

**The Pepin Academies, Inc.
d/b/a Pepin Transitional School**

**A Charter School and Component Unit
of the School Board of Hillsborough County**

Financial Statements

June 30, 2015

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Independent Auditor's Report

Board of Directors
The Pepin Academies, Inc.
d/b/a Pepin Transitional School
Tampa, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of The Pepin Academies, Inc. d/b/a Pepin Transitional School (Charter School), a component unit of the School Board of Hillsborough County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter 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 and each major fund of The Pepin Academies, Inc. d/b/a Pepin Transitional School as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

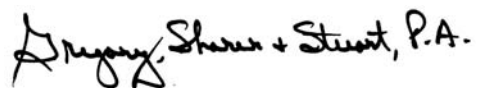
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 6 through 9 and the Budgetary Comparison Schedules on pages 24 through 26 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 which 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 September 30, 2015 on our consideration of The Pepin Academies, Inc. d/b/a Pepin Transitional 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 Pepin Academies, Inc. d/b/a Pepin Transitional School's internal control over financial reporting and compliance.

Gregory, Sharer & Stuart, P.A.

A handwritten signature in black ink that reads "Gregory, Sharer + Stuart, P.A." with a stylized flourish at the end.

St. Petersburg, Florida
September 30, 2015

**Management's Discussion and Analysis
(Unaudited)**

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Management's Discussion and Analysis (Unaudited)
June 30, 2015

The following pages represent Management's Discussion and Analysis (MD&A) of The Pepin Academies, Inc., d/b/a Pepin Transitional School (Pepin). It depicts and reviews the financial picture and activities of Pepin as of and for the year ended June 30, 2015.

The intent of this MD&A is to present a picture and assessment of Pepin's financial performance in an effort to more clearly demonstrate to readers the results of this year's financial operations. Readers should review this MD&A along with the basic financial statements and the notes to the basic financial statements.

Using the Financial Statements

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

- The first two statements are government-wide financial statements that provide information about Pepin's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of Pepin, reporting Pepin's operations in more detail than the government-wide statements.

The notes to the financial statements explain some of the information in the financial statements and provide more detail. 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 auditors' report on compliance and internal control required by *Government Auditing Standards*, as well as the management letter required by the Rules of the Florida Auditor General.

Government-Wide Financial Statements

The government-wide financial statements report information about Pepin as a whole using accounting methods similar to those used by the private sector. The statement of net position includes all of Pepin's assets and liabilities. 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 Pepin's net assets and how they have changed. Net position, the difference between Pepin's assets and liabilities, is one way to measure Pepin's financial position. Over time, increases or decreases in Pepin's net position are an indicator of whether its financial position is improving or deteriorating. To assess the overall financial position of Pepin, one needs to consider additional nonfinancial factors such as changes in Pepin's student base funding level.

Fund Financial Statements

The fund financial statements provide more detailed information about Pepin's most significant funds, not Pepin as a whole. A fund is a self-balancing set of accounts which Pepin uses to keep track of sources of funding and spending.

Pepin'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.

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Management's Discussion and Analysis (Unaudited)
June 30, 2015

Financial Highlights

- The year ended June 30, 2015 was Pepin's ninth year of operations.
- Net position decreased \$41,447 from \$410,623 at June 30, 2014 to \$369,176 at June 30, 2015. The net decrease is composed of the following:

	<u>(Decrease)</u>
Invested in capital assets	\$ (2,342)
Unrestricted net position	<u>(39,105)</u>
	<u>\$ (41,447)</u>

The net decrease in net position invested in capital assets resulted from the following:

	<u>Increase (Decrease)</u>
Capital assets purchased	\$ 3,684
Depreciation expense	<u>(6,026)</u>
	<u>\$ (2,342)</u>

The net decrease in unrestricted net position resulted from operating activities the significant elements of which are described below.

