

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

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

YEAR ENDED JUNE 30, 2008

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

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INTRODUCTORY SECTION

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

**OFFICERS OF THE BOARD OF DIRECTORS
JUNE 30, 2008**

Elaine Clifford	Ex-Officio
Beau Strickland	Chairman
Deborah Blaylock	Secretary
Carol Moening	Treasurer
Judy Griffin	Director

FINANCIAL SECTION

JANES, KEY & DINHO, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

2717 N. Wickham Road • Suite 3 • Melbourne, Florida 32935

321-752-6000 • Fax 321-752-6003

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Primary Charter Schools, Inc.

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of Primary Charter Schools, Inc., a component unit of the School Board of Brevard County, Florida, as of and for the year ended June 30, 2008, which collectively comprise the government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Primary Charter Schools, Inc. management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of Primary Charter Schools, Inc., as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 4, 2008, on our consideration of Primary Charter Schools, Inc.'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Board of Directors
Primary Charter Schools, Inc.

The management's discussion and analysis and budgetary comparison information on pages 7 through 14 and 31 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Janes, Key & Dinho, P.A.
Janes, Key & Dinho, P.A.
Certified Public Accountants

November 4, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PRIMARY CHARTER SCHOOLS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

Management of Primary Charter Schools, Inc. are required to present the following discussion and analysis to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the School's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds. Please read it in conjunction with the School's accompanying financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components, the first two of which are presented side by side on the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances as the right column and left columns, respectively:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

In addition, this report presents certain required supplementary information, which includes management's discussion and analysis and budgetary information.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the School presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the School. The statement of activities presents information about the change in the School's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the School's financial health is improving or deteriorating.

The government-wide statements present the School's activities in the category of governmental activities. This represents the School's educational programs. Support functions such as administration are also included. The state's education finance program provides most of the resources that support these activities.

Over a period of time, changes in the School's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other non-financial factors, such as changes in the School's student enrollment and the condition of the School's capital assets, including its School buildings and administrative facilities.

**PRIMARY CHARTER SCHOOLS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others may be created by legal agreements. Fund financial statements provide more detailed information about the School's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements.

All of the School's funds may be classified within the following broad fund category:

- **Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. This financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. Consequently, the governmental fund statements provide a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, a reconciliation of governmental funds to governmental activities for both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances are provided in the notes to the financial statements.

**PRIMARY CHARTER SCHOOLS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

The School's net assets were approximately \$44,000 at June 30, 2008. Of this amount, approximately \$66,000 was invested in capital assets, net of related debt, leaving a deficit balance in unrestricted net assets of approximately (\$22,000).

Capital assets decreased significantly because of the sale in May 2008 of land and buildings to another corporation which also assumed the debt related to those assets. Fair value of the assets sold was approximately \$1.6 million, less than the undepreciated value of the assets, resulting in a loss of approximately \$68,000. Additionally, capital assets decreased because of current period depreciation of approximately \$55,000. Long-term debt balances were decreased by scheduled principal payments of \$49,208 prior to the assumption of debt in the sale transaction described above; the remaining balances of notes payable approximating \$1.6 million were relieved as part of the sale.

Summary of Net Assets

	Governmental Activities		Amount Change	% Change
	<u>2008</u>	<u>2007</u>		
Current and other assets	\$ 70,966	\$ 93,898	\$ (22,932)	-24%
Capital assets	78,974	1,779,329	(1,700,355)	-96%
Intangible assets	-	33,011	(33,011)	-100%
Total assets	<u>149,940</u>	<u>1,906,238</u>	<u>(1,756,298)</u>	-92%
Long-term debt outstanding	-	1,659,506	(1,659,506)	-100%
Other liabilities	105,713	55,347	50,366	91%
Total liabilities	<u>105,713</u>	<u>1,714,853</u>	<u>(1,609,140)</u>	-94%
Net assets:				
Invested in capital assets, net of debt	66,224	119,823	(53,599)	-45%
Unrestricted	(21,997)	71,562	(93,559)	-131%
Total net assets	<u>\$ 44,227</u>	<u>\$ 191,385</u>	<u>\$ (147,158)</u>	-77%

**PRIMARY CHARTER SCHOOLS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Assets

The School had a decrease in net assets of approximately (\$147,000) for the year ended June 30, 2008.

