are approved by the Board.

**Note 1 – Summary of Significant Accounting Policies (continued)**

Deposits and Investments

All deposits are held in major banks and high grade investments. The School has not adopted a formal investment policy; however the School invests excess deposit funds in collateralized repurchase agreements. Cash and cash equivalents include all highly liquid investments with a maturity of three months or less. All deposits and investments in repurchase agreements are carried at cost plus accrued interest.

Inter-fund Transfers

Outstanding balances between funds are reported as “due to/from other funds”. Inter-fund transfers are made to move any excess or shortage of funds derived from the National School Lunch Program from the Special Revenue Fund to the General Fund.

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 position 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	5 Years
Furniture, Equipment and Software	5 Years
Textbooks	3 Years

**Note 1 – Summary of Significant Accounting Policies (continued)**

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.

GASB Codification Section C60, *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.

Revenue Sources

Revenues for current operations are 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 FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods. After review and verification of FTE reports and supporting documentation, the FDOE may adjust subsequent fiscal period allocations of FEFP funding for prior year errors disclosed by its review as well as to prevent statewide allocations from exceeding the amount authorized by the Legislature. Normally, such adjustments are treated as reductions of revenue in the year the adjustment is made.



**Note 1 – Summary of Significant Accounting Policies (continued)**

In addition, the School receives state funds through the District under charter school capital outlay funding pursuant to Section 1013.62, Florida Statutes. Funds are based on a capital outlay plan submitted to the District and are to be used for lease 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. Additionally, other revenues may be derived from various fundraising activities and certain other programs.

Net position and Fund balance classifications

*Government-wide financial statements*

Equity is classified as net position and displayed in three (3) components:

- a) Invested in capital assets, net of related debt - consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition or improvement of those assets.
- b) Restricted net position - consists of net position with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments.
- c) Unrestricted net position - all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund financial statements*

Under GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

- a) Nonspendable - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Consists of fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

**Note 1 – Summary of Significant Accounting Policies (continued)**

- b) Restricted - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. There are no restricted fund balances at year end.
- c) Committed - fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School's Board of Directors. There are no committed fund balances at year end.
- d) Assigned - fund balance classification are intended to be used by the School's management for specific purposes but do not meet the criteria to be classified as restricted or committed. There are no assigned fund balances at year end.
- e) Unassigned - portion of the fund balance that has not been restricted, committed or assigned for a specific purpose. This is the residual classification for the School's general fund.

Order of Fund Balance Spending Policy

The School's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries. First Non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

Income Taxes

Somerset Academy, Inc. qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Note 1 – Summary of Significant Accounting Policies (continued)**

Subsequent Events

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through September 30, 2013, which is the date the financial statements were available to be issued.

**Note 2 –Capital Assets**

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the period ended June 30, 2013:

	Balance 7/1/12	Additions	Retirements	Balance 6/30/13
Capital Assets:				
Computer equipment	\$ 68,073	\$ 16,414	\$ -	\$ 84,487
Building Improvements	4,178	-	-	4,178
Furniture, equipment and textbooks	139,519	60,372	-	199,890
Total Capital Assets	<u>211,770</u>	<u>76,786</u>	<u>-</u>	<u>288,555</u>
Less Accumulated Depreciation:				
Computer equipment	(24,033)	(17,510)	-	(41,543)
Building Improvements	(763)	(763)	-	(1,526)
Furniture, equipment and textbooks	(57,823)	(46,344)	-	(104,168)
Total Accumulated Depreciation	<u>(82,619)</u>	<u>(64,617)</u>	<u>-</u>	<u>(147,237)</u>
Capital Assets, net	<u>\$ 129,151</u>	<u>\$ (12,169)</u>	<u>\$ -</u>	<u>\$ 141,318</u>

For the fiscal year ended June 30, 2013, depreciation expense is allocated in the Statement of Activities by function as follows:

Instruction	\$ 63,854
Maintenance of plant	763
Total Depreciation Expense	<u>\$ 64,617</u>

### **Note 3 – Deposits and Investments**

#### Deposits

The School maintains its cash and cash equivalents in major banks and in high grade investments. As of June 30, 2013, the bank balance of the School's deposits and investments was \$80,703; of which \$10,703 consisted of bank balances and \$70,000 was fully collateralized under a repurchase agreement with Regions Bank (the "Bank").