- Total assets increased \$6,210 from \$445,946 at June 30, 2014 to \$452,156 at June 30, 2015. The net increase is attributable to the following:

	<u>Increase (Decrease)</u>
Cash	\$ 92,418
Accounts receivable, other	(3,341)
Accounts receivable, related entities	(82,270)
Other assets	1,745
Capital assets, net of accumulated depreciation	<u>(2,342)</u>
	<u>\$ 6,210</u>

- Total liabilities increased \$47,657 from \$35,323 at June 30, 2014 to \$82,980 at June 30, 2015. The net increase is attributable to the following:

	<u>Increase (Decrease)</u>
Accounts payable	\$ (132)
Accrued payroll	(981)
Due to related parties	48,374
Accrued other	<u>396</u>
	<u>\$ 47,657</u>

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Management's Discussion and Analysis (Unaudited)
June 30, 2015

- Total revenues were \$847,920 for the year ended June 30, 2015, a net decrease of \$137,243 from total revenues of \$985,163 for the year ended June 30, 2014, and consisted of the following:

State and local sources	\$ 709,928
Contributions and other revenue	<u>137,992</u>
	<u>\$ 847,920</u>

State and local sources revenues were based on the student population and the proportion of the student population entitled to ESE Guaranteed Allocation. The total weighted FTE was 57.1913 students for the 2014/2015 school year, a decrease of 4.9852 from the 2013/2014 school year. The ESE Guaranteed Allocation FTE population was 56.9634 students for the 2014/2015 school year, a decrease of 4.5366 from the 2013/2014 school year.

Contributions and other revenue for the year ended June 30, 2015 consisted of miscellaneous donations, lunch receipts, and other revenue.

- General fund expenditures were \$853,933 for the year ended June 30, 2015, a decrease of \$38,516 from the year ended June 30, 2014 and consisted of the following:

Instruction and pupil personnel services	\$ 446,685
School administration	179,648
Fiscal services	6,930
Food service	8,718
Transportation	10,092
Operation and maintenance of plant	45,572
Community service	<u>156,288</u>
	<u>\$ 853,933</u>

The above costs are proportionate to the level of costs incurred in serving the student population.

Costs are expected to increase modestly in the 2015/2016 school year in proportion to inflation.

- Capital outlay funding received from the State was \$27,460 in the 2014/2015 school year. This amount was used in total to fund debt service expenses of \$33,092. \$5,632 was transferred from the general fund to the debt service fund to cover the excess of debt service expense over capital outlay revenue received.

General Fund Budget Comparison

Pepin's budget was prepared prior to the start of the 2014/2015 school year. The net variance from budget was \$39,097 negative and was a consequence of the following general factors:

	Positive (Negative) Variance
Revenue impact of FTE and student population mix variance from budget	\$ (58,455)
Actual contribution and fund raising event revenue lower than amount budgeted	892
Higher than anticipated costs of providing services to students	(64,494)
Lower than anticipated administration, fiscal services, and plant operation costs	55,363
Excess of debt service principal over revenue earmarked for debt service	<u>27,597</u>
	<u>\$ (39,097)</u>

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Management's Discussion and Analysis (Unaudited)
June 30, 2015

Capital Assets

Capital assets acquired during the 2014/2015 school year with cost greater than Pepin's minimum capitalization threshold (\$750) were \$3,684. Depreciation expense in the government-wide financial statements was calculated utilizing the straight-line method and useful life of 5 years for furniture, fixtures, and classroom equipment. Total depreciation expense for the year ended June 30, 2015 was \$6,026.

At June 30, 2015 capital assets consist of:

Furniture, fixtures, and classroom equipment	\$ 65,737
Accumulated depreciation	<u>(50,213)</u>
Total capital assets, net of depreciation	<u>\$ 15,524</u>

Economic Factors And Next Year's Budget

The 2014/2015 school year was Pepin's ninth year of operations. It was a very successful year educationally, but Pepin experienced an approximate 8% decrease in student enrollment. In addition, IDEA grant funds that were budgeted to be received during 2014/2015 school year were not received.

Pepin had hoped to enroll additional students during the school year but were not able to. The decrease in enrollment was foreseen and costs were managed such that Pepin achieved a modest shortage of revenues over expenditures for the school year.

Pepin is very confident that it has the staff and other resources in place to continually deliver first-rate educational services. Beginning July 1, 2015, Pepin Transitional School and The Pepin Academies, Inc. consolidate into one school, The Pepin Academies, Inc. By consolidating operations, a more efficient use of resources and reduction of operating costs should be realized.

