

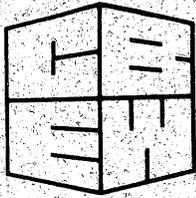
EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma County, Oklahoma

FINANCIAL STATEMENTS
For the Period May 10, 2011 through June 30, 2012

**EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma County, Oklahoma**

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INDEPENDENT AUDITOR'S REPORT

August 28, 2012

The Honorable Governance Board
Epic One-on-One Charter Schools
Oklahoma City, Oklahoma County, Oklahoma

We have audited the accompanying combined fund type and account group financial statements—regulatory basis of the Epic One-on-One Charter Schools, Oklahoma City, Oklahoma County, Oklahoma (EPIC); as listed in the table of contents as combined financial statements as of and for the period May 10, 2011 through June 30, 2012. These financial statements are the responsibility of EPIC's management. 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 *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effect on the financial statements resulting from the use of this regulatory basis of accounting and presentation as compared to accounting principles generally accepted in the United States of America cannot be reasonably determined, but is considered material.

In our opinion, because EPIC's policy is to prepare its combined financial statements on the basis of accounting discussed in the third paragraph, the combined financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Epic One-on-One Charter Schools, Oklahoma City, Oklahoma County, Oklahoma as of June 30, 2012, and the respective changes in financial position thereof for the for the period of May 10, 2011 through June 30, 2012.

However, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of each fund type and account group of Epic One-on-One Charter Schools, Oklahoma City, Oklahoma County, Oklahoma, as of June 30, 2012, and the revenues collected and expenditures paid and encumbered for the period May 10, 2011 through June 30, 2012 on the regulatory basis of accounting described in Note 1.

Epic One-on-One Charter Schools
August 28, 2012

Our audit was conducted for the purpose of forming opinions on the fund type and account group financial statements within the combined financial statements. The other schedules listed as supplemental information in the table of contents, are presented for purposes of additional analysis and are not a required part of the combined financial statements of EPIC. The other schedules listed as supplemental information in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the fund type and account group financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole on a regulatory basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2012 on our consideration of EPIC'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

CBEW Professional Group, LLP

CBEW PROFESSIONAL GROUP, LLP
Certified Public Accountants

EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma City, Oklahoma

COMBINED STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES
ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS
June 30, 2012

ASSETS

	Governmental Fund Types	Account Group	Totals (Memo Only)
	Operating	General Fixed Assets	June 30, 2012
Assets:			
Cash and investments	\$ 1,664,572	\$ -	\$ 1,664,572
Property, plant and equipment	-	314,585	314,585
Total assets	\$ 1,664,572	\$ 314,585	\$ 1,979,157

LIABILITIES AND FUND BALANCES

Liabilities:			
Warrants payable	\$ 986,297	\$ -	\$ 986,297
Encumbrances	321,081	-	321,081
Total liabilities	1,307,378	-	1,307,378
Fund balances:			
Unassigned	357,194	314,585	671,779
Total fund balances	357,194	314,585	671,779
Total liabilities and fund balances	\$ 1,664,572	\$ 314,585	\$ 1,979,157

The accompanying notes are an integral part of these financial statements.

**EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma City, Oklahoma**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS
For the Period May 10, 2011 through June 30, 2012**

	<u>Governmental Fund Types Operating</u>
Revenues:	
Local sources	\$ 10,808
Intermediate sources	-
State sources	6,284,804
Federal sources	-
Other sources	406,584
Total revenues collected	<u>6,702,196</u>
 Expenditures:	
Instruction	3,794,695
Support services	1,780,130
Non-instructional services	-
Capital outlay	314,585
Debt service:	
Principal retirement	406,584
Interest	12,689
Other outlays	36,319
Total expenditures	<u>6,345,002</u>
 Excess of revenues over (under) expenditures	 357,194
 Adjustments to prior year encumbrances	 -
 Beginning fund balances	 <u>-</u>
 Ending fund balances	 <u>\$ 357,194</u>

The accompanying notes are and integral part of these financial statements.

EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma City, Oklahoma

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - REGULATORY BASIS

SPECIAL REVENUE FUND - COOP FUND
For the Period May 10, 2011 through June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Local sources	\$ -	\$ -	\$ 10,808	\$ 10,808
Intermediate sources	-	-	-	-
State sources	5,917,066	5,917,066	6,284,804	367,738
Federal sources	-	-	-	-
Other sources	406,584	406,584	406,584	-
Total revenues	<u>6,323,650</u>	<u>6,323,650</u>	<u>6,702,196</u>	<u>378,546</u>
Expenditures:				
Instruction	3,797,486	3,797,486	3,794,695	2,791
Support services	1,780,153	1,780,153	1,780,130	23
Non-instructional services	-	-	-	-
Capital outlay	314,585	314,585	314,585	-
Debt service:				
Principal retirement	407,000	407,000	406,584	416
Interest	20,833	20,833	12,689	8,144
Other outlays	3,593	3,593	36,319	(32,726)
Total expenditures	<u>6,323,650</u>	<u>6,323,650</u>	<u>6,345,002</u>	<u>(21,352)</u>
Net change in fund balance	-	-	357,194	357,194
Adjustments to prior year encumbrance	-	-	-	-
Beginning fund balance	-	-	-	-
Ending fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 357,194</u>	<u>\$ 357,194</u>

The accompanying notes are an integral part of these financial statements.

EPIC ONE-ON-ONE CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
May 10, 2011 through June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Epic One-on-One Charter School, Oklahoma City, Oklahoma County, Oklahoma ("EPIC") conform to the regulatory basis of accounting, which is another comprehensive basis of accounting prescribed by the Oklahoma State Department of Education and conforms to the system of accounting authorized by the State of Oklahoma. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. EPIC's accounting policies are described in the following notes that are an integral part of EPIC's financial statements.

A. Reporting Entity and Related Parties

Community Strategies, Inc., an Oklahoma not-for-profit corporation described in Internal Revenue Code Section 501(c)(3), was formed for the benefit of a School to be called Epic One-on-One Charter School. EPIC (Excellence Performance Innovation Citizenship) was formed under the provisions of the Oklahoma Charter Schools Act (Oklahoma Statutes 70-3-130) through a contract with Graham Public Schools No. 1-32, Weleetka, Okfuskee County, Oklahoma, as its sponsoring organization. Graham Public School entered into a contract with EPIC on December 10, 2010 and received approval from the Oklahoma State Department of Education on January 19, 2011 to sponsor EPIC as a Charter School. School operations began effective May 10, 2011 and these financial statements cover the period from May 10, 2011 to June 30, 2012. Graham Public Schools receives all of the State Aid allocation and any other state-appropriated revenue generated by the students of EPIC and retains 5% of the State Aid allocations as a fee for administrative services rendered. EPIC has an operating agreement with Epic Youth Services, LLC ("EYS"), an Oklahoma limited liability corporation, to operate the school. EPIC pays EYS an administrative fee of 10% of gross revenues for operating the school. EYS also contracts with Educational Administrative Services ("EAS"), a for-profit corporation, to provide bookkeeping and consulting services including the services of a treasurer.

The governing body of EPIC is the Governance Board (Board) composed of four nominated members, who are also the directors of Community Strategies, Inc. The founder was appointed as the executive officer of EPIC. The Board has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Charter School. EPIC receives funding from local, state and federal government sources passed through Graham Public Schools and must comply with the requirements of these funding source entities. However, EPIC is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are nominated by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

Although Community Strategies, Inc. is a not-for-profit entity that would normally follow the presentation requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 958-205, the School is considered a quasi-governmental entity subject to the reporting requirements of the Oklahoma State Department of Education. Therefore, EPIC is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on state of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes and the Oklahoma Charter Schools Act.

EPIC is a separate entity from Graham Public Schools for operating and financial reporting purposes. These financial statements present only the activities of EPIC. Other than payments to EYS by EPIC, none of the activities of EYS or EAS is included in these financial statements. Any other activities, if any, of Community Strategies, Inc. other than EPIC are not included in these financial statements.

