



THE PEPIN ACADEMIES, INC.

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

Financial Statements

June 30, 2020

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
School District of Hillsborough County
Financial Statements
June 30, 2020

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PRIDA, GUIDA & PEREZ, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
1106 N. FRANKLIN STREET
TAMPA, FLORIDA 33602

INDEPENDENT AUDITORS' REPORT

To the 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 District of Hillsborough County, as of and for the year ended June 30, 2020, 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 an opinion 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.

INDEPENDENT AUDITORS' REPORT (Continued)

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, 2020, 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 general accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 9 and the Budgetary Comparison Schedules on pages 33 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020 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.



Prida Guida Perez P.A.
Tampa, Florida
September 30, 2020

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, 2020

The following pages represent Management’s Discussion and Analysis (“MD&A”) of The Pepin Academies, 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, 2020.

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 consider 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 basic financial statements explain some of the information in the basic financial statements and provide more detail. The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the basic 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 first government-wide financial statement report Pepin’s net position and the second reports how it has 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.

THE PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
June 30, 2020

Fund Financial Statements

A fund is a self-balancing set of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are used by Pepin to keep track of sources of funding and spending. The fund financial statements provide more detailed information about Pepin's most significant funds, not Pepin as a whole.

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. Pepin's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. This short-term view is useful when comparing with the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

Pepin 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, debt service fund, and capital project fund are considered Pepin's major funds.

Pepin adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for Pepin'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, 2020 was Pepin's 7th year operating under a single charter serving grade 3 through grade 12, and the 5th 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 7th year of operations and the 4th year at its current location. Pepin finished the year with 815 students at both campuses.
- On June 30, 2020, Pepin closed on the purchase of a property adjacent to its existing Riverview campus. The property consists of approximately 4.17 acres of land and includes one building that is approximately 60,000 square feet. Proceeds from a series 2020 bonds issuance were loaned by the issuer to Pepin to finance the property acquisition and renovation and equipping the existing structures on the site.

THE PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
June 30, 2020

- Net position decreased \$467,961 from \$2,506,285 at June 30, 2019 to \$2,038,324 at June 30, 2020. The net decrease is composed of the following:

Net Position			
Governmental Activities			
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Increase (Decrease)</u>
Assets			
Current	\$ 9,155,261	\$ 3,440,671	\$ 5,714,590
Capital assets, net	19,942,853	11,635,308	8,307,545
Total assets	<u>\$ 29,098,114</u>	<u>\$ 15,075,979</u>	<u>\$ 14,022,135</u>
Liabilities			
Current liabilities	\$ 1,734,305	\$ 801,054	\$ 933,251
Noncurrent liabilities	25,325,485	11,768,640	13,556,845
Total liabilities	27,059,790	12,569,694	14,490,096
Net position			
Net investment in capital assets	(2,601,605)	(308,332)	(2,293,273)
Restricted	5,216,653	1,335,063	3,881,590
Unrestricted	(576,724)	1,479,554	(2,056,278)
Total net position	<u>2,038,324</u>	<u>2,506,285</u>	<u>(467,961)</u>
Total liabilities and net position	<u>\$ 29,098,114</u>	<u>\$ 15,075,979</u>	<u>\$ 14,022,135</u>

Current assets consist of cash, restricted cash, accounts receivable, prepaid expenses, and other current assets. Restricted cash represents funds that are restricted for future debt service and project construction requirements under the terms of the revenue bond agreements. Capital assets are reported net of accumulated depreciation and consist of land; buildings and land improvements; furniture, fixtures, and equipment; and construction in progress. Current liabilities consist of accounts payable, accrued construction costs, accrued payroll, accrued interest, and accrued other expenses, while non-current liabilities consist of notes payable and revenue bonds payable.

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Notes to Basic Financial Statements
June 30, 2020

Changes in Pepin’s net position for the years ended June 30, 2020 and 2019 are shown in the table below:

