# The Pepin Academies, Inc.

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

**Financial Statements** 

June 30, 2019

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# Gregory, Sharer & Stuart, P.A.

Certified Public Accountants and Business Consultants

# Independent Auditor's Report

Board of Directors The Pepin Academies, Inc. Tampa, Florida

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of The Pepin Academies, Inc. (Pepin), a component unit of the School Board of Hillsborough County, Florida, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Pepin'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 The Pepin Academies, Inc. as of June 30, 2019, 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 28 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2019 on our consideration of The Pepin Academies, 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 The Pepin Academies, Inc.'s internal control over financial reporting and compliance.

Gregory, Sharer & Stuart, P.A.

Jayrey Shows + Steert, P.A.

St. Petersburg, Florida September 23, 2019 Management's Discussion and Analysis (Unaudited)

# The Pepin Academies, Inc.

A Charter School and Component Unit of the School District of Hillsborough County Management's Discussion and Analysis (Unaudited)

June 30, 2019

The following pages represent Management's Discussion and Analysis (MD&A) of The Pepin Academies, Inc. (Pepin). It depicts and reviews the financial picture and activities of Pepin as of and for the year ended June 30, 2019.

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

#### Using the Financial Statements

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

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

The notes to the financial statements explain some of the information in the financial statements and provide more detail. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

This document also includes the independent auditors' report on compliance and internal control required by *Government Auditing Standards*, as well as the management letter required by the Rules of the Florida Auditor General.

#### Government-Wide Financial Statements

The government-wide financial statements report information about Pepin as a whole using accounting methods similar to those used by the private sector. The statement of net position includes all of Pepin's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report Pepin's net assets and how they have changed. Net position, the difference between Pepin's assets and liabilities, is one way to measure Pepin's financial position. Over time, increases or decreases in Pepin's net position are an indicator of whether its financial position is improving or deteriorating. To assess the overall financial position of Pepin, one needs to consider additional nonfinancial factors such as changes in Pepin's student base funding level.

#### Fund Financial Statements

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

Pepin's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending.

# The Pepin Academies, Inc. A Charter School and Component Unit of the School District of Hillsborough County Management's Discussion and Analysis (Unaudited) June 30, 2019

#### Financial Highlights

- The year ended June 30, 2019 was Pepin's sixth year operating under a single charter serving grade three through grade 12 students, and the fourth year including Pepin Academies Transitional School. In prior years, Pepin operated as separate schools under separate charters: Pepin Elementary School, Pepin Middle School, Pepin High School, and Pepin Transitional School. In addition, the campus in Riverview, Florida also completed its sixth year of operations and the third year at its new facility. Pepin Academies finished the year at 783 students for all campuses.
- Net position decreased \$102,522 from \$2,608,807 at June 30, 2018 to \$2,506,285 at June 30, 2019. The net decrease is composed of the following:

	Net Position, End of Year			
	Governmental Activities			
			Increase	
	June 30, 2019	June 30, 2018	(Decrease)	
Assets	'			
Current and other assets	\$ 3,440,671	\$ 3,260,228	\$ 180,443	
Capital assets, net	11,635,308	11,985,626	(350,318)	
Total assets	\$15,075,979	\$15,245,854	\$ (169,875)	
Liabilities				
Current liabilities	\$ 801,054	\$ 710,405	\$ 90,649	
Noncurrent liabilities	11,768,640	11,926,642	(158,002)	
Total liabilities	12,569,694	12,637,047	(67,355)	
Net position				
Net investment in capital assets	(308,332)	58,984	(367,316)	
Unrestricted	2,814,617	2,549,823	264,794	
Total net position	\$ 2,506,285	\$ 2,608,807	\$ (102,522)	

Current and other assets consist of cash, restricted cash and cash equivalents, accounts receivable, prepaid expenses and other current assets. Restricted cash and cash equivalents represent funds that are restricted for future debt service and project construction requirements under the terms of the bond agreements. Capital assets are reported net of depreciation and consist of buildings and improvements and furniture, fixtures, and equipment. Current liabilities consist of accounts payable, accrued payroll, various other accrued expenses, while long-term liabilities consist of revenue bonds payable.

Changes in the School's Net Position for the fiscal years ended June 30, 2019 and 2018 are shown in the table below.

