

**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, 2017**



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## 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, 2017. Please read it in conjunction with the School's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The School's total net position increased compared to the prior year.
- For the fiscal year ended June 30, 2017, the School's revenues exceeded expenses by \$7,677, which is an improvement from the prior year when expenses exceeded revenues by \$42,940.
- Overall, revenues decreased by approximately \$106,000, which was a 10% decrease from the prior year.
- Overall, expenses decreased by approximately \$156,000, which was a 14% decrease from the prior year.
- Total assets were \$99,752, and total liabilities were \$72,564, resulting in net position of \$27,188 as of June 30, 2017.

### 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, 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 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, 2017 and 2016 is summarized as follows – see table below.

	<b>Governmental Activities</b>		<b>Increase (Decrease)</b>
	<b>2017</b>	<b>2016</b>	
Current and other assets	\$ 32,604	\$ 47,785	-32%
Capital assets, net	67,148	69,784	-4%
<b>Total assets</b>	<b>99,752</b>	<b>117,569</b>	<b>-15%</b>
Current and other liabilities	35,806	33,055	8%
Long-term liabilities	36,758	65,003	-43%
<b>Total liabilities</b>	<b>72,564</b>	<b>98,058</b>	<b>-26%</b>
Net position:			
Net investment in capital assets	56,443	45,514	24%
Restricted	1,963	-	100%
Unrestricted	(31,218)	(26,003)	20%
<b>Total net position</b>	<b>\$ 27,188</b>	<b>\$ 19,511</b>	<b>39%</b>

Current and other assets of the School decreased due to the current year operating capital expenditures. Long-term liabilities decreased due to current year payments. The change in total net position was due to the current year operating surplus and the activity noted above.

## Change in Net Position

The School's total revenues decreased by 10% to \$964,652, and the total cost of all programs and services decreased by 14% to \$956,975 – see table below.

	<b>Governmental Activities</b>		<b>Increase</b>
	<b>2017</b>	<b>2016</b>	<b>(Decrease)</b>
<b>Revenues:</b>			
Federal sources passed through local school district	\$ 97,244	\$ 106,667	-9%
State and local sources	832,200	949,516	-12%
Contributions and other revenue	35,208	14,186	148%
<b>Total revenues</b>	<b>964,652</b>	<b>1,070,369</b>	<b>-10%</b>
<b>Expenses:</b>			
Instruction	441,010	567,723	-22%
Instruction-related technology	27,947	28,154	-1%
Board	26,751	85,933	-69%
General administration	39,236	73,222	-46%
School administration	182,889	166,538	10%
Fiscal services	13,868	10,150	37%
Food services	40,322	-	100%
Operation and maintenance of plant	155,474	156,568	-1%
Community services	9,887	20,520	-52%
Interest	19,591	4,501	335%
<b>Total expenses</b>	<b>956,975</b>	<b>1,113,309</b>	<b>-14%</b>
<b>Change in net position</b>	<b>\$ 7,677</b>	<b>\$ (42,940)</b>	<b>118%</b>

Federal funding decreased due to a decrease in the amount of Title I funds the School received related to a decrease in enrollment offset by the School receiving federal funds for the food services offered. State and local sources also decreased due to a decrease in enrollment. Contributions and other revenue increased due to the school offering aftercare services in the current year.

Instruction expenses decreased due to cost reductions from serving a smaller number of students. Board expenses decreased due to prior year legal 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 management agreement in the prior year. Food services increased due to the School offering food services in the current year. Interest expense increased in the current year due to factoring of the FEFP revenue throughout the current year.

Certain reclassifications were made in 2016 amounts to conform to their classifications in fiscal year 2017.

## FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental funds reported a combined fund deficit of \$3,202. Both revenues and expenditures changed for the same reasons described above.

### General Fund Budgetary Highlights

Over the course of the year, the School revised its budget several times to account for the changes in the student enrollment and resulting increases in appropriations.

For the year ended June 30, 2017, actual general fund revenues were similar to the final budget amounts. Actual general fund expenditures and other financing sources were approximately \$416,000 and \$396,000, above the final budget, respectively, which represent 50% and 100% budget variances, respectively. The variances were due to the receipt of proceeds from factored revenues and the related principal payments made on the debt, which were not included in the budget.

