

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

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

**Financial Statements**

**June 30, 2017**



**Gregory, Sharer & Stuart**

*Certified Public Accountants and Business Consultants*

## Table of Contents

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	Page No.
<b>Independent Auditor's Report</b>	3-4
<b>Management's Discussion and Analysis (Unaudited)</b>	6-9
<b>Basic Financial Statements</b>	
Government-Wide	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet - Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Change in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balances of the Governmental Funds to the Statement of Activities	16
Notes to Basic Financial Statements	17-21
<b>Required Supplementary Information (Unaudited)</b>	
Budgetary Comparison Schedule - General Fund (Unaudited)	23
Budgetary Comparison Schedule - Special Revenue Fund (Unaudited)	24
Budgetary Comparison Schedule - Debt Service Fund (Unaudited)	25
<b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	26-27
<b>Information Required by Rules of the Florida Auditor General, Chapter 10.850, <i>Charter School Audits</i></b>	
Independent Auditor's Management Letter	28-29



## **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, 2017, 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, 2017, 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

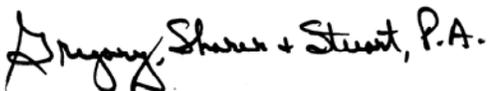
### ***Required Supplementary Information***

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 23 through 25 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 August 14, 2017 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  
August 14, 2017

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

**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, 2017**

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The following pages represent Management's Discussion and Analysis (MD&A) of The Pepin Academies of Pasco County, Inc. (Pepin). It depicts and reviews the financial picture and activities of Pepin as of and for the year ended June 30, 2017.

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.

#### *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 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*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The 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.

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. 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. This short-term view is useful when comparing with the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

**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, 2017**

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The School maintains several individual governmental funds. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances. The General Fund, Special Revenue Fund, and Capital Project Fund are considered the School's major funds.

The School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the Schools major funds to demonstrate compliance with the budget.

*Notes to Financial Statements*

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

**Financial Highlights**

- The year ended June 30, 2017 was the fourth year of operations for Pepin. Enrollment increased by 36 students from the prior year to an end of year student count of 309.
- The School reported a Net Position of \$380,757 at June 30, 2017 which increased \$285,347 from June 30, 2016 reported Net Position of \$95,410.
- Revenues exceeded the School's expenses by \$285,347 for the fiscal year ended June 30, 2017. The total revenues included the forgiveness of a promissory note and interest of \$267,207 and total expenses included depreciation expenses of \$163,830.

**Government-Wide Financial Statement Analysis**

Analysis in the table below summarizes the School's statements of net position for the fiscal years ended June 30, 2017 and June 30, 2016:

	<b>Net Position, End of Year</b>		
	Governmental Activities		
	6/30/2017	6/30/2016	Increase (Decrease)
<b>Assets</b>			
Current and other assets	\$ 632,386	\$ 694,889	\$ (62,503)
Capital assets, net	296,519	414,486	(117,967)
Total assets	<u>\$ 928,905</u>	<u>\$ 1,109,375</u>	<u>\$ (180,470)</u>
<b>Liabilities</b>			
Current liabilities	\$ 548,148	\$ 1,013,965	\$ (465,817)
Total liabilities	<u>548,148</u>	<u>1,013,965</u>	<u>(465,817)</u>
<b>Net position</b>			
Net investment in capital assets	46,519	(85,514)	132,033
Unrestricted	334,238	180,924	153,314
Total net position	<u>\$ 380,757</u>	<u>\$ 95,410</u>	<u>\$ 285,347</u>

Current and other assets consist of cash, accounts receivable, prepaid and other current assets. Capital assets are reported net of depreciation and consist of leasehold improvements and furniture, fixtures, and equipment. Current liabilities consist of accounts payable, accrued payroll, various accrued expenses, and the current portion of notes payable.

**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, 2017**

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Changes in the School's Net Position for the fiscal years ended June 30, 2017 and June 30, 2016 are shown in the table below as a condensed presentation of the School's revenues and expenses. The results of this year's operations for the School as a whole are reported in the statement of activities on page 12.

