

Pepin Academies of Pasco County, Inc.

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

**Audited Financial Statements
and Supplementary Information**

June 30, 2018

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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, 2018, 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 opinion.

Opinion

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, 2018, 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

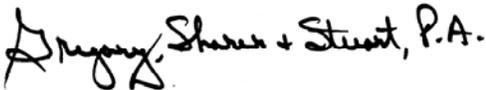
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 6 through 10 and the Budgetary Comparison Schedules on pages 26 through 28 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 28, 2018 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 28, 2018

**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, 2018

The following pages represent Management's Discussion and Analysis (MD&A) of The Pepin Academies of Pasco County, Inc. (Pepin or Charter School). The MD&A depicts and reviews the financial picture and activities of Pepin as of and for the year ended June 30, 2018.

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.

The Charter 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 Charter School's major funds.

The Charter School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the Charter School's 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, 2018 was the fifth year of operations for Pepin. Enrollment increased by 12 students from the prior year to an end of year student count of 321.
- The Charter School reported a Net Position of \$336,209 at June 30, 2018 which decreased \$44,548 from June 30, 2017 reported Net Position of \$380,757.
- Expenses exceeded the Charter School's revenues by \$44,548 for the fiscal year ended June 30, 2018. The expenses included depreciation expense of \$118,371 and purchase of classroom technology in the amount of \$29,046.

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, 2018

Government-Wide Financial Statement Analysis

Analysis in the table below summarizes the Charter School’s statements of net position for the fiscal years ended June 30, 2018 and June 30, 2017:

	Net Position, End of Year		
	Governmental Activities		
	June 30, 2018	June 30, 2017	Increase (Decrease)
Assets			
Current	\$ 659,542	\$ 632,386	\$ 27,156
Capital assets, net	207,194	296,519	(89,325)
Total assets	<u>\$ 866,736</u>	<u>\$ 928,905</u>	<u>\$ (62,169)</u>
Liabilities			
Current liabilities	\$ 530,527	\$ 548,148	\$ (17,621)
Total liabilities	<u>530,527</u>	<u>548,148</u>	<u>(17,621)</u>
Net position			
Net investment in capital assets	(42,806)	46,519	(89,325)
Unrestricted	379,015	334,238	44,777
Total net position	<u>\$ 336,209</u>	<u>\$ 380,757</u>	<u>\$ (44,548)</u>

Current 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 salaries, various accrued expenses, and the current portion of promissory notes payable.

Changes in the Charter School’s Net Position for the fiscal years ended June 30, 2018 and June 30, 2017 are shown in the table below as a condensed presentation of the Charter School’s revenues and expenses. The results of this year’s operations for the Charter School as a whole are reported in the statement of activities on page 13.

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, 2018

Operating Results for the Year
Governmental Activities

	June 30, 2018	June 30, 2017	Increase (Decrease)
Revenue			
Federal through state and local	\$ 212,369	\$ 237,919	\$ (25,550)
State and local sources	4,146,405	3,820,163	326,242
Contributions and other revenue	56,113	336,633	(280,520)
Total revenue	4,414,887	4,394,715	20,172
Expenses			
Instruction	2,371,931	2,201,600	170,331
Exceptional	180	180	-
Pupil personnel	511,942	494,479	17,463
Instructional staff training	597	1,615	(1,018)
School district administration fee	94,027	83,385	10,642
School administration	533,964	474,748	59,216
Fiscal services	30,385	27,050	3,335
Food serves	181,817	142,065	39,752
Operation of plant	697,962	646,161	51,801
Maintenance of plant	10,818	16,478	(5,660)
Community service	13,904	12,276	1,628
Debt service interest	11,908	9,331	2,577
Total expenses	4,459,435	4,109,368	350,067
Changes in net position	\$ (44,548)	\$ 285,347	\$(329,895)

The funding sources come primarily from the Charter School’s sponsor, which is the District School Board of Pasco County (“sponsor”), and approximately 90% 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 Charter 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 Charter 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. A representative 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 approximately 53% of the total expenses for the 2017-2018 school year. Instruction expenditures increased from prior year due to increase in staffing needs and purchases related to upgrade in classroom technology. School administration, and food services increased staffing needs as well resulting from the increased enrollment. Operation of plant increase are a result of building improvements made during the year in addition to increase in facility costs from insurance, maintenance, and rent. Other remaining expense categories are increased and decreased due to general economic financial needs of the Charter School.