#### Operating Results for the Year Governmental Activities Increase June 30, 2019 June 30, 2018 (Decrease) Revenue Federal sources passed through local school district 10,052,419 9,562,010 490,409 State and local sources Contributions and other revenue 509,221 614,819 (105,598)Total revenue 10,561,640 10,176,829 384,811 Expenses 6,301,850 6,232,638 69,212 Instruction 1,101,188 Pupil personnel services 1.062.028 (39.160)Instructional media services 5,166 3,156 2,010 Instructional staff training 19,091 3,108 15,983 76,546 74.755 1,791 School district administration fee School administration 1,765,722 1,468,973 296,749 Facilities acquisition 10.727 10,727 73,557 67,092 6,465 Fiscal services Food serves 84,008 100,044 (16,036)20,509 Transportation 19,686 823 Operation of plant 480,569 663,520 (182,951)Maintenance of plant 80,168 58,709 21,459 48,691 (28,770)Community service 19.921 Debt service interest 664,300 664,387 (87)Total expenses 10,664,162 10,505,947 158,215 Change in net position (102,522)(329,118)226,596

The funding sources comes primarily from the School's sponsor which is the School District of Hillsborough County ("sponsor"). 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. A representative from the sponsor, school staff, and each student's parent(s) or guardian(s) determine these levels jointly.

Other revenue sources but are not limited to include 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, cafeteria revenues, and rents received from tenant of space located at the Riverview campus.

The largest expenditures are for instructional expenses, which account for approximately 59% of the total expenses for the 2018/2019 school year. Instruction and School Administration expenses increased from prior year resulting from an increase in staffing and service needs due to enrollment. In addition, expenses related to school security was added this year that had not been incurred in prior years that was a result of recent state legislation. Pupil personnel, and Operation of Plant decreased from prior year due to increase in funding for both Capital Outlay and Mental Health services. Community service also increase from prior year as the athletic and daycare programs were expanded to accommodate additional interest in these programs. Other remaining expense categories are increased and decreased due to general economic financial needs of the school.

#### The Pepin Academies, Inc.

A Charter School and Component Unit of the School District of Hillsborough County Management's Discussion and Analysis (Unaudited)
June 30, 2019

#### Governmental Funds

The School reported combined fund balance of \$2,506,285 for the year ended June 30, 2019 down from \$2,608,807 reported on June 30, 2018.

#### **Budgetary Highlights**

The School's budget was prepared and approved by the school's Board of Directors at the start of 2018/2019 school year and developed based on the anticipated revenues and expenditures and expected student enrollment.

#### Capital Assets

Assets acquired during the school year with a cost greater than the school's minimum capitalization threshold of \$500 were \$95,798. Depreciation expense in the government-wide financial statements was calculated utilizing the straight-line method and useful life of 7 years for furniture and fixtures, 5 years for classroom equipment, and 30 to 39 years for buildings and improvements. Total depreciation for the year ended June 30, 2019 was \$446,116 and the investment in capital assets as of June 30, 2019 (net of accumulated depreciation) is \$11,635,308. Additional information regarding the School's capital assets can be found in Note D to the financial statements.

#### Debt

At June 30, 2019, the school has an education facility revenue bond liability outstanding with a face value of \$12,165,000 and an origination date of July 21, 2016. Maturity of these bonds are as follows:

 Series 2016A Nontaxable
 \$2,725,000 maturity date 7/1/2036

 Series 2016A Nontaxable
 \$6,785,000 maturity date 7/1/2046

 Series 2016B Taxable
 \$1,000,000 maturity date 7/1/2023

 Series 2016B Taxable
 \$1,655,000 maturity date 7/1/2029

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

The 2018/2019 school year was a very successful year educationally and continued its annual increase in enrollment to 783 from 768 in the 2017/2018 school year. Pepin is targeting enrollment of 805 students for the 2019/2020 school year and looks to expand on the current Transition program.

The school is 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 costs and being innovative in its approach to providing educational services.

#### Requests for Information

This financial report is to provide a general overview of The Pepin Academies Inc.'s finances. Questions concerning any of the information contained in this report should be addressed to CFO, The Pepin Academies, Inc., 9304 Camden Field Parkway, Riverview, Florida 33578.



