



Somerset Preparatory Academy

W/L# 5501

(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, 2019

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Somerset Preparatory Academy
(A charter school under Somerset Academy, Inc.)
W/L# 5501

1429 Broward Road
Jacksonville, Florida 32218

2018-2019

BOARD OF DIRECTORS

Todd German, Director and Board Chair, effective January 25, 2019 (Florida)
Lourdes Isla Marrero, Board Chair, resigned effective January 25, 2019
Ana Diaz, Secretary and Director
David Concepcion, Director
Jennifer Esquijarosa, Director
Dr. Bernard Kimmel, Director
Louis Marin, Director and Vice Chair (Texas)
Brian M, Cox, Director, elected July 26, 2018

SCHOOL ADMINISTRATION

Tunji Williams, Principal

OTHER NON-VOTING CORPORATE OFFICERS

Bernardo Montero, President
Suzette Ruiz, Vice-President

BOARD COUNSEL

Charles Gibson, Esq.
Eleni Pantaridis, Esq.



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Somerset Preparatory Academy
Jacksonville, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Somerset Preparatory Academy (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, 2019, and related notes to the financial statements which collectively comprise 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 information of Somerset Preparatory Academy as of June 30, 2019, 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.

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Other Matters

As described in Note 1, the accompanying financial statements referred to above present only the financial position of Somerset Preparatory Academy as of June 30, 2019, 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, 2019 and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Paragraph

On October 26, 2018, the Board of Directors of Somerset Academy, Inc. on, elected to voluntarily not renew the School’s charter contract with the District School Board of Duval County effective June 30, 2019, our opinion is not modified with respect to this.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019, 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* in considering the School’s internal control over financial reporting and compliance.

Required Supplementary Information

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 27, 2019

Management's Discussion and Analysis
Somerset Preparatory Academy
(A charter school under Somerset Academy, Inc.)
June 30, 2019

The corporate officers of Somerset Preparatory Academy have prepared this narrative overview and analysis of the school's financial activities for the fiscal ended June 30, 2019.

Financial Highlights

1. The net position of the School as of June 30, 2019 was \$(469,308).
2. At year-end, the School had current assets on hand of \$128,809.
3. The net position of the School decreased by (\$522,909) during the year.
4. The unassigned fund balance at year end was \$43,554.

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, 2019 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, liabilities and deferred inflows of resources. The difference between the four 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, net position was \$(469,308) at the close of the fiscal year. A summary of the School's net position as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 4,461	\$ 219,230
Investments	40,000	270,000
Prepaid expenses	-	14,780
Due from other agencies	76,318	114,557
Deposits receivable	8,030	8,030
Other current assets	-	101,528
Capital assets, net	<u>297,108</u>	<u>399,105</u>
Total Assets	<u>425,917</u>	<u>1,127,230</u>
Deferred outflows of resources	-	-
Salaries and wages payable	40,687	60,572
Accounts payable	36,538	5,057
Long-term payable to Somerset Academy, Inc.	<u>818,000</u>	<u>1,008,000</u>
Total Liabilities	<u>895,225</u>	<u>1,073,629</u>
Deferred inflows of resources	-	-
Net Position:		
Net investment in capital assets	44,211	31,763
Unrestricted	<u>(513,519)</u>	<u>21,838</u>
Total Net Position	<u>\$ (469,308)</u>	<u>\$ 53,601</u>

A summary and analysis of the School's revenues and expenses for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
REVENUES		
Program Revenues		
Federal sources	\$ 278,086	\$ 232,807
Lunch fees	4,459	3,139
Charges for Services	77,121	129,802
General Revenues		
Local Sources (FTE and other non specific)	1,284,576	1,798,041
Other Revenues	11,163	612,237
Total Revenues	<u>\$ 1,655,405</u>	<u>\$ 2,776,026</u>
EXPENSES		
Instruction	\$ 956,898	\$ 1,475,907
Instructional staff training	16,293	21,552
Board	27,550	18,981
School administration	324,672	455,153
Fiscal services	27,375	39,150
Food services	117,801	145,769
Central services	43,587	68,757
Student transportation services	27,280	31,825
Operation of plant	415,664	517,841
Maintenance of plant	221,194	175,800
Total Expenses	<u>2,178,314</u>	<u>2,950,735</u>
Decrease in Net Position	(522,909)	(174,709)
Net Position at Beginning of Year	53,601	228,310
Net Position at End of Year	<u>\$ (469,308)</u>	<u>\$ 53,601</u>