The state's education finance program provides 80% of the School's revenues, with most of the remainder received from local sources and other educational programs. The major portion of state funding is based on student enrollment, which decreased to 152 full time equivalent students (FTE) in 2008 from 173 FTE in 2007.

The overall cost of the program was approximately \$1.4 million, of which 64% was personnel and related costs. Total operational expenses have increased by approximately 2% over 2007 expenses, primarily due to raises for instructors. Administrative costs increased because an administrative salary was added for the private programs; no public funding was used for this salary.

Summary of Changes in Net Assets

	Governmental Activities		Amount Change	% Change
	<u>2008</u>	<u>2007</u>		
Revenues				
Program revenues				
Charges for services	\$ 232,697	\$ 232,661	\$ 36	0%
General revenues				
Other government funding not restricted to specific programs	1,086,997	1,182,700	(95,703)	-8%
Contributions	43,851	59,584	(15,733)	-26%
Total revenues	<u>1,363,545</u>	<u>1,474,945</u>	(111,400)	-8%
Expenses				
Instruction	760,956	801,366	(40,410)	-5%
Instructional media services	5,268	4,385	883	20%
Instructional staff training	2,800	-	2,800	100%
School administration	376,741	326,049	50,692	16%
Fiscal services	59,822	17,281	42,541	246%
Facilities acquisition	22,192	-	22,192	100%
Food service	10,327	13,235	(2,908)	-22%
Pupil transportation	411	1,656	(1,245)	100%
Operation of plant	97,754	96,392	1,362	1%
Maintenance of plant	21,069	38,296	(17,227)	-45%
Interest on long-term debt	85,779	117,643	(31,864)	-27%
Total expenses	<u>1,443,119</u>	<u>1,416,303</u>	26,816	2%
Change in net assets before special item	<u>(79,574)</u>	<u>58,642</u>	(138,216)	-236%
Special item: loss on disposition of assets	(67,584)	-	(67,584)	-100%
Change in net assets	<u>\$ (147,158)</u>	<u>\$ 58,642</u>	<u>\$ (205,800)</u>	-351%

**PRIMARY CHARTER SCHOOLS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

At June 30, 2008, the School's governmental funds reported a decrease in fund balance of approximately (\$73,000). The General Fund balance decreased to a deficit of approximately (\$37,000) in 2008 primarily as a result of the write-off of remaining loan costs of approximately \$33,000 when related debt was assumed by the purchaser of land and buildings.

BUDGET VARIANCES IN THE GENERAL FUND

Since the School is incorporated as a nonprofit entity, final approval of the budget is by the authority of the Board of Directors.

Actual expenses were approximately \$61,000 less than budgeted amounts because payroll expenses were reduced due to declining enrollment. Actual revenues were approximately \$116,000 less than budgeted amounts because of the decrease in enrollment and its effects on FTE and Capital Outlay funding.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of fiscal year 2008, the School had invested approximately \$156,000, net of accumulated depreciation of \$77,000 in capital assets, primarily consisting of furniture and fixtures. The School sold land and buildings to another corporation, then entered into a lease with that corporation which permits the School to continue to use a portion of the space for its operations.

**Capital Assets
Net of Accumulated Depreciation**

	Governmental Activities		%
	<u>2008</u>	<u>2007</u>	Change
Land	\$ -	\$ 527,497	-100%
Buildings	6,042	1,208,306	-99%
Furniture and fixtures	60,394	20,650	192%
Site improvements	12,538	-	100%
Construction in progress	-	22,876	-100%
	\$ 78,974	\$ 1,779,329	-96%

**PRIMARY CHARTER SCHOOLS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

CAPITAL ASSETS AND LONG-TERM DEBT (Continued)

Long-term Debt

At June 30, 2008, the School had no long-term debt. Approximately \$1.6 million in mortgages secured by the buildings and land sold to another corporation in May 2008 was assumed by the buyer of the assets. The additional \$49,208 decrease in debt is a result of scheduled principal payments prior to the date of the sale.

	Outstanding Debt		
	Governmental Activities		% Change
	<u>2008</u>	<u>2007</u>	
Notes payable	<u>\$ -</u>	<u>\$ 1,659,506</u>	-100%

SIGNIFICANT ECONOMIC FACTORS

The School operates under a charter of the sponsoring School district, the School Board of Brevard County, Florida. The School's current charter, entered into on September 23, 2003, is in effect until June 30, 2013. In addition, the corporation operated private child care and pre-kindergarten programs through April 2008, which provided a significant source of revenue.