<b>Operating Results for the Year</b>			
Governmental Activities			
	6/30/2017	6/30/2016	Increase (Decrease)
<b>Revenue</b>			
Federal through state and local	\$ 237,919	\$ 486,931	\$ (249,012)
State and local sources	3,820,163	3,376,686	443,477
Contributions and other revenue	336,633	284,915	51,718
<b>Total revenue</b>	<b>4,394,715</b>	<b>4,148,532</b>	<b>246,183</b>
<b>Expenses</b>			
Instruction	2,201,600	2,179,757	21,843
Exceptional	180	27,968	(27,788)
Pupil personnel	494,479	522,664	(28,185)
Instructional media services	-	15,650	(15,650)
Instructional staff training	1,615	7,478	(5,863)
School district administration fee	83,385	80,214	3,171
School administration	474,748	463,078	11,670
Fiscal services	27,050	23,264	3,786
Food serves	142,065	79,009	63,056
Transportation	-	38	(38)
Operation of plant	646,161	431,506	214,655
Maintenance of plant	16,478	18,314	(1,836)
Community service	12,276	11,724	552
Debt service interest	9,331	16,296	(6,965)
<b>Total expenses</b>	<b>4,109,368</b>	<b>3,876,960</b>	<b>232,408</b>
<b>Changes in net position</b>	<b>\$ 285,347</b>	<b>\$ 271,572</b>	<b>\$ 13,775</b>

The funding sources come primarily from the School's sponsor, which is the District School Board of Pasco County ("sponsor"), and approximately 84% of this funding is revenues received by the Florida Education Finance Program (FEFP) that is funded by the state of Florida. Calculation of FEFP revenues involves a funding formula based upon student enrollment data. The school serves a population of students on a fulltime basis with a wide range of learning and learning related differences. Because of this population, each student at the school has an IEP (Individual Education Plan). The level of funding for each student is determined by the need or level of service each individual child requires. Representatives from the sponsor, school staff, and each student's parent(s) or guardian(s) determine these levels jointly. Other revenue sources include, but are not limited to, the State of Florida Charter School Capital Outlay funds and IDEA (Federal sourced) disbursements. Contributions and other revenues consist of fundraising revenue and donations, childcare services, and cafeteria revenues.

The largest expenditures are for instructional expenses, which account for almost 54% of the total expenses for the 2016/2017 school year. Instruction, school administration, and food services increased from prior year, resulting from an increase in staffing needs due to increase in enrollment. Operation of plant increase is a result of adding additional leased space to accommodate the increase in enrollment. A decrease in pupil personnel and instructional media services resulted from expenditures made in the prior year that were received from a start-up grant during the 2015/2016 school year. Other remaining expense categories have increased and decreased due to general economic financial needs of the school.

**Governmental Funds**

The School reported a combined fund balance of \$360,776 at June 30, 2017, up from \$215,338 reported at June 30, 2016.

### **Budgetary Highlights**

The School's budget was prepared and approved by the school's Board of Directors at the start of the 2016/2017 school year, and was developed based on the anticipated revenues and expenditures and expected student enrollment. The school revised its budget several times over the course of the year and the final budget was equal to actual expenditures for the year ended June 30, 2017.

### **Capital Assets**

Assets acquired during the school year with a cost greater than the school's minimum capitalization threshold of \$750 were \$45,863. Depreciation expense in the government-wide financial statements was calculated utilizing the straight-line method and useful lives of 5 years for furniture and fixtures, 7 years for classroom equipment, and 3 years for leasehold improvements. Total depreciation for the year ended June 30, 2017 was \$163,830 and the investment in capital assets as of June 30, 2017 (net of accumulated depreciation) is \$296,519. Additional information regarding the School's capital assets can be found in Note C to the financial statements.

### **Short-term Debt**

At June 30, 2017, the school had a \$250,000 promissory note with a maturity date of June 1, 2018. During the year ended June 30, 2017, a promissory note, plus accrued interest, in the amount of \$267,207 with a maturity date of June 1, 2017 was forgiven in its entirety.

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

The 2016/2017 school year was a very successful year, both educationally and financially. Enrollment is expected to increase to 325 students. The school estimates that revenues and expenditures will increase modestly as a result of the increase in enrollment and also as a result of other general economic factors.

The school is very confident that it has the staff and other resources in place to deliver and provide first-rate educational services and is actively seeking new ways to provide a higher level of education as efficiently as possible by managing its cost and being innovative in its approach to providing educational services.

### **Requests for Information**

This financial report is to provide a general overview of Pepin Academies of Pasco County, Inc.'s finances. Questions concerning any of the information contained in this report should be addressed to CFO, Pepin Academies of Pasco County, Inc., 9804 Little Road, New Port Richey, Florida, 34654.

