

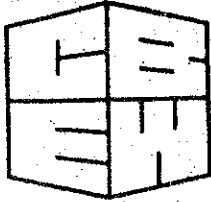
**EPIC BLENDED CHARTER SCHOOLS
Oklahoma County, Oklahoma**

**FINANCIAL STATEMENTS
June 30, 2018**

**EPIC BLENDED CHARTER SCHOOLS
Oklahoma County, Oklahoma**

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INDEPENDENT AUDITOR'S REPORT

September 13, 2018

The Honorable Governance Board
Epic Blended Charter Schools
Oklahoma City, Oklahoma County, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined fund type financial statements—regulatory basis of the Epic Blended Charter Schools, Oklahoma City, Oklahoma County, Oklahoma (EPIC Blended), as of and for the year ended June 30, 2018 and the related notes to the 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 financial reporting provisions of the Oklahoma State Department of Education to meet financial reporting requirements of the State of Oklahoma; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1, the financial statements are prepared by Epic Blended Charter Schools, on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oklahoma State Department of Education. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Epic Blended Charter Schools, Oklahoma City, Oklahoma County, Oklahoma, as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

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 of Epic Blended Charter Schools, Oklahoma City, Oklahoma County, Oklahoma, as of June 30, 2018, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise EPIC Blended's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole arising from regulatory basis transactions.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2018 on our consideration of EPIC Blended'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* in considering the EPIC Blended's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW PROFESSIONAL GROUP, LLP
Certified Public Accountants

**EPIC BLENDED CHARTER SCHOOLS
Oklahoma City, Oklahoma**

**COMBINED STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES
ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS
June 30, 2018**

ASSETS

	Governmental Fund Types
Assets:	
Cash and investments	\$ 7,933,651
Property, plant and equipment	-
Total assets	\$ 7,933,651

LIABILITIES AND FUND BALANCES

Liabilities:	
Warrants payable	\$ 18,340
Encumbrances	3,059,165
Total liabilities	3,077,505
Fund balances:	
Unassigned	4,856,146
Total fund balances	4,856,146
Total liabilities and fund balances	\$ 7,933,651

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

**EPIC BLENDED CHARTER SCHOOLS
Oklahoma Ctiy, Oklahoma**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS
For the Fiscal Year Ended June 30, 2018**

	<u>Governmental Fund Types</u> <u>General</u> <u>Operating</u>
Revenues:	
Local sources	\$ 2,651
Intermediate sources	-
State sources	22,396,352
Federal sources	195,119
Other sources	-
Total revenues collected	<u>22,594,122</u>
Expenditures:	
Instruction	14,993,323
Support services	2,552,232
Non-instructional services	192,421
Capital outlay	-
Debt service:	
Principal retirement	-
Interest	-
Other outlays	-
Total expenditures	<u>17,737,976</u>
Excess of revenues over (under) expenditures	4,856,146
Adjustments to prior year encumbrances	-
Beginning fund balances	<u>-</u>
Ending fund balances	<u>\$ 4,856,146</u>

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

EPIC BLENDED CHARTER SCHOOLS
Oklahoma City, Oklahoma

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

GENERAL FUND
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original Budget	Final Budget		
Revenues:				
Local sources	\$ -	\$ -	\$ 2,651	\$ 2,651
Intermediate sources	-	-	-	-
State sources	17,909,179	17,909,179	22,396,352	4,487,173
Federal sources	943,827	943,827	195,119	(748,708)
Other sources	-	-	-	-
Total revenues	<u>18,853,006</u>	<u>18,853,006</u>	<u>22,594,122</u>	<u>3,741,116</u>
Expenditures:				
Instruction	15,000,000	15,000,000	14,993,323	6,677
Support services	3,653,006	3,653,006	2,552,232	1,100,774
Non-instructional services	200,000	200,000	192,421	7,579
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest	-	-	-	-
Other outlays	-	-	-	-
Total expenditures	<u>18,853,006</u>	<u>18,853,006</u>	<u>17,737,976</u>	<u>1,115,030</u>
Net change in fund balance	-	-	4,856,146	4,856,146
Adjustments to prior year encumbrance	-	-	-	-
Beginning fund balance	-	-	-	-
Ending fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,856,146</u>	<u>\$ 4,856,146</u>