### Special Revenue Fund Budgetary Highlights

For the year ended June 30, 2017, 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 2017 amounts to \$67,148 (net of accumulated depreciation). See table below:

	Governmental Activities		Increase (Decrease)
	2017	2016	
Buildings	\$ 7,747	\$ 7,747	0%
Leasehold improvements	102,810	93,602	10%
Furniture, fixtures and equipment	108,929	107,149	2%
Less accumulated depreciation	(152,338)	(138,714)	-10%
Total capital assets, net	<u>\$ 67,148</u>	<u>\$ 69,784</u>	<u>-4%</u>

There were no major capital asset additions or disposals 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, 2017, the School has \$10,705 in capital lease obligations for equipment. There were no major additions to long-term debt during 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 2018, the School considered the expected increase in the base student allocation of FEFP revenue and an increase in student enrollment.

Amounts available for appropriation in the general fund are approximately \$859,000, an increase of 4% over the final 2017 amount of \$829,085. FEFP revenue is expected to increase primarily due to an increase in the number of students.

Budgeted expenditures are expected to be approximately \$817,000, a decrease of 34% from the final 2017 amount of \$1,244,850. Expenditures are expected to decrease due to a decrease in debt service payments, which exceeds the effect of the increase in the number of students the School expects to serve. The School has added no major new programs to the fiscal 2018 budget.

Other financing sources are expected to be \$0, a decrease of 100% from the final 2017 amount of \$395,870. Other financing sources are expected to decrease due to the School no longer factoring its FEFP revenues.

If these estimates are realized, the School's budgetary general fund balance is expected to increase by the close of fiscal 2018.

## **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, 2017, 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, 2017, 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, 2017 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.

*BKHM, P.A.*

Winter Park, Florida  
August 30, 2017

**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, 2017**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 20,320
Accounts receivable	11,463
Other current assets	821
Capital assets:	
Buildings	7,747
Leasehold improvements	102,810
Furniture, fixtures and equipment	108,929
Less accumulated depreciation	(152,338)
Total capital assets, net	67,148
Total assets	\$ 99,752
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 35,806
Noncurrent liabilities:	
Portion due or payable within one year:	
Capital lease obligations	3,477
Portion due or payable after one year:	
Accrued legal expenses	26,053
Capital lease obligations	7,228
Total liabilities	72,564
<b>NET POSITION</b>	
Net investment in capital assets	56,443
Restricted for:	
Food service	1,963
Unrestricted deficit	(31,218)
Total net position	27,188
Total liabilities and net position	\$ 99,752

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 THE YEAR ENDED JUNE 30, 2017**

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
Governmental activities:						
Instruction	\$ 441,010	\$ -	\$ 36,983	\$ -	\$ (404,027)	\$ (404,027)
Instruction-related technology	27,947	-	24,615	-	(3,332)	(3,332)
Board	26,751	-	-	-	(26,751)	(26,751)
General administration	39,236	-	-	-	(39,236)	(39,236)
School administration	182,889	-	-	-	(182,889)	(182,889)
Fiscal services	13,868	-	-	-	(13,868)	(13,868)
Food services	40,322	6,639	35,646	-	1,963	1,963
Operation and maintenance of plant	155,474	-	-	-	(155,474)	(155,474)
Community services	9,887	-	-	-	(9,887)	(9,887)
Interest	19,591	-	-	-	(19,591)	(19,591)
<b>Total primary government</b>	<b><u>\$ 956,975</u></b>	<b><u>\$ 6,639</u></b>	<b><u>\$ 97,244</u></b>	<b><u>\$ -</u></b>	<b><u>(853,092)</u></b>	<b><u>(853,092)</u></b>
General revenues:						
State and local sources					832,200	832,200
Contributions and other revenue					28,569	28,569
Total general revenues					<u>860,769</u>	<u>860,769</u>
Change in net position					7,677	7,677
Net position at beginning of year					<u>19,511</u>	<u>19,511</u>
Net position at end of year					<u>\$ 27,188</u>	<u>\$ 27,188</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**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2017**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Other Governmental Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 18,357	\$ 1,963	\$ -	\$ 20,320
Accounts receivable	884	-	10,579	11,463
Other current assets	821	-	-	821
Due from other governmental funds	10,579	-	-	10,579
Total assets	<u>\$ 30,641</u>	<u>\$ 1,963</u>	<u>\$ 10,579</u>	<u>\$ 43,183</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenditures	\$ 35,806	\$ -	\$ -	\$ 35,806
Due to general fund	-	-	10,579	10,579
Total liabilities	<u>35,806</u>	<u>-</u>	<u>10,579</u>	<u>46,385</u>
<b>FUND BALANCES (DEFICIT)</b>				
Nonspendable:				
Other current assets	821	-	-	821
Restricted for:				
Food service	-	1,963	-	1,963
Unassigned	(5,986)	-	-	(5,986)
Total fund balances (deficit)	<u>(5,165)</u>	<u>1,963</u>	<u>-</u>	<u>(3,202)</u>
Total liabilities and fund balances (deficit)	<u>\$ 30,641</u>	<u>\$ 1,963</u>	<u>\$ 10,579</u>	<u>\$ 43,183</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, 2017**