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, 2013, bank balances in potential excess of FDIC coverage totaled \$12,040; including fiduciary account bank balances.

#### Investments and Credit Risk

Custodial credit risk for deposits is the risk that in the event of a failure of a depository financial institution, the School will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the School will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. At June 30, 2013, all of the School's investments in repurchase agreements were held as part of the Bank's investment portfolio.

The School has not formally approved an investment policy regarding custodial credit risk; however it mitigates its credit risk by maintaining excess funds available in overnight repurchase agreements. Amounts invested in repurchase agreements are secured obligations collateralized by securities that include: non-callable U.S. Government and Agency Securities; Callable and Structured Agency Securities; Agency Mortgage-Backed Securities guaranteed by a federal agency, Bonds issued by government sponsored enterprises, Freddie Mac and Fannie Mae. Amounts invested in repurchase agreements are not insured by the FDIC and are subject to investment risks, including possible loss of principal invested, and if the Bank fails the School will become a secured creditor and may become an unsecured general creditor to the extent the market value of the securities used as collateral falls below the outstanding amount of repurchase obligations to the School.

#### **Note 4 –Management Agreement**

Academica Broward, 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 with Somerset Academy, Inc. for a period of five years, through June 30, 2016, and unless terminated by the board shall be renewed along with any renewals to the charter agreement. During the year ended June 30, 2013, the School incurred approximately \$61,875 in management fees. The management company waived these fees for the year and the entire amount was recorded as in-kind revenue.

Academica Broward, LLC is located at 6340 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 –Related Party Transactions**

Somerset Academy, Inc. operates various charter schools. During 2013, the School shared its facility with Somerset Academy Eagle Campus, another charter school under Somerset Academy, Inc.. Management allocates a proportionate share of leases, salaries, lunch receipts, food and supplies, and other expenses based on student enrollment and usage of facilities and staff to this school and other schools operated by Somerset Academy, Inc. In addition, Somerset Academy Eagle Campus' student activities account is recorded in the School's books.

As a result of these cost allocations between the school and Somerset Academy Eagle Campus, the School had a receivable of \$116,459 from Somerset Academy Eagle Campus as of June 30, 2013.

Under a non-exclusive space usage agreement, the School's provides facility usage to Somerset Academy High School Eagle Campus. During the year, the School received approximately \$19,000 in usage fees from such charter school, pertaining mostly to rent expense.



**Note 5 –Related Party Transactions (Continued)**

Somerset Academy, Inc. charges its affiliated schools an assessment for shared corporate costs and accreditation expenses. Somerset Academy Middle Eagle Campus paid Somerset Academy, Inc. \$3,450 in connection with these charges during the year.

Pursuant to the Charter School contract with the School District, the District withholds an administrative fee of 5% (or 2% if the school is high performing) of the qualifying revenues of the School. For the year ended June 30, 2013, administrative fees withheld by the School District totaled \$36,384.

**Note 6 – Commitments and Contingencies**

The School entered into a school facilities lease agreement with Faith Christian Center Church, Inc. for use of its facility. Annual payments under this agreement are for an amount equal to 17.8 percent of each payment of the State of Florida's Department of Education Florida Education Program ("FEFP") full-time equivalent student ("FTE") payments due to the School with a minimum facility fee of \$89,110. The agreement continues through June 30, 2015 with an option to renew for two additional terms of two years.

This facility is shared with Somerset Academy Eagle Campus. Lease payments are allocated among the two schools (charter schools under Somerset Academy, Inc.) based on 17.8 percent of their corresponding FTE revenue.

For 2013, rent expense totaled \$132,482 of which approximately \$129,251 related to the facility lease. Future minimum payments under this facility lease agreements are as follows: 2014 - \$89,110; 2015 - \$89,110.