Revenues and expenses decreased due to a reduction in student enrollment and change in the school location. During current year the School's general revenues and expenses decreased by \$1,120,621 and \$772,421, respectively. The School had a decrease in its net position of \$522,909 for the year. The current charter expired on June 30, 2019. On November 1, 2018, the board of directors elected to notify Duval County Public Schools to voluntarily not renew the School's charter contract for the purpose of enhancing the services to students.

School Location and Lease of Facility

The School leases facilities located at 1429 Broward Road, Jacksonville, Florida.

Capital Improvement Requirements

The School maintains a continuous capital improvements program to enhance facilities and update fixtures and equipment as required.

School Enrollment

This past year, the School had on average 183 students enrolled in grades kindergarten to fifth grade.

Achievements

In 2019, Somerset Preparatory Academy completed its 6th year of operations, serving 183 students in grades K-5. The school demonstrated notable academic improvement, as its grade went up to a “B” based on points received under the State of Florida Accountability Program.

The school has incorporated i-Ready and USA Test Prep web-based resources for targeted instruction in a blended learning environment. The school has also implemented research-based Reading programs using the Independent Reading Level Assessment and the Reading Plus program to support all of our growing readers.

This past year, Somerset Preparatory focused on the academic assessment of students to better determine the best way to help each one of them move forward, as well as maximizing learning gains for individual students on the FSA. On 2018-2019 state exams, scores for the English Language Arts FSA improved for third grade with a passing rate of 55% in 2018-2019 compared to a passing rate of 40% in 2017-2018, fourth grade students’ scores improved to 48% in 2018-2019 compared to 37% in 2017-2018, and fifth grade students’ scores improved to 33% in 2018-2019 compared to 23% in 2017-2018. Passing rates also improved for the Mathematics FSA for third grade with a passing rate of 62% for 2018-2019 compared to 40% in 2017-2018, fourth grade passing rate improved to 88% in 2018-2019 compared to 28% in 2017-2018, and fifth grade passing rate improved to 67% in 2018-2019 compared to 29% in 2017-2018.

The incorporation of i-Ready and USA Test Prep web-based resources, and the Reading Plus program reflects the improvement in the passing rates for the English Language Arts FSA.

In addition to striving for academic excellence, Somerset Prep offers students a number of extra-curricular activities including athletics and the arts. Student athletes participated in Volleyball, Boys and Girls Basketball, Soccer, and Flag Football. Students also participated in Art club, the Science Fair, Reading Night, and a very dedicated and successful Cheerleading Squad along with giving back to the community through fundraising and donations.

The incorporation of a state of the art STEM lab and 3D virtual reality labs, a full course in robotics and mechanical engineering, 3D printing and data logging has allowed the students to participate more actively in STEM activities. We have also implemented upgrades to our interactive technology in every classroom thanks to significant federal grants provided through the District Initiative Title 1 program.

As with all the schools within the network, Somerset 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. As a member of the Somerset Academy network of high quality charter schools, Somerset Preparatory Academy is fully accredited by AdvancED under the Southern Association of Colleges and Schools Council on Accreditation and School Improvement (SACS-CASI) division.

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 \$51,584. The fund balance unassigned and available for spending at the School’s discretion is \$43,554. 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, 2019 amounts to \$297,108 (net of accumulated depreciation). This investment in capital assets includes leasehold improvements and furniture, equipment, and textbooks. As of June 30, 2019, the School has \$818,000 long-term debt associated to its capital assets and working capital.