<b>Total fund balances (deficit) - total governmental funds</b>	\$	(3,202)
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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 \$219,486, and the accumulated depreciation is \$152,338.		67,148
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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		(10,705)
Accrued legal expenses		<u>(26,053)</u>

<b>Total net position - governmental activities</b>	<b>\$</b>	<b><u>27,188</u></b>
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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, 2017**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Other Governmental Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Federal sources passed through local school district	\$ -	\$ 97,244	\$ -	\$ 97,244
State and local sources	800,516	-	31,684	832,200
Contributions and other revenue	28,569	6,639	-	35,208
Total revenues	<u>829,085</u>	<u>103,883</u>	<u>31,684</u>	<u>964,652</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	392,891	36,983	-	429,874
Instruction-related technology	3,332	24,615	-	27,947
Board	41,431	-	-	41,431
General administration	39,236	-	-	39,236
School administration	180,401	-	-	180,401
Fiscal services	13,868	-	-	13,868
Food services	-	40,322	-	40,322
Operation and maintenance of plant	123,790	-	31,684	155,474
Community services	9,887	-	-	9,887
Debt service:				
Principal	409,435	-	-	409,435
Interest	19,591	-	-	19,591
Other capital outlay	10,988	-	-	10,988
Total expenditures	<u>1,244,850</u>	<u>101,920</u>	<u>31,684</u>	<u>1,378,454</u>
Excess (deficiency) of revenues over expenditures	<u>(415,765)</u>	<u>1,963</u>	<u>-</u>	<u>(413,802)</u>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from factored revenues	395,870	-	-	395,870
Net changes in fund balances	(19,895)	1,963	-	(17,932)
Fund balances at beginning of year	14,730	-	-	14,730
Fund balances (deficit) at end of year	<u>\$ (5,165)</u>	<u>\$ 1,963</u>	<u>\$ -</u>	<u>\$ (3,202)</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, 2017**

**Net changes in fund balances - total governmental funds** \$ (17,932)

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 depreciation expense (\$13,624) exceeds capital outlays (\$10,988) in the current period. (2,636)

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 until they are paid. This is the amount by which payments for legal services (\$24,000) exceed legal expenses (\$9,320) in the current period. 14,680

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. (395,870)

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. 409,435

**Change in net position of governmental activities** \$ 7,677

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, 2017**

	<b>Agency Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,603
Total assets	<u>\$ 3,603</u>
<b>LIABILITIES</b>	
Due to others	\$ 3,603
Total liabilities	<u>\$ 3,603</u>

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

**PRIMARY CHARTER SCHOOLS, INC.  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

**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.

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**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.

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**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, 2017, 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.

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**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.

**Long-term Liabilities**

Long-term obligations that will be financed by resources to be received in the future by the general fund are reported in the government-wide financial statements, not in the general fund. Information relative to changes in long-term liabilities is described in Note 4.