Change in Net Position			
Governmental Activities			
	Year Ended	Year Ended	Increase
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>(Decrease)</u>
Revenue			
Federal through state and local sources	\$ 978,824	\$ 1,001,291	\$ (22,467)
State and local sources	10,639,197	10,052,419	586,778
Contributions and other revenue	<u>909,535</u>	<u>820,305</u>	<u>89,230</u>
Total revenue	12,527,556	11,874,015	653,541
Expenses			
Instruction	6,610,548	6,301,850	308,698
Pupil personnel services	1,525,555	1,362,028	163,527
Instructional media services	2,477	5,166	(2,689)
Instructional staff training	13,024	19,091	(6,067)
School district administration fee	77,291	76,546	745
School administration	1,757,738	1,765,722	(7,984)
Facilities acquisition	2,369	10,727	(8,358)
Fiscal services	78,397	73,557	4,840
Food service	390,662	405,710	(15,048)
Transportation	31,225	20,509	10,716
Operation of plant	1,011,256	957,448	53,808
Maintenance of plant	68,533	80,168	(11,635)
Community service	269,646	233,715	35,931
Bond issuance costs	498,779	-	498,779
Debt service interest	<u>658,017</u>	<u>664,300</u>	<u>(6,283)</u>
Total expenses	<u>12,995,517</u>	<u>11,976,537</u>	<u>1,018,980</u>
Change in net position	<u>\$ (467,961)</u>	<u>\$ (102,522)</u>	<u>\$ (365,439)</u>

Pepin’s primary funding sources come from Pepin’s sponsor, the School District of Hillsborough County (“Sponsor”). Approximately 85% of this funding is revenue 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. Pepin serves a population of students on a full-time basis with a wide range of learning and learning related differences. Because of this population, each student at Pepin has an Individual Education Plan (“IEP”). 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.

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Notes to Basic Financial Statements
June 30, 2020

Other revenue sources include, but are not limited to, the State of Florida Charter School Capital Outlay funds, IDEA, and transportation disbursements. Contributions and other revenues consist of fundraising revenue and donations, childcare services, cafeteria revenues, and rents received from tenants in spaces located at the Riverview campus.

Pepin's largest expenditures is for instructional expenses, which account for approximately 51% of the total expenses for the 2019/2020 school year. The increase in instructional expenses of 5% can be attributed to standard increases in instructional staff and related benefits. Pupil personnel services and community services costs also increased due to increase in staffing needs. This year the School also had significant expenses related to bond issuance costs and debt service interest of \$498,779 and \$658,017, respectively, which relate to the 2020 bond issuance and financing and purchase of the school's expanded Riverview campus. Other remaining expense categories increased and decreased due to general economic financial needs of Pepin.

Governmental Funds

Pepin reported a total fund balance of \$8,859,784 at June 30, 2020, up \$5,721,458 from \$3,138,326 reported at June 30, 2019.

Budgetary Highlights

Pepin's budget was prepared and approved by Pepin's Board of Directors at the start of the 2019/2020 school year and was 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 Pepin's minimum capitalization threshold of \$500 were \$8,746,953. Depreciation expense in the government-wide financial statements was calculated utilizing the straight-line method and estimated useful lives of 5 years for classroom equipment, 7 years for furniture and fixtures, and 30 to 39 years for buildings and land improvements. Total depreciation for the year ended June 30, 2020 was \$439,408 and the investment in capital assets (net of accumulated depreciation) as of June 30, 2020 is \$19,942,853. Additional information regarding Pepin's capital assets can be found in Note 4 to the financial statements.

Debt

In April 2020, Pepin borrowed \$1,856,200 under the Small Business Administration's ("SBA") Paycheck Protection Program. The loan matures in April 2022. Pepin may apply for forgiveness of the loan in whole or in part. The loan may be forgiven if the loan proceeds are used for the purposes defined in the agreement.

THE PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
June 30, 2020

At June 30, 2020, Pepin has the following education facility revenue bond liabilities outstanding:

Series	Face Value	Origination Date	Maturity Date
Series 2016A	\$2,725,000	July 1, 2016	July 1, 2036
Series 2016A	\$6,785,000	July 1, 2016	July 1, 2046
Series 2016B Taxable	\$1,000,000	July 1, 2016	July 1, 2023
Series 2016B Taxable	\$1,655,000	July 1, 2016	July 1, 2029
	\$12,165,000		
Series 2020A	\$8,250,000	June 30, 2020	January 1, 2050
Series 2020B Taxable	\$4,555,000	June 30, 2020	January 1, 2024
	\$12,805,000		

Economic Factors and Next Year’s Budget

On June 30, 2020, Pepin purchased property adjacent to its Riverview campus. Pepin is currently renovating and equipping the structures on the site. Construction has a target date of completion of June 2021. Upon completion, Pepin will expand its Riverview campus operations into the new facilities beginning in July 2021.

Enrollment for the 2020/2021 school year is expected to increase to 820.

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The spread of COVID-19 has had and continues to have an impact on Pepin’s operations. As a result, Pepin implemented its 2020/2021 reopening plan which included two options for its students that included a brick and mortar environment or an innovative eLearning option. The extent to which COVID-19 could further impact Pepin’s operations for the 2020/2021 school year is uncertain at this time however Pepin is committed to providing to the greatest extent possible the appropriate educational opportunity for all of its students while meeting public health guidelines.