June 30, 2019

	Governmental Activities
Assets	
Cash	\$ 1,992,780
Restricted cash and cash equivalents	1,335,063
Accounts receivable, related entities	30,212
Prepaid expenses and other assets	82,616
Capital assets	
Land, buildings, and improvements	14,216,420
Furniture, fixtures, and equipment	1,368,335_
	15,584,755
Accumulated depreciation	(3,949,447)
Total capital assets, net of depreciation	11,635,308
Total assets	\$15,075,979
Liabilities and net position	
Liabilities	
Accounts payable	\$ 11,617
Accrued payroll	215,067
Accrued expenses	75,661
Accrued interest	323,709
Revenue bonds payable, net	
Due within one year	175,000
Due in more than one year	11,768,640
Total liabilities	12,569,694
Net position	
Invested in capital assets, net of related debt	(308,332)
Unrestricted	2,814,617
Total net position	2,506,285
Total liabilities and net position	\$15,075,979

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense) and Change in Net Position - Governmental Activities
Governmental activities	ф. <i>с</i> 201 050	Ф	Ф	Ф	Φ (6 201 070)
Instruction	\$ 6,301,850	\$ -	\$ -	\$ -	\$ (6,301,850)
Pupil personnel services	1,362,028	-	300,000	-	(1,062,028)
Instructional media services	5,166	-	-	-	(5,166)
Instructional staff training	19,091	-	-	-	(19,091)
School district administration fee	76,546	-	-	-	(76,546)
School administration	1,765,722	-	-	-	(1,765,722)
Facilities acquisition	10,727	-	-	-	(10,727)
Fiscal services	73,557	-	-	-	(73,557)
Food service	405,710	97,290	224,412	-	(84,008)
Transportation	20,509	-	-	-	(20,509)
Operation of plant	957,448	-	476,879	-	(480,569)
Maintenance of plant	80,168	-	-	-	(80, 168)
Community service	233,715	213,794	-	-	(19,921)
Debt service interest	664,300				(664,300)
Total primary government	\$11,976,537	\$ 311,084	\$ 1,001,291	\$ -	(10,664,162)
General revenues					
Federal sources passed through					
local school district					-
State and local sources					10,052,419
Contributions and other revenue					509,221
Total general revenues					10,561,640
Change in net position					(102,522)
Net position at beginning of year					2,608,807
Net position at end of year					\$ 2,506,285

Assets	Governmental Funds
Cash	\$ 1,992,780
Restricted cash and cash equivalents	1,335,063
Accounts receivable, related entities	30,212
Prepaid expenses and other assets	82,616
Total assets	\$ 3,440,671
Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 11,617
Accrued payroll	215,067
Accrued expenses	75,661
Total liabilities	302,345
Fund balance	
Nonspendable:	
Prepaid expenses and other assets	82,616
Restricted	1,335,063
Unassigned	1,720,647
Total fund balance	3,138,326
Total liabilities and fund balance	\$ 3,440,671

Total fund balance - governmental funds	\$ 3,138,326
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	11,635,308
Accrued interest is not due and payable in the current period and, therefore, is not reported in the governmental funds	(323,709)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	(11,943,640)
Total net position - statement of net position	\$ 2,506,285

Revenues	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
Federal sources passed				
through local school district	\$ -	\$ 524,412	\$ -	\$ 524,412
State and local sources	10,052,419	φ 324,412	476,879	10,529,298
Contributions and other revenue	820,305	_	+10,017	820,305
Total revenues	10,872,724	524,412	476,879	11,874,015
Expenditures				
Instruction	6,006,021	-	-	6,006,021
Pupil personnel services	1,062,028	300,000	-	1,362,028
Instructional media services	5,166	, -	-	5,166
Instructional staff training	19,091	-	-	19,091
School district administration fee	76,546	-	-	76,546
School administration	1,752,260	-	-	1,752,260
Facilities acquisition and construction	57,965	-	-	57,965
Fiscal services	73,557	-	-	73,557
Food service	94,494	224,412	-	318,906
Transportation	20,509	· =	-	20,509
Operation of plant	955,987	-	-	955,987
Maintenance of plant	80,168	-	-	80,168
Community services	233,715	-	-	233,715
Debt service interest	170,423	-	476,879	647,302
Total expenditures	10,607,930	524,412	476,879	11,609,221
Net change in fund balances	264,794	-	-	264,794
Fund balances at beginning of year	2,873,532			2,873,532
Fund balances at end of year	\$ 3,138,326	\$ -	\$ -	\$ 3,138,326