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 Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Program Revenues			
Federal sources	\$ 274,983	\$ 277,997	\$ 278,086
Lunch fees	4,000	4,250	4,459
General Revenues			
FTE and other nonspecific revenues	1,207,692	1,283,525	1,284,576
Charges and other revenues	211,850	87,620	88,284
Total Revenues	<u>1,698,525</u>	<u>1,653,392</u>	<u>1,655,405</u>
CURRENT EXPENDITURES			
Component Unit Activities:			
Instruction	741,779	806,124	804,123
Instructional staff training	12,000	21,000	16,293
Board	43,191	27,600	27,550
School administration	250,165	325,391	323,984
Fiscal services	28,200	27,375	27,375
Food services	116,890	116,430	115,926
Central services	24,857	44,257	43,587
Student transportation services	33,200	32,400	27,280
Operation of plant	231,993	408,345	406,265
Maintenance of plant	105,471	200,000	198,267
Total Current Expenditures	<u>\$ 1,587,746</u>	<u>\$ 2,008,922</u>	<u>\$ 1,990,650</u>

Most variances occurred as a result of the Budget adopted being more conservative than actual results for the year.

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 Preparatory Academy
(A charter school under Somerset Academy, Inc.)

Statement of Net Position
June 30, 2019

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 4,461
Investments	40,000
Due from other agencies	76,318
Deposits receivable	8,030
Total Current Assets	<u>128,809</u>
Capital assets, depreciable	1,136,471
Less: accumulated depreciation	<u>(839,363)</u>
	<u>297,108</u>
Total Assets	<u>425,917</u>
 <u>Deferred Outflows of Resources</u>	 <u>-</u>
 <u>Liabilities</u>	
Current liabilities:	
Salaries and wages payable	40,687
Accounts payable	36,538
Total Current Liabilities	<u>77,225</u>
Long-term payable to Somerset Academy, Inc.	818,000
Total Liabilities	<u>895,225</u>
 <u>Deferred Inflows of Resources</u>	 <u>-</u>
 <u>Net Position</u>	
Net investment in capital assets	44,211
Unrestricted	<u>(513,519)</u>
Total Net Position	<u>\$ (469,308)</u>

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

Somerset Preparatory Academy
(A charter school under Somerset Academy, Inc.)

Statement of Activities
For the year ended June 30, 2019

FUNCTIONS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Instruction	\$ 956,898	\$ 77,121	\$ 189,381	\$ -	\$ (690,396)
Instructional staff training	16,293	-	-	-	(16,293)
Board	27,550	-	-	-	(27,550)
School administration	324,672	-	-	-	(324,672)
Fiscal services	27,375	-	-	-	(27,375)
Food services	117,801	4,459	88,705	-	(24,637)
Central services	43,587	-	-	-	(43,587)
Student transportation services	27,280	-	-	-	(27,280)
Operation of plant	415,664	-	-	-	(415,664)
Maintenance of plant	221,194	-	-	-	(221,194)
Total governmental activities	<u>2,178,314</u>	<u>81,580</u>	<u>278,086</u>	<u>-</u>	<u>(1,818,648)</u>
General revenues:					
FTE and other nonspecific revenues					1,284,576
Interest and other revenue					11,163
<hr/>					
Change in net position					(522,909)
Net position , beginning					53,601
Net position, ending					<u>\$ (469,308)</u>

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

Somerset Preparatory Academy
(A charter school under Somerset Academy, Inc.)

Balance Sheet - Governmental Funds
June 30, 2019

	General Fund	Special Revenue Fund	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 4,461	\$ -	\$ 4,461
Investments	40,000	-	40,000
Due from other agencies	28,892	47,426	76,318
Due from fund	47,426	-	47,426
Deposits receivable	8,030	-	8,030
Total Assets	128,809	47,426	176,235
<u>Deferred Outflows of Resources</u>			
	-	-	-
<u>Liabilities</u>			
Salaries and wages payable	40,687	-	40,687
Accounts payable	36,538	-	36,538
Due to fund	-	47,426	47,426
Total Liabilities	77,225	47,426	124,651
<u>Deferred Inflows of Resources</u>			
	-	-	-
<u>Fund balance</u>			
Nonspendable, not in spendable form	8,030	-	8,030
Unassigned	43,554	-	43,554
	51,584	-	51,584
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 128,809	\$ 47,426	\$ 176,235

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

Somerset Preparatory Academy
(A charter school under Somerset Academy, Inc.)