Pepin 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 cost 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.

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
School District of Hillsborough County
Statement of Net Position
June 30, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 3,820,208
Restricted cash and cash equivalents	5,216,653
Accounts receivable	82,312
Accounts receivable, related entities	210
Prepaid expenses	33,288
Other current assets	2,590
Total current assets	<u>9,155,261</u>
Capital assets	
Land	3,698,423
Buildings and improvements	19,222,246
Furniture, fixtures, and equipment	1,411,039
	<u>24,331,708</u>
Accumulated depreciation	<u>(4,388,855)</u>
Total capital assets, net of accumulated depreciation	<u>19,942,853</u>
Total assets	<u><u>\$ 29,098,114</u></u>
LIABILITIES AND NET POSITION	
Liabilities	
Accounts payable	\$ 16,002
Accrued payroll	226,069
Accrued interest	322,585
Accrued other expenses	53,406
Non-current liabilities due within one year:	
Revenue bonds payable	190,000
Notes payable	926,243
	<u>1,116,243</u>
Total current liabilities	<u>1,734,305</u>
Long-term debt:	
Revenue bonds payable, net	24,395,528
Notes payable	929,957
	<u>25,325,485</u>
Total liabilities	27,059,790
Net position	
Invested in capital assets, net of related debt	(2,601,605)
Restricted for:	
Capital projects	2,041,070
Debt service	3,175,583
Unrestricted	<u>(576,724)</u>
Total net position	<u>2,038,324</u>
Total liabilities and net position	<u><u>\$ 29,098,114</u></u>

See accompanying notes to basic financial statements.

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
School District of Hillsborough County
Statement of Activities
Year Ended June 30, 2020

	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	\$ 6,610,548	\$ -	\$ -	\$ -	\$ (6,610,548)
Pupil personnel services	1,525,555	-	303,122	-	(1,222,433)
Instructional media services	2,477	-	-	-	(2,477)
Instructional staff training	13,024	-	-	-	(13,024)
School district administration fee	77,291	-	-	-	(77,291)
School administration	1,757,738	-	-	-	(1,757,738)
Facilities acquisition	2,369	-	-	-	(2,369)
Fiscal services	78,397	-	-	-	(78,397)
Food service	390,662	71,581	162,687	-	(156,394)
Transportation	31,225	-	-	-	(31,225)
Operation of plant	1,011,256	-	513,015	-	(498,241)
Maintenance of plant	68,533	-	-	-	(68,533)
Community service	269,646	205,975	-	-	(63,671)
Bond issuance costs	498,779	-	-	-	(498,779)
Debt service interest	658,017	-	-	-	(658,017)
	<hr/>				
Total governmental activities	12,995,517	277,556	978,824	-	(11,739,137)
	<hr/>				
General revenues					
Federal sources passed through local school district					-
State and local sources					10,639,197
Contributions and other revenue					469,362
Related party contributions					162,617
Total general revenues					<hr/> 11,271,176
Change in net position					(467,961)
Net position at beginning of year					<hr/> 2,506,285
Net position at end of year					<hr/> <hr/> \$ 2,038,324

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

Fund Financial Statements

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
School District of Hillsborough County
Balance Sheet – Governmental Funds
June 30, 2020

	Governmental Funds
ASSETS	
Cash	\$ 3,820,208
Restricted cash	5,216,653
Accounts receivable	82,312
Accounts receivable, related entities	210
Prepaid expenses	33,288
Other current assets	2,590
Total assets	\$ 9,155,261
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 16,002
Accrued payroll	226,069
Accrued expenses	53,406
Total liabilities	295,477
Fund balance	
Nonspendable prepaid expenses and other current assets	35,878
Restricted	5,216,653
Unassigned	3,607,253
Total fund balance	8,859,784
Total liabilities and fund balance	\$ 9,155,261

See accompanying notes to basic financial statements.

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
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Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2020

Total fund balance of governmental funds \$ 8,859,784

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.

Capital assets at year end consist of:

Cost of capital assets	\$ 24,331,708	
Accumulated depreciation	<u>(4,388,855)</u>	19,942,853

Accrued general long-term debt interest expenses are not financial uses and, therefore, are not reported in the governmental funds. (322,585)

Long-term liabilities are not due and payable in the current period and, accordingly are not reported in the governmental funds.

Long-term liabilities at year end consist of:

Bonds payable	(24,795,000)	
Less: Issuance discount (to be accreted as an increase in interest expense)	209,472	
Note payable	<u>(1,856,200)</u>	<u>(26,441,728)</u>

Total net position of governmental activities \$ 2,038,324

See accompanying notes to basic financial statements.