**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.

**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.

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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.

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"

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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 2013.

**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, 2017, the date these financial statements were available to be issued.

**Recently Issued Accounting Pronouncement**

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The new standard is effective for the fiscal year ending June 30, 2020. The cumulative effect of any changes adopted to conform to the provisions of this guidance would be reported as a restatement of beginning net position and fund balance. The School is currently evaluating the effect that implementation of the new standard will have on its financial statements.

**2 INTERFUND ACTIVITIES**

Due to/from other funds consisted of the following balances as of June 30, 2017:

	<b>Interfund Receivables</b>	<b>Interfund Payables</b>
General fund	\$ 10,579	\$ -
Other non-major governmental fund	-	10,579
Total interfund	<u>\$ 10,579</u>	<u>\$ 10,579</u>

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



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**NOTES TO FINANCIAL STATEMENTS  
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**3 CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Buildings	\$ 7,747	\$ -	\$ -	\$ 7,747
Leasehold improvements	93,602	9,208	-	102,810
Furniture, fixtures and equipment	107,149	1,780	-	108,929
Total depreciable capital assets	<u>208,498</u>	<u>10,988</u>	<u>-</u>	<u>219,486</u>
Less accumulated depreciation for:				
Buildings	(7,747)	-	-	(7,747)
Leasehold improvements	(64,458)	(4,272)	-	(68,730)
Furniture, fixtures and equipment	(66,509)	(9,352)	-	(75,861)
Total accumulated depreciation	<u>(138,714)</u>	<u>(13,624)</u>	<u>-</u>	<u>(152,338)</u>
Governmental activities capital assets, net	<u>\$ 69,784</u>	<u>\$ (2,636)</u>	<u>\$ -</u>	<u>\$ 67,148</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 11,136
School administration	<u>2,488</u>
Total governmental activities depreciation expense	<u>\$ 13,624</u>

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**4 LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2017 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	\$ 24,270	\$ -	\$ (13,565)	\$ 10,705	\$ 3,477
Accrued legal expenses	<u>40,733</u>	<u>9,320</u>	<u>(24,000)</u>	<u>26,053</u>	<u>-</u>
Governmental activities, long-term liabilities	<u>\$ 65,003</u>	<u>\$ 9,320</u>	<u>\$ (37,565)</u>	<u>\$ 36,758</u>	<u>\$ 3,477</u>

**Capital Leases**

The School leases a portion of its equipment under lease agreements that are classified as capital leases. The capital leases require monthly payments of principal and interest at rates between 10% and 17%. The economic substance of the leases is that the School is financing the acquisition of the assets through the leases, and, accordingly, they are recorded in the School's statement of net position.

Leased assets as of June 30, 2017 consist of the following:

	<u>Governmental Activities</u>
Furniture, fixtures and equipment	\$ 54,182
Less accumulated depreciation	<u>(24,100)</u>
	<u>\$ 30,082</u>

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**NOTES TO FINANCIAL STATEMENTS  
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Future minimum payments required by the capital leases as of June 30, 2017 are as follows:

<b>Year ending June 30,</b>	<b>Amounts</b>
2018	\$ 4,353
2019	3,300
2020	3,300
2021	1,650
Total minimum lease payments	12,603
Less amount representing interest	(1,898)
Present value of minimum lease payments	10,705
Less amount due in one year	(3,477)
Amount due after one year	\$ 7,228

**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	\$ 494,969
Class size reduction	140,939
ESE guaranteed allocation	49,378
Discretionary millage	38,713
Capital outlay	31,684
Supplemental academic instruction	30,034
School recognition	12,879
Discretionary compression	11,379
Instructional materials	7,987
Reading allocation	5,052
Digital classrooms allocation	2,530
Safe schools	2,416
Teachers lead	1,865
Discretionary lottery	1,860
Library media materials	515
Total	\$ 832,200

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**NOTES TO FINANCIAL STATEMENTS  
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The administrative fee paid to the School Board during the year ended June 30, 2017 totaled approximately \$39,000, 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.