Another portion of the church facility is used by Somerset Academy Eagle Campus (a charter school under Somerset Academy, Inc.) which has entered into a separate school facilities lease agreement with Faith Christian Center Church, Inc. Lease payments due to the landlord under the separate lease agreement are also based on 17.8 percent of Somerset Academy Eagle Campus' corresponding FTE revenue.

## **Note 6 – Commitments and Contingencies (Continued)**

### Contingencies

The School receives substantially all of its funding from the District under the Florida Education Finance Program (FEFP), which is based in part on a computation of the number of full-time equivalent (FTE) students attending different instructional programs. The accuracy of FTE student data submitted by individual schools and used in the FEFP computations is subject to audit by the state and, if found to be in error, could result in refunds to the state or in decreases to future funding allocations. Additionally, the School participates in a number of federal, state and local grants which are subject to financial and compliance audits. It is the opinion of management that the amount of revenue, if any, which may be remitted back to the state due to errors in the FTE student data or the amount of grant expenditures which may be disallowed by grantor agencies would not be material to the financial position of the School.

The School participates in a number of Federal and State grant programs which are subject to audit in accordance with Office of Management and Budget Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations”. The School expects such expenditures, if any, which may be disallowed by the granting agencies to be immaterial.

## **Note 7 – 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 8 – Defined Contribution Retirement Plan**

### Post-retirement Benefits

The School provides a defined contribution 401(k) plan sponsored through ADP TotalSource Group, Inc. covering employees who meet certain age and tenure requirements. Under the ADP TotalSource Retirement Savings Plan, the School will provide a match of 50% up to 4% of employee compensation. Contributions to the plan were \$1,175 for the year ended June 30, 2013. The school does not exercise any control or fiduciary responsibility over the plans’ assets.



## REQUIRED SUPPLEMENTARY INFORMATION

Somerset Academy Middle Eagle 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, 2013

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State passed through local	\$ 700,000	\$ 725,000	\$ 729,756
Interest and other revenues	-	-	-
Total Revenues	700,000	725,000	748,777
EXPENDITURES			
Current:			
Instruction	345,000	355,000	350,633
Instructional Staff			
Training Services	5,500	5,500	5,283
Board	10,000	12,000	11,281
School administration	115,000	115,000	113,877
Fiscal services	22,000	22,000	20,625
Central services	42,000	42,000	40,304
Operation of plant	120,000	120,000	119,720
Maintenance of plant	2,000	2,000	1,640
Total current expenditures	661,500	673,500	663,363
Excess of revenues			
Over current expenditures	38,500	51,500	85,414
Capital outlay:			
Other capital outlay	20,000	22,000	20,330
Total capital outlay and			
Debt service expenditures	20,000	22,000	20,330
Total expenditures	681,500	695,500	683,693
Excess of revenues			
Over expenditures	18,500	29,500	65,084
Other financing sources	(75,706)	(86,594)	(101,400)
Transfers in and (out)	(17,964)	(18,076)	(13,901)
Net change in fund balance	(75,170)	(75,170)	(50,217)
Fund balance at beginning of year	75,170	75,170	75,170
Fund balance at end of year	\$ -	\$ -	\$ 24,953

Notes to Budgetary Comparison Schedules

An annual budget is adopted on the modified accrual basis of accounting, consistent with generally accepted accounting principles. Amendments to the budget can only be made with the approval of the Board of Directors.

Somerset Academy Middle Eagle 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, 2013

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
State capital outlay funding	\$ 50,000	\$ 40,000	\$ 38,679
Charges for services	6,000	10,000	30,190
Federal sources	75,000	75,000	75,000
Federal lunch program	50,000	38,888	39,597
Total Revenues	181,000	163,888	183,466
<b>EXPENDITURES</b>			
Current:			
Instruction	60,000	70,000	69,580
Food services	70,000	65,000	64,667
Operation of plant	50,000	40,000	38,679
Total current expenditures	180,000	175,000	172,926
Excess of revenues			
Over current expenditures	1,000	(11,112)	10,540
Capital outlay:			
Other capital outlay	70,000	58,000	56,456
Total expenditures	250,000	233,000	229,382
Other financing sources			
Transfers in and (out)	17,964	18,076	13,901
Excess of revenues			
Over expenditures	(51,036)	(51,036)	(32,015)
Fund balance at beginning of year	51,036	51,036	51,036
Fund balance at end of year	\$ -	\$ -	\$ 19,021

Notes to Budgetary Comparison Schedules

An annual budget is adopted on the modified accrual basis of accounting, consistent with generally accepted accounting principles. Amendments to the budget can only be made with the approval of the Board of Directors.