Pepin serves a population of students with a wide range of learning disabilities on a full-time basis. Because of this population, each student at Pepin has an IEP (Individual Education Plan). The level of funding for each student at Pepin is determined by the need or level of service each individual student requires. A representative from the School Board of Hillsborough County, Pepin staff, and each student's parent(s) or guardian(s) determine these levels jointly.

Basic Financial Statements

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
Assets	
Cash	\$ 434,887
Other assets	1,745
Capital assets	
Furniture, fixtures, and classroom equipment	65,737
Accumulated depreciation	<u>(50,213)</u>
Total capital assets, net of depreciation	<u>15,524</u>
Total assets	<u><u>\$ 452,156</u></u>
 Liabilities and net position	
Liabilities	
Accounts payable	\$ 487
Accrued payroll	33,723
Due to related entities	48,374
Accrued expenses	<u>396</u>
Total liabilities	82,980
Net position	
Invested in capital assets	15,524
Unrestricted	<u>353,652</u>
Total net position	<u>369,176</u>
Total liabilities and net position	<u><u>\$ 452,156</u></u>

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Statement of Activities
Year Ended June 30, 2015

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense) and Change in Net Position - Governmental Activities
Governmental activities					
Instruction	\$ 407,433	\$ -	\$ -	\$ -	\$ (407,433)
Pupil personnel services	42,628	-	-	-	(42,628)
Instructional media services	213	-	-	-	(213)
Instructional staff training	810	-	-	-	(810)
School district administration fee	16,028	-	-	-	(16,028)
School administration	161,563	-	-	-	(161,563)
Fiscal services	6,930	-	-	-	(6,930)
Food service	16,276	7,558	-	-	(8,718)
Transportation	10,092	-	-	-	(10,092)
Operation of plant	42,569	-	-	-	(42,569)
Maintenance of plant	3,003	-	-	-	(3,003)
Community services	273,625	117,337	-	-	(156,288)
Debt service interest	33,092	-	-	-	(33,092)
Total primary government	<u>\$ 1,014,262</u>	<u>\$ 124,895</u>	<u>\$ -</u>	<u>\$ -</u>	(889,367)
General revenues					
State and local sources					709,928
Contributions and other revenue					<u>137,992</u>
Total general revenues					<u>847,920</u>
Change in net position					(41,447)
Net position at beginning of year					<u>410,623</u>
Net position at end of year					<u>\$ 369,176</u>

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Balance Sheet - Governmental Funds
June 30, 2015

	<u>Governmental Funds</u>
Assets	
Cash	\$ 434,887
Other assets	<u>1,745</u>
Total assets	<u><u>\$ 436,632</u></u>
 Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 487
Accrued payroll	33,723
Due to, related entities	48,374
Accrued expenses	<u>396</u>
Total liabilities	82,980
Fund balance	
Unassigned	<u>353,652</u>
Total liabilities and fund balance	<u><u>\$ 436,632</u></u>

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2015

Total fund balance - governmental funds \$ 353,652

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 in the governmental funds 15,524

Total net position - statement of net position \$ 369,176

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Statement of Revenues, Expenditures, and Change in Fund Balances - Governmental Funds
Year Ended June 30, 2015

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
Revenues				
State and local sources	\$ 682,468	\$ -	\$ 27,460	\$ 709,928
Contributions and other revenue	137,992	-	-	137,992
Total revenues	<u>820,460</u>	<u>-</u>	<u>27,460</u>	<u>847,920</u>
Expenditures				
Instruction	403,034	-	-	403,034
Pupil personnel services	42,628	-	-	42,628
Instructional media services	213	-	-	213
Instructional staff training	810	-	-	810
School district administration fee	16,028	-	-	16,028
School administration	163,620	-	-	163,620
Fiscal services	6,930	-	-	6,930
Food service	8,718	-	-	8,718
Transportation	10,092	-	-	10,092
Operation of plant	42,569	-	-	42,569
Maintenance of plant	3,003	-	-	3,003
Community services	156,288	-	-	156,288
Debt service interest	-	-	33,092	33,092
Total expenditures	<u>853,933</u>	<u>-</u>	<u>33,092</u>	<u>887,025</u>
Other financing sources (uses)				
Transfers in	-	-	5,632	5,632
Transfers out	(5,632)	-	-	(5,632)
Net other financing sources (uses)	<u>(5,632)</u>	<u>-</u>	<u>5,632</u>	<u>-</u>
Net change in fund balances	(39,105)	-	-	(39,105)
Fund balances at beginning of year	392,757	-	-	392,757
Fund balances at end of year	<u>\$ 353,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 353,652</u>