# The Pepin Academies, Inc.

A Charter School and Component Unit of the School Board of Hillsborough County Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of the Governmental Funds to the Statement of Activities
June 30, 2019

Net change in fund balances - governmental funds	\$ 264,794
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	(446,116)
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	95,798
Amortization of bond issuance costs reported in the statement of activities is not reported in the statement of revenues, expenditures, and change in fund balances - governmental funds	 (16,998)
Change in net position - statement of activities	\$ (102,522)

# Note A - Reporting Entity

The Pepin Academies, Inc. (Pepin) is a not-for-profit corporation formed under the laws of the state of Florida on April 20, 1999. Pepin operates Florida charter schools at two campuses in Hillsborough County.

The governing body of Pepin is a not-for-profit corporation board of directors composed of no less than three members.

The general operating authority for Pepin is contained in Section 228.056, Florida Statutes. Pepin operates under a charter of the sponsoring school district, the School Board of Hillsborough County (District). Pepin's current charter is effective until June 30, 2023. The charter may be renewed at the end of the contract term, provided that the program review demonstrates that Pepin'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 Pepin 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 Pepin with public funds and any unencumbered public funds revert back to the District. Pepin is considered a component unit of the School Board of Hillsborough County and, for financial reporting purposes, is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units of Pepin that should be reported with Pepin'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 Pepin is financially accountable and other organizations for which the nature and significance of their relationship with Pepin are such that exclusion would cause Pepin's general purpose financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of Pepin.

# Note B - Summary of Significant Accounting Policies

#### Basis of Presentation

Pepin's basic financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by GASB. Accordingly, both government-wide (reporting on Pepin 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. Pepin has no business-type activities.

#### Basic Financial Statements - Government-Wide Financial Statements

In the government-wide statement of net position, Pepin'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. Pepin'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 Pepin'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 Pepin as an entity and the change in Pepin's financial position resulting from the current year's activities.

Basic Financial Statements - Fund Financial Statements

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

The individual generic fund type in Pepin'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.

Pepin utilizes the following governmental funds:

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

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

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

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

Pepin'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 yearend. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized at the time the expenditure is made. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exceptions to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

# **Budgetary Basis Accounting**

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries and benefits, purchased services, materials, and supplies, and capital outlay).

#### Revenue Sources

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

In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, Pepin 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 Pepin is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted FTE students reported by Pepin 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 2018/2019 school year, Pepin reported 783.33 unweighted FTE.

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

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

Pepin 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.

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

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

#### Cash

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

#### Accounts Receivable and Allowance

Accounts receivable are stated at cost less an allowance for doubtful accounts. Management's determination of the allowance is based on an evaluation of past collection history. Management provides for probable uncollectable amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

An allowance for accounts receivable is considered unnecessary by management as of June 30, 2019.

# Prepaid Expenses and Other Assets

Advanced payments to vendors for expenses that are applicable to future accounting periods.

#### **Bond Issuance Costs**

Bond issuance costs incurred in connection with obtaining revenue bond financing were expensed in the year of bond issuance.

Pepin Academies, Inc.

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

Notes to Basic Financial Statements

June 30, 2019

#### **Bond Discounts**

Discounts on revenue bonds payable incurred in connection with obtaining revenue bond financing are presented as a reduction of revenue bonds payable on the accompanying statement of net position. Bond discounts are amortized over the life of the related loan and recorded as bond service interest in the accompanying statement of activities.

# 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 Pepin as assets that are used in operations and have useful lives that extend beyond a single accounting period.

All capital assets are depreciated using the straight-line method over the estimated useful lives of the assets are as follows:

Building and improvements 30-39 years Furniture and fixtures 7 years Classroom equipment 5 years

# 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

Pepin 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.