Student enrollment forms the basis for the most significant revenue source for the School. Charter school enrollment has decreased from 173.6 students in the 2006-2007 school year to 152 full time equivalent students in the 2007-2008 school year because of changes in the economy. Some families have moved out of the area; others are choosing to send children to a local school rather than transport them to the charter school.

The School's charter allows a maximum of 240 students for the upcoming year and continuing through 2013. Overall, school enrollment is dropping in Brevard County, perhaps due to changes in the economy and cost of living. Enrollment in Primary Charter Schools, Inc.'s private programs remained steady at approximately 83 in 2007-2008.

BASIC FINANCIAL STATEMENTS

PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2008

	<u>General Fund</u>	<u>Adjustments (Note II.A.)</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash	\$ 64,654	\$ -	\$ 64,654
Due from School Board	4,202	-	4,202
Deposits	-	2,110	2,110
Other capital assets, net of \$77,225 accumulated depreciation	-	78,974	78,974
TOTAL ASSETS	<u><u>\$ 68,856</u></u>	<u><u>81,084</u></u>	<u><u>149,940</u></u>
LIABILITIES			
Accounts payable	\$ 21,664	-	21,664
Accrued expenses	72,709	-	72,709
Due to related party	11,341	-	11,341
TOTAL LIABILITIES	<u><u>105,713</u></u>	<u><u>-</u></u>	<u><u>105,713</u></u>
FUND BALANCES/NET ASSETS			
Fund balances:			
Unreserved	<u><u>(36,857)</u></u>	<u><u>36,857</u></u>	<u><u>-</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 68,856</u></u>		
Net assets:			
Invested in capital assets, net of related debt		66,224	66,224
Unrestricted		<u><u>(21,997)</u></u>	<u><u>(21,997)</u></u>
TOTAL NET ASSETS		<u><u>\$ 44,227</u></u>	<u><u>\$ 44,227</u></u>

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

PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUNDS REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>	<u>Adjustments (Note II.B.)</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES					
Current:					
Instruction	\$ 671,351	\$ 39,670	\$ 711,021	\$ 49,935	\$ 760,956
Instructional media services	5,268	-	5,268	-	5,268
Instructional staff training	2,800	-	2,800	-	2,800
School administration	376,402	-	376,402	339	376,741
Fiscal services	26,811	-	26,811	33,011	59,822
Facilities acquisition	22,192	-	22,192	-	22,192
Food service	10,327	-	10,327	-	10,327
Pupil transportation	411	-	411	-	411
Operation of plant	97,754	-	97,754	-	97,754
Maintenance of plant	21,069	-	21,069	-	21,069
Capital outlay	27,801	-	27,801	(27,801)	-
Debt service:					
Principal	49,208	-	49,208	(49,208)	-
Interest	85,779	-	85,779	-	85,779
TOTAL EXPENDITURES/EXPENSES	<u>1,397,173</u>	<u>39,670</u>	<u>1,436,843</u>	<u>6,276</u>	<u>1,443,119</u>
PROGRAM REVENUES:					
Charges for services	<u>232,697</u>	<u>-</u>	<u>232,697</u>	<u>-</u>	<u>232,697</u>
NET PROGRAM EXPENSE					<u>1,210,422</u>
GENERAL REVENUES					
Other government funding not restricted to specific programs	1,047,327	39,670	1,086,997	-	1,086,997
Contributions not restricted to specific programs	<u>43,851</u>	<u>-</u>	<u>43,851</u>	<u>-</u>	<u>43,851</u>
	<u>1,091,178</u>	<u>39,670</u>	<u>1,130,848</u>	<u>-</u>	<u>1,130,848</u>
SPECIAL ITEMS					
Loss on disposition of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>(67,584)</u>	<u>(67,584)</u>
TOTAL GENERAL REVENUES AND SPECIAL ITEMS	<u>1,091,178</u>	<u>39,670</u>	<u>1,130,848</u>	<u>(67,584)</u>	<u>1,063,264</u>
Excess (deficit) of revenues and special items over expenditures and other uses	(73,298)	-	(73,298)	73,298	
Change in net assets				(147,158)	(147,158)
FUND BALANCES/NET ASSETS					
Beginning of the year	36,441	-	36,441	154,944	191,385
End of the year	<u>\$ (36,857)</u>	<u>\$ -</u>	<u>\$ (36,857)</u>	<u>\$ 81,084</u>	<u>\$ 44,227</u>