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances
of the Governmental Funds to the Statement of Activities
June 30, 2015

Net change in fund balances - governmental funds \$ (39,105)

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

Depreciation expense reported in the statement of activities is not reported as an expenditure in the statement of revenues, expenditures and change in fund balances - governmental funds (6,026)

Capital outlays reported as an expenditure in the statement of revenues, expenditures, and change in fund balances - governmental funds not reported in the statement of activities 3,684

Change in net position - statement of activities \$ (41,447)

Note A - Reporting Entity

The Pepin Academies, Inc. (Academies) is a not-for-profit corporation formed under the laws of the state of Florida on April 20, 1999. Academies operates two charter schools, one of which is Pepin Transitional School (Charter School). The governing body of Academies is a not-for-profit corporation board of directors composed of no less than three members.

The general operating authority for the Charter School is contained in Section 228.056, Florida Statutes. The Charter School operates under a charter of the sponsoring school district, the School Board of Hillsborough County (District). The Charter School's current charter is effective until June 30, 2023. The charter may be renewed at the end of the contract term provided that the program review demonstrates that the Charter School's purpose has been successfully accomplished. 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 Charter School in writing at least 90 days prior to such action. During the term of the charter, the District may also terminate the charter if good cause is shown. In the event of termination of the charter, any property purchased by the Charter School with public funds and any unencumbered public funds revert back to the District. The Charter School is considered a component unit of the School Board of Hillsborough County and, for financial reporting purposes, 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 Charter School that should be reported with the Charter School's general purpose financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600.

The application of these criteria provides for identification of any entities for which the Charter School is financially accountable and other organizations for which the nature and significance of their relationship with the Charter School are such that exclusion would cause the Charter School's general purpose financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the Charter School.

Note B - Summary of Significant Accounting Policies

Basis of Presentation

The Charter School's basic financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by GASB. Accordingly, both government-wide (reporting on the Charter School as a whole) and fund financial statements (reporting on the governmental funds only) are presented. Both the government-wide and fund financial statements present only governmental activities. The Charter School has no business type activities.

Basic Financial Statements - Government-Wide Financial Statements

In the government-wide statement of net position, the Charter School's governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and other obligations. The Charter School's net position is reported in three parts (as applicable): invested in capital assets, net of related debt, restricted net position, and unrestricted net position.

The government-wide statement of activities reports both the gross and net cost of each of the Charter School's functions. The functions are also supported by general government revenues (funding from the sponsoring school board). The statement of activities reduces gross expenses (including depreciation) by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs, by function, are normally covered by general revenue funding from the sponsoring school district.

The government-wide financial statement focus is more on the sustainability of the Charter School as an entity and the change in the Charter School's financial position resulting from the current year's activities.

Basic Financial Statements - Fund Financial Statements

The Charter School's financial transactions are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures/expenses.

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Notes to the Basic Financial Statements
June 30, 2015

The individual generic fund type in the Charter School's financial statements is a governmental fund. The focus of the governmental fund's measurement (in the fund statements) is on determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than on net income.

The Charter School utilizes the following governmental funds:

- Special Revenue Fund - Accounts for the proceeds of specific revenue sources and grants that are restricted by law or administrative action to expenditures for specific purpose and to provide a single source of accountability for all the monies received.
- Debt Service Fund - Accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- General Fund - Accounts for all financial activity not required to be accounted for in another fund.

For purposes of these financial statements, the above funds are considered to be major funds.

Current accounting guidance defines the different types of fund balances that a governmental entity must use for financial reporting purposes and requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

- *Nonspendable* fund balance is associated with items such as inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
- *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the District Board (the Charter School's highest level of decision-making authority).
- *Assigned* fund balance is intended to be used by the Charter School for specific purposes but that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* fund balance is the residual classification for the Charter School's general fund and includes all spendable amounts not contained in the other classifications.