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
School District of Hillsborough County
Statement of Revenues, Expenditures, and Change in Fund Balances – Governmental Funds
Year Ended June 30, 2020

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Fund	Total Governmental Funds
Revenues					
Federal sources passed through local school district	\$ -	\$ 465,809	\$ -	\$ -	\$ 465,809
State and local sources	10,639,197	-	513,015	-	11,152,212
Contributions and other revenue	746,918	-	-	-	746,918
Related party contributions	162,617	-	-	-	162,617
Total revenues	11,548,732	465,809	513,015	-	12,527,556
Expenditures					
Instruction	6,303,108	-	-	-	6,303,108
Pupil personnel services	1,222,433	303,122	-	-	1,525,555
Instructional media services	2,477	-	-	-	2,477
Instructional staff training	13,024	-	-	-	13,024
School district administration fee	77,291	-	-	-	77,291
School administration	1,757,358	-	-	-	1,757,358
Facilities acquisition and construction	2,369	-	-	8,704,249	8,706,618
Fiscal services	78,397	-	-	-	78,397
Food service	140,562	162,687	-	-	303,249
Transportation	31,225	-	-	-	31,225
Operation of plant	496,770	513,015	-	-	1,009,785
Maintenance of plant	68,533	-	-	-	68,533
Community service	269,646	-	-	-	269,646
Bond issuance costs	-	-	498,779	-	498,779
Debt service principal	-	-	175,000	-	175,000
Debt service interest	-	-	642,143	-	642,143
Total expenditures	10,463,193	978,824	1,315,922	8,704,249	21,462,188
Other financing sources (uses)					
Proceeds from long-term debt - bond issuance	-	-	12,805,000	-	12,805,000
Premium on bond issuance	-	-	(5,110)	-	(5,110)
Proceeds from long-term debt - note payable	1,856,200	-	-	-	1,856,200
Transfers in	2,779,719	513,015	-	8,704,249	11,996,983
Transfers out	-	-	(11,996,983)	-	(11,996,983)
	4,635,919	513,015	802,907	8,704,249	14,656,090
Change in fund balance	5,721,458	-	-	-	5,721,458
Fund balance at beginning of year	3,138,326	-	-	-	3,138,326
Fund balance at end of year	\$ 8,859,784	\$ -	\$ -	\$ -	\$ 8,859,784

See accompanying notes to basic financial statements.

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
School District 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, 2020

Change in fund balance - total governmental funds \$ 5,721,458

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those costs over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditures for capital assets	\$ 8,746,953	
Less current year depreciation	<u>(439,408)</u>	
		8,307,545

Repayment of long-term debt principal is an expenditure in the governmental funds. However, the payment reduces long-term liabilities in the statement of net position. 175,000

Proceeds from long-term debt is an other financing source in the governmental funds. However, the receipt increases long-term liabilities in the statement of net position. This is the amount by which long-term debt increased in the current period.

Bonds payable	\$ (12,805,000)	
Discount on bonds payable	5,110	
Notes payable	<u>(1,856,200)</u>	
		(14,656,090)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Amortization of bond discount	(16,998)	
Current year change in accrued interest	<u>1,124</u>	
		<u>(15,874)</u>

Change in net position - governmental activities **\$ (467,961)**

See accompanying notes to basic financial statements.

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
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Notes to Basic Financial Statements
June 30, 2020

Note 1 – 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 a Florida charter school at two campuses in Hillsborough County, Florida.

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 the Pepin is contained in Section 228.056, Florida Statutes. Pepin operates under a charter of the sponsoring school district, the School District 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 District 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 2 – 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 PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
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Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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.

Capital Project Fund – This fund is used to account for state capital outlay funding that is legally restricted to expenditures for specific 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).

THE PEPIN ACADEMIES, INC.
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June 30, 2020

Note 2 – Summary of Significant Accounting Policies (Continued)

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 (Pepin’s highest level of decision-making authority).

Assigned fund balance is intended to be used by Pepin for specific purposes 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 – The 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).

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.

THE PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
June 30, 2020

Note 2 – Summary of Significant Accounting Policies (Continued)

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, 2020.

Prepaid Expenses and Other Assets – Advanced payments to vendors for expenses that are applicable to future accounting periods.