EPIC ONE-ON-ONE CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
May 10, 2011 through June 30, 2012

B. Mission and Nature of Organization

EPIC's mission statement is "Fulfilling every student's individual potential by personalizing an educational plan that focuses on school and family partnership to achieve optimal student performance." In education today, one size doesn't fit all. EPIC is dedicated to providing students and families with a learning environment that can meet an individual student's unique needs. The core values of honesty, respect, tolerance, fairness, self-discipline, integrity, responsibility, citizenship, work ethic, and trust are the foundation upon which the School is built. EPIC is a free PreK-12 public school for parents/students seeking a non-traditional education setting utilizing internet-based, individualized self-paced instruction provided in nearly any location. Each course is taught by an Oklahoma certified teacher.

C. Tax Status

EPIC's activities are reported for federal and Oklahoma tax purposes by Community Strategies, Inc. under the provisions of Internal Revenue Code Section 501(c)(3) and is generally exempt from income taxes. EPIC and Community Strategies, Inc. are not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code and has not recognized any unrelated business taxable income. As a result, no provision for federal or state income taxes is recognized in the accompanying financial statements. Community Strategies, Inc. was formed in 2005 but with no reportable activity until 2009. Management evaluates and accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 740, Income Taxes* (Formerly FASB Interpretation 48 (FIN 48) *Accounting for Uncertainty in Income Taxes* and the provisions of ASC 450, *Contingencies*. Professional standards require certain disclosures about uncertain income tax positions. When tax returns are filed, it is probable that most tax positions would be sustained upon examination by taxing authorities. However, it is also possible that some positions might be subject to uncertainty. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Interest and penalties, if any, resulting from any uncertain tax positions required to be recorded by the organization would be presented in other outlays in the statement of revenues, expenditures and changes in fund balances. Management does not believe that it has engaged in any activity that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying financial statements. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, there is no open examination with either the Internal Revenue Service or state taxing authorities.

D. Measurement Focus

The accounts of EPIC are organized and operated on the basis of funds and account groups. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The Account Groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in other funds.

EPIC has the following fund types and account groups:

EPIC ONE-ON-ONE CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
May 10, 2011 through June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus (Continued)

Governmental funds - are used to account for most of EPIC's general activities and general fixed assets account groups. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental type funds are accounted for using the Regulatory (Statutory) basis of accounting. All revenues from all sources, including entitlements, grants, and shared revenues are recognized when they are received rather than earned. Expenditures are generally recognized when encumbered or reserved rather than at the time the related liability is incurred. These practices differ from generally accepted accounting principles.

Governmental funds include the following fund type:

General fund - is the general operating fund of EPIC. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This is a budgeted fund, and any fund balances are considered as resources available for use. Major revenue sources include federal and state funding. Expenditures include all costs associated with the daily operations of the schools except for programs funded for building repairs and maintenance, school construction, and debt service on bonds and other long-term debt. The General Fund also accounts for federal and state financed programs where restricted monies must be expended for specific programs. Project accounting is employed to maintain integrity for the various sources of these funds.

Account groups - are not funds and consist of a self-balancing set of accounts used only to establish accounting control over fixed assets.

General Fixed Asset Account Group - accounts for the original costs of all fixed assets of the EPIC.

E. Basis of Accounting and Presentation

EPIC prepares its financial statements in a presentation format that is prescribed by the Oklahoma State Department of Education. This format is essentially the generally accepted form of presentation used by state and local governments prior to the effective date of GASB Statement No. 34, *Basic Financial Statements-Management's Discussion and Analysis for State and Local Governments* with certain modifications. This format differs significantly from that required by GASB 34.