Governmental Funds

The Charter School reported a total fund balance of \$417,461 at June 30, 2018, up from \$360,776 reported at June 30, 2017.

Budgetary Highlights

The Charter School's budget was prepared and approved by the Charter School's Board of Directors at the start of the 2017/2018 school year, and was developed based on the anticipated revenues and expenditures and expected student enrollment. The Charter 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, 2018.

Capital Assets

Assets acquired during the school year with a cost greater than the Charter School's minimum capitalization threshold of \$750 were \$29,046. 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, 2018 was \$118,371 and the investment in capital assets as of June 30, 2018 (net of accumulated depreciation) is \$207,194. Additional information regarding the Charter School's capital assets can be found in Note C to the financial statements.

Short-term Debt

At June 30, 2018, Pepin had a \$250,000 promissory note with a maturity date of June 1, 2018. As of year-end, the note has not been paid, and there is no agreement for extension. Pepin is working with the related entity to have the note extended.

Economic Factors and Next Year's Budget

The 2017/2018 school year was a very successful year, both educationally and financially. Enrollment for the 2018/2019 school year is expected to increase to 322 students. The Charter 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 Charter 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, 2018

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash	\$ 604,436
Accounts receivable	22,488
Prepaid expenses and other assets	32,618
Total current assets	<u>659,542</u>
Capital assets	
Leasehold improvements	651,859
Furniture, fixtures, and equipment	139,381
	<u>791,240</u>
Accumulated depreciation	(584,046)
Total capital assets, net of depreciation	<u>207,194</u>
Total assets	<u><u>\$ 866,736</u></u>
Liabilities and net position	
Current liabilities	
Accounts payable	\$ 1,205
Accrued payroll	226,706
Accrued other	14,170
Accrued interest	38,446
Notes payable, due within one year	250,000
Total liabilities	<u>530,527</u>
Net position	
Invested in capital assets, net of related debt	(42,806)
Unrestricted	379,015
Total net position	<u>336,209</u>
Total liabilities and net position	<u><u>\$ 866,736</u></u>

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, 2018

	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	\$ 2,371,931	\$ -	\$ -	\$ -	\$ (2,371,931)
Exceptional	180	-	-	-	(180)
Pupil personnel services	511,942	-	125,056	-	(386,886)
Instructional staff training	597	-	-	-	(597)
School district administration fee	94,027	-	-	-	(94,027)
School administration	533,964	-	-	-	(533,964)
Fiscal services	30,385	-	-	-	(30,385)
Food service	181,817	18,558	87,313	-	(75,946)
Operation of plant	697,962	-	-	-	(697,962)
Maintenance of plant	10,818	-	-	-	(10,818)
Community service	13,904	11,842	-	-	(2,062)
Debt service interest	11,908	-	-	-	(11,908)
Total primary government	<u>\$ 4,459,435</u>	<u>\$ 30,400</u>	<u>\$ 212,369</u>	<u>\$ -</u>	(4,216,666)
General revenues					
Federal sources passed through local school district					-
State and local sources					4,146,405
Contributions and other revenue					25,713
Total general revenues					<u>4,172,118</u>
Change in net position					(44,548)
Net position at beginning of year					<u>380,757</u>
Net position at end of year					<u>\$ 336,209</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, 2018

	<u>Governmental Funds</u>
Assets	
Cash	\$ 604,436
Accounts receivable	22,488
Prepaid expenses and other assets	<u>32,618</u>
Total assets	<u>\$ 659,542</u>
 Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 1,205
Accrued payroll	226,706
Accrued other	<u>14,170</u>
Total liabilities	242,081
Fund balance	
Nonspendable:	
Prepaid expenses and other assets	32,618
Unassigned	<u>384,843</u>
Total fund balance	<u>417,461</u>
Total liabilities and fund balance	<u>\$ 659,542</u>