## **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, 2017**

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	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets	
Cash	\$ 531,674
Accounts receivable	59,353
Prepaid expenses and other assets	41,359
Total current assets	<u>632,386</u>
Capital assets	
Leasehold improvements	628,465
Furniture, fixtures, and equipment	169,651
	<u>798,116</u>
Accumulated depreciation	(501,597)
Total capital assets, net of depreciation	<u>296,519</u>
<b>Total assets</b>	<b><u><u>\$ 928,905</u></u></b>
<b>Liabilities and net position</b>	
Current liabilities	
Accounts payable	\$ 9,238
Accounts payable, related entities	33,549
Accrued payroll	228,823
Accrued interest	26,538
Notes payable, due within one year	250,000
Total liabilities	<u>548,148</u>
Net position	
Invested in capital assets, net of related debt	46,519
Unrestricted	334,238
Total net position	<u>380,757</u>
<b>Total liabilities and net position</b>	<b><u><u>\$ 928,905</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, 2017**

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position - Governmental Activities
Governmental activities					
Instruction	\$ 2,201,600	\$ -	\$ -	\$ -	\$ (2,201,600)
Exceptional	180	-	-	-	(180)
Pupil personnel services	494,479	-	147,650	-	(346,829)
Instructional staff training	1,615	-	-	-	(1,615)
School district administration fee	83,385	-	-	-	(83,385)
School administration	474,748	-	-	-	(474,748)
Fiscal services	27,050	-	-	-	(27,050)
Food service	142,065	21,299	90,269	-	(30,497)
Operation of plant	646,161	-	-	-	(646,161)
Maintenance of plant	16,478	-	-	-	(16,478)
Community service	12,276	18,666	-	-	6,390
Debt service interest	9,331	-	-	-	(9,331)
Total primary government	<u>\$ 4,109,368</u>	<u>\$ 39,965</u>	<u>\$ 237,919</u>	<u>\$ -</u>	(3,831,484)
General revenues					
Federal sources passed through local school district					-
State and local sources					3,820,163
Contributions and other revenue					296,668
Total general revenues					<u>4,116,831</u>
<b>Change in net position</b>					285,347
<b>Net position at beginning of year</b>					<u>95,410</u>
<b>Net position at end of year</b>					<u>\$ 380,757</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, 2017**

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	<u>Governmental Funds</u>
<b>Assets</b>	
Cash	\$ 531,674
Accounts receivable	59,353
Prepaid expenses and other assets	<u>41,359</u>
<b>Total assets</b>	<b><u>\$ 632,386</u></b>
 <b>Liabilities and fund balance</b>	
Liabilities	
Accounts payable	\$ 9,238
Accounts payable, related parties	33,549
Accrued payroll	<u>228,823</u>
Total liabilities	271,610
Fund balance	
Nonspendable:	
Prepaid expenses and other assets	41,359
Unassigned	<u>319,417</u>
Total fund balance	<u>360,776</u>
<b>Total liabilities and fund balance</b>	<b><u>\$ 632,386</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, 2017**

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<b>Total fund balance - governmental funds</b>	\$ 360,776
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	(26,538)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	296,519
Notes payable are not financial uses and, therefore, are not reported in the governmental funds	<u>(250,000)</u>
<b>Total net position - statement of net position</b>	<u><u>\$ 380,757</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, 2017**

	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Funds
<b>Revenues</b>				
Federal sources passed				
through local school district	\$ -	\$ 237,919	\$ -	\$ 237,919
State and local sources	3,711,543	-	108,620	3,820,163
Contributions and other revenue	69,426	-	-	69,426
Debt proceeds	-	-	-	-
Total revenues	<u>3,780,969</u>	<u>237,919</u>	<u>108,620</u>	<u>4,127,508</u>
<b>Expenditures</b>				
Instruction	2,081,595	-	-	2,081,595
Pupil personnel services	346,829	147,650	-	494,479
Instructional staff training	1,615	-	-	1,615
School district administration fee	91,208	-	-	91,208
School administration	456,296	-	-	456,296
Facilities acquisition and construction	-	-	35,740	35,740
Fiscal services	27,050	-	-	27,050
Food service	29,282	90,269	-	119,551
Operation of plant	573,281	-	72,880	646,161
Maintenance of plant	16,099	-	-	16,099
Community services	12,276	-	-	12,276
Total expenditures	<u>3,635,531</u>	<u>237,919</u>	<u>108,620</u>	<u>3,982,070</u>
<b>Net change in fund balances</b>	145,438	-	-	145,438
<b>Fund balances at beginning of year</b>	<u>215,338</u>	<u>-</u>	<u>-</u>	<u>215,338</u>
<b>Fund balances at end of year</b>	<u>\$ 360,776</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,776</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, 2017**