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position
June 30, 2019

Total Fund Balance - Governmental Funds \$ 51,584

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

Capital assets of \$1,136,471 net of accumulated depreciation of \$839,363 used in governmental activities are not financial resources and therefore are not reported in the fund. 297,108

This proceeds from debt issuance provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of long-term debt. (818,000)

Total Net Position - Governmental Activities \$ (469,308)

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

Somerset Preparatory Academy
(A charter school under Somerset Academy, Inc.)

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
For the year ended June 30, 2019

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
State passed through local	\$ 1,284,576	\$ -	\$ 1,284,576
Federal sources	-	278,086	278,086
Lunch fees	-	4,459	4,459
Charges and other revenue	88,284	-	88,284
Total Revenues	1,372,860	282,545	1,655,405
Expenditures:			
Current			
Instruction	702,065	102,058	804,123
Board	27,550	-	27,550
Instructional staff training	10,335	5,958	16,293
School administration	289,319	34,665	323,984
Fiscal services	27,375	-	27,375
Food services	-	115,926	115,926
Central services	43,587	-	43,587
Student transportation services	27,280	-	27,280
Operation of plant	406,265	-	406,265
Maintenance of plant	198,267	-	198,267
Capital Outlay:			
Other capital outlay	38,967	46,700	85,667
Total Expenditures	1,771,010	305,307	2,076,317
Excess (deficit) of revenues over expenditures	(398,150)	(22,762)	(420,912)
Other financing sources (uses)			
Transfers in (out)	(22,762)	22,762	-
Repayment of long term advances to Somerset Academy, Inc.	(190,000)	-	(190,000)
Net change in fund balance	(610,912)	-	(610,912)
Fund Balance at beginning of year	662,496	-	662,496
Fund Balance at end of year	\$ 51,584	\$ -	\$ 51,584

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

Somerset Preparatory Academy
(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, 2019

Net Change in Fund Balance - Governmental Funds \$ (610,912)

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 \$85,667 differed from depreciation expense of \$187,664. (101,997)

The proceeds from debt issuance provide current financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net position. This is the amount by which repayments of \$190,000 exceeded proceeds of \$-0-. 190,000

Change in Net Position of Governmental Activities \$ (522,909)

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

Somerset Preparatory Academy
(A charter school under Somerset Academy, Inc.)

Statement of Net Position - Fiduciary Funds
June 30, 2019

<u>Assets</u>	<u>Agency Funds</u>
Cash	\$ 1,258
Total Assets	1,258
<u>Deferred Outflows of Resources</u>	-
<u>Liabilities</u>	
Due to students and clubs	1,258
Total Liabilities	1,258
<u>Deferred Inflows of Resources</u>	-
<u>Net Position</u>	\$ -

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

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Somerset Preparatory Academy (the "School"), is a component unit of the School Board of Duval County, Florida (the "District"). The School's 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, Inc. which is composed of seven members and also governs other charter schools. The board of directors has determined that no component units exist that would require inclusion in the school financial statement.

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 Broward County, Florida. The current charter expired on June 30, 2019. On October 26, 2018, the board of directors elected to notify Duval County Public Schools to voluntarily not renew the School's charter contract for the purpose of enhancing the services to students. Accordingly, the School's assets and liabilities were transferred to Somerset Academy Eagle Campus, a co-located school, on July 1, 2019.

The School is located in Jacksonville, Florida for students from kindergarten through fifth grades and is funded by the District. These financial statements are for the year ended June 30, 2019, when on average 183 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School does not have any items that qualify for reporting in this category.

Note 1 – Summary of Significant Accounting Policies (continued)

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 and (2) operating grants such as the National School Lunch Program, Federal grants, and other state allocations. Other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. 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, equity, revenues and expenditures. The School reports the following major governmental funds:

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 the federal lunch program and other federal grants that are legally restricted to expenditures for particular purposes.

