



**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF
BREVARD COUNTY, FLORIDA**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS THEREON**

JUNE 30, 2016



CONTENTS

	<u>Page</u>
Management's Discussion and Analysis	1-7
Independent Auditor's Report on Basic Financial Statements and Supplementary Information	8-9
Basic Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Fiduciary Assets and Liabilities	16
Notes to Financial Statements	17-27
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	28
Budgetary Comparison Schedule – Special Revenue Fund	29
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 <i>Government Auditing Standards</i>	30-32
Additional Information Required by Rules of the Auditor General, Chapter 10.850, <i>Audits of Charter Schools and Similar Entities, Florida Virtual School, and Virtual Instruction Program Providers:</i>	
Management Letter	33-35
Written Statement of Explanation or Rebuttal	36

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Primary Charter Schools, Inc. (the "School") presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the School's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The School's total net position decreased compared to the prior year.
- For the fiscal year ended June 30, 2016, the School's expenses exceeded revenues by \$42,940, which is an improvement from the prior year when expenses exceeded revenues by \$72,957.
- Overall, revenues increased by approximately \$9,000, which was a 1% increase from the prior year.
- Overall, expenses decreased by approximately \$21,000, which was a 2% decrease from the prior year.
- Total assets were \$117,569, and total liabilities were \$98,058, resulting in net position of \$19,511 as of June 30, 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.
 - The *governmental funds* financial statements tell how general school services were financed in the short term, as well as what remains for future spending.
 - The *fiduciary fund* financial statement provides information about the financial relationships in which the School acts solely as an agent for the benefit of others.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

This document also includes the 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*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850.

The following table summarizes the major features of the School's financial statements, including the portion of the School they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

	Government-wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Fund
Scope	Entire School (except the fiduciary fund)	The activities of the School that are not proprietary or fiduciary	Instances in which the School administers resources on behalf of someone else
Required financial statements	Statement of net position Statement of activities	Balance sheet – governmental funds Statement of revenues, expenditures and changes in fund balances – governmental funds	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	Only assets/deferred outflows of resources expected to be used up and liabilities/deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations

Government-wide financial statements

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School's assets and deferred outflows of resources, and its liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the School's net position and how it has changed. Net position – the difference between the School's assets and deferred outflows of resources and its liabilities and deferred inflows of resources – is one way to measure the School's financial condition. Over time, increases or decreases in the School's net position are an indicator of whether its financial condition is improving or deteriorating, respectively. To assess the overall health of the School, one needs to consider additional nonfinancial factors such as changes in the School's student base, the quality of the education and the safety of the School.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

Fund financial statements

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is a self-balancing set of accounts which the School uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law, and the School may establish other funds to control and manage money for particular purposes, such as for federal grants.

The School has two types of funds:

- *Governmental funds* – most of the School's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the differences between them.

- *Fiduciary funds* – The School is the agent, or fiduciary, for assets that belong to others, such as student activities funds. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School excludes these activities from the government-wide financial statements because the School cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net position

The School's combined net position as of June 30, 2016 and 2015 is summarized as follows – see table below.

	Governmental Activities		Increase (Decrease)
	2016	2015	
Current and other assets	\$ 47,785	\$ 66,706	-28%
Capital assets, net	69,784	69,330	1%
Total assets	<u>117,569</u>	<u>136,036</u>	<u>-14%</u>
Current and other liabilities	33,055	48,094	-31%
Long-term liabilities	65,003	25,491	155%
Total liabilities	<u>98,058</u>	<u>73,585</u>	<u>33%</u>
Net position:			
Net investment in capital assets	45,514	43,839	4%
Unrestricted	<u>(26,003)</u>	<u>18,612</u>	<u>-240%</u>
Total net position	<u>\$ 19,511</u>	<u>\$ 62,451</u>	<u>-69%</u>

Current and other assets of the School decreased due to the current year operating deficit. Current and other liabilities decreased due to the timing of payments at year-end. Long-term liabilities increased due to the accrual of legal expenses that are due in fiscal 2018. The change in total net position was due to the current year operating deficit and the activity noted above.