The Charter School's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

- Accrual - Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.
- Modified Accrual - The fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized at the time the expenditure is made. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exceptions to this general rule is that principal and interest on general obligation long-term debt, if any, is 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 object level (e.g., salaries and benefits, purchased services, materials, and supplies, and capital outlay).

Revenue Sources

Revenues for current operations are received primarily from the School Board of Hillsborough County pursuant to the funding provisions included in the Charter School's charter.

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Notes to the Basic Financial Statements
June 30, 2015

In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the Charter School reports the number of fulltime equivalent (FTE) students and related data to the District. Under provisions of Section 1011.62, Florida Statutes, 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 (FEFP). Funding for the Charter School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted FTE students reported by the Charter School during the designated FTE student survey periods.

The basic amount of funding through the FEFP under Section 1011.62 is the product of the (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplied by (3) the base student allocation established by the legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)(2), Florida Statutes. For the 2014/2015 school year, the Charter School reported 56.9634 unweighted FTE. Weighted funding represented approximately 53% of total state funding.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Auditor General pursuant to Section 1010.305, Florida Statutes, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain auditable records and the following documentation for three years or until the completion of an FTE audit:

- Attendance and membership documentation (Rule 6A-1.044, FAC)
- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC)
- Procedural safeguards for weighted programs (Rule 6A-6.03411, FAC)
- Evaluation and planning documents for weighted programs (Sections 1011.62(1)(e), FS, and Rule 6A-03411, FAC)

The Charter 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. These funds are accounted for in the special revenue fund.

The Charter School receives charter school capital outlay funding from the District. The amount received under this program is based on the Charter School's actual and projected student enrollment during the year. Funds received under this program may only be used for lawful capital outlay expenditures and are accounted for in the debt service fund.

Additional revenues consist of miscellaneous donations, lunch receipts, and other revenue.

Cash

Cash consists of demand deposits with commercial banks. From time to time, cash balances may exceed federally insured limits. Management believes the risk of loss is remote.

Capital Assets

Expenditures for general capital assets acquired for general school purposes are reported in the governmental funds that financed the acquisition. The capital assets acquired are reported at cost, net of accumulated depreciation, in the government-wide financial statements. Capital assets are defined by the Charter School as assets that are used in operations and have useful lives that extend beyond a single accounting period. All capital assets are depreciated using the straight-line method over the estimated useful lives of the assets of five to seven years for furniture, fixtures, and classroom equipment.

Income Taxes

Academies is a not-for-profit organization exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in these basic financial statements. Academies has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Notes to the Basic Financial Statements
June 30, 2015

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Revenue Sources

Approximately 84% of the Charter School's revenue is derived from state and local funds passed through the District, which are renewable every 10 years. The level of the Charter School's operations and program services may be impacted or segments discontinued if funding is not renewed.

Allocation of Indirect Costs

Depreciation expense in the government-wide financial statements is allocated to a function based on the function's usage of the related capital asset.

Note C - Capital Assets

Capital asset activity for the year ended June 30, 2015 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities				
Furniture, fixtures, and classroom equipment	\$ 62,053	\$ 3,684	\$ -	\$ 65,737
Less accumulated depreciation	(44,187)	(6,026)	-	(50,213)
	<u>\$ 17,866</u>	<u>\$ (2,342)</u>	<u>\$ -</u>	<u>\$ 15,524</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 4,399
School administration	1,627
	<u>\$ 6,026</u>

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Notes to the Basic Financial Statements
June 30, 2015

Note D - Schedule of Federal, State, and Local Revenue Sources

The following is a schedule of federal, state, and local revenue sources and amounts for the year ended June 30, 2015:

School District of Hillsborough County	
Base student allocation	\$ 232,911
ESE guaranteed allocation	361,212
Supplemental academic instruction	10,994
Class size reduction funds	52,055
Other FEEP	887
Discretionary local effort	13,830
Discretionary tax compression allocation	8,019
Proration to funds available	(2,049)
Discretionary lottery	193
Instructional materials allocation	4,416
Charter school capital outlay	27,460
Donations and other local sources	137,992
	<u>\$ 847,920</u>

Capital outlay funding received from the state was \$27,460 in the 2014/2015 school year. This amount was used to fund debt service fund expenses of \$33,092. An additional \$5,632 was transferred from the general fund to the debt service fund to fund the excess of debt service expense over capital outlay revenue received.