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

NOTES TO THE FINANCIAL STATEMENTS

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Primary Charter Schools, Inc., (School) is a not-for-profit corporation organized pursuant to Florida Statutes governing not for profit corporations and educational choice (charter schools). The not-for-profit corporation conducts business as Primary Charter Schools, Inc. The governing body of the School is the not-for-profit corporation's Board of Directors. The School is accounted for as a governmental not-for-profit organization and is a component unit of the School Board of Brevard County, Florida.

The general operating authority of the School is contained in Florida Statutes. The School operates grades K through 6 under a charter of the sponsoring School district, the School Board of Brevard County, Florida. The current charter is effective until June, 2013. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. The charter school contract provides that in the event the school is dissolved or terminated, any public unencumbered funds and all school property purchased with public funds automatically revert to the School Board of Brevard County. During the term of the charter, the School Board may also terminate the charter if good cause is shown.

Other entities that are potential component units of the School that should be reported with the School's basic financial statements are identified based on certain criteria. These criteria include the School's financial accountability for them and the significance of their relationship with the School, such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, there are no component units to be included within the reporting entity of the School.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. The statements consist primarily of government activities, which normally are supported by government revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the accompanying financial statements.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements, consisting of Statement of Net Assets and Statement of Activities, are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements, consisting of Governmental Funds Balance Sheet and Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balances, are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the school considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Amounts reported as program revenues include charges to customers or applicants for goods, services or privileges provided. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1) Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2) Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3) Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4) Capital assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The School does not have a formal capitalization policy. Capital assets are defined by the management of the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Maintenance and repair costs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

4) Capital assets (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	7
Furniture and fixtures	5-15
Improvements	15

5) Compensated absences

It is the school's policy to permit employees to accumulate earned but unused sick and vacation pay benefits, which must be used by the end of the fiscal year or it will be lost. There is no liability for unpaid accumulated sick or vacation leave since the school does not have a policy to pay any amounts when employees separate from service with the school.

6) Long-term obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Loan costs are deferred and amortized over the life of the related debt.

In the fund financial statements, government fund types report face amount of debt issued as other financing sources and payments of debt principal as other financing uses. Loan costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7) Fund Equity

In the fund financial statements, government funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

8) Revenue Sources

Revenues for current operations are received primarily from the School Board of Brevard County, Florida pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. The District reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey periods.

The School receives state 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 awards in which a claim to these periods is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

Program revenue includes charges for lunches, preschool programs and care and activities provided outside of the school session.

9) Use of Estimates

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

10) Tax Status

The School is exempt from income tax under Section 501(c) (3) of the U.S. Internal Revenue Code, and has been determined to be an organization that is not a private foundation. Contributions to the School are qualified as deductions for charitable contributions.

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

II. Reconciliation of government-wide and fund financial statements

- A. Explanation of differences between the government fund balance sheet and the government-wide statement of net assets:

Total fund balances	\$ (36,857)
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds	78,974
Deposits shown as assets are expensed in the funds	<u>2,110</u>
Total net assets	<u>\$ 44,227</u>

- B. Explanation of certain differences between the government fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

Net change in fund balances -- total governmental funds	\$ (73,298)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlays	27,801
Depreciation expense	(55,484)
Asset disposals	(95,385)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.	
Payments of principal	<u>49,208</u>
Change in net assets	<u>\$ (147,158)</u>

III. Stewardship, compliance, and accountability

- A. Budgetary information

Since the School is incorporated as a nonprofit entity, budgets are approved by the Board of Directors. An annual budget for the General Fund is presented on a basis consistent with generally accepted accounting principles, except for the inclusion of special revenues and related expenditures and the exclusion of debt service expenditures. No budget was adopted for other funds.

PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

IV. Detailed notes on all funds

A. Deposits and investments

Custodial credit risk is the risk that in the event of a bank failure, the school's deposits may not be returned to it. The school does not have a deposit policy for custodial credit risk. At year-end, the school's carrying amount of deposits was fully covered by government-sponsored insurance.