Pepin 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 95% of Pepin's revenue is derived from grants from the federal government passed through the State of Florida Department of Education; and state and local funds passed through the District, which is renewable every 10 years. The level of Pepin'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 - Restricted Cash and Cash Equivalents

At June 30, 2019, restricted cash and cash equivalents consisted of \$1,335,063 held by Pepin's trustee, Wilmington Trust, as required by the bond agreements relating to the bond issuance for series 2016A and 2016B Educational Facility Revenue Bond Payable to be used for future debt service requirements in the amounts of \$1,335,063. All restricted cash and cash equivalents are invested in a money market fund as of June 30, 2019.

# Note D - Capital Assets

Capital asset activity for the year ended June 30, 2019 is as follows:

	Beginning			Ending
	Balance	Increase	Decrease	Balance
Governmental activities				
Land, buildings, and improvements	\$ 14,168,307	\$ 48,113	\$ -	\$ 14,216,420
Furniture, fixtures, and equipment	1,320,650	47,685	-	1,368,335
	15,488,957	95,798	-	15,584,755
Less accumulated depreciation				
Land, buildings, and improvements	2,401,882	361,523	-	2,763,405
Furniture, fixtures, and equipment	1,101,449	84,593	-	1,186,042
	3,503,331	446,116	-	3,949,447
	\$ 11,985,626	\$ (350,318)	\$ -	\$ 11,635,308

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 329,048
School administration	28,803
Food services	86,804
Operation of plant	 1,461
	\$ 446,116

# 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, 2019:

School District of Hillsborough County	
Base student allocation	\$ 3,403,065
ESE guaranteed allocation	5,078,884
Supplemental academic instruction	183,606
Class size reduction funds	746,979
Safe school allocation	36,322
Discretionary local effort	254,667
Discretionary tax compression allocation	138,665
Total fund compression allocation	14,917
Mental health	17,710
Discretionary lottery	2,578
Instructional materials allocation	60,631
Digital Classroom allocation	11,668
Reading allocation	32,164
Best & Brightest	49,440
Transportation	16,823
Charter school capital outlay	476,879
Federal via Florida Department of Education	300,000
Food service	321,702
Donations and other local sources	727,315
	\$ 11,874,015

#### Note F - Long-Term Debt

Educational Facility Revenue Bond

On July 21, 2016, the Florida Development Finance Corporation (FDFC) issued the following bonds: \$9,510,000 Nontaxable Education Facility Revenue Bonds (The Pepin Academies, Inc.) Series 2016A, \$2,655,000 Taxable Education Facility Revenue Bonds (The Pepin Academies, Inc.) Series 2016B. Proceeds of the bonds were loaned to the school to finance the cost of acquiring and renovating the Riverview campus educational facilities, as well as to refund the outstanding principal amount of the City of Tampa, Florida, Florida Educational Facilities Refunding Revenue Bonds and to refinance the notes payable principal balance.

Details of the bonds outstanding at year end are as follows:

Educational	<i>Facility</i>	Revenue Bond,	Series 2016A

Origination date 7/21/2016
Balance \$9,510,000

Maturity/interest \$2,725,000 due 7/1/2036 @ 5.000% \$6,785,000 due 7/1/2046 @ 5.125%

Educational Facility Revenue Bond, Series 2016B

Origination date 7/21/2016
Balance \$2,655,000

Maturity/interest \$1,000,000 due 7/1/2023 @ 6.000% \$1,655,000 due 7/1/2029 @ 6.250%

The following is a summary of changes in long-term liabilities for Pepin for the year ended June 30, 2019:

	Balance				Balance
	June 30, 2018	Additions	R	Reductions	June 30, 2019
Revenue bond payable, Series 2016A	\$ 9,510,000	\$ -	\$	-	\$ 9,510,000
Revenue bond payable, Series 2016B	2,655,000	-		-	2,655,000
	12,165,000	-		-	12,165,000
Current portion	-	(175,000)		-	(175,000)
Discounts on revenue bonds payable	(238,358)	-		16,998	(221,360)
	\$ 11,926,642	\$ (175,000)	\$	16,998	\$ 11,768,640

Following is a summary of the future annual debt service requirements at June 30, 2019:

	Revenue Bonds Payable						
Year ending June 30,		Principal	Interest Total			Total	
2020	\$	175,000	\$	642,169	\$	817,169	
2021		190,000		631,219		821,219	
2022		200,000		619,519		819,519	
2023		210,000		607,219		817,219	
2024 - 2028		1,260,000		2,819,625		4,079,625	
2029 - 2033		1,675,000		2,381,906		4,056,906	
2034 - 2038		2,140,000		1,898,613		4,038,613	
2039 - 2043		2,740,000		1,281,250		4,021,250	
2044 - 2048		3,575,000		438,828		4,013,828	
	\$	12,165,000	\$	11,320,348	\$	23,485,348	

Interest expense and related fees paid or accrued during the year ended June 30, 2019 total \$647,302.

