

**Pepin Academies of Pasco County, Inc.**

**A Charter School and Component Unit  
of the District School Board of Pasco County**

**Financial Statements**

**June 30, 2015**

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## Independent Auditor's Report

Board of Directors  
Pepin Academies of Pasco County, Inc.  
Tampa, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Pepin Academies of Pasco County, Inc. (Charter School), a component unit of the District School Board of Pasco 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 Pepin Academies of Pasco County, Inc. 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

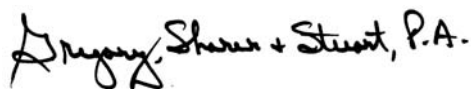
### ***Required Supplementary Information***

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 Pepin Academies of Pasco County, 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 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 Pepin Academies of Pasco County, Inc.'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." The signature is written in a cursive style.

St. Petersburg, Florida  
September 30, 2015

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

The following pages represent Management's Discussion and Analysis (MD&A) of The Pepin Academies, Inc. (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), the 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.

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2015**

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**Financial Highlights**

- The year ended June 30, 2015 was the first year of operation for Pepin Academies of Pasco County, Inc. Initial enrollment was 190 with an additional 24 students added during the year to reflect an average of 202 students for the 2014-2015 school year.
- Net position decreased \$136,654 from (\$39,508) at June 30, 2014 to (\$176,162) at June 30, 2015. The net decrease is composed of the following:

	<u>Increase (Decrease)</u>
Invested capital assets, net of related debt	\$ (188,551)
Unrestricted net position	51,897
	<u>\$ (136,654)</u>

The net increase in net position invested in capital assets, net of related debt resulted from the following:

	<u>Increase (Decrease)</u>
Capital assets purchased	\$ 634,261
Depreciation expense	(168,812)
Long-term debt issued	(654,000)
	<u>\$ (188,551)</u>

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

- Total assets increased \$689,362 from \$40,698 at June 30, 2014 to \$730,060 at June 30, 2015. The net increase is attributable to the following:

	<u>Increase (Decrease)</u>
Cash	\$ 205,891
Accounts receivable, related entities	3,712
Accounts receivable, other	12,930
Prepaid expenses and other assets	1,380
Capital assets, net of accumulated depreciation	465,449
	<u>\$ 689,362</u>

The net increase in capital assets resulted from \$634,261 of capital assets purchased less \$168,812 of depreciation expense. Other changes resulted from ordinary operations as discussed below.

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2015**

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- Total liabilities increased \$672,827 from \$233,395 at June 30, 2014 to \$906,222 at June 30, 2015. The net increase is attributable to the following:

	<u>Increase (Decrease)</u>
Accounts payable	\$ 4,296
Accounts payable, related entities	(3,712)
Accrued payroll	125
Accrued interest	18,118
Note payable, due within one year	154,000
Notes payable, due in more than one year	500,000
	<u>\$ 672,827</u>

- Total revenues were \$2,744,246 for the year ended June 30, 2015 and consisted of the following:

Federal sources passed through local school district	\$ 170,663
State and local sources	2,488,921
Contributions and other revenue	84,662
	<u>\$ 2,744,246</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 202.70 students for the 2014/2015 school year.

Contributions and other revenue for the year ended June 30, 2015 consisted of \$13,166 student-paid lunches, \$11,392 community service child care fees, plus miscellaneous donations and other revenue of \$60,104.

Pepin anticipates increased state and local sources revenue during the 2015/2016 school year due to increased FEFP rates. Pepin anticipates increase in enrollment of approximately 70 students. Contributions and other revenues will likely be increased resulting from increased enrollment.

- General fund expenditures were \$3,157,568 for the year ended June 30, 2015, and consisted of the following:

Instruction and pupil personnel services	\$ 1,610,214
School administration	555,753
Facilities acquisition and construction	520,075
Fiscal services	6,508
Food service	31,775
Transportation	167
Operation and maintenance of plant	421,684
Community services	11,392
	<u>\$ 3,157,568</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 response to a modest increase in FTE's.