B. Other assets

Other assets in the government-wide presentation include loan costs incurred in connection with financing for construction of the new educational facility. These costs, totaling \$33,011 at the beginning of the year, were being amortized over the fifteen-year period of the debt. These costs were written off during the year when the debt associated with the land and building sold in May 2008 was assumed by the purchaser of the assets.

C. Capital assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 527,497	\$ -	\$ 527,497	\$ -
Construction in progress	22,876	3,710	26,586	-
Total capital assets, not being depreciated	<u>550,373</u>	<u>3,710</u>	<u>554,083</u>	<u>-</u>
Capital assets, being depreciated				
Building	1,311,798	4,220	1,308,131	7,887
Improvements	-	12,750	-	12,750
Furniture and fixtures	124,731	10,831	-	135,562
Total capital assets, being depreciated	<u>1,436,529</u>	<u>27,801</u>	<u>1,308,131</u>	<u>156,199</u>
Less accumulated depreciation	<u>(207,573)</u>	<u>(55,484)</u>	<u>(185,832)</u>	<u>(77,225)</u>
Total capital assets being depreciated, net	<u>1,228,956</u>	<u>(27,683)</u>	<u>1,122,299</u>	<u>78,974</u>
Capital assets, net	<u>\$ 1,779,330</u>	<u>\$ (23,973)</u>	<u>\$ 1,676,383</u>	<u>\$ 78,974</u>

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

IV. Detailed notes on all funds (continued)

C. Capital assets (continued)

Land and building with a depreciated cost of \$1,649,796, plus construction in progress of \$26,586, was sold to another corporation in May 2008. As part of the consideration for the purchase, the buyer assumed debt secured by these assets. The fair value of the real estate was less than the depreciated cost, resulting in a loss of approximately \$68,000. The School leased part of the space in the disposed buildings for the remainder of the fiscal year under a month-to-month lease arrangement.

Depreciation expense was charged to functions/programs of the primary government as follows:

<u>Function</u>	<u>Amount</u>
Instruction	\$ 49,935
School administration	<u>5,549</u>
	<u><u>\$ 55,484</u></u>

D. Long-term debt

Throughout most of the fiscal year, the School held long-term debt which was secured by real property. This debt, with a beginning balance of \$1,659,506, was reduced by scheduled principal payments of \$49,208 by the May 5, 2008 date on which those assets were sold and the remaining debt principal balance of \$1,610,298 was assumed by the purchaser of the assets. The loans bore interest at rates ranging from 5.63 percent to 9.0 percent; the School paid approximately \$86,000 in interest for the ten months it was responsible for the debt.

Changes in long-term liabilities:

Long-term liability activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Mortgage notes payable	<u>\$ 1,659,506</u>	<u>\$ -</u>	<u>\$ 1,659,506</u>	<u>\$ -</u>	<u>\$ -</u>

**PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

IV. Detailed notes on all funds (continued)

E. Schedule of local revenue sources

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

Sources	<u>Amounts</u>
School Board of Brevard County, Florida	
Florida Education Finance Program	\$ 641,930
Declining Enrollment Allocation	1,637
Safe Schools	3,740
ESE Guaranteed Allocation	46,548
Supplemental Academic Instruction	46,241
Discretionary Millage	54,416
Discretionary Compression	9,901
Discretionary Lottery	7,091
Instructional Materials Allocation	14,492
Class Size Reduction	150,366
Subtotal	<u>976,362</u>
Less: administrative fee	<u>(48,818)</u>
Subtotal, FTE	927,544
Capital Outlay	96,048
Title I	39,670
School Recognition	17,349
Reading Coach	3,457
Teacher Lead	2,929
Total, School Board of Brevard County	<u>1,086,997</u>
Other local sources	<u>276,548</u>
Total	<u><u>\$ 1,363,545</u></u>

The revenue from the School Board of Brevard County, Florida constitutes 80% of the School's total revenue, and Voluntary Pre-Kindergarten funding provided through a nonprofit organization constitute 11% of total revenue, each representing a concentration of risk.

F. Capital Outlay funds

During fiscal 2008, the School had \$96,048 of Capital Outlay funds made available under the Charter School Capital Outlay Program. These state funds are passed through the sponsor, the School Board of Brevard County, for the benefit of the School. They may be used for any capital outlay purpose directly related to the functioning of the charter school.

PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

V. Other information

A. Risk Management

The school is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the school carries commercial insurance. General and property liability and automotive liability are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Worker's compensation in accordance with statutory limits is provided by the School for its employees. There has been no significant change in coverage limits.

B. Related party transactions

The School carries out several significant transactions with its sponsor, the School Board of Brevard County. During fiscal 2008, it received funding of \$1,086,997 directly from the School Board. At June 30, 2008, the School had a receivable of \$4,202 from the School Board.

The corporation that purchased the land and buildings of the School and assumed related debt in May 2008 has two Board members (of a total of six members) in common with the School. This corporation also formally assumed the responsibility for carrying on certain private programs, for example, VPK and Pre-K programs, that were previously provided by the School, after the date of the sale of assets.

C. Subsequent events

Facility lease

The School entered into a formal lease for part of the building it previously owned beginning July 1, 2008. The lease has a term of five years with a renewal option for an additional ten years. Monthly rental payments of \$9,770 plus an allocable share of certain utilities, maintenance, insurance, and other shared costs are required. The lease permits adjustment of the lease amount depending on the space used by the School. The lessor is the corporation that purchased the land and buildings from the School in May 2008.

Settlement of claim

The School was subject to a claim alleging breach of contract in a 2002 real estate matter that was settled in mediation, subsequent to year end, in August 2008. Under the terms of the settlement, the School is to pay the claimant \$19,000. The liability for this settlement has been recorded in the accompanying financial statements.

PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

V. Other information

D. Financial condition

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. The School experienced a deficit of revenues over expenditures of approximately \$73,000 in the current year, leaving a deficit fund balance of \$36,857 and negative unrestricted net assets of \$21,997. However, certain nonrecurring factors contributed to the loss, including the write-off of loan costs of approximately \$33,000 and accrued settlement costs of \$19,000; therefore, the operating portion of the loss was only approximately \$20,000.

Management has made numerous changes in order to reduce operating costs. The sale of land and buildings in May 2008, with the purchaser assuming the related debt, relieved the School of significant debt obligations. The lease which the School has negotiated to lease part of the space from the purchaser permits the lease payments to be adjusted depending on the space used by the School, giving it greater flexibility. Into fiscal 2008-2009, personnel reductions have been made in both instruction and administration that are expected to relieve approximately \$130,000 in costs.

Realization of a major portion of the assets in the accompanying financial statements is dependent upon continued operations of the School, which in turn is dependent upon the School's ability to successfully meet its ongoing operating obligations. Management believes that actions presently being taken to revise the School's operating and financial requirements, as described above, provide the opportunity for the School to continue as a going concern.

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PRIMARY CHARTER SCHOOLS, INC.
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF BREVARD COUNTY, FLORIDA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Budget		Actual Amounts Budgetary Basis		Budget to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
REVENUES						
Other government funding not restricted to specific programs	\$ 1,233,359	\$ 1,233,359	\$ 1,086,997	(1)	\$ 39,670	\$ 1,047,327
Contributions not restricted to specific programs	16,700	16,700	43,851		-	43,851
Other	229,358	229,358	232,697		-	232,697
TOTAL REVENUES	1,479,417	1,479,417	1,363,545		39,670	1,323,875
EXPENDITURES						
Current-education						
Instruction	740,221	740,221	711,021	(1)	39,670	671,351
Instructional media services	4,800	4,800	5,268		-	5,268
Instructional staff training	-	-	2,800		-	2,800
School administration	408,512	408,512	376,402		-	376,402
Fiscal services	25,000	25,000	26,811		-	26,811
Facilities acquisition	-	-	22,192		-	22,192
Food services	14,000	14,000	10,327		-	10,327
Pupil transportation	2,000	2,000	411		-	411
Operation of plant	94,800	94,800	97,754		-	97,754
Maintenance of plant	9,100	9,100	21,069		-	21,069
Capital outlay						
Other capital outlay	47,370	47,370	27,801		-	27,801
Debt service						
Principal	-	-	-	(2)	(49,208)	49,208
Interest	102,479	102,479	85,779		-	85,779
TOTAL EXPENDITURES	1,448,282	1,448,282	1,387,635		(9,538)	1,397,173
Excess (deficit) of revenues over expenditures	31,135	31,135	(24,090)		49,208	(73,298)
Fund balances, July 1, 2007	-	-	36,441		-	36,441
Fund balances, June 30, 2008	<u>\$ 31,135</u>	<u>\$ 31,135</u>	<u>\$ 12,351</u>		<u>\$ 49,208</u>	<u>\$ (36,857)</u>

Notes:

The budget for the General Fund is presented on a basis consistent with generally accepted accounting principles, except for the inclusion of special revenues and related expenditures and the exclusion of debt service expenditures.