Note E - Risk Management Program

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

Note F - Related Party Transactions

The buildings housing Academies' two schools are owned by Academies and subject to bonded debt and a note payable. Academies also owns furniture and other equipment shared by the two schools. The cost of these assets, the bonded debt, and the note payable is reflected on The Pepin Academies, Inc.'s financial statements.

The total cost and accumulated depreciation of Academies' building and equipment was approximately \$6,701,000 and \$2,372,000, respectively, at June 30, 2015. The outstanding principal on the debt collateralized by the buildings was approximately \$2,667,000 at June 30, 2015.

Certain common expenses, including the costs associated with the buildings and equipment discussed above, are paid by Academies and allocated proportionately to the schools based on each school's FTEs or other drivers based on resource usage. The remainder of each school's expenses is paid directly by the respective school. During the year ended June 30, 2015, the following expenses, including the costs associated with the buildings and equipment discussed above, were paid by Academies and allocated to the Charter School:

Costs	
Instruction	\$ 17,676
Pupil personnel	1,427
Instructional staff training	1,850
School administration	19,274
Fiscal services	5,237
Food services	7,413
Transportation	9,965
Plant operating costs	36,097
Maintenance of plant	3,003
Debt service interest	33,092
Costs incurred	<u>\$ 135,034</u>

The reimbursements made may include amounts incurred in the prior year.

The debt service interest allocated represents the estimated rental value of the portion the total facility utilized by the Charter School.

At June 30, 2015, the net amount due to the Charter School on noninterest-bearing advances from Academies was \$48,374.

Pepin Academies Support Services, Inc. (PASS) was formed to promote and raise funds for Academies' schools. During the year ended June 30, 2015, no support was received by the Charter School from PASS.

Note G - School Employees Benefit Plan

The Charter School maintains a Cash or Deferred Profit-Sharing Plan (Plan) for eligible employees. Employees may contribute to the Plan up to the lesser of 75% of their compensation or the annual limit as defined by the Internal Revenue Service. The Charter School may, but is not required to, make a discretionary matching contribution to the Plan. During the year ended June 30, 2015, the Charter School made discretionary matching contributions to the Plan totaling \$9,185.

Note H - Subsequent Events

On July 1, 2015, the School Board of Hillsborough County approved the consolidation of The Pepin Academies, Inc. and Pepin Transitional School into one school, The Pepin Academies, Inc.

Management has evaluated all events subsequent to the statement of net position date of June 30, 2015 through September 30, 2015, which is the date these financial statements were available to be issued.

**Required Supplementary Information
(Unaudited)**

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Budgetary Comparison Schedule - General Fund (Unaudited)
Year Ended June 30, 2015

	Budgeted Amounts		Actual (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
State and local sources	\$ 740,923	\$ 740,923	\$ 682,468	\$ (58,455)
Contributions and other revenue	137,100	137,100	137,992	892
Total revenues	<u>878,023</u>	<u>878,023</u>	<u>820,460</u>	<u>(57,563)</u>
Expenditures				
Instruction	318,029	318,029	403,034	(85,005)
Pupil personnel services	59,162	59,162	42,628	16,534
Instructional media services	1,000	1,000	213	787
Instructional staff training	4,000	4,000	810	3,190
School district administration fee	17,449	17,449	16,028	1,421
School administration	188,452	188,452	163,620	24,832
Fiscal services	6,000	6,000	6,930	(930)
Food services	8,823	8,823	8,718	105
Transportation	9,158	9,158	10,092	(934)
Operation of plant	54,465	54,465	42,569	11,896
Maintenance of plant	3,000	3,000	3,003	(3)
Community services	175,264	175,264	156,288	18,976
Total expenditures	<u>844,802</u>	<u>844,802</u>	<u>853,933</u>	<u>(9,131)</u>
Other financing uses				
Transfers out	<u>(33,229)</u>	<u>(33,229)</u>	<u>(5,632)</u>	<u>27,597</u>
Net change in fund balance	(8)	(8)	(39,105)	(39,097)
Fund balance at beginning of year	<u>392,757</u>	<u>392,757</u>	<u>392,757</u>	<u>-</u>
Fund balance at end of year	<u>\$ 392,749</u>	<u>\$ 392,749</u>	<u>\$ 353,652</u>	<u>\$ (39,097)</u>