The revenue bonds payable contain certain financial covenants that require, among other things, maintenance of minimum debt service coverage ratio of 1.10 and to maintain, as of June 30 and December 31 each year, at least 45 days cash on hand. As of June 30, 2019, Pepin was in compliance with these financial covenants by maintaining a debt service coverage ratio of 1.47 and 63 days cash on hand.

Capital outlay funding received from the state was \$476,879 in the 2018/2019 school year. This amount was used to fund debt service.

# Note G - 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 H - Related Party Transactions

The Pepin Academies of Pasco County, Inc. (Pepin Pasco) is a not-for-profit corporation that operates under a separate charter school contract in Pasco County, Florida. Pepin Pasco is related to the Charter School by shared management and fundraising support from Pepin Academies Foundation, Inc. (PAF).

Certain shared management payroll expenses are paid by the school and repaid by Pepin Pasco. During the year ended June 30, 2019, Pepin Pasco had incurred approximately \$97,500 related to this expense. At June 30, 2019, Pepin Pasco owed \$0 to the school.

PAF was formed to promote and raise funds for the Pepin Academies' schools. During the year ended June 30, 2019 the Charter School received no donations from PAF.

# Note I - School Employees Benefit Plan

Pepin 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. Pepin may, but is not required to, make a discretionary matching contribution to the Plan. During the year ended June 30, 2019, Pepin made discretionary matching contributions to the Plan totaling \$86,787.

#### Note J - Rental Income

Pepin leases approximately 20,000 square feet of the Riverview campus facility to its current tenant. This lease was transferred to Pepin upon purchase of its Riverview campus on July 21, 2016. Pepin recognized rental income in the amount of \$302,940 during the year ended June 30, 2019 which is included in contributions and other revenue in the accompanying statement of activities. The lease expires on January 31, 2024. Future rental income is as follows:

Year ending June 30,	
2020	\$ 307,367
2021	315,133
2022	323,133
2023	331,217
2024	196,000
_	\$ 1,472,850

# Note K - Subsequent Events

Management has evaluated all events subsequent to the statement of net position date of June 30, 2019 through September 23, 2019, which is the date the accompanying financial statements were available to be issued. Except as disclosed below, there were no subsequent events that would require adjustment to or disclosure in the accompanying financial statements.

On September 3, 2019, the Charter School entered into a non-binding letter-of-intent (LOI) to purchase property that will serve as an extension to its current Riverview campus for a total sales price of \$8.5 million. In connection therewith, the Charter School has made an initial deposit after the year ended June 30, 2019 in the amount of \$25,000 toward the purchase. The Charter School has 45 days from the date of the LOI to inspect and perform all feasibility studies and analysis on the property, as such the initial deposit will be refundable through the end of this inspection period. Additionally, the Charter School has 45 days from the effective date of the LOI to obtain a commitment for bond financing and/or commercial financing. If the closing cannot occur on or before December 31, 2019, the Charter School shall be permitted the opportunity to extend the closing date for an additional 30 days provided, for a non-refundable extension fee of \$10,000.

The Charter School has entered into an agreement to lease office space near its Riverview campus beginning August 1, 2019 and expiring on July 31, 2022.

Future minimum annual lease payments are as follows:

Year ending June 30.	,	
2020	\$	48,125
2021		53,944
2022		55,562
2023		4,641
	\$	162,272

Required Supplementary Information (Unaudited)