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, 2018

Total fund balance - governmental funds	\$ 417,461
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	(38,446)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	207,194
Notes payable are not financial uses and, therefore, are not reported in the governmental funds	<u>(250,000)</u>
Total net position - statement of net position	<u><u>\$ 336,209</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, 2018

	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Funds
Revenues				
Federal sources passed				
through local school district	\$ -	\$ 212,369	\$ -	\$ 212,369
State and local sources	4,073,041	-	73,364	4,146,405
Contributions and other revenue	56,113	-	-	56,113
Total revenues	<u>4,129,154</u>	<u>212,369</u>	<u>73,364</u>	<u>4,414,887</u>
Expenditures				
Instruction	2,285,816	-	-	2,285,816
Pupil personnel services	386,886	125,056	-	511,942
Instructional staff training	597	-	-	597
School district administration fee	95,046	-	-	95,046
School administration	523,462	-	-	523,462
Facilities acquisition and construction	23,394	-	-	23,394
Fiscal services	30,385	-	-	30,385
Food service	77,843	87,313	-	165,156
Operation of plant	624,598	-	73,364	697,962
Maintenance of plant	10,538	-	-	10,538
Community services	13,904	-	-	13,904
Total expenditures	<u>4,072,469</u>	<u>212,369</u>	<u>73,364</u>	<u>4,358,202</u>
Net change in fund balances	56,685	-	-	56,685
Fund balances at beginning of year	<u>360,776</u>	<u>-</u>	<u>-</u>	<u>360,776</u>
Fund balances at end of year	<u>\$ 417,461</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 417,461</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, 2018

Net change in fund balances - governmental funds	\$ 56,685
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	(118,371)
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	29,046
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>(11,908)</u>
Change in net position - statement of activities	<u><u>\$ (44,548)</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.

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, 2018

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.

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, 2018

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.

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 2017/2018 school year the Charter School reported 320.31 unweighted FTE.

Pepin Academies of Pasco County, Inc.
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Notes to Basic Financial Statements
June 30, 2018

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 Charter 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).

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, 2018

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 99% 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.

Note C - Capital Assets

Capital asset activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental activities				
Leasehold improvements	\$ 628,465	\$ 23,394	\$ -	\$ 651,859
Furniture, fixtures, and equipment	169,650	5,652	35,921	139,381
	<u>798,115</u>	<u>29,046</u>	<u>35,921</u>	<u>791,240</u>
Less accumulated depreciation				
Leasehold improvements	440,936	69,390	-	510,326
Furniture, fixtures, and equipment	60,660	48,981	35,921	73,720
	<u>501,596</u>	<u>118,371</u>	<u>35,921</u>	<u>584,046</u>
	<u>\$ 296,519</u>	<u>\$ (89,325)</u>	<u>\$ -</u>	<u>\$ 207,194</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 90,748
Exceptional	180
School administration	10,502
Food service	16,661
Operation of plant	280
	<u>\$ 118,371</u>

Pepin Academies of Pasco County, Inc.
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Notes to Basic Financial Statements
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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. As of year-end, the note has not been paid, and there is no agreement for extension. The Charter School is working with the related entity to have the note extended. 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 \$38,446 at June 30, 2018.

Notes payable activity for the year ended June 30, 2018 is as follows:

	Maturity	Beginning Balance	Increase	Decrease (Forgiveness)	Ending Balance
Note payable - PAF	6/1/2018	\$ 250,000	\$ -	\$ -	\$ 250,000
Accrual interest		\$ 26,538	\$ 11,908	\$ -	\$ 38,446

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, 2018:

District School Board of Pasco County	
FEFP Funds	\$ 1,431,420
ESE guaranteed	1,948,464
Supplemental academic instruction	84,050
Class size reduction funds	312,794
Safe Schools	5,996
Discretionary local effort	84,829
Discretionary millage	71,417
Proration to funds available	(238)
Discretionary lottery	563
Instructional materials	25,584
Digital Classroom	7,180
Additional allocation	381
Reading allocation	13,934
Capital outlay	73,364
Capital outlay - Admin	20,907
School recognition	64,499
Federal via Florida Department of Education	212,369
Food service	18,558
Donations and other local sources	38,816
	<u>\$4,414,887</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.