The financial statements are essentially prepared on the basis of cash receipts and disbursements modified as required by the regulations of the Oklahoma State Department of Education as follows:

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies are recorded as expenditures when approved.
- Investments are recorded as assets when acquired.
- School supplies are recorded as expenditures and not as inventory assets.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded in the General Long-Term Debt Account Group and not in the basic financial statements.
- Compensated absences are recorded as expenditure when paid and not recorded as a liability.
- Fixed assets are recorded in the General Fixed Asset Account Group and not in the basic financial statements. Fixed assets are not depreciated.

EPIC ONE-ON-ONE CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
May 10, 2011 through June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Basis of Accounting and Presentation (Continued)

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable, or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred for governmental fund types; and, when revenues are earned.

F. Assets, Liabilities, Fund Balance, Revenue and Expenditures

1. Deposits and Investments

State statutes govern EPIC's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. EPIC invests entirely in certificates of deposit, U.S. Treasury Securities.

2. Fair Value of Financial Instruments

EPIC's financial instruments include cash and investments. EPIC's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of assets, liabilities and fund balances. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Use of Estimates

The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Interfund Transactions

Interfund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the fund that is reimbursed. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers.

5. Inventories

Inventories consist of minimal amounts of expendable supplies held for consumption. The value of consumable inventories at year-end is not material to EPIC's financial statements. The costs of inventories are recorded as expenditures when encumbered and purchased rather than when consumed.

EPIC ONE-ON-ONE CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
May 10, 2011 through June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities, Fund Balance, Revenue and Expenditures (Continued)

6. Fixed Assets

Fixed assets used in governmental fund-type operations (general fixed assets) are recorded as capital expenditures at the time of purchase and are recorded as property, plant and equipment in the General Fixed Asset Account Group. All fixed assets are valued at historical cost, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Depreciation and accumulated depreciation are not reported against general fixed assets. EPIC maintains a capitalization threshold of \$1,000.

7. Compensated Absences

EPIC provides vacation and sick leave benefits in accordance with Title 70 of the Oklahoma Statutes, Article 6-104, which provides for annual sick leave and personal business days. EPIC policy allows certified employees to accumulate such days to a maximum number of days. None of the benefits are payable upon retirement or death. EPIC's non-certified staff receives 12 days of vacation and sick days per year but has used most of these at the end of the year. Accrued vacation and sick leave benefits are not reflected in the financial statements because such statements are prepared on the regulatory basis of accounting. This practice differs from generally accepted accounting principles.

8. Long-term Obligations

The EPIC reports long-term debt at face value in the general long-term debt account group. Certain other lease obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

9. Fund Balance

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment.

**EPIC ONE-ON-ONE CHARTER SCHOOL
Oklahoma County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
May 10, 2011 through June 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities, Fund Balance, Revenue and Expenditures (Continued)

9. Fund Balance (Continued)

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

10. Intermediate Revenues

Revenue from intermediate source is the amount of money from funds collected by an intermediate administrative unit, or a political subdivision between EPIC and the state, and distributed to districts in amounts that differ in proportion to those which were collected within such systems.

11. State Revenues

Revenues from state sources for current operations are primarily governed by state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school districts based on information accumulated from the districts. After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money for prior year errors disclosed by review. Normally, such adjustments are treated as reductions or additions of revenue of the year when the adjustment is made.

EPIC receives revenue from the state (through Graham Public Schools) to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the general fund.

12. Federal Revenues

Federal revenues consist of revenues from the federal government in the form of operating grants or entitlements. An operating grant is a contribution to be used for a specific purpose, activity or facility. A grant may be received either directly from the federal government or indirectly as a pass through from another government, such as the state. Entitlement is the amount of payment to which EPIC may be entitled pursuant to an allocation formula contained in applicable statutes. Any federal revenues received by EPIC would be apportioned to the general fund.

EPIC ONE-ON-ONE CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
May 10, 2011 through June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities, Fund Balance, Revenue and Expenditures (Continued)

13. Memorandum Only - Total Columns

Total columns on the combined financial statements are captioned "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate analysis. The columns do not present information that reflects financial position or results of operations in accordance with generally accepted accounting principles. Inter-fund eliminations have not been made in the aggregation of this data.