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. Capital assets acquired during the year with a cost greater than Pepin’s minimum capitalization threshold of \$500 are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

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

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

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

Revenue Sources – Revenues for current operations are received primarily from the District 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 full-time 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 PEPIN ACADEMIES, INC.
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June 30, 2020

Note 2 – Summary of Significant Accounting Policies (Continued)

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 2019/2020 school year Pepin reported 813.690 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), Florida Statutes, 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, fundraising activities, contributions, and other revenue.

Concentration of Revenue Sources – Approximately 93% 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 are 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.

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

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
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Notes to Basic Financial Statements
June 30, 2020

Note 2 – Summary of Significant Accounting Policies (Continued)

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). Pepin is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. Management believes Pepin met the requirements to maintain their tax-exempt status and have no income subject to unrelated business income tax; therefore, no provision for income taxes has been provided in these financial statements. The income tax returns for the past three years are subject to examination by taxing authorities and may change upon examination.

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.

Newly adopted accounting pronouncement

During the year ended June 30, 2020, Pepin implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Issued April 2018, this Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The required disclosures have been added to Note 5.

Recent accounting pronouncements

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders considering the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in certain pronouncements are postponed by one year while others are postponed by 18 months.

THE PEPIN ACADEMIES, INC.
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Note 2 – Summary of Significant Accounting Policies (Continued)

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. GASB Statement No. 95 postponed the effective date of this Statement by 18 months, or Pepin's fiscal year ending June 30, 2022. Earlier application is encouraged. The Statement is to be applied retroactively; existing leases are to be recognized and measured based on the facts and circumstances of the lease in the period of implementation of Statement No. 87, not inception of the lease. Pepin is currently evaluating the impact of this Statement on its financial statements.

Note 3 – Restricted Cash

At June 30, 2020, restricted cash is held by Pepin's trustee, Wilmington Trust, as required by the bond agreements. Restricted cash is to be used for future debt service requirements and construction project costs, and as of June 30, 2020, consists of the following:

Debt service requirements	\$ 3,175,583
Project construction requirements	<u>2,041,070</u>
	<u><u>\$ 5,216,653</u></u>

THE PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
June 30, 2020

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2020 is as follows:

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020
Governmental activities				
Land	\$ 2,276,697	\$ 1,421,726	\$ -	\$ 3,698,423
Buildings and land improvements	11,939,723	7,282,523	-	19,222,246
Furniture, fixtures, and equipment	1,368,335	42,704	-	1,411,039
	<u>15,584,755</u>	<u>8,746,953</u>	<u>-</u>	<u>24,331,708</u>
Less accumulated depreciation				
Buildings and land improvements	2,763,405	364,059	-	3,127,464
Furniture, fixtures, and equipment	1,186,042	75,349	-	1,261,391
	<u>3,949,447</u>	<u>439,408</u>	<u>-</u>	<u>4,388,855</u>
	<u>\$ 11,635,308</u>	<u>\$ 8,307,545</u>	<u>\$ -</u>	<u>\$ 19,942,853</u>

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 316,994
School administration	33,530
Food service	87,413
Operation of plant	1,471
	<u>\$ 439,408</u>

Note 5 – Debt

Note Payable

In April 2020, Pepin borrowed \$1,856,200 under the Small Business Administration’s (“SBA”) Paycheck Protection Program. The loan agreement requires monthly payments of approximately \$104,000, which includes both principal and interest at 1% per annum beginning in November 2020. The loan matures in April 2022. Pepin may apply for forgiveness of the loan in whole or in part. The loan may be forgiven if the loan proceeds are used for the purposes defined in the agreement. Management believes that Pepin will meet the requirements for loan forgiveness.

THE PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
June 30, 2020

Note 5 – Debt (Continued)

Note payable activity for the year ended June 30, 2020 is as follows:

	<u>Maturity</u>	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2020</u>
Note payable - SBA	4/10/2022	-	1,856,200	-	1,856,200
		<u>\$ -</u>	<u>\$ 1,856,200</u>	<u>\$ -</u>	<u>\$ 1,856,200</u>

Educational Facility Revenue Bond, Series 2016

On July 21, 2016, the Florida Development Finance Corporation (“FDFC”) issued the following educational facility revenue 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:

	<u>Educational Facility Revenue Bonds</u>	
	<u>Series 2016A</u>	<u>Series 2016B Taxable</u>
Origination date	July 21, 2016	July 21, 2016
Balance	\$9,510,000	\$2,655,000
Maturity/interest	\$2,725,000 due July 1, 2036 @ 5.000%	\$1,000,000 due July 1, 2023 @ 6.000%
	\$6,785,000 due July 1, 2046 @ 5.125%	\$1,655,000 due July 1, 2029 @ 6.250%

Educational Facility Revenue Bond, Series 2020

On June 30, 2020, Capital Trust Agency (“CTA”) issued the following educational facility revenue bonds: \$8,250,000 Nontaxable Education Facility Revenue Bonds (The Pepin Academies, Inc. Project) Series 2020A and \$4,555,000 Taxable Education Facility Revenue Bonds (The Pepin Academies, Inc. Project) Series 2020B. Proceeds of the bonds were loaned to the school to finance the cost of acquiring and renovating certain property and buildings adjacent to the existing Riverview campus location.