**Pepin Academies of Pasco County, Inc.**  
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**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2015**

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**General Fund Budget Comparison**

Pepin's budget was prepared prior to the start of the 2014/2015 school year and was revised several times during the school year to reflect revenue decreases and under budgeted costs of providing services to students. The net variance from the final budget was \$1,455,150 negative and was a consequence of the following general factors:

	<b>Positive (Negative) Variance</b>
Revenue impact of FTE and projected student enrollment	\$ (1,101,783)
Actual contribution and fund raising event revenue lower than amount budgeted	(24,838)
Lower than anticipated debt proceeds	(85,000)
Lower than anticipated costs of providing services to students	357,250
Lower than anticipated administration, fiscal services, and plant operation costs	11,891
Excess of debt service principal over revenue earmarked for debt service	(612,670)
	<u>\$ (1,455,150)</u>

**Capital Assets**

Capital assets acquired during the 2014/2015 school year with cost greater than Pepin's minimum capitalization threshold (\$750) were \$634,261. Depreciation expense in the government-wide financial statements was calculated utilizing the straight-line method and useful life of 5 years for furniture and fixtures, 7 years for classroom equipment, and 3 years for leasehold improvements. Total depreciation expense for the year ended June 30, 2015 was \$168,812.

At June 30, 2015 capital assets consist of:

Leasehold improvements	\$ 512,819
Furniture, fixtures, and equipment	<u>121,442</u>
	634,261
Accumulated depreciation	<u>(168,812)</u>
Total capital assets, net of depreciation	<u>\$ 465,449</u>

**Economic Factors and Next Year's Budget**

The 2014/2015 school year was Pepin Academies of Pasco County first year of operation. It was a very successful year educationally but somewhat challenging financially because of an approximate lower than projected student enrollment and it being the school's first year of operation the substantial capital outlays necessary for a first year school. While additional capital outlays will be made for the 2015/2016 school year (needed to accommodate increased enrollment). The capital outlays made during the 2014/2015 school year (\$634,261) are non-recurring in nature and will be substantially higher than the additional capital outlays for 2015-2016 school year which are estimated to be \$128,000.

Subsequent to June 30, 2015 a portion of the debt (\$154,000) was forgiven and is to be treated as an unrestricted cash contribution. This cancellation of the school's debt will improve liquidity and further strengthen the schools financial position.

Pepin did increase enrollment during the school year and anticipates enrollment to increase into the 2015/2016 school year. Current enrollment at the start of the 2015/2016 school year is currently 269.

Pepin is very confident that it has the staff and other resources in place to continually deliver first rate educational services and is actively seeking new ways to enroll additional students for the coming school year and manage costs such that a modest excess of revenues over expenditures will be achieved for the next school year.

Pepin serves a population of students on a fulltime basis with a wide range of learning disabilities. 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 child requires. A representative from the School District of Pasco County, Pepin staff, and each student's parent(s) or guardian(s) determine these levels jointly.

## **Basic Financial Statements**

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Statement of Net Position**  
**June 30, 2015**

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	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 206,674
Accounts receivable	12,930
Prepaid expenses and other assets	45,007
Capital assets	
Leasehold improvements	512,819
Furniture, fixtures, and equipment	121,442
	<u>634,261</u>
Accumulated depreciation	(168,812)
Total capital assets, net of depreciation	<u>465,449</u>
<b>Total assets</b>	<b><u><u>\$ 730,060</u></u></b>
 <b>Liabilities and net position</b>	
Liabilities	
Accounts payable	\$ 4,421
Accounts payable, related entities	81,449
Accrued payroll	148,234
Accrued interest	18,118
Notes payable	
Due within one year	154,000
Due in more than one year	500,000
Total liabilities	<u>906,222</u>
Net position	
Invested in capital assets, net of related debt	(188,551)
Unrestricted	12,389
Total net position	<u>(176,162)</u>
<b>Total liabilities and net position</b>	<b><u><u>\$ 730,060</u></u></b>

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Statement of Activities**  
**Year Ended June 30, 2015**

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	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	\$ 1,568,741	\$ -	\$ 153,139	\$ -	\$ (1,415,602)
Pupil personnel services	397,485	-	-	-	(397,485)
Instructional staff training	4,552	-	-	-	(4,552)
School district administration fee	51,825	-	-	-	(51,825)
School administration	479,136	-	-	-	(479,136)
Fiscal services	6,508	-	-	-	(6,508)
Food service	115,908	13,166	17,524	-	(85,218)
Transportation	167	-	-	-	(167)
Operation of plant	415,570	-	-	-	(415,570)
Maintenance of plant	6,719	-	-	-	(6,719)
Community service	11,392	11,392	-	-	-
Debt service interest	18,118	-	-	-	(18,118)
Total primary government	<u>\$ 3,076,121</u>	<u>\$ 24,558</u>	<u>\$ 170,663</u>	<u>\$ -</u>	(2,880,900)
General revenues					
Federal sources passed through local school district					170,663
State and local sources					2,488,921
Contributions and other revenue					84,662
Total general revenues					<u>2,744,246</u>
<b>Change in net position</b>					(136,654)
<b>Net position at beginning of year</b>					<u>(39,508)</u>
<b>Net position at end of year</b>					<u>\$ (176,162)</u>