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

EPIC BLENDED CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Epic Blended 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

Epic Blended Charter School was formed in July 2017 and began operations with the first day of school September 5, 2017. Epic Blended Charter School is associated with Epic One-On-One Charter Schools. Community Strategies, Inc., an Oklahoma not-for-profit corporation described in Internal Revenue Code Section 501(c)(3), was originally formed for the benefit of a School to be called Epic 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 Rose State College, Oklahoma County, Oklahoma, as its sponsoring organization. Rose State College entered into a contract with EPIC and received approval from the Oklahoma State Department of Education to sponsor EPIC as a Charter School. 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 and must comply with the requirements of these funding source entities. 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 for operating and financial reporting purposes and 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 BLENDED CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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* 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. Community Strategies, Inc. has filed all applicable Federal and state income tax returns. 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:

EPIC BLENDED CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
June 30, 2018

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. A General Fixed Asset Account Group has not been presented in these financial statements at this time as there were no capital expenditures during the year that exceeded the capitalization policy in this initial year of operation.

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 BLENDED CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
June 30, 2018

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 BLENDED CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
June 30, 2018

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 acquisition 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. The cost of normal maintenance and repairs that do not add value of the asset or materially extend assets lives are not capitalized.

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 BLENDED CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
June 30, 2018

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 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 BLENDED CHARTER SCHOOL
Oklahoma County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
June 30, 2018**

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 BLENDED CHARTER SCHOOL
Oklahoma County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
June 30, 2018**

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2018, EPIC held deposits of approximately \$7,933,651 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, 2018 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 7,933,651	\$ 7,933,651
Total investments			<u>\$ 7,933,651</u>	<u>\$ 7,933,651</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 (\$7,933,651).

**EPIC BLENDED CHARTER SCHOOL
Oklahoma County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
June 30, 2018**

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. EPIC had the following insurance coverage during the year: commercial property - \$2,000,000; general liability - \$1,000,000; and educators liability \$1,000,000. 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.

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.

EPIC BLENDED CHARTER SCHOOL
Oklahoma County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
June 30, 2018

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Plan (Continued)

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. The school is required to pay 16.5% for any compensated retired teachers already receiving retirement benefits.

Annual Pension Cost

EPIC's total contributions for 2018 were all paid by EPIC One-on-One Charter Schools.

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, 2017 to August 31, 2018.

5. RELATED PARTY TRANSACTIONS

EPIC Blended Charter Schools and EPIC One-on-One Charter Schools are considered related parties, both of which are formed under Community Strategies, Inc. EPIC Blended transferred funds to EPIC One-on-One during the year in to cover payroll and other payroll liabilities when EPIC Blended was starting up this year.

EPIC BLENDED CHARTER SCHOOLS, INC.
Oklahoma City, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018

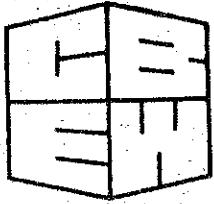
Federal Grantor/ Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Project Number	Grant Number	Program or Award Amount	Balance at July 1, 2017	Revenue Collected	Total Expenditures	Balance at June 30, 2018
U.S. Department of Education:								
Passed through State Department of Education:								
Title I	84.010	511	S010A170036	602,671	-	-	488,750	(488,750)
Title II, Part A	84.367	541	S367A170035	122,403	-	-	464	(464)
IDEA Cluster:								
IDEA-B, Flow Through	84.027	621	H027A170051	937,061	-	188,542	215,326	(26,784)
IDEA-B, Preschool	84.173	641	H173A170084	6,766	-	-	-	-
Cluster sub-total				943,827	-	188,542	215,326	(26,784)
Sub-Total				1,668,901	-	188,542	704,540	(515,998)
U. S. Department of Agriculture:								
Passed through State Department of Education:								
Child Nutrition Programs:								
National School Lunch Program	10.555	763		9,232	-	4,941	9,232	(4,291)
School Breakfast Program	10.553	764		3,126	-	1,636	3,126	(1,490)
Cluster Sub-Total				12,358	-	6,577	12,358	(5,781)
Total Expenditures of Federal Awards				\$ 1,681,259	\$ -	\$ 195,119	\$ 716,898	\$ (521,779)