Certain reclassifications were made in the 2015 amounts to conform to their classifications in fiscal year 2016.

Change in net position

The School's total revenues increased by 1% to \$1,070,369, and the total cost of all programs and services decreased by 2% to \$1,113,309 – see table below.

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2016</u>	<u>2015</u>	<u>(Decrease)</u>
Revenues:			
Federal sources passed through local school district	\$ 106,667	\$ 67,314	58%
State and local sources	949,516	989,609	-4%
Contributions and other revenue	<u>14,186</u>	<u>4,390</u>	<u>223%</u>
Total revenues	<u>1,070,369</u>	<u>1,061,313</u>	<u>1%</u>
Expenses:			
Instruction	597,408	593,432	1%
Instruction-related technology	28,154	33,479	-16%
Board	85,933	11,015	680%
General administration	73,222	138,538	-47%
School administration	166,538	150,364	11%
Fiscal	10,150	-	100%
Operation of plant	124,527	193,047	-35%
Maintenance of plant	2,356	12,622	-81%
Community services	20,520	-	100%
Interest on long-term debt	<u>4,501</u>	<u>1,773</u>	<u>154%</u>
Total expenses	<u>1,113,309</u>	<u>1,134,270</u>	<u>-2%</u>
Change in net position	<u>\$ (42,940)</u>	<u>\$ (72,957)</u>	<u>-41%</u>

Federal funding increased due to an increase in the amount of Title I funds the School received. State and local sources decreased due to a decrease in enrollment.

The former management company and the School's landlord are related entities, referred to as the "Former Management Company." Board expenses increased due to additional legal and audit fees as a result of the School's separation from the Former Management Company and negotiation of its obligations under its guarantee of the Former Management Company's indebtedness. General administration decreased due to the termination of the former management agreement at the beginning of the current year. Operation of plant decreased due to the School's termination of the lease agreement with the Former Management Company and the negotiation of a lower rent with the bank that holds a mortgage on the Former Management Company's property. Community services increased due to the write-off of a loan due from the Former Management Company.

Certain reclassifications were made in the 2015 amounts to conform to their classifications in fiscal year 2016.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental funds reported a combined fund balance of \$14,730. Both revenues and expenditures changed for the same reasons described above.

General fund budgetary highlights

For the year ended June 30, 2016, actual general fund revenues were not significantly different from the final budget amounts.

For the year ended June 30, 2016, actual general fund expenditures were approximately \$17,000 above the final budget, which represents a 2% budget variance. The variance was due to higher than expected legal fees and a capital lease, which was not included in the budget.

Special revenue fund budgetary highlights

For the year ended June 30, 2016, actual special revenue fund revenues and expenditures were not significantly different from the final budget amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The School's investment in capital assets at the end of fiscal 2016 amounts to \$69,784 (net of accumulated depreciation). See table below:

	Governmental Activities		Increase (Decrease)
	2016	2015	
Buildings	\$ 7,747	\$ 7,747	0%
Leasehold improvements	93,602	93,602	0%
Furniture, fixtures and equipment	107,149	144,324	-26%
Less accumulated depreciation	<u>(138,714)</u>	<u>(176,343)</u>	<u>-21%</u>
Total capital assets, net	<u>\$ 69,784</u>	<u>\$ 69,330</u>	<u>1%</u>

The School purchased a copy machine with a capital lease in the current year. The School disposed of several computers and other computer hardware during the current year. More detailed information about the School's capital assets is presented in Note 3 to the financial statements.

Long-term debt

As of June 30, 2016, the School has \$24,270 in capital lease obligations for equipment. The School purchased a copy machine with a capital lease in the current year. For more detailed information about the School's long-term liabilities, see Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

When adopting the general fund budget for fiscal year 2017, the School considered the expected increase in the base student allocation of FEFP revenue, a decrease in student enrollment and the sale of FEFP revenues periodically throughout the year.

Budgeted revenues are expected to be approximately \$800,000, a decrease of 13% from the final 2016 amount of \$914,792. FEFP revenue is expected to decrease primarily due to a decrease in the number of students.