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Balance Sheet - Governmental Funds**  
**June 30, 2015**

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	<u>Governmental Funds</u>
<b>Assets</b>	
Cash	\$ 206,674
Accounts receivable	12,930
Prepaid expenses and other assets	<u>45,007</u>
<b>Total assets</b>	<b><u>\$ 264,611</u></b>
<b>Liabilities and fund balance</b>	
Liabilities	
Accounts payable	\$ 4,421
Accounts payable, related parties	81,449
Accrued payroll	<u>148,234</u>
Total liabilities	234,104
Fund balance	
Nonspendable:	
Prepaid expenses and other assets	45,007
Unassigned	<u>(14,500)</u>
Total fund balance	<u>30,507</u>
<b>Total liabilities and fund balance</b>	<b><u>\$ 264,611</u></b>

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position**  
**June 30, 2015**

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<b>Total fund balance - governmental funds</b>	\$ 30,507
Amounts reported for governmental activities in the statement of net position are different because:	
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid.	(18,118)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	465,449
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	<u>(654,000)</u>
<b>Total net position - statement of net position</b>	<u><u>\$ (176,162)</u></u>

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco 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
<b>Revenues</b>				
Federal sources passed				
through local school district	\$ -	\$ 170,663	\$ -	\$ 170,663
State and local sources	2,488,921	-	-	2,488,921
Contributions and other revenue	84,662	-	-	84,662
Debt proceeds	654,000	-	-	654,000
Total revenues	<u>3,227,583</u>	<u>170,663</u>	<u>-</u>	<u>3,398,246</u>
<b>Expenditures</b>				
Instruction	1,208,177	153,139	-	1,361,316
Pupil personnel services	397,485	-	-	397,485
Instructional staff training	4,552	-	-	4,552
School district administration fee	51,825	-	-	51,825
School administration	503,928	-	-	503,928
Facilities acquisition and construction	520,075	-	-	520,075
Fiscal services	6,508	-	-	6,508
Food service	31,775	17,524	-	49,299
Transportation	167	-	-	167
Operation of plant	414,965	-	-	414,965
Maintenance of plant	6,719	-	-	6,719
Community services	11,392	-	-	11,392
Total expenditures	<u>3,157,568</u>	<u>170,663</u>	<u>-</u>	<u>3,328,231</u>
<b>Net change in fund balances</b>	70,015	-	-	70,015
<b>Fund balances at beginning of year</b>	<u>(39,508)</u>	<u>-</u>	<u>-</u>	<u>(39,508)</u>
<b>Fund balances at end of year</b>	<u>\$ 30,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,507</u>

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco 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**

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<b>Net change in fund balances - governmental funds</b>	\$ 70,015
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 changes in fund balances - governmental funds	(168,812)
Capital outlays reported as an expenditure in the statement of revenues, expenditures, and changes in fund balances - governmental funds not reported in the statement of activities	634,261
Issuance of long-term debt (notes payable) provides current financial resources to governmental funds, while the repayment of the principal consumes current financial resources of governmental funds. Neither transaction has any effect on net position. The net effect of these differences in the treatment of long-term debt and related items increased net position.	(654,000)
Interest expense in the statement of activities differs from the amount reported in the governmental funds because of accrued interest calculated on the notes payable.	<u>(18,118)</u>
<b>Change in net position - statement of activities</b>	<u><u>\$ (136,654)</u></u>



## **Note A - Reporting Entity**

Pepin Academies of Pasco County, Inc. (Charter School) is a not-for-profit corporation formed under the laws of the state of Florida on November 25, 2013. The governing body of the Charter School is a 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 Pasco County District School Board (District). The Charter School's current charter is effective until June 30, 2029. 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 District School Board of Pasco 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.

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:

- General Fund - Accounts for all financial activity not required to be accounted for in another fund.
- 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.

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 vote 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.

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Notes to the Basic Financial Statements**  
**June 30, 2015**

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*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 District School Board of Pasco County pursuant to the funding provisions included in the Charter School's charter.