Additionally, the School reports separately the following fiduciary fund types:

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*.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

On the accrual basis, revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, non-marketable time deposits with maturities of three months or less when purchased, and money market/savings accounts. The School has not adopted a formal deposit and investment policy that limits the School’s allowable deposits or investments and address specific types of risk; however the School invests excess deposit funds in a government money market mutual fund. The School has adopted GASB Codification Section 3100 *Fair Value Measurement and Application* (see Note 3).

Note 1 – Summary of Significant Accounting Policies (continued)

Inter-fund Transfers

Inter-fund receivables/payables (“due from/to”) are short-term balances that represent reimbursements between funds for payments made by one fund on behalf of another 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.

Long –Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

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 a 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	5-10 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. 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.

Note 1 – Summary of Significant Accounting Policies (continued)

Net position and Fund balance classifications

Government-wide financial statements

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

- a) Net investment in capital assets - 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 balances 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 balances that do not meet the definition of "restricted" or "net investment 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 listed 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). All nonspendable balances at year end relate to not in spendable form assets.
- 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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 unrestricted 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.

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 27, 2019 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, 2019:

	Balance 07/01/18	Additions	Retirements	Balance 06/30/19
Capital Assets:				
Buildings improvements	\$ 114,478	\$ -	\$ -	\$ 114,478
Computer equipment	273,448	48,810	-	322,258
Furniture, equipment and textbooks	662,878	36,857	-	699,735
Total Capital Assets	<u>\$ 1,050,804</u>	<u>\$ 85,667</u>	<u>\$ -</u>	<u>\$ 1,136,471</u>
Less Accumulated Depreciation:				
Buildings improvements	\$ (50,127)	\$ (17,309)	\$ -	\$ (67,436)
Computer equipment	(225,292)	(52,630)	-	(277,922)
Furniture, equipment and textbooks	(376,280)	(117,725)	-	(494,005)
Total Accumulated Depreciation	<u>(651,699)</u>	<u>(187,664)</u>	<u>-</u>	<u>(839,363)</u>
Capital Assets, net	<u>\$ 399,105</u>	<u>\$ (101,997)</u>	<u>\$ -</u>	<u>\$ 297,108</u>

The Sponsoring District approved the transfer of the capital assets of the School as of June 30, 2019, to Somerset Academy Eagle Campus, a school at the same location. The transfer is effective as of July 1, 2019.

For the fiscal year ended June 30, 2019, depreciation expense is allocated in the Statement of Activities by function as follows:

Instruction	\$ 152,775
School administration	688
Food service	1,875
Operation of plant	9,399
Maintenance of plant	22,927
Total Depreciation Expense	<u>\$ 187,664</u>

Note 3 – Cash, Cash Equivalents and Investments

Deposits

The School maintains its cash and cash equivalents in two financial institutions. As of June 30, 2019, the School's deposits consisted of cash balances of \$42,227.

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, 2019, bank balances in potential excess of FDIC coverage was approximately \$43,500; including fiduciary account bank balances.

Note 3 – Cash, Cash Equivalents and Investments (continued)

Investments

The School categorizes its fair value measurements within the fair value hierarchy established by GASB Codification Section 3100 *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in markets for identical assets; Level 2 inputs are significant other observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.); Level 3 inputs are significant unobservable inputs.

At June 30, 2019, the School has the following recurring fair value measurements:

- Government money market mutual fund of \$90,000 valued using Level 2 inputs.

The government money market mutual fund values its portfolio securities at amortized cost which approximates fair value. The government money market mutual fund primarily invests in cash, high quality, short-term U.S. government securities and/or repurchase agreements that are collateralized fully by government securities that have been valued by the fund as Level 2. As of July 31, 2019, the fund's annual report, maturities of the fund's portfolio holdings are approximately 81% within 30 days.

Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The School manages its exposure to credit risk by limiting investments to highly rated government money market mutual funds. The fund is rated Aaa-mf by Moody's.