Budgeted expenditures are expected to be approximately \$1,208,000, an increase of 30% from the final 2016 amount of \$931,999. Expenditures are expected to increase due to an increase in debt service payments, which exceeds the effect of the decrease in the number of students the School serves and the elimination of costs related to the separation from the Former Management Company discussed in the change in net position section above.

Other financing sources are expected to be approximately \$430,000, an increase of 3,127% from the final 2016 amount of \$13,325. Other financing sources are expected to increase due to the sale of FEFP revenues throughout the year.

The School has added a lunch program to the fiscal 2017 budget, which is expected to have revenues and expenditures of approximately \$55,000, respectively.

If these estimates are realized, the School's budgetary general fund balance is expected to increase by the close of fiscal 2017.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 3815 Curtis Boulevard, Port St. John, Florida 32927.

**Independent Auditor's Report on Basic
Financial Statements and Supplementary Information**

To the Board of Directors of Primary Charter Schools, Inc., a Charter School
and Component Unit of the District School Board of Brevard County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Primary Charter Schools, Inc. (the "School"), a charter school and component unit of the District School Board of Brevard County, Florida, as of and for the year ended June 30, 2016, and the 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. 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, each major fund and the aggregate remaining fund information of Primary Charter Schools, Inc. as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 – 7 and the budgetary comparison information on pages 28 – 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2016 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 and 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 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.



Winter Park, Florida
August 30, 2016

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

STATEMENT OF NET POSITION

JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 24,099
Accounts receivable	22,865
Other current assets	821
Capital assets:	
Buildings	7,747
Leasehold improvements	93,602
Furniture, fixtures and equipment	107,149
Less accumulated depreciation	<u>(138,714)</u>
Total capital assets, net	<u>69,784</u>
Total assets	<u><u>\$ 117,569</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 33,055
Noncurrent liabilities:	
Portion due or payable within one year:	
Capital lease obligations	13,564
Portion due or payable after one year:	
Accrued legal expenses	40,733
Capital lease obligations	<u>10,706</u>
Total liabilities	<u>98,058</u>
NET POSITION	
Net investment in capital assets	45,514
Unrestricted	<u>(26,003)</u>
Total net position	<u>19,511</u>
Total liabilities and net position	<u><u>\$ 117,569</u></u>

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

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

STATEMENT OF ACTIVITIES

FOR YEAR ENDED JUNE 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:				
Instruction	\$ 597,408	\$ -	\$ 87,681	\$ (509,727)
Instruction-related technology	28,154	-	18,986	(9,168)
Board	85,933	-	-	(85,933)
General administration	73,222	-	-	(73,222)
School administration	166,538	-	-	(166,538)
Fiscal	10,150	-	-	(10,150)
Operation of plant	124,527	-	-	(124,527)
Maintenance of plant	2,356	-	-	(2,356)
Community services	20,520	-	-	(20,520)
Interest on long-term debt	4,501	-	-	(4,501)
Total primary government	\$ 1,113,309	\$ -	\$ 106,667	(1,006,642)
General revenues:				
State and local sources				949,516
Contributions and other revenue				14,186
Total general revenues				963,702
Change in net position				(42,940)
Net position at beginning of year				62,451
Net position at end of year				\$ 19,511

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

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 24,099	\$ -	\$ -	\$ 24,099
Accounts receivable	-	13,807	9,058	22,865
Other current assets	821	-	-	821
Due from other governmental funds	22,865	-	-	22,865
Total assets	<u>\$ 47,785</u>	<u>\$ 13,807</u>	<u>\$ 9,058</u>	<u>\$ 70,650</u>
LIABILITIES				
Accounts payable and accrued expenditures	\$ 33,055	\$ -	\$ -	\$ 33,055
Due to general fund	-	13,807	9,058	22,865
Total liabilities	<u>33,055</u>	<u>13,807</u>	<u>9,058</u>	<u>55,920</u>
FUND BALANCES				
Nonspendable:				
Other current assets	821	-	-	821
Unassigned	13,909	-	-	13,909
Total fund balances	<u>14,730</u>	<u>-</u>	<u>-</u>	<u>14,730</u>
Total liabilities and fund balances	<u>\$ 47,785</u>	<u>\$ 13,807</u>	<u>\$ 9,058</u>	<u>\$ 70,650</u>