Explanation of differences:

(1) The School general fund budget includes a revenue source and related expenditures that are presented in Other Governmental Funds

\$ -

(2) The School general fund budget does not include amounts relating to principal debt service

49,208

\$ 49,208

ADDITIONAL ELEMENTS REQUIRED BY THE RULES OF THE AUDITOR GENERAL

JANES, KEY & DINHO, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

2717 N. Wickham Road • Suite 3 • Melbourne, Florida 32935

321-752-6000 • Fax 321-752-6003

**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
Primary Charter Schools, Inc.

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of Primary Charter Schools, Inc., as of and for the year ended June 30, 2008, which collectively comprise Primary Charter Schools, Inc.'s basic financial statements and have issued our report thereon dated November 4, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Primary Charter Schools, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Primary Charter Schools, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Primary Charter Schools, Inc.'s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Primary Charter Schools, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Primary Charter Schools, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Primary Charter Schools, Inc.'s internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Primary Charter Schools, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described below, we consider items 2008-1 to be a material weakness.

2007-1. Improper Recording of Transactions With Related Corporation

Criteria: Recorded receivables or payables should represent actual amounts to be realized from other parties, and recorded revenues and expenditures should represent actual transactions of the School.

Condition: In May 2008, the School sold land and buildings to another corporation who also assumed debt related to the assets. The other corporation began leasing part of the assets to the School and assumed responsibility for carrying on certain private programs, i.e., VPK and Pre-K programs that were previously handled by the School. The numerous transactions between the two parties were not properly recorded.

Effect: Assets, liabilities, revenues and expenditures were overstated by material amounts.

Recommendation: Intercompany transactions should be clearly defined and recorded using a single account. Financial transactions between the two companies should be documented in writing to support the activity in this account, and the account should be reconciled monthly.

2007-2. Financial Records Not Completed Timely

Criteria: The School must present financial records promptly after the end of the fiscal period to permit timely performance of the audit and timely communication of financial reports to the School's sponsor.

Condition: The School's contract accountant during the first part of the fiscal year provided timely information through the third quarter, but after that time, information provided was delayed and incomplete. As a result, the School terminated the services of that accountant soon after the end of the fiscal year and engaged another contract accountant. As a result of this transition, full accounting information for fiscal 2007-2008 was not available until the first of October 2008.

Primary Charter Schools, Inc.
Page three

Effect: Financial information for the use of management and the sponsor was not available on a timely basis for the last quarter of the fiscal year. Final financial information was not available for audit until after the sponsor's due date for completion of the audit.

Recommendation: The School should put policies and resources in place to assure the timely completion of financial recording on an ongoing basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Primary Charter Schools, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Primary Charter Schools, Inc. in a separate letter dated November 4, 2008.

Primary Charter Schools, Inc.'s response to the findings identified in our audit is described in the accompanying Statement of Audited Official. We did not audit Primary Charter Schools, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of Primary Charter Schools, Inc. and the School Board of Brevard County and is not intended to be and should not be used by anyone other than these specified parties.

Janes, Key & Dinho, P.A.
Janes, Key & Dinho, P.A.
Certified Public Accountants

November 4, 2008

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JANES, KEY & DINHO, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

2717 N. Wickham Road • Suite 3 • Melbourne, Florida 32935

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MANAGEMENT LETTER

To the Board of Directors
Primary Charter Schools, Inc.

We have audited the financial statements of Primary Charter Schools, Inc., Florida, as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated November 4, 2008.

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. 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 Financial Statements Performed in Accordance with Government Auditing Standards. Disclosures in that report, which is dated November 4, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General, which govern the conduct of charter school audits performed in the State of Florida and, unless otherwise required to be reported in the report on internal controls and compliance, this letter is required to include the following information.