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<b>Net change in fund balances - governmental funds</b>	\$ 145,438
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	(163,830)
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	45,863
Forgiveness of long-term debt (notes payable) reported in the statement of activities is not reported as revenue in the statement of revenues, expenses, and changes in fund balances - governmental funds	267,207
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>(9,331)</u>
<b>Change in net position - statement of activities</b>	<u><u>\$ 285,347</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 District School Board of Pasco County (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.
- Capital Project Fund - This fund is used to account for state capital outlay funding that is legally restricted to expenditures for those particular purposes such as acquisition or construction of facilities or other capital assets.

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 (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 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 exception to this general rule is that principal and interest on general obligation long-term debt, if any, are recognized when due.

#### *Budgetary Basis Accounting*

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

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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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 2016/2017 school year the Charter School reported 308.99 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. Capital assets acquired during the year with a cost greater than the school's minimum capitalization threshold of \$750 are depreciated using the straight-line method over the estimated useful lives of the assets, three 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.

#### *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 93% 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 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.

**Pepin Academies of Pasco County, Inc.**  
**A Charter School and Component Unit of the District School Board of Pasco County**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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**Note C - Capital Assets**

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

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities				
Leasehold improvements	\$ 592,725	\$ 35,740	\$ -	\$ 628,465
Furniture, fixtures, and equipment	213,143	10,123	53,615	169,651
	805,868	45,863	53,615	798,116
Less accumulated depreciation				
Leasehold improvements	347,172	93,764	-	440,936
Furniture, fixtures, and equipment	44,210	70,066	53,615	60,661
	391,382	163,830	53,615	501,597
	<u>\$ 414,486</u>	<u>\$ (117,967)</u>	<u>\$ -</u>	<u>\$ 296,519</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 122,305
Exceptional	180
School administration	18,452
Food service	22,514
Operation of plant	379
	<u>\$ 163,830</u>

**Note D - Notes Payable**

On July 1, 2014, the Charter School entered into a note payable with Pepin Academies Foundation, Inc. (PAF), a related entity, in the amount of \$250,000 with a maturity date of June 1, 2018. The note payable bears interest at the one-year LIBOR rate plus 200 basis points, compounding annually. Principal and accrued interest are due in full on the maturity date. Accrued interest expense was \$26,538 at June 30, 2017.

Notes payable activity for the year ended June 30, 2017 is as follows:

	Maturity	Beginning Balance	Increase	Decrease (Forgiveness)	Ending Balance
Note payable - PAF	6/1/2017	\$ 250,000	\$ -	\$ 250,000	\$ -
Note payable - PAF	6/1/2018	250,000	-	-	250,000
		<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>
Accrual interest		\$ 34,414	\$ 9,331	\$ 17,207	\$ 26,538

**Note E - 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, 2017:

District School Board of Pasco County	
FEFP Funds	\$ 1,368,720
ESE guaranteed	1,736,267
Supplemental academic instruction	81,247
Class size reduction funds	307,430
Safe Schools	5,790
Discretionary local effort	77,565
Discretionary millage	63,811
Proration to funds available	(842)
Discretionary lottery	5,152
Instructional materials	24,927
Digital Classroom	7,006
Additional allocation	85
Reading allocation	13,623
Capital outlay	108,620
Capital outlay - Admin	17,413
Federal via Florida Department of Education	237,919
Food service	21,299
Donations and other local sources	318,683
	<u>\$ 4,394,715</u>

**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 a charter school in Hillsborough County, Florida. Academies is related to the Charter School by shared management and fundraising support from PAF.

Certain shared management payroll expenses are paid by Academies and repaid by the Charter School. During the year ended June 30, 2017, the Charter School had paid approximately \$56,808 related to this expense. At June 30, 2017, the Charter School owed \$33,549 to the Academies.