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

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

JUNE 30, 2016

Total fund balances - total governmental funds	\$ 14,730
---	------------------

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$208,498, and the accumulated depreciation is \$138,714.	69,784
--	--------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Capital lease obligations	(24,270)
Accrued legal expenses	(40,733)
	<hr/>

Total net position - governmental activities	\$ 19,511
	<hr/> <hr/>

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

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Federal sources passed through local school district	\$ -	\$ 106,667	\$ -	\$ 106,667
State and local sources	900,606	-	48,910	949,516
Contributions and other revenue	14,186	-	-	14,186
Total revenues	<u>914,792</u>	<u>106,667</u>	<u>48,910</u>	<u>1,070,369</u>
EXPENDITURES				
Current:				
Instruction	499,745	87,681	-	587,426
Instruction-related technology	6,279	18,986	-	25,265
Board	45,200	-	-	45,200
General administration	73,222	-	-	73,222
School administration	166,538	-	-	166,538
Fiscal	10,150	-	-	10,150
Operation of plant	75,617	-	48,910	124,527
Maintenance of plant	2,356	-	-	2,356
Community services	20,520	-	-	20,520
Debt service:				
Principal	14,546	-	-	14,546
Interest	4,501	-	-	4,501
Other capital outlay	13,325	-	-	13,325
Total expenditures	<u>931,999</u>	<u>106,667</u>	<u>48,910</u>	<u>1,087,576</u>
Deficiency of revenues under expenditures	<u>(17,207)</u>	<u>-</u>	<u>-</u>	<u>(17,207)</u>
OTHER FINANCING SOURCES				
Proceeds from capital lease	13,325	-	-	13,325
Net changes in fund balances	(3,882)	-	-	(3,882)
Fund balances at beginning of year	18,612	-	-	18,612
Fund balances at end of year	<u>\$ 14,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,730</u>

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

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2016

Net changes in fund balances - total governmental funds \$ (3,882)

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 costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$13,325) exceed depreciation expense (\$12,871) in the current period. 454

Accrued legal expenses in the statement of activities do not require the use of current financial resources and are not reported in the governmental funds. (40,733)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. (13,325)

Principal payments on long-term debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position. 14,546

Change in net position of governmental activities \$ (42,940)

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

PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

JUNE 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 2,276
Total assets	<u>\$ 2,276</u>
LIABILITIES	
Due to others	\$ 2,276
Total liabilities	<u>\$ 2,276</u>

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

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Primary Charter Schools, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act and Section 1002.33, Florida Statutes. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of four members. The School operates under the name of Campus Charter School.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Brevard County, Florida (the "School Board"). The current charter is effective until July 10, 2018 and may be renewed by mutual written agreement between the School and the School Board. At the end of the term of the charter, the School Board may choose not to renew the charter under grounds specified in the charter. In this case, the School Board is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the School Board may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds, except capital outlay funds, revert back to the School Board. Any unencumbered capital outlay funds revert back to the Florida Department of Education ("FDOE") to be redistributed among eligible charter schools. The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board ("GASB") accounting guidance; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units of the School which should be reported with the School's basic financial statements are identified and described in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

Basis of presentation

The School's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB. Accordingly, both government-wide and fund financial statements are presented.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School's assets, deferred outflows of resources, liabilities and deferred inflows of resources, but excludes fiduciary funds. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide financial statements of the School are generally divided into three categories:

- *Governmental activities* – most of the School's basic services are included here, such as instruction and school administration. Funds received through the Florida Education Finance Program ("FEFP") and state and federal grants finance most of these activities.
- *Business-type activities* – in certain instances, the School may charge fees to help it cover the costs of certain services it provides. The School currently has no business-type activities.
- *Component units* – there currently are no component units included within the reporting entity of the School.