Custodial credit risk is the risk that in the event of a failure of a depository financial institution or counterparty that is in possession of investment or collateral securities, 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, 2019, all of the School's investments in government money market mutual funds were held in a separate account and designated as assets of the School.

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. The School manages its exposure to declines in fair values by limiting all investments to government money market mutual funds that can be redeemed daily.

Note 4 – Education Services and Support Provider Agreement

Academica Broward, LLC, an education services and support provider, offers 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 calls for a fee per full time equivalent (FTE) student per year. The agreement is with Somerset Academy, Inc. for a period of five years, through June 30, 2021, and unless terminated by the board shall be renewed for a period of five (5) years. During the year ended June 30, 2019, the School incurred \$82,125, in fees.

Academica Broward, LLC is located at 6340 Sunset Drive, Miami, Florida 33143.

Note 5 – Transactions with Other Divisions of Somerset Academy, Inc.

Somerset Academy, Inc. operates various charter schools. During 2019, the School shared its facility with Somerset Academy Eagle Campus and Somerset Academy Middle Eagle Campus, other charter schools under Somerset Academy, Inc. Through the board, 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.

Somerset Academy, Inc. charges its affiliated schools an assessment for shared corporate costs and accreditation expenses. Somerset Preparatory Academy paid Somerset Academy, Inc. \$28,200 in connection with these charges during the year.

During 2018 and 2015, the School received recoverable grants in the amounts of \$600,000 and \$115,000, respectively, from Somerset Academy, Inc. Repayment of this grants were contingent on the school subsequently meeting certain financial conditions. To date, management has determined that the school has not met the requirements for repayment under the grant terms. The maximum amount the School may be required to pay in the future should the school meet the requirements for repayment is \$715,000. This contingency was transferred to Somerset Academy Eagle Campus on July 1, 2019 (See Note 1).

The following schedule provides a summary of, non-interest bearing, long-term advances from other divisions of Somerset Academy, Inc. for the year ended June 30, 2019, with no specific repayment terms:

	Balance 07/01/18	Additions	Deletions	Balance 06/30/19
Somerset Academy, Inc.	\$1,008,000	\$ -	\$ 190,000	\$ 818,000
Total Long Term Payables	<u>\$1,008,000</u>	<u>\$ -</u>	<u>\$ 190,000</u>	<u>\$ 818,000</u>

The long term payables to Somerset Academy, Inc. were transferred to Somerset Academy Eagle Campus on July 1, 2019 (See Note 1).

Note 6 – Commitments, Contingencies and Concentrations

The School entered into a lease agreement with Saint Patrick School Development, LLC for its facility including twelve classrooms (initially), a lunchroom/hall, gymnasium, covered and open patio areas, playfields, and additional related facilities. The landlord is an affiliate of the School's educational service provider (See Note 4). This facility is shared with Somerset Academy Eagle Campus and Somerset Academy Middle Eagle Campus (charters school under Somerset Academy, Inc.). Initial fixed annual payments under this agreement are based on \$1,000 per full time equivalent (FTE) student with a first year minimum of \$250,000 and a \$350,000 minimum each year thereafter, plus additional property costs including repairs, maintenance and insurance. The per-student fixed rent shall increase by 2% each year beginning with the third year. The agreement continues through July 31, 2033 with an option to renew for two additional successive periods of five years each.

Lease payments are allocated between the three schools based on enrollment and usage of facility. The allocation used for 2019, was 49% for the School, and 17% for Somerset Academy Eagle Campus and 34% for Somerset Academy Middle Eagle Campus. For 2019, rent expense in relation to the above agreement totaled \$198,229.

For 2019-2020, the lease agreement commitment will be shared between Somerset Academy Campus Eagle Campus and Somerset Academy Middle Eagle Campus.

Contingencies and Concentrations

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 receives various forms of federal, state and local funding which are subject to financial and compliance audits.

It is the opinion of management that the amount of funding, 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.