- The Rules require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal control, whether or not recommendations made in the preceding annual financial audit report have been followed. These matters are addressed in the section "Status of Prior Audit Findings" below.
- The Rules require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such findings.
- The Rules require that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

- The Rules require, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. These matters are included in the section “Current Year Comments” below.
- The Rules require that a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that Primary Charter Schools, Inc. met certain of the conditions described in Section 218.503(1), Florida Statutes, as further discussed in current year comment II below.
- The Rules require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management’s responsibility to monitor the entity’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.

Current Year Comments:

I. Delay in Submitting Financial Reports to Sponsor

Criteria: The School’s sponsor requires financial reporting on a quarterly basis in a prescribed format, and audited financial statements for the fiscal year. The charter contract specifies due dates for these reports.

Condition: The School’s sponsor required a revised format for the quarterly submission, beginning with the quarter ended December 31, 2007. The first quarter financial report was submitted timely; however, for the following three quarters, the new format proved difficult for the School to prepare, and, as a result, the quarterly reports for those three quarters were submitted late.

Audited financial statements for fiscal 2007 were submitted late as a result of late notification to the School of the resignation of the previous auditor, which resulted in late engagement of a successor auditor.

Effect: While all required reports have been submitted to the sponsor, the School did not meet the due dates specified, preventing the sponsor from having timely access to financial information in order to perform its monitoring duties.

Recommendation: Putting the proper personnel, including consultants, in place to permit timely and accurate financial reporting needs to be a high priority for the School.

II. Financial Condition of the School

Criteria: The financial condition of the School is required to be monitored to determine if certain factors exist that might indicate a deteriorating financial condition.

Condition: Certain factors that could lead to a deterioration of the financial condition of the School were identified during the audit of fiscal 2007-2008, for example; a deficit of revenues over expenditures in the current year, resulting in negative fund balances and negative unrestricted net assets; decline in enrollment of 12%; and lack of timely financial information. In addition, for the upcoming 2008-2009 fiscal year, the School anticipates cuts in funding from state sources due to overall economic conditions in the geographic area.

Effect: These negative financial indicators have put pressure on School management to make difficult decisions to cut future spending in order to operate in a fiscally sound manner and to restore their equity position.

Recommendation: Management should closely monitor the financial situation and be proactive about spending levels in order to stay within a balanced budget.

Status of Prior Audit Findings:

Internal control comments:

1. Proper Cutoff of Expenses – recurrence of condition not found during audit procedures
2. Financial Effects Of Casualty not Recorded – recurrence of condition not found during audit procedures

Management letter comments:

- Improve Documentation for Cash Disbursements – improved procedures implemented during current year, comment is not repeated
- Budget not Prepared in Sufficient Detail – budget for fiscal 2008 prepared in sufficient detail

Primary Charter Schools, Inc.
Page four

The audit report was delivered to Primary Charter Schools, Inc. on November 5, 2008. We wish to thank Primary Charter Schools, Inc. management and staff for their support and assistance during our audit.

This management letter is intended solely for the information of Primary Charter Schools, Inc. and management, the School Board of Brevard County, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Janes, Key & Dinho, P.A.
Janes, Key & Dinho, P.A.
Certified Public Accountants

November 4, 2008

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STATEMENT OF AUDITED OFFICIAL



Campus Charter School

3805 Curtis Blvd.
Port St. John, FL 32927
321-633-8234

Dr. Elaine Clifford, Executive Director

The following items were addressed in the Audit of Primary Charter Schools Inc. for the year ended June 30, 2008. In order to improve the internal controls over our financial reporting and compliance, we have implemented the following changes.

2008-1) Improper Recording of Transactions with Related Corporation.

The school will work with our contracted CPA/ Bookkeeper to ensure that all intercompany transactions are clearly defined and recorded using a single account. All such transactions shall be documented in writing on a monthly basis.

2008-2) Financial Records Not Completed Timely.

School will work with our contracted CPA/Bookkeeper to assure that financial reports are completed and submitted to the sponsor in a timely manner.

MANAGEMENT LETTER COMMENTS

1. Delay In Submitting Financial Reports To Sponsor

The school will employ the proper personnel, including consultants if necessary, to permit timely and accurate financial reporting to the sponsor.

2. Financial Condition of the School

Management shall be proactive about spending levels in order to stay within a balanced budget.

We would like to thank the Accounting Firm of Janes, Key & Dinho, P.A. for all their suggestions and help during this audit.

Sincerely,

Elaine F. Clifford, Ph.D.

Elaine F. Clifford, Ph.D.
Executive Director, Campus Charter School