14. Resource Use Policy

It is in EPIC's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, EPIC considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is EPIC's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the School considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

EPIC is required by state law to prepare an annual budget. A preliminary budget is submitted to the Board of Education by December 31 for the fiscal year beginning the following July 1. Under current Oklahoma Statutes, a formal Estimate of Needs (Budget) is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories. The annual Estimate of Needs, when approved by the Board and subsequently filed with the County Clerk and approved by the County Excise Board becomes the legal budget. Supplemental appropriations, if required, were made during the year and are reflected on the budget vs. actual presentations shown as original budget and final budget.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund - is utilized in all Governmental Funds of EPIC. Purchase orders or contracts document encumbrances for goods or purchased services. Under Oklahoma law, unencumbered appropriations lapse at year-end.

**EPIC ONE-ON-ONE CHARTER SCHOOL
Oklahoma County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
May 10, 2011 through June 30, 2012**

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2012, EPIC held deposits of approximately \$1,664,574 at financial institutions. EPIC's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in EPIC's name.

Investment Interest Rate Risk

EPIC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

EPIC has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The cash and investments held at June 30, 2012 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 1,664,572	\$ 1,664,572
Total investments			<u>\$ 1,664,572</u>	<u>\$ 1,664,572</u>

Concentration of Investment Credit Risk

EPIC places no limit on the amount it may invest in any one issuer. EPIC has the following of credit risk: 100% in Money Market funds (\$1,664,572).

EPIC ONE-ON-ONE CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
May 10, 2011 through June 30, 2012

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Long-term Debt

EPIC executed a note payable for capital to start operations on May 5, 2011 with Epic Youth Services, LLC. The amount of the note is up to \$500,000 with interest at 5.0%. The note was paid off in the current year.

The following is a summary of the changes in general long-term debt transactions of EPIC for the fiscal year:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Notes payable	\$ -	\$ 406,584	\$ 406,584	\$ -
Total	\$ -	\$ 406,584	\$ 406,584	\$ -

4. OTHER INFORMATION

A. Risk Management

EPIC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. EPIC purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past fiscal year.

B. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although EPIC expects such amounts, if any, to be immaterial.

C. Commitments

EPIC has entered into various contracts that were formed in order for the virtual school to operate successfully. The contracts are with Calvert Partners, Advanced Academics and Beasley Technology. The contracts are in place to keep the virtual school up to date with all core curriculum and technology services. If any of these areas would fail, the virtual school that EPIC is providing may not be able to provide the services that are required by the Oklahoma Department of Education.

D. Employee Retirement System and Plan

Description of Plan

The District participates in the state-administered Oklahoma Teachers' Retirement System, which is a cost sharing, multiple-employer defined benefit public employee retirement system (PERS), which is administered by the Board of Trustees of the Oklahoma Teachers' Retirement System (the "System"). The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 70 Section 17 of the Oklahoma Statutes establishes benefit provisions and may be amended only through legislative action. The Oklahoma Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Oklahoma Teachers' Retirement System, P.O. Box 53624, Oklahoma City, OK 73152 or by calling 405-521-2387.

**EPIC ONE-ON-ONE CHARTER SCHOOL
Oklahoma County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
May 10, 2011 through June 30, 2012**

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Plan (Continued)

Basis of Accounting

The System's financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

EPIC, the State of Oklahoma, and the participating employee make contributions. The contribution rates for EPIC and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Additionally, OTRS receives "federal matching contributions" for positions whose funding comes from federal sources or certain grants. EPIC and State are required to contribute 14.0% of applicable compensation. Contributions received by the System from the State of Oklahoma are from 3.54% of its revenues from sales tax use taxes, corporate income taxes and individual income taxes. The District contributed 9.5% and the State of Oklahoma plus the federal contribution contributed the remaining 4.5% during this year. EPIC is allowed by the Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members.

Annual Pension Cost

EPIC's total contributions for 2012 were \$103,645.