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is an accounting entity having a self-balancing set of accounts for recording assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The funds in the financial statements of this report are as follows:

Governmental Funds:

- General fund – to account for all financial resources not required to be accounted for in another fund.
- Special revenue fund – to account for the proceeds of specific revenue sources and federal grants that are restricted by law or administrative action to expenditure for specific purposes.
- Capital projects fund – to account for all resources for the acquisition of capital items by the School purchased with capital outlay funds.

For purposes of these statements, the general and the special revenue funds are considered major funds. The capital projects fund is considered non-major and is included as the other governmental fund.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Fiduciary Fund:

- Agency Fund – to account for school internal funds, which are established to record the receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The School retains no equity interest in these funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Basis of accounting

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide and fiduciary fund financial statements are presented using the accrual basis of accounting and an economic resources focus. Under the accrual basis of accounting, revenues and expenses are recognized when they occur.

The modified accrual basis of accounting and current financial resources focus is followed by the governmental funds. Under the modified accrual basis, revenues are recognized when they become measurable and available. Available means collectible within the current year or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) interest on general long-term debt is recognized when due and (2) expenditures related to liabilities reported as general long-term debt are recognized when due.

Budgetary basis accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the fund level.

Cash and cash equivalents

The School maintains its cash accounts in a financial institution subject to insurance coverage issued by the Federal Deposit Insurance Corporation (the "FDIC"). Under FDIC rules, the School is entitled to aggregate coverage of \$250,000 per account type per separate legal entity per financial institution. As of June 30, 2016, all cash balances were fully insured by the FDIC. Investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Capital assets and depreciation

Expenditures for capital assets acquired for general School purposes are reported in the governmental fund that financed the acquisition. Purchased capital assets are reported at cost, net of accumulated depreciation, in the government-wide financial statements. Donated assets are recorded at fair value at the date of donation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Buildings	7
Leasehold improvements	5 - 15
Furniture, fixtures and equipment	5 - 7

Information relative to changes in capital assets is described in Note 3.

Revenue sources

Revenues for current operations are received primarily from the School Board pursuant to the funding provisions included in the School's charter. As such, the School's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the Florida Department of Education ("FDOE") by the state legislature. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent students and related data to the School Board.

Under the provisions of Section 1011.62, Florida Statutes, the School Board reports the number of full-time equivalent students and related data to the 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. The School Board receives a 5% administrative fee from the School, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

The School receives federal awards for the enhancement of various educational programs. This assistance is 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.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

The School is also eligible for charter school capital outlay funding. The amounts received under this program are based on the School's actual and projected student enrollment during the fiscal year. Funds received under this program may only be used for lawful capital outlay expenditures and, as such, any unexpended amounts are reflected as restricted net position and restricted fund balance in the accompanying statement of net position and balance sheet – governmental funds, respectively.

Income taxes

The School is an organization exempt from income taxation under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for federal income taxes is included in the accompanying financial statements.

The School has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

The School assesses its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the School believes it is "more likely than not" that its tax positions will be sustained upon an examination by the Internal Revenue Service ("IRS") or the applicable state taxing authority. Accordingly, there is no provision for federal income taxes in the School's financial statements, as the School believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS audit. State income taxes, which may be due in certain jurisdictions, have been assessed following the same "more likely than not" measurement threshold. With few exceptions, the School is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2012.

Fund balance spending policy

The School's adopted spending policy is to spend from the restricted fund balance first, followed by committed, assigned, then the unassigned fund balance. Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. If expenditures are incurred that meet the purpose of more than one fund, they will be allocated to restricted fund balance first and then follow the order above.

Funds can only be committed by formal action of the Board of Directors. No funds may be assigned. There are no minimum fund balance requirements for any of the School's funds.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources as of the date of the balance sheet and affect revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

Subsequent events

The School has evaluated subsequent events through August 30, 2016, the date these financial statements were available to be issued.