THE PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
June 30, 2020

Note 5 – Debt (Continued)

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

	Educational Facility Revenue Bonds	
	Series 2020A	Series 2020B Taxable
Origination date	June 30, 2020	June 30, 2020
Balance	\$8,250,000	\$4,555,000
Maturity/interest	\$8,250,000 due July 1, 2055 @ 5.750%	\$580,000 due July 1, 2027 @ 4.750% \$3,975,000 due July 1, 2043 @ 6.250%

Bonds payable activity for the year ended June 30, 2020 is as follows:

	Balance		Balance
	June 30, 2019	Additions	June 30, 2020
Revenue bonds payable, Series 2016A	\$ 9,510,000	\$ -	\$ 9,510,000
Revenue bonds payable, Series 2016B Taxable	2,655,000	-	2,480,000
Revenue bonds payable, Series 2020A	-	8,250,000	8,250,000
Revenue bonds payable, Series 2020B Taxable	-	4,555,000	4,555,000
	12,165,000	12,805,000	24,795,000
Current portion	(175,000)	(190,000)	(190,000)
Discount on 2016 bonds	(221,360)	-	(204,362)
Discount on 2020 bonds	-	(5,110)	(5,110)
	\$ 11,768,640	\$ 12,609,890	\$ 24,395,528

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, 2020, Pepin was in compliance with these financial covenants by maintaining a debt service coverage ratio of 1.43 and 111 days cash on hand.

THE PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
June 30, 2020

Note 5 – Debt (Continued)

Debt Service Requirements

Following is a summary of the future annual debt service requirements at June 30, 2020:

Year ending June 30,	Revenue Bonds Payable			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 190,000	\$ 1,007,442	\$ 1,197,442	\$ 926,243	\$ 13,922	\$ 940,165
2022	200,000	1,370,924	1,570,924	929,957	15,468	945,425
2023	210,000	1,357,582	1,567,582	-	-	-
2024	225,000	1,344,532	1,569,532	-	-	-
2025	370,000	1,327,232	1,697,232	-	-	-
2026 - 2030	2,195,000	6,278,889	8,473,889	-	-	-
2031 - 2035	2,890,000	5,553,907	8,443,907	-	-	-
2036 - 2040	3,765,000	4,647,842	8,412,842	-	-	-
2041 - 2045	4,930,000	3,453,295	8,383,295	-	-	-
2046 - 2050	4,800,000	1,961,989	6,761,989	-	-	-
2051 - 2055	3,345,000	983,971	4,328,971	-	-	-
2056 - 2060	1,675,000	48,157	1,723,157	-	-	-
	<u>\$ 24,795,000</u>	<u>\$ 29,335,762</u>	<u>\$ 54,130,762</u>	<u>\$ 1,856,200</u>	<u>\$ 29,390</u>	<u>\$ 1,885,590</u>

Interest

Accrued interest activity for the year ended June 30, 2020 is as follows:

	Balance			Balance
	June 30, 2019	Additions	Reductions	June 30, 2020
Note payable	\$ -	\$ 4,125	\$ -	\$ 4,125
Bonds payable	323,709	636,920	(642,169)	318,460
	<u>\$ 323,709</u>	<u>\$ 641,045</u>	<u>\$ (642,169)</u>	<u>\$ 322,585</u>

Interest expense for the year ended June 30, 2020 is \$658,017.

THE PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
June 30, 2020

Note 6 – 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, 2020:

School District of Hillsborough County	
FEFP funds	\$ 3,644,523
ESE guaranteed	5,279,094
Supplemental academic instruction	189,912
Class size reduction funds	781,081
Safe Schools	40,929
Discretionary local effort	285,519
Discretionary millage	148,711
Total funds compression	19,222
Discretionary lottery	789
Instructional materials	63,702
Digital classrooms allocation	1,468
Mental health	19,862
Reading allocation	33,343
Capital outlay	513,015
Federal via Florida Department of Education	465,809
Food service	71,581
Contributions and other revenue	806,379
Related party contributions	162,617
	<u>\$ 12,527,556</u>