**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 collectability of any related receivable as of June 30, 2017 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

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**NOTES TO FINANCIAL STATEMENTS  
(continued)**

appraised market value of the property serving as collateral for the loan, which exceeded the unpaid loan balance as of June 30, 2017, 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, 2017.

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 agreed to allow the School to remain in possession of the property until June 30, 2017. During 2017, the forbearance agreement was amended to allow for the School to remain in possession of the property until June 30, 2018. This arrangement substantially represents an operating lease. Rental expense for the year ended June 30, 2017 related to this lease totaled approximately \$88,000 and is included in operation and maintenance of plant in the accompanying financial statements.

**Factoring Agreement**

During 2017, the School entered into an agreement to sell its expected FEFP revenues. During the year, the School received approximately \$396,000 in proceeds from factored revenues. All amounts borrowed were completely repaid before June 30, 2017, at which time the School terminated the agreement. During 2017, the School paid approximately \$17,000 in interest related to the factoring agreement, which is recorded in interest expense/expenditure in the accompanying financial statements.

**8 SUBSEQUENT EVENT**

In July 2017, the School received a \$40,000 cash advance from a third party that is in the process of purchasing the School's facility. The School then expects to enter into a lease agreement with the third party. If the third party is not able to purchase the property in 2018, the cash advance will be due back to the third party. If the third party is able to purchase the School facility and leases it to the School, the cash advance will be repaid through the School's monthly rental payments.

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
State and local sources	\$ 744,801	\$ 799,397	\$ 800,516	\$ 1,119
Contributions and other revenue	-	27,449	28,569	1,120
Total revenues	<u>744,801</u>	<u>826,846</u>	<u>829,085</u>	<u>2,239</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	353,987	386,970	392,891	(5,921)
Instruction-related technology	20,400	-	3,332	(3,332)
Board	30,200	-	41,431	(41,431)
General administration	40,037	39,232	39,236	(4)
School administration	175,319	181,311	180,401	910
Fiscal services	44,880	28,266	13,868	14,398
Food services	1,785	-	-	-
Operation and maintenance of plant	109,938	168,712	123,790	44,922
Community services	-	7,226	9,887	(2,661)
Debt service:				
Principal	376,600	-	409,435	(409,435)
Interest	-	17,568	19,591	(2,023)
Other capital outlay	-	-	10,988	(10,988)
Total expenditures	<u>1,153,146</u>	<u>829,285</u>	<u>1,244,850</u>	<u>(415,565)</u>
Excess (deficiency) of revenues over expenditures	<u>(408,345)</u>	<u>(2,439)</u>	<u>(415,765)</u>	<u>(413,326)</u>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from factored revenues	430,400	-	395,870	395,870
Net changes in fund balance	22,055	(2,439)	(19,895)	(17,456)
Fund balance at beginning of year	14,730	14,730	14,730	-
Fund balance (deficit) at end of year	<u>\$ 36,785</u>	<u>\$ 12,291</u>	<u>\$ (5,165)</u>	<u>\$ (17,456)</u>

See independent auditor's report.

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**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal sources passed through local school district	\$ 95,851	\$ 103,874	\$ 97,244	\$ (6,630)
Contributions and other revenue	15,300	-	6,639	6,639
Total revenues	<u>111,151</u>	<u>103,874</u>	<u>103,883</u>	<u>9</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	55,936	39,834	36,983	2,851
Instruction-related technology	-	21,294	24,615	(3,321)
Food services	55,215	41,101	40,322	779
Total expenditures	<u>111,151</u>	<u>102,229</u>	<u>101,920</u>	<u>309</u>
Net changes in fund balance	-	1,645	1,963	318
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ 1,645</u>	<u>\$ 1,963</u>	<u>\$ 318</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, 2017, 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, 2017.

**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.

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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the School's financial statements are free 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*.

## **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, 2017

**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

## **REPORT ON THE FINANCIAL STATEMENTS**

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, 2017, and have issued our report thereon dated August 30, 2017.

## **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, 2017, 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.

## **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 recommendation is as follows:

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 identified several 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 improve its controls to ensure that transactions are recorded in accordance with the Red Book.

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, 2017