2 INTERFUND ACTIVITIES

Due to/from other funds consisted of the following balances as of June 30, 2016:

	Interfund Receivables	Interfund Payables
General fund	\$ 22,865	\$ -
Special revenue fund	-	13,807
Other non-major governmental fund	-	9,058
Total interfund	\$ 22,865	\$ 22,865

The amount payable by the special revenue fund and the other non-major governmental fund to the general fund are to cover temporary cash shortages related to the timing of receipts.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

3 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Depreciable capital assets:				
Buildings	\$ 7,747	\$ -	\$ -	\$ 7,747
Leasehold improvements	93,602	-	-	93,602
Furniture, fixtures and equipment	144,324	13,325	(50,500)	107,149
Total depreciable capital assets	<u>245,673</u>	<u>13,325</u>	<u>(50,500)</u>	<u>208,498</u>
Less accumulated depreciation for:				
Buildings	(7,747)	-	-	(7,747)
Leasehold improvements	(60,550)	(3,908)	-	(64,458)
Furniture, fixtures and equipment	(108,046)	(8,963)	50,500	(66,509)
Total accumulated depreciation	<u>(176,343)</u>	<u>(12,871)</u>	<u>50,500</u>	<u>(138,714)</u>
Governmental activities capital assets, net	<u>\$ 69,330</u>	<u>\$ 454</u>	<u>\$ -</u>	<u>\$ 69,784</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 9,982
School administration	<u>2,889</u>
Total governmental activities depreciation expense	<u>\$ 12,871</u>

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

4 LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital leases	\$ 25,491	\$ 13,325	\$(14,546)	\$ 24,270	\$ 13,564
Accrued legal expenses	-	40,733	-	40,733	-
Governmental activities, long-term liabilities	<u>\$ 25,491</u>	<u>\$ 54,058</u>	<u>\$(14,546)</u>	<u>\$ 65,003</u>	<u>\$ 13,564</u>

Capital leases

The School leases certain equipment under agreements that are classified as capital leases. The cost of equipment under capital leases is included in the statement of net position as capital assets and was \$54,182 as of June 30, 2016. Accumulated amortization of the leased equipment as of June 30, 2016, was \$15,060. Amortization of assets under capital leases is included in depreciation expense.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of June 30, 2016, are as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
2017	\$ 15,935
2018	4,310
2019	3,300
2020	3,300
2021	<u>1,650</u>
Total minimum lease payments	28,495
Less amount representing interest	<u>(4,225)</u>
Present value of minimum lease payments	24,270
Less amount due in one year	<u>(13,564)</u>
Amount due after one year	<u>\$ 10,706</u>

The amount representing interest was calculated using imputed rates ranging from 10% to 17%.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Assets recorded under capital leases and included in capital assets in the School's statement of net position consist of the following as of June 30, 2016:

	Governmental Activities
Furniture, fixtures and equipment	\$ 54,182
Less accumulated depreciation	(15,060)
	\$ 39,122

5 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

The following is a schedule of state and local revenue sources and amounts:

District School Board of Brevard County, Florida:	
Florida Education Finance Program	\$ 576,391
Class size reduction	166,262
ESE guaranteed allocation	54,268
Capital outlay	48,910
Discretionary millage	42,084
Supplemental academic instruction	34,178
Discretionary compression	12,506
Instructional materials	8,941
Safe schools	2,837
Teacher lead	2,560
Library media materials	579
Total	\$ 949,516

The administrative fee paid to the School Board during the year ended June 30, 2016 totaled approximately \$45,000, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances - governmental funds.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

6 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not historically exceeded commercial coverage.

7 COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and collectibility of any related receivable as of June 30, 2016 may be impaired.

In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Legal matters

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

Guarantee of third-party indebtedness

In March 2014, the School executed a guarantee agreement (the "Agreement") to guarantee the payment of approximately \$1,250,000 loaned by a bank to the School's former landlord. The Agreement expires when the loan has been fully repaid, which was scheduled to occur in April 2019. During 2016, the School's former landlord stopped making the scheduled payments to the lender, which triggered an event of default under the terms of the Agreement. Based upon the appraised market value of the property serving as collateral for the loan, which exceeded the unpaid loan balance as of June 30, 2016, the School has determined that there are no amounts that it will be required to pay under the Agreement that should be accrued as a loss as of June 30, 2016.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

During 2016, the lender and the School entered into a forbearance agreement, which requires the School to pay approximately \$8,000 per month to the lender. In exchange, the lender has agreed to allow the School to remain in possession of the property until June 30, 2017. This arrangement substantially represents an operating lease. Prior to this arrangement with the bank, the School was making lease payments of approximately \$12,500 to the former landlord under a month to month lease. Rental expense for the year ended June 30, 2016 related to these leases totaled approximately \$83,000 and is included in operation of plant in the accompanying financial statements.