THE PEPIN ACADEMIES, INC.
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Notes to Basic Financial Statements
June 30, 2020

Note 7 – Rental Income

Through June 29, 2020 Pepin leased 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. On June 30, 2020, Pepin acquired property adjoining its Riverview campus. That property was significantly leased to several tenants. On June 30, 2020, Pepin leased approximately 56,000 square feet of its new Riverview property to several tenants whose leases were transferred to Pepin as part of the property purchase. Pepin recognized rental income in the amount of \$310,424 during the year ended June 30, 2020 which is included in contributions and other revenue in the accompanying statement of activities. The leases expire at various times through June 2027. Future expected rental income is as follows:

Year ending June 30,	
2021	\$ 948,023
2022	871,841
2023	834,705
2024	518,994
2025	163,849
2026 - 2027	342,593
	<u>\$ 3,680,005</u>

Note 8 – 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 9 – Related Party Transactions

Pepin Academies of Pasco County, Inc. (“Pepin Pasco”) is a not-for-profit corporation that operates a charter school in Pasco County, Florida. Pepin Pasco is related to Pepin by shared management and fundraising support from Pepin Academies Foundation, Inc. (“PAF”).

PAF was formed to promote and raise funds for the Pepin Academies schools. During the year ended June 30, 2020, Pepin received \$162,617 in contributions from PAF.

Certain shared management payroll expenses are paid by Pepin Pasco and repaid by Pepin. During the year ended June 30, 2020, Pepin paid approximately \$101,280 related to this expense.

At June 30, 2020, Pepin had no amounts owing to the Pepin Pasco or to PAF.

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
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Notes to Basic Financial Statements
June 30, 2020

Note 10 – 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 discretionary matching contributions to the Plan. During the year ended June 30, 2020, Pepin made discretionary matching contributions to the Plan totaling \$85,268.

Note 11 – Operating Lease

Pepin had an operating lease for part of its facilities that expired June 30, 2022. Pepin purchased the leased property on June 30, 2020. As such, there are no future minimum annual lease payments related to this lease as of June 30, 2020. Pepin recognized lease expense of approximately \$48,125 for the year ended June 30, 2020 related to this lease.

Note 12 – Contingencies

In the normal course of operations, Pepin may become a defendant in various legal actions. Many of Pepin's risks are covered by insurance, but some are not. As a charter school that is subject to the laws relating to Florida public schools, Pepin will rely upon sovereign immunity caps for claims made against it. Some matters may not be covered by insurance, in whole or in part, or subject to sovereign immunity caps, and may be a liability of Pepin if settled adversely. The ultimate resolution of any matters existing at year end is not expected to have a material effect on the financial statements.

On January 30, 2020, the World Health Organization declared the novel coronavirus outbreak ("COVID-19") a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. The spread of COVID-19 appears to be altering the behavior of businesses and people in a matter that is having negative effects on local, regional, and global economies. The impact of COVID-19 could negatively impact Pepin's operations. Any quarantines or other disruptions to Pepin's operations may adversely impact Pepin's revenues, ability to provide services, and ultimately its operating results. Pepin has been significantly impacted by disruptions in its learning environment, such as remote learning mandates and social distancing requirements when remote learning is no longer compulsory. The extent to which COVID-19 could impact Pepin will depend on future developments, which are highly uncertain and cannot be predicted with confidence at this time.

Note 13 – Subsequent Events

Management has evaluated all events subsequent to the statement of net position date of June 30, 2020 through September 30, 2020, which is the date these financial statements were available to be issued. Management determined there are no subsequent events that require disclosure or recognition.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
School District of Hillsborough County
Budgetary Comparison Schedule – General Fund (Unaudited)
Year Ended June 30, 2020

	Budgeted Amounts		Actual (Budgetary Basis)	Variance from Final Budget Positive (Negative)
	Original	Final		
Revenues				
State and local sources	\$ 10,502,135	\$ 10,639,197	\$ 10,639,197	\$ -
Contributions and other revenue	840,945	746,918	746,918	-
Related party contributions	-	162,617	162,617	-
Total revenues	11,343,080	11,548,732	11,548,732	-
Expenditures				
Instruction	6,008,251	6,303,108	6,303,108	-
Pupil personnel services	1,487,666	1,222,433	1,222,433	-
Instructional media services	-	2,477	2,477	-
Instructional staff training	-	13,024	13,024	-
School district administration fee	-	77,291	77,291	-
School administration	1,795,970	1,757,358	1,757,358	-
Facilities acquisition and construction	42,200	2,369	2,369	-
Fiscal services	66,700	78,397	78,397	-
Food service	137,739	140,562	140,562	-
Transportation	28,000	31,225	31,225	-
Operation of plant	1,123,308	496,770	496,770	-
Maintenance of plant	-	68,533	68,533	-
Community service	316,898	269,646	269,646	-
Debt service interest	335,995	-	-	-
Total expenditures	11,342,727	10,463,193	10,463,193	-
Other financing sources (uses)				
Proceeds from long-term debt - note payable	-	1,856,200	1,856,200	-
Transfers in	-	2,779,719	2,779,719	-
	-	4,635,919	4,635,919	-
Excess of revenues over expenditures	353	5,721,458	5,721,458	-
Fund balance at beginning of year	3,138,326	3,138,326	3,138,326	-
Fund balance at end of year	\$ 3,138,679	\$ 8,859,784	\$ 8,859,784	\$ -