Pursuant to the Charter School contract with the School District, the District withholds an administrative fee of up to 5% of the qualifying revenues of the School and up to and including 250 students. For the year ended June 30, 2019, administrative fees totaled \$63,729.

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.

The School has entered into a strategic relationship with ADP TotalSource, Inc., a human resource management firm, typically known as “Professional Employer Organization” (PEO). Under a co-employment agreements, the PEO is the employer of record and is responsible for administering payroll, payroll taxes, provide employee benefits and assist with human resources and risk management. Accordingly, certain human resource related risks are transferred to the PEO. Nevertheless, the School may be subject to risks, including loss, penalties and fines related to employment practices, administrative error and omissions.

Note 8 – Defined Contribution Retirement Plan

The School’s personnel, which are leased through ADP TotalSource Group, Inc., are eligible to participate in a defined contribution 401(k) plan sponsored by the leasing company, covering employees who meet certain age and tenure requirements. Under the ADP TotalSource Retirement Savings Plan (the “Plan”), the School provides a match of 100% of the employee’s contribution up to 4% of the employee’s compensation. The School contributed to the Plan \$10,558 for the year ended June 30, 2019. The School does not exercise any control or fiduciary responsibility over the Plans’ assets, which are administered by Voya.

Note 9 – Interfund Transfers

Interfund transfers in governmental funds as of June 30, 2019, consist of the following:

	General Fund	Special Revenue Fund
To fund lunch deficit	\$ (22,762)	\$ 22,762
Total Transfers, net	<u>\$ (22,762)</u>	<u>\$ 22,762</u>
	General Fund	Special Revenue Fund
Due to General Fund from: Special Revenue Fund for Title I	\$ -	\$ 47,426
Total Due from/(Due to)	<u>\$ -</u>	<u>\$ 47,426</u>

REQUIRED SUPPLEMENTARY INFORMATION

Somerset Preparatory Academy
(A charter school under Somerset Academy, Inc.)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2019

	General Fund		
	Original Budget	Final Budget	Actual
REVENUES			
State passed through local	\$ 1,207,692	\$ 1,283,525	\$ 1,284,576
Charges and other revenue	211,850	87,620	88,284
Total Revenues	<u>1,419,542</u>	<u>1,371,145</u>	<u>1,372,860</u>
EXPENDITURES			
Current:			
Instruction	637,296	702,627	702,065
Instructional staff training	5,000	15,000	10,335
Board	43,191	27,600	27,550
School administration	213,412	289,891	289,319
Fiscal services	28,200	27,375	27,375
Central services	24,857	44,257	43,587
Student transportation services	33,200	32,400	27,280
Operation of plant	231,993	408,345	406,265
Maintenance of plant	105,471	200,000	198,267
Total Current Expenditures	<u>1,322,620</u>	<u>1,747,495</u>	<u>1,732,043</u>
Excess (deficit) of Revenues Over Current Expenditures	<u>96,922</u>	<u>(376,350)</u>	<u>(359,183)</u>
Capital outlay	<u>31,857</u>	<u>39,105</u>	<u>38,967</u>
Total Expenditures	<u>1,354,477</u>	<u>1,786,600</u>	<u>1,771,010</u>
Excess (deficit) of Revenues Over Expenditures	65,065	(415,455)	(398,150)
Other financing sources (uses):			
Transfers in (out)	(32,626)	(26,810)	(22,762)
Repayment of long term advances to Somerset Academy, Inc.	-	(190,000)	(190,000)
Net change in fund balance	32,439	(632,265)	(610,912)
Fund Balance at beginning of year	<u>662,496</u>	<u>662,496</u>	<u>662,496</u>
Fund Balance at end of year	<u>\$ 694,935</u>	<u>\$ 30,231</u>	<u>\$ 51,584</u>

Notes to Budgetary Comparison Schedule

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 Preparatory Academy
(A charter school under Somerset Academy, Inc.)