Note A - Basis of Presentation - The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2018. Because the Schedule presents only selected portions of the operations of the School, it is not intended and does not present the financial position, changes in net assets, or cash flows of the School.

Note B - Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting consistent with the preparation of the combined financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

**EPIC BLENDED CHARTER SCHOOLS
Oklahoma County, Oklahoma**

**REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2018**



CBEW
Professional
Group, LLP
Certified Public Accountants

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WALTER H. WEBB, CPA
JANE FRAZIER, CPA
CHARLES E. CROOKS, CPA
TRISHA J. RIEMAN, CPA
GABRIELLE CONCHOLA, CPA

**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**

September 13, 2018

The Honorable Governance Board
Epic Blended Charter Schools
Oklahoma City, Oklahoma County, Oklahoma

We have audited, 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, the accompanying fund type financial statements—regulatory basis within the combined financial statements of the Epic Blended Charter Schools, Oklahoma City, Oklahoma County, Oklahoma (EPIC Blended), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the EPIC Blended's financial statements, and have issued our report thereon dated September 13, 2018, 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered EPIC Blended'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 EPIC Blended's internal control. Accordingly, we do not express an opinion on the effectiveness of EPIC Blended's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the EPIC Blended'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 this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CBEW Professional Group, LLP

CBEW PROFESSIONAL GROUP, LLP
Certified Public Accountants

**EPIC BLENDED CHARTER SCHOOLS
Oklahoma County, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2018**

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 and an unmodified on the combined statements in conformity with a regulatory basis of accounting prescribed by the Oklahoma Department of Education.
2. No significant deficiencies relating to the audit of the financial statements is reported in the Schedule of Findings and Responses.
3. No instances of noncompliance material to the financial statements of EPIC Blended Charter Schools were disclosed during the audit.

FINDINGS - FINANCIAL STATEMENT AUDIT

1. None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

2. None

**EPIC BLENDED CHARTER SCHOOLS
Oklahoma County, Oklahoma**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2018**

Not Applicable. This is the first year of operation of the school so there are no prior audit findings.

EPIC BLENDED CHARTER SCHOOLS
Oklahoma County, Oklahoma

SCHEDULE OF ACCOUNTANT'S PROFESSIONAL
LIABILITY INSURANCE AFFIDAVIT

JULY 1, 2017 TO JUNE 30, 2018

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 2017-2018.

CBEW Professional Group, LLP
Certified Public Accountants

Auditing Firm

By Walter Hulett

Authorized Agent

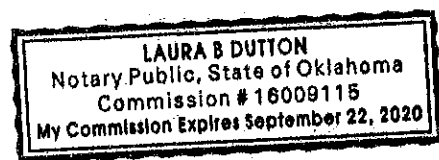
Subscribed and sworn to before me on this 13 day of September, 2018.

Laura B Dutton

Notary Public

My commission expires on:

22 day of Sept, 2020.



EPIC BLENDED CHARTER SCHOOLS
Oklahoma County, Oklahoma
June 30, 2018

AUDIT ACKNOWLEDGEMENT

The annual independent audit for the Epic Blended Charter Schools was presented to the Governance Board in an Open Board Meeting on October 17, 2018, by CBEW Professional Group, LLP.

Auditor Signature

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 and the State Auditor and Inspector within 30 days from it's presentation, as stated in 70 O.S. § 22-108:

"The district board of education shall forward a copy of the auditor's opinions and related financial statements to the State Board of Education and the State Auditor and Inspector within thirty (30) days after receipt of the 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 _____, 2018.

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

Notary Public

Affix Notary Seal