PAF was formed to promote and raise funds for the Pepin Academies' schools. During the year ended June 30, 2017, the Charter School received \$12,232 in donations. In addition, PAF forgave a \$250,000 note payable and \$17,207 of related accrued interest on the note during the year.

**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, 2017, the Charter School made discretionary matching contributions to the Plan totaling \$19,843.

**Note I - Operating Leases**

During 2014, the Charter School entered into an operating lease for their facility. This lease was amended June 2016, adding 5,314 additional square feet. The lease commences in July 2017, with an expiration date of June 30, 2020. The Charter School recognized lease expense of approximately \$301,000 for the year ended June 30, 2017 related to this lease. Future minimum annual lease payments at June 30, 2017 are as follows:

Year ending June 30.	
2018	\$ 330,616
2019	330,616
2020	330,616
	<u>\$ 991,848</u>

**Note J - Subsequent Events**

Management has evaluated all events subsequent to the statement of net position date of June 30, 2017 through August 14, 2017, 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, 2017**

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	Budgeted Amounts		Actual (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
State and local sources	\$ 3,782,856	\$ 3,711,543	\$ 3,711,543	\$ -
Contributions and other revenue	65,000	69,426	69,426	-
<b>Total revenues</b>	<b>3,847,856</b>	<b>3,780,969</b>	<b>3,780,969</b>	<b>-</b>
<b>Expenditures</b>				
Instruction	2,068,950	2,081,595	2,081,595	-
Pupil personnel services	417,415	346,829	346,829	-
Instructional staff training	5,000	1,615	1,615	-
School district administration fee	90,000	91,208	91,208	-
School administration	448,755	456,296	456,296	-
Facilities acquisition and construction	17,087	-	-	-
Fiscal services	21,000	27,050	27,050	-
Food services	26,058	29,282	29,282	-
Transportation	5,000	-	-	-
Operation of plant	651,606	573,281	573,281	-
Maintenance of plant	18,440	16,099	16,099	-
Community services	9,650	12,276	12,276	-
<b>Total expenditures</b>	<b>3,778,961</b>	<b>3,635,531</b>	<b>3,635,531</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>68,895</b>	<b>145,438</b>	<b>145,438</b>	<b>-</b>
<b>Fund balance at beginning of year</b>	<b>215,338</b>	<b>215,338</b>	<b>215,338</b>	<b>-</b>
<b>Fund balance at end of year</b>	<b>\$ 284,233</b>	<b>\$ 360,776</b>	<b>\$ 360,776</b>	<b>\$ -</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, 2017**

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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	\$ 135,000	\$ 237,919	\$ 237,919	\$ -
Expenditures				
Pupil personnel services	85,000	147,650	147,650	-
Food service	50,000	90,269	90,269	-
Total expenditures	135,000	237,919	237,919	-
<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 - Capital Project Fund (Unaudited)**  
**Year Ended June 30, 2017**

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	Budgeted Amounts		Actual (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
State and local sources	\$ 18,280	\$ 108,620	\$ 108,620	\$ -
Expenditures				
Facilities acquisition and construction	18,280	35,740	35,740	-
Operation of plant	-	72,880	72,880	-
Total expenditures	18,280	108,620	108,620	-
<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>



**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, 2017, and the related notes to the financial statements, which collectively comprise Charter School's basic financial statements, and have issued our report thereon dated August 14, 2017.

**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.

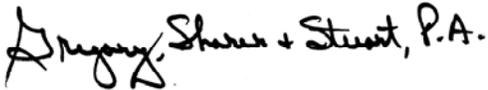
**Compliance and Other Matters**

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  
August 14, 2017



## **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, 2017, and have issued our report thereon dated August 14, 2017.

### **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 and Chapter 10.850, Rules of the Auditor General.

### **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 August 14, 2017, should be considered in conjunction with this management letter.

### **Prior Audit Findings**

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual financial audit report.

### **Official Title**

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Pepin Academies of Pasco County, Inc.

### **Financial Condition**

Section 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not 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.

Pursuant to Section 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied 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 report the results of our determination as to 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**

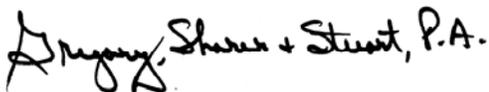
Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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.

### **Purpose of This Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, federal and other granting agencies, the board of directors, applicable management, and the District School Board of Pasco County, 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  
August 14, 2017