8 SUBSEQUENT EVENT

After June 30, 2016, the School agreed to sell its expected FEFP revenues for September and October 2016 to a lender. A summary of the transaction is as follows:

Expected FEFP revenues sold	\$	140,000
Amount to be funded in the future		<u>(33,000)</u>
Total funded at the time of sale		107,000
Interest and fees		<u>(6,000)</u>
Proceeds received at the time of sale	\$	<u><u>101,000</u></u>

9 FINANCIAL CONDITION

As shown in the accompanying financial statements, the School has incurred significant losses from operations, and as of June 30, 2016, the School has an unrestricted net deficit of \$26,003. This condition raises substantial doubt about the School's ability to continue as a going concern. The School expects to take the following steps to improve the School's financial condition:

- After June 30, 2016, the School sold two months of its expected FEFP revenues and expects to sell additional months of FEFP revenues as needed to ensure sufficient cash flow.
- Increase monitoring of budgeted results to actual results and adopt appropriate budget revisions as needed.
- Add additional classrooms and increase student enrollment once the School has access to approximately 40% of the property, which is currently occupied by the former landlord.

The School believes these factors will contribute toward recovering from the unrestricted net deficit. The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
State and local sources	\$ 948,299	\$ 900,606	\$ 900,606	\$ -
Contributions and other revenue	6,090	14,900	14,186	(714)
Total revenues	<u>954,389</u>	<u>915,506</u>	<u>914,792</u>	<u>(714)</u>
EXPENDITURES				
Current:				
Instruction	484,817	492,168	499,745	(7,577)
Instruction-related technology	-	27,587	6,279	21,308
Board	-	-	45,200	(45,200)
General administration	-	44,143	73,222	(29,079)
School administration	175,563	183,463	166,538	16,925
Fiscal	-	53,501	10,150	43,351
Operation of plant	179,042	101,626	75,617	26,009
Maintenance of plant	15,000	-	2,356	(2,356)
Community services	-	-	20,520	(20,520)
Debt service:				
Principal	5,081	12,451	14,546	(2,095)
Interest	992	-	4,501	(4,501)
Other capital outlay	-	-	13,325	(13,325)
Total expenditures	<u>860,495</u>	<u>914,939</u>	<u>931,999</u>	<u>(17,060)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>93,894</u>	<u>567</u>	<u>(17,207)</u>	<u>(17,774)</u>
OTHER FINANCING SOURCES				
Proceeds from capital lease	-	-	13,325	13,325
Net changes in fund balance	93,894	567	(3,882)	(4,449)
Fund balance at beginning of year	18,612	18,612	18,612	-
Fund balance at end of year	<u>\$ 112,506</u>	<u>\$ 19,179</u>	<u>\$ 14,730</u>	<u>\$ (4,449)</u>

See independent auditor's report.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF BREVARD COUNTY, FLORIDA**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal sources passed through local school district	\$ 58,800	\$ 106,837	\$ 106,667	\$ (170)
Total revenues	<u>58,800</u>	<u>106,837</u>	<u>106,667</u>	<u>(170)</u>
EXPENDITURES				
Current:				
Instruction	58,800	83,856	87,681	(3,825)
Instructional-related technology	-	22,981	18,986	3,995
Total expenditures	<u>58,800</u>	<u>106,837</u>	<u>106,667</u>	<u>170</u>
Net changes in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report.

**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 Primary Charter Schools, Inc., a Charter School
and Component Unit of the District School Board of Brevard County, 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, each major fund and the aggregate remaining fund information of Primary Charter Schools, Inc. (the "School") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 30, 2016.

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 ("internal control") 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described below to be material weaknesses.