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
School District of Hillsborough County
Budgetary Comparison Schedule – Special Revenue Fund (Unaudited)
Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance from Final Budget Positive (Negative)
	Original	Final		
Revenues				
Federal sources passed through local school district	\$ 555,000	\$ 465,809	\$ 465,809	\$ -
Total revenues	555,000	465,809	465,809	-
Expenditures				
Pupil personnel services	330,000	303,122	303,122	-
Food service	225,000	162,687	162,687	-
Operation of plant	-	513,015	513,015	-
Total expenditures	555,000	978,824	978,824	-
Other financing sources (uses)				
Transfers in	-	513,015	513,015	-
	-	513,015	513,015	-
Excess of revenues over expenditures	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	\$ -	\$ -	\$ -	\$ -

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
School District of Hillsborough County
Budgetary Comparison Schedule –Debt Service Fund (Unaudited)
Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance from Final Budget Positive (Negative)
	Original	Final		
Revenues				
State and local sources	\$ 486,417	\$ 513,015	\$ 513,015	\$ -
Total revenues	486,417	513,015	513,015	-
Expenditures				
Bond issuance costs	-	498,779	498,779	-
Debt service principal	-	175,000	175,000	-
Debt service interest	486,417	642,143	642,143	-
Total expenditures	486,417	1,315,922	1,315,922	-
Other financing sources (uses)				
Proceeds from long-term debt - bond issuance	-	12,805,000	12,805,000	-
Premium on bond issuance	-	(5,110)	(5,110)	-
Transfers out	-	(11,996,983)	(11,996,983)	-
	-	802,907	802,907	-
Excess of revenues over expenditures	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	\$ -	\$ -	\$ -	\$ -

THE PEPIN ACADEMIES, INC.
A Charter School and Component Unit of the
School District of Hillsborough County
Budgetary Comparison Schedule – Capital Project Fund (Unaudited)
Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance from Final Budget Positive (Negative)
	Original	Final		
Revenues				
State and local sources	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures				
Facilities acquisition and construction	-	8,704,249	8,704,249	-
Total expenditures	-	8,704,249	8,704,249	-
Other financing sources (uses)				
Transfers in	-	8,704,249	8,704,249	-
	-	8,704,249	8,704,249	-
Excess of revenues over expenditures	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	\$ -	\$ -	\$ -	\$ -



PRIDA, GUIDA & PEREZ, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
1106 N. FRANKLIN STREET
TAMPA, FLORIDA 33602

INDEPENDENT AUDITORS' 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

To the 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 consolidated financial statements of The Pepin Academies, Inc. ("Charter School"), a component unit of the School District of Hillsborough County, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Pepin's basic financial statements, and have issued our report thereon dated September 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pepin'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 Pepin'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.

**INDEPENDENT AUDITORS' 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 (Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Pepin Academies, Inc.'s financial statements are free of 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 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'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Prida Guida Perez".

Prida Guida Perez P.A.
Tampa, Florida
September 30, 2020



PRIDA, GUIDA & PEREZ, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
1106 N. FRANKLIN STREET
TAMPA, FLORIDA 33602

INDEPENDENT AUDITORS' MANAGEMENT LETTER

To the 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, 2020, and have issued our report thereon dated September 30, 2020.

Auditors' 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 September 30, 2020, 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 The Pepin Academies, Inc. and the school code assigned by the Florida Department of Education is 6609.

INDEPENDENT AUDITORS' MANAGEMENT LETTER (Continued)

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 The Pepin Academies, 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 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 us to apply appropriate procedures and communicate the results of our determination as to 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 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 School District of Hillsborough County, and is not intended to be, and should not be used by anyone other than these specified parties.



Prida Guida Perez P.A.
Tampa, Florida
September 30, 2020