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2019

	Special Revenue Fund		
	Original Budget	Final Budget	Actual
REVENUES			
Federal sources	\$ 274,983	\$ 277,997	\$ 278,086
Lunch fees	4,000	4,250	4,459
Total Revenues	<u>278,983</u>	<u>282,247</u>	<u>282,545</u>
EXPENDITURES			
Current:			
Instruction	104,483	103,497	102,058
Instructional staff training	7,000	6,000	5,958
School administration	36,753	35,500	34,665
Food services	116,890	116,430	115,926
Total Current Expenditures	<u>265,126</u>	<u>261,427</u>	<u>258,607</u>
Capital Outlay	<u>46,483</u>	<u>47,000</u>	<u>46,700</u>
Total Expenditures	<u>311,609</u>	<u>308,427</u>	<u>305,307</u>
Excess (Deficit) Over Expenditures	(32,626)	(26,180)	(22,762)
Other financing sources (uses)			
Transfers in (out)	<u>32,626</u>	<u>26,180</u>	<u>22,762</u>
Net change in fund balance	-	-	-
Fund Balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Budgetary Comparison Schedule

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.



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*

To the Board of Directors of
Somerset Preparatory Academy
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 information of Somerset Preparatory Academy (the "School") as of, and for the year ended June 30, 2019, 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 27, 2019.

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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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 were reported in a separate management letter dated September 27, 2019 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.

Handwritten signature in blue ink that reads "HLB Gravier, LLP".

CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
September 27, 2019



MANAGEMENT LETTER

To the Board of Directors of
Somerset Preparatory Academy
Jacksonville, Florida

Report on the Financial Statements

We have audited the financial statements of Somerset Preparatory Academy, Jacksonville, Florida, as of and for the fiscal year ended June 30, 2019 and have issued our report thereon dated September 27, 2019.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Chapter 10.850, Rules of the Auditor General.

Other Reporting Requirements

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*. Disclosures in those reports and schedules, which are dated September 27, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

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.

See heading below titled Status of Prior Year Findings and Recommendations.

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the entity and the school code assigned by the Florida Department of Education be disclosed in this management letter. The official title and school code assigned by the Florida Department of education of the entity is Somerset Preparatory Academy, 5501.

Financial Condition and Management

Sections 10.854(1)(e)2 and 10.855(11), Rules of the Auditor General, require us to apply appropriate procedures and communicate whether or not Somerset Preparatory Academy has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identify the specific condition(s) met. In connection with our audit, we determined that Somerset Preparatory Academy did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.854(1)(e)6.a and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for Somerset Preparatory Academy. It is management's responsibility to monitor Somerset Preparatory Academy's 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.

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we communicate any recommendation to improve financial management. In connection with our audit, we did not note any such findings.

Transparency

Sections 10.854(1)(e)7 and 10.855(13), Rules of the Auditor General, require us to report the results of our determination as to whether Somerset Preparatory Academy maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that Somerset Preparatory Academy maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Additional Matters

Section 10.854(1)(e)4., Rules of the Auditor General, requires us to communicate 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 note any such findings.

Status of Prior Year Findings and Recommendations

ML – 18-01 INTERNAL ACCOUNT DISBURSEMENTS

Criteria: The School designed and implemented an internal control system to reduce the risk of misappropriation of assets and/or invalid payments by establishing a general policy regarding cash disbursements as detailed in the School's "Internal Accounts – Policies and Procedures" handbook.

Condition: We noted various disbursements from our sample without a purchase order on file. We also noted that the School was reimbursing or paying sales taxes.

Cause: The condition results from school personnel not consistently adhering to the policies and procedures regarding the cash disbursements / expenses as detailed in the handbook.

Effect: Failure to perform the procedures mentioned above could result in misappropriation of assets and/or invalid payments.

Recommendation: We recommend that the School adheres to its internal control policies and procedures relating to the internal account so that all disbursements that require a purchase order has one and that no sales taxes are paid or reimbursed. In addition, we recommend the School's treasurer and staff in charge of disbursements be provided additional internal account training to ensure compliance with these policies.

Status: The finding has been corrected and recommendations implemented by the School in the current year.

Purpose of this Letter

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, the Board of Directors, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
September 27, 2019