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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*

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Board of Directors of  
Somerset Academy Middle Eagle Campus  
Jacksonville, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Somerset Academy Middle Eagle Campus (the "School") as of, and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### 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*.

We noted certain matters that we reported to management of in a separate management letter dated September 30, 2013 pursuant to Chapter 10.850, Rules of the Auditor General.

#### Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
September 30, 2013

MANAGEMENT LETTER

Board of Directors of  
Somerset Academy Middle Eagle Campus  
Jacksonville, Florida

We have audited the financial statements of the governmental activities and each major fund of Somerset Academy Middle Eagle Campus as of and for the year ended June 30, 2013 and have issued our report thereon dated September 30, 2013.

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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosure in those reports, which are dated September 30, 2013, 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 governs the conduct of charter school and similar entity 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.

There were no findings and recommendations made in the preceding annual financial audit report.

2. 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, we determined that Somerset Academy Middle Eagle Campus did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

3. 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 have the following observations and recommendations.



## **ML 13-01 – INTERNAL ACCOUNT**

### Observation

Control over the internal account needs improvement. We noted that activity in the School's internal fund includes both fiduciary activity and general fundraising activity. The accounting treatment is being applied in the same way for both as funds held in the School's internal account are reported as a liability and the activity is not reflected as revenues or expenses. The activity is also recorded in one general ledger account on a cash basis. In addition, we noted instances where recap sheets for deposits were missing required signatures.

### Recommendation

Although generally not material to the financial statements taken as a whole, the activity related to general fundraising should be treated separately from fiduciary type activity. Funds accumulated by fundraising activity should be reflected in the School's net position as either unrestricted or restricted net position. In addition, general fundraising revenues and expenses should be reflected in the statement of activities and should be recorded on the accrual basis with reconciliation to the bank statement performed monthly.

4. Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of 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 which warrants the attention of those charged with governance.

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

5. Section 10.854.(1)(e)5., Rules of the Auditor General, requires the name or official title of the school.

The official title of the school is Somerset Academy Middle Eagle Campus.

6. Pursuant to Sections 10.854(1)(e)6.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor Somerset Academy Middle Eagle Campus 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.



Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and Florida House of Representatives, the Florida Auditor General, School Board of Duval County, Federal and other granting agencies and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

*HLB Shavitz, LLP*

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
September 30, 2013

**Somerset Academy Middle Eagle Campus**

September 30<sup>th</sup>, 2013

HLB Gravier, LLP  
396 Alhambra Circle, 9<sup>th</sup> Floor  
Coral Gables, FL 33134

**RE: MANAGEMENT'S RESPONSES TO AUDITOR'S RECOMMENDATION**

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

**ML 2013-01 – INTERNAL**

**Recommendation**

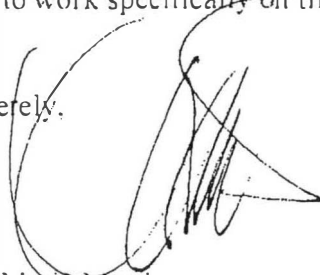
Although generally not material to the financial statements taken as a whole, the activity related to general fundraising should be treated separately from fiduciary type activity. Funds accumulated by fundraising activity should be reflected in the School's net assets as either unrestricted or restricted net assets.

In addition, general fundraising revenues and expenses should be reflected in the statement of activities and should be recorded on the accrual basis with reconciliation to the bank statements performed monthly.

**Management Response**

Management will adhere to auditor's recommendation and Management has assigned staff to work specifically on this project.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ana Maria Martinez', written over a large, faint circular stamp or watermark.

Ana Maria Martinez  
Authorized Signor for Somerset Academy, Inc.