E. Surety Bonds

The officers, employees and members are bonded by Western Surety Company, bond number 71161176, for the penal sum of \$100,000 for the term August 31, 2011 to August, 2012.

F. Related Party Transactions

Graham Public Schools retained \$321,596 of State Aid representing 5% of the gross amount. \$660,640 was paid to EYS representing 10% of the gross revenue.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 28, 2012, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma County, Oklahoma

SUPPLEMENTAL INFORMATION
For the Period May 10, 2011 through June 30, 2012

EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma County, Oklahoma

SCHEDULE OF ACCOUNTANT'S PROFESSIONAL
LIABILITY INSURANCE AFFIDAVIT

JULY 1, 2011 TO JUNE 30, 2012

State of Oklahoma)

County of Payne)

The undersigned auditing firm of lawful age, being first duly sworn on oath, says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Epic Charter Schools for the audit year 2011-2012.

CBEW Professional Group, LLP

Auditing Firm

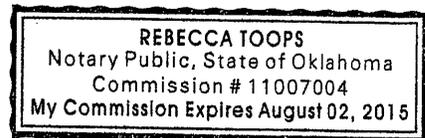
By Walter H. Hulse

Authorized Agent

Subscribed and sworn to before me on this 28th day of, August, 2012.

Rebecca Toops

Notary Public

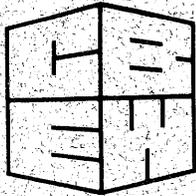


My commission expires on:

2nd day of August, 2015.

**EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma County, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
For the Period May 10, 2011 through June 30, 2012**



CBEW
Professional
Group, LLP

Certified Public Accountants

DON K. ETHRIDGE, CPA
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**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**

August 28, 2012

The Honorable Governance Board
Epic One-on-One Charter Schools
Oklahoma City, Oklahoma County, Oklahoma

We have audited the accompanying fund type and account group financial statements—regulatory basis within the combined financial statements of the Epic One-on-One Charter Schools, Oklahoma City, Oklahoma County, Oklahoma (EPIC), as of and for the period May 10, 2011 through June 30, 2012, and have issued our report thereon dated August 28, 2012, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered EPIC's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of EPIC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of EPIC's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EPIC's combined 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*.

Epic One-on-One Charter Schools
August 28, 2012

This report is intended solely for the information and use of the Governance Board and management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.

CBEW Professional Group, LLP
CBEW PROFESSIONAL GROUP, LLP
Certified Public Accountants

**EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma County, Oklahoma**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2012**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an adverse opinion on the combined financial statements in conformity with generally accepted accounting principles.
2. No significant deficiencies relating to the audit of the financial statements is reported in the Schedule of Findings and Questioned Costs.
3. No instances of noncompliance material to the financial statements of Epic One-On-One Charter Schools, Inc. were disclosed during the audit.

FINDINGS - FINANCIAL STATEMENT AUDIT

1. None observed

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. None observed

**EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma County, Oklahoma**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2012**

1. None observed

**EPIC ONE-ON-ONE CHARTER SCHOOLS
Oklahoma County, Oklahoma
June 30, 2012**

AUDIT ACKNOWLEDGEMENT

The annual independent audit for the Epic One-on-One Charter Schools was presented to the Governance Board in an Open Board Meeting on October 24, 2012, by CBEW Professional Group, LLP.

The School Board acknowledges that as the governing body of the district, responsible for the district's financial and compliance operations, the audit findings and exceptions have been presented to them.

A copy of the audit, including this acknowledgement form, will be sent to the Oklahoma State Department of Education within 30 days from it's presentation, as stated in 70 O.S. § 22-108:

"The local Governance Board shall forward a copy of the audit report to the State Governance Board within thirty (30) days after receipt of said audit."

Superintendent of Schools

Governance Board Vice President

Governance Board President

Governance Board Member

Governance Board Member

Governance Board Member

Subscribed and sworn to before me on this _____ day of _____, 2012.

My commission expires on _____ day of _____, 20____.

Notary Public

Affix Notary Seal