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 202.81 unweighted FTE. Weighted funding represented approximately 54% 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), Florida Statutes, 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.

Additional revenues are derived from fundraising activities and contributions.

*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, 31 years for leasehold improvements and five to seven years for furniture, fixtures, and equipment.

*Accounting for Lease Transactions*

Rent expense on operating leases is recognized on a straight-line basis over the life of the leases commencing with the date of possession.

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Notes to the Basic Financial Statements**  
**June 30, 2015**

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*Income Taxes*

The Charter School 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. The Charter School 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).

*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 97% of the Charter School's revenue is derived from grants from the federal government passed through the State of Florida Department of Education; and state and local funds passed through the District, which is 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				
Leasehold improvements	\$ -	\$ 512,819	\$ -	\$ 512,819
Furniture, fixtures, and equipment	-	121,442	-	121,442
	-	634,261	-	634,261
Less accumulated depreciation				
Leasehold improvements	-	149,597	-	149,597
Furniture, fixtures, and equipment	-	19,215	-	19,215
	-	168,812	-	168,812
	<u>\$ -</u>	<u>\$ 465,449</u>	<u>\$ -</u>	<u>\$ 465,449</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 118,775
School administration	13,513
Food service	35,919
Operation of plant	605
	<u>\$ 168,812</u>

**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:

District School Board of Pasco County	
FEFP Funds	\$ 929,672
ESE guaranteed	1,186,001
Supplemental academic instruction	53,716
Class size reduction funds	220,769
Safe Schools	4,250
Discretionary local effort	50,252
Discretionary millage	33,864
Proration to funds available	(8,487)
Discretionary lottery	770
Instructional materials	15,746
Digital Classroom	2,368
Federal via Florida Department of Education	153,139
Food service	17,524
Donations and other local sources	84,662
	<u>\$ 2,744,246</u>

**Note E - Notes Payable**

On July 1, 2014, the Charter School entered into three notes payable with Pepin Academies Support Services, Inc. (PASS), a related entity, in the amounts of \$250,000; \$154,000; and \$250,000 with maturity dates of June 1, 2015; June 1, 2016; and June 1, 2017, respectively. Subsequent to year-end the note for \$250,000 with a maturity date of June 1, 2015 was amended with a new maturity date of June 1, 2017 (Note J). All three notes payable bear interest at the one-year LIBOR rate plus 200 basis points, compounding annually. Principle and accrued interest are due in full on the maturity date.

Following is a summary of the future annual debt service requirements at June 30, 2015:

Year ending June 30,	Principal
2016	\$ 154,000
2017	500,000
	<u>\$ 654,000</u>

Accrued interest expense total approximately \$18,000 at June 30, 2015.

**Note F - 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 G - Related Party Transactions**

The Pepin Academies, Inc. (Academies) is a not-for-profit corporation that operates two charter schools in Hillsborough County, Florida. Academies is related to the Charter School by shared management and fundraising support from Pepin Academies Support Services, Inc. (PASS).

Certain shared management payroll expense is paid by Academies and repaid by the Charter School. During the year ended June 30, 2015, the Charter School had paid approximately \$35,000 related to this expense.

At June 30, 2015, Academies owed approximately \$3,700 to the Charter School.

PASS was formed to promote and raise funds for the Pepin Academies' schools. During the year ended June 30, 2015, the Charter School received \$654,000 in debt proceeds from PASS.

**Note H - 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 \$11,832.

**Note I - Operating Leases**

During 2014, the Charter School entered into an operating lease for their facility. The lease term is through 2017. The Charter School recognized lease expense of approximately \$124,000 related to this lease. Future minimum annual lease payments at June 30, 2015 are as follows:

Year ending June 30.	
2016	\$ 123,708
2017	<u>247,416</u>
	<u>\$ 371,124</u>

**Note J - Subsequent Events**

In August 2015, the note payable for \$250,000 with a maturity date of June 1, 2015 was amended by PASS, with a new maturity date of June 1, 2017.

In August 2015, the note payable for \$154,000 with a maturity date of June 1, 2016 was forgiven by PASS.