PAF was formed to promote and raise funds for the Pepin Academies' schools. During the year ended June 30, 2018, the Charter School did not receive any contributions from PAF.

Certain shared management payroll expenses are paid by Academies and repaid by the Charter School. During the year ended June 30, 2018, the Charter School had paid approximately \$93,861 related to this expense.

At June 30, 2018, the Charter School had no amounts owing to the Academies or to PAF except as described in Note D.

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, 2018, the Charter School made discretionary matching contributions to the Plan totaling \$26,982.

Note I - Operating Leases

The Charter School has an operating lease for its facility, expiring June 30, 2020. The Charter School recognized lease expense of approximately \$330,616 for the year ended June 30, 2018 related to this lease. Future minimum annual lease payments at June 30, 2018 are as follows:

Year ending June 30,	
2019	\$ 330,616
2020	<u>330,616</u>
	<u>\$ 661,232</u>

Note J - Subsequent Events

Management has evaluated all events subsequent to the statement of net position date of June 30, 2018 through August 28, 2018, 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, 2018

	Budgeted Amounts		Actual (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
State and local sources	\$ 3,928,061	\$ 4,058,094	\$ 4,073,041	\$ 14,947
Contributions and other revenue	75,000	56,113	56,113	-
Total revenues	4,003,061	4,114,207	4,129,154	14,947
Expenditures				
Instruction	2,249,451	2,285,816	2,285,816	-
Pupil personnel services	333,953	386,886	386,886	-
Instructional staff training	5,000	597	597	-
School district administration fee	90,000	105,816	95,046	10,770
School administration	618,059	512,694	523,462	(10,768)
Facilities acquisition and construction	25,000	23,394	23,394	-
Fiscal services	23,000	30,385	30,385	-
Food services	33,907	77,843	77,843	-
Operation of plant	596,264	609,649	624,598	(14,949)
Maintenance of plant	18,440	10,538	10,538	-
Community services	8,612	13,904	13,904	-
Total expenditures	4,001,686	4,057,522	4,072,469	(14,947)
Net change in fund balance	1,375	56,685	56,685	-
Fund balance at beginning of year	360,776	360,776	360,776	-
Fund balance at end of year	\$ 362,151	\$ 417,461	\$ 417,461	\$ -

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, 2018

	Budgeted Amounts		Actual (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
Federal sources passed through local school district	\$ 220,000	\$ 212,369	\$ 212,369	\$ -
Expenditures				
Pupil personnel services	130,000	125,056	125,056	-
Food service	90,000	87,313	87,313	-
Total expenditures	<u>220,000</u>	<u>212,369</u>	<u>212,369</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	<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, 2018

	Budgeted Amounts		Actual (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues				
State and local sources	\$ 90,000	\$ 88,311	\$ 73,364	\$ 14,947
Expenditures				
Facilities acquisition and construction	-	-	-	-
Operation of plant	90,000	88,311	73,364	14,947
Total expenditures	90,000	88,311	73,364	14,947
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with *Government Auditing Standards***

Board of Directors
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, 2018, 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 28, 2018.

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.

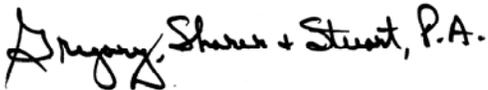
Compliance and Other Matters

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, flowing style.

St. Petersburg, Florida
August 28, 2018



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, 2018, and have issued our report thereon dated August 28, 2018.

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 Requirements

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 28, 2018, 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 be disclosed in this management letter. The official title of the entity is Pepin Academies of Pasco County, Inc.

Financial Condition

Section 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require us to apply appropriate procedure and communicate 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 to identify 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.

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

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require us to apply appropriate procedures and communicate 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.

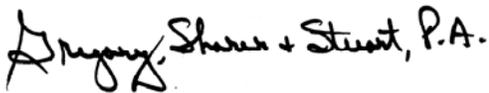
Additional Matters

Section 10.854(1)(e)4., Rules of the Auditor General, requires us to communicate 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 note 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." The signature is written in a cursive style.

St. Petersburg, Florida
August 28, 2018