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Budgetary Comparison Schedule - Special Revenue Fund (Unaudited)
Year Ended June 30, 2015

	Budgeted Amounts		Actual (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
Federal sources passed through local school district	\$ 45,258	\$ 45,258	\$ -	\$ (45,258)
Expenditures				
Instruction	45,258	45,258	-	45,258
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Pepin Academies, Inc. d/b/a Pepin Transitional School
A Charter School and Component Unit of the School Board of Hillsborough County
Budgetary Comparison Schedule - Debt Service Fund (Unaudited)
Year Ended June 30, 2015

	Budgeted Amounts		Actual (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
State and local sources	\$ 24,300	\$ 24,300	\$ 27,460	\$ 3,160
Expenditures				
Debt service	33,000	33,000	33,092	(92)
Other financing sources				
Transfers in	8,700	8,700	5,632	(3,068)
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



**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***

Board of Directors
The Pepin Academies, Inc.
d/b/a Pepin Transitional School
Tampa, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of The Pepin Academies, Inc. d/b/a Pepin Transitional School (Charter School), a component unit of the School Board of Hillsborough County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Charter School's basic financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Pepin Academies, Inc. d/b/a Pepin Transitional 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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of The Pepin Academies, Inc. d/b/a Pepin Transitional School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

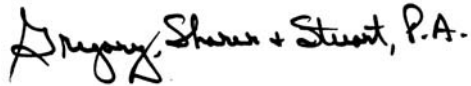
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether The Pepin Academies, Inc. d/b/a Pepin Transitional 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 Pepin Academies, Inc. d/b/a Pepin Transitional School'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 Pepin Academies, Inc. d/b/a Pepin Transitional School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gregory, Sharer & Stuart, P.A.A handwritten signature in black ink that reads "Gregory, Sharer & Stuart, P.A." in a cursive style.

St. Petersburg, Florida
September 30, 2015



Independent Auditor's Management Letter

Board of Directors
The Pepin Academies, Inc.
d/b/a Pepin Transitional School
Tampa, Florida

Report on the Financial Statements

We have audited the financial statements of The Pepin Academies, Inc. d/b/a Pepin Transitional School, a component unit of the School Board of Hillsborough County, as of and for the year ended June 30, 2015, and have issued our report thereon dated September 30, 2015.

Auditor's Responsibility

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.

Other Reporting Required by *Government Auditing Standards*

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 September 30, 2015, 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. There were no findings or recommendations made in the preceding annual financial audit report.

Financial Condition

Section 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require that we apply appropriate procedures to determine whether or not The Pepin Academies, Inc. d/b/a Pepin Transitional School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that The Pepin Academies, Inc. d/b/a Pepin Transitional School's did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, require that we apply financial condition assessment procedures for The Pepin Academies, Inc. d/b/a Pepin Transitional School. It is management's responsibility to monitor The Pepin Academies, Inc. d/b/a Pepin Transitional 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 the same.

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we apply appropriate procedures to determine whether The Pepin Academies, Inc. d/b/a Pepin Transitional 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 Pepin Academies, Inc. d/b/a Pepin Transitional 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. In connection with our audit, we did not have any such recommendations.

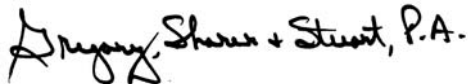
Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the school. The official title of the school is The Pepin Academies, Inc. d/b/a Pepin Transitional School.

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

Gregory, Sharer & Stuart, P.A.

A handwritten signature in black ink that reads "Gregory, Sharer & Stuart, P.A." with a stylized flourish at the end.

St. Petersburg, Florida
September 30, 2015