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)**

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco 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		
<b>Revenues</b>				
State and local sources	\$ 3,590,704	\$ 3,590,704	\$ 2,488,921	\$ (1,101,783)
Contributions and other revenue	109,500	109,500	84,662	(24,838)
Debt proceeds	739,000	739,000	654,000	(85,000)
<b>Total Revenues</b>	<b>4,439,204</b>	<b>4,439,204</b>	<b>3,227,583</b>	<b>(1,211,621)</b>
<b>Expenditures</b>				
Instruction	1,435,209	1,435,209	1,208,177	227,032
Pupil personnel services	448,170	448,170	397,485	50,685
Instructional media services	30,000	30,000	-	30,000
Instructional staff training	4,600	4,600	4,552	48
School district administration fee	71,258	71,258	51,825	19,433
School administration	587,320	587,320	503,928	83,392
Facilities acquisition and construction	464,000	464,000	520,075	(56,075)
Fiscal services	1,000	1,000	6,508	(5,508)
Food services	74,155	74,155	31,775	42,380
Transportation	6,000	6,000	167	5,833
Operation of plant	369,833	369,833	414,965	(45,132)
Maintenance of plant	22,500	22,500	6,719	15,781
Community services	12,664	12,664	11,392	1,272
<b>Total Expenditures</b>	<b>3,526,709</b>	<b>3,526,709</b>	<b>3,157,568</b>	<b>369,141</b>
<b>Other financing uses</b>				
Transfers out	612,670	612,670	-	(612,670)
<b>Net change in fund balance</b>	<b>1,525,165</b>	<b>1,525,165</b>	<b>70,015</b>	<b>(1,455,150)</b>
<b>Fund balance at beginning of year</b>	<b>(39,508)</b>	<b>(39,508)</b>	<b>(39,508)</b>	<b>-</b>
<b>Fund balance at end of year</b>	<b>\$ 1,485,657</b>	<b>\$ 1,485,657</b>	<b>\$ 30,507</b>	<b>\$ (1,455,150)</b>



**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Budgetary Comparison Schedule - Special Revenue Fund (Unaudited)**  
**Year Ended June 30, 2015**

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	Budgeted Amounts		Actual (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
Federal sources passed through local school district	\$ 377,125	\$ 377,125	\$ 170,663	\$ (206,462)
Expenditures				
Instruction	377,125	377,125	153,139	223,986
Food service	-	-	17,524	(17,524)
Total expenditures	<u>377,125</u>	<u>377,125</u>	<u>170,663</u>	<u>206,462</u>
<b>Net change in fund balance</b>	-	-	-	-
<b>Fund balance at beginning of year</b>	-	-	-	-
<b>Fund balance at end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Budgetary Comparison Schedule - Debt Service Fund (Unaudited)**  
**Year Ended June 30, 2015**

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	Budgeted Amounts		Actual (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
State and local sources	\$ -	\$ -	\$ -	\$ -
Expenditures				
Debt service	612,670	612,670	-	612,670
Other financing sources				
Transfers in	<u>612,670</u>	<u>612,670</u>	<u>-</u>	<u>(612,670)</u>
<b>Net change in fund balance</b>	-	-	-	-
<b>Fund balance at beginning of year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance at end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<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  
Pepin Academies of Pasco County, Inc.  
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 Pepin Academies of Pasco County, Inc. (Charter School), a component unit of the District School Board of Pasco 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 Pepin Academies of Pasco County, Inc.'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 Pepin Academies of Pasco County, Inc.'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.

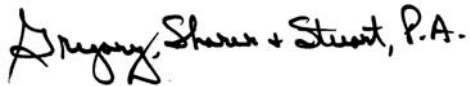
**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pepin Academies of Pasco County, Inc.'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 Pepin Academies of Pasco County, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pepin Academies of Pasco County, Inc.'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." The signature is written in a cursive style with a large initial 'G'.

St. Petersburg, Florida  
September 30, 2015



## **Independent Auditor's Management Letter**

Board of Directors  
Pepin Academies of Pasco County, Inc.  
Tampa, Florida

### **Report On the Financial Statements**

We have audited the financial statements of Pepin Academies of Pasco County, Inc., a component unit of the District School Board of Pasco 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 Pepin Academies of Pasco County, Inc. 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 Pepin Academies of Pasco County, Inc. 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 Pepin Academies of Pasco County, Inc. It is management's responsibility to monitor Pepin Academies of Pasco County, Inc.'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 Pepin Academies of Pasco County, Inc. maintains on its website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that Pepin Academies of Pasco County, Inc. 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.

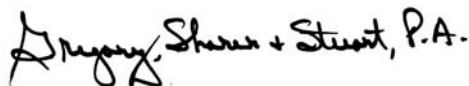
Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the 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 Pepin Academies of Pasco County, Inc.

## **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