Finding 2016-001: Financial Close

All of the School's transactions should be recorded in accordance with generally accepted accounting principles ("GAAP"). We identified many instances where accruals and reconciliations were not recorded by the School, which required adjustments to assets, liabilities, revenues and expenses/expenditures to record transactions in accordance with GAAP. After we identified these errors, management recorded all necessary adjustments to correct the School's records. We recommend that accruals and reconciliations for all accounts be prepared and reviewed on a timely basis.

Finding 2016-002: Monitoring of Internal Control

Management is responsible for the design and monitoring of controls used to assess the design and operating effectiveness of the School's internal control over time. We identified a material weakness (Finding 2016-001) and a significant deficiency (Finding 2016-003) in the School's ability to record transactions in accordance with GAAP. Management has not executed the requisite monitoring controls to ensure the overall accuracy and completeness of its financial information. Management should design and implement these monitoring controls to ensure the overall accuracy and completeness of its comprehensive reporting process.

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. We consider the deficiency described below to be a significant deficiency.

Finding 2016-003: Financial Reporting

The School's transactions should be recorded and reported in accordance with the Florida Red Book ("Red Book") to enable effective monitoring of the School's financial condition. During our audit procedures, we noted that the School's chart of accounts was not sufficiently designed to enable the accurate recording and reporting of transactions in accordance with the Red Book. In addition, we identified multiple instances where transactions were not coded to the proper Red Book function. Multiple adjustments were required to present transactions in accordance with the Red Book. After we identified these errors, management recorded all necessary adjustments to correct the School's records. We recommend that the School update its chart of accounts and establish controls to ensure that transactions are recorded in accordance with the Red Book.

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*.

The School's Response to Findings

The School's response to the findings identified in our audit is described in the written statement of explanation or rebuttal on page 36. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

BKHM, P.A.

Winter Park, Florida
August 30, 2016

**ADDITIONAL INFORMATION REQUIRED BY
RULES OF THE AUDITOR GENERAL,
CHAPTER 10.850**

To the Board of Directors of Primary Charter Schools, Inc., a Charter School and Component Unit of the District School Board of Brevard County, Florida

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Primary Charter Schools, Inc. (the "School"), a charter school and component unit of the District School Board of Brevard County, Florida, as of and for the year ended June 30, 2016, and have issued our report thereon dated August 30, 2016.

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 Reports and Schedules

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated August 30, 2016, 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. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. As noted below, the findings from a prior year have been combined and repeated in the current year.

Tabulation of Uncorrected Audit Findings		
Current Year Finding #	2014-15 FY Finding #	2013-14 FY Finding #
2016-001	2015-001	N/A
2016-001	2015-002	N/A

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the school. The name of the School is Primary Charter Schools, Inc.



Financial Condition

Section 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination 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 conditions met. In connection with our audit, we determined that the School 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 the School. It is management's responsibility to monitor the School'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.

Transparency

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

Other Matters

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. Our recommendations to improve financial management are included in findings 2016-001, 2016-002 and 2016-003.

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.

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 the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, applicable management, and the District School Board of Brevard County, Florida and is not intended to be, and should not be, used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
August 30, 2016

1560 Orange Avenue, Suite 600, Winter Park, Florida 32789 | 407.998.9000 | Fax 407.998.9010



CAMPUS CHARTER SCHOOL
3815 CURTIS BLVD
PORT ST. JOHN, FL 32927
321-633-8234 FAX: 321-848-0989

Response to Finding 2016-001: Financial Close

Campus Charter School has now acquired enough records from the former management company to correctly account for all accruals and reconciliations. Records have been corrected and will be maintained on a regular basis.

Response to Finding 2016-002: Monitoring of Internal Control

Campus Charter School has hired a reputable and experienced accountant for FY 2017. The addition of new board members with financial experience will assist in ensuring an accuracy and completeness of reporting.

Finding 2016-003: Financial Reporting

Campus Charter has taken reparative action to ensure that past transactions are now in accordance with Red Book. The hiring of a new accounting firm will ensure that future transactions and accounts are recorded accurately and in a timely manner.