	D. I I	Actual	Variance From Final Budget		
	Budgeted	(Budgetary Basis)	Positive (Negative)		
Daviers	Original	Original Final		(Neg	(ative)
Revenues	¢ 10, 042, 215	¢ 10, 0 <b>53</b> , 410	¢ 10 053 410	Ф	
State and local sources	\$10,042,215			\$	-
Contributions and other revenue	699,198	820,305	820,305		
Total revenues	10,741,413	10,872,724	10,872,724		-
Expenditures					
Instruction	5,730,275	6,006,021	6,006,021		-
Pupil personnel services	1,325,337	1,062,028	1,062,028		-
Instructional media services	5,000	5,166	5,166		-
Instructional staff training	15,000	19,091	19,091		-
School district administration fee	76,439	76,546	76,546		-
School administration	1,627,872	1,752,260	1,752,260		-
Facilities acquisition and construction	46,096	57,965	57,965		-
Fiscal services	66,800	73,557	73,557		_
Food services	137,213	94,494	94,494		_
Transportation	23,000	20,509	20,509		-
Operation of plant	1,077,469	955,987	955,987		_
Maintenance of plant	-	80,168	80,168		_
Community services	253,234	233,715	233,715		-
Debt services	510,076	170,423	170,423		_
Total expenditures	10,893,811	10,607,930	10,607,930		-
Net change in fund balance	(152,398)	264,794	264,794		-
Fund balance at beginning of year	2,873,532	2,873,532	2,873,532	32 -	
Fund balance at end of year	\$ 2,721,134	\$ 3,138,326	\$ 3,138,326	326 \$ -	

Year Ended June 30, 2019

	Budgeted Amounts					Actual Budgetary	Variance From Final Budget Positive	
	Original		Final		Basis)		(Negative)	
Revenues								
Federal sources passed through								
local school district	\$	505,000	\$	524,412	\$	524,412	\$	-
Expenditures								
Pupil personnel services		300,000		300,000		300,000		-
Food service		205,000		224,412		224,412		-
Total expenditures		505,000		524,412		524,412		_
Net change in fund balance		-		-		-		-
Fund balance at beginning of year								
Fund balance at end of year	\$		\$		\$		\$	

Budgetary Comparison Schedule - Debt Service Fund (Unaudited)

Year Ended June 30, 2019

	Budgeted Amounts Original Final					Actual Budgetary Basis)	Variance From Final Budget Positive (Negative)	
Revenues		Original				24010)	(= / <b>eg</b> (e)	
State and local sources	\$	312,343	\$	476,879	\$	476,879	\$	-
Expenditures								
Debt service interest		312,343		476,879		476,879		
		312,343		476,879		476,879		-
Net change in fund balance		-		-		-		-
Fund balance at beginning of year								
Fund balance at end of year	\$		\$		\$		\$	



# Gregory, Sharer & Stuart, P.A.

Certified Public Accountants and Business Consultants

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

Board of Directors The Pepin Academies, Inc. Tampa, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of The Pepin Academies, Inc. (Pepin), a component unit of the School District of Hillsborough County, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Pepin's basic financial statements, and have issued our report thereon dated September 23, 2019.

# Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Pepin Academies, 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 Pepin's internal control. Accordingly, we do not express an opinion on the effectiveness of The Pepin Academies, 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 The Pepin Academies, 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 The Pepin Academies, 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 The Pepin Academies, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gregory, Sharer & Stuart, P.A.

St. Petersburg, Florida September 23, 2019



# Gregory, Sharer & Stuart, P.A.

Certified Public Accountants and Business Consultants

# Independent Auditor's Management Letter

Board of Directors The Pepin Academies, Inc. Tampa, Florida

#### Report on the Financial Statements

We have audited the financial statements of The Pepin Academies, Inc., a component unit of the School District of Hillsborough County, as of and for the year ended June 30, 2019, and have issued our report thereon dated September 23, 2019.

#### 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 September 23, 2019, 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 The Pepin Academies, Inc and the school code assigned by the Florida Department of Education is 6609.

#### Financial Condition and Management

Section 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, requires that we report the results of our determination as to whether or not The Pepin Academies, 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 The Pepin Academies, 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 The Pepin Academies, Inc. It is management's responsibility to monitor The Pepin Academies, 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 that we apply appropriate procedures to determine whether The Pepin Academies, Inc. maintains on its website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that The Pepin Academies, Inc. maintained on its website the information specified in Section 1002.33(9)(p), Florida Statues.

#### **Additional Matters**

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 and applicable management of The Pepin Academies, Inc.; and the School District of Hillsborough County, and is not intended to be and should not be used by anyone other than these specified parties.

Gregory, Sharer & Stuart, P.A.

St. Petersburg, Florida September 23, 2019