

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

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2021**

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Education  
Epic One-on-One Charter Schools  
Oklahoma City, Oklahoma County, Oklahoma

We have audited the accompanying financial statements of the Epic One-on-One Charter Schools ("Epic"), which comprise the statement of regulatory net position – regulatory basis as of and for the year ended June 30, 2021, and the related statement of regulatory activities – regulatory basis for the year then ended, and the related notes to the financial statements, which collectively comprise Epic's basic financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed by the Oklahoma State Department of Education described in Note 1; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matters described in the "Basis for Disclaimer of Opinion" paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on Epic's statement of regulatory activities.

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.

Except for the matters described in the "Basis for Disclaimer of Opinion on the 2021 Statement of Regulatory Activities" and the "Basis for Disclaimer of Opinion related to Commitments and Contingencies" paragraphs, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Summary of Opinions

<u>Opinion Unit</u>	<u>Financial Statement</u>	<u>Basis of Accounting</u>	<u>Type of Opinion</u>
Total for All Funds	Statement of Regulatory Net Position	Regulatory	Unmodified
	Statement of Regulatory Activities	Regulatory	Disclaimer
General Fund	Statement of Regulatory Net Position	Regulatory	Unmodified
	Statement of Regulatory Activities	Regulatory	Disclaimer

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

As described in Note 1, the financial statements are prepared by Epic, on the basis of the financial reporting provisions of 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 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 determinable, are presumed to be material.

### Basis for Disclaimer of Opinion on the 2021 Statement of Regulatory Activities

We have not been able to obtain sufficient appropriate audit evidence on the beginning balances recorded in the statement of regulatory net position related to the ending balances as of June 30, 2020. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect to elements making up the statement of regulatory activities.

### Basis for Disclaimer of Opinion related to Commitments and Contingencies

As discussed in Note 4 to the financial statements, Epic is party to various legal actions that may result in significant liabilities to Epic. Additionally, there may be unasserted claims for legal matters that have yet to be filed. As a result of these uncertainties, we were unable to determine if the potential liabilities disclosed would be complete and the values disclosed would be accurately stated in all material respects.

### Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of 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 Epic, as of June 30, 2021, the changes in its financial position for the year then ended.

### Disclaimer of Opinion

Because of the significance of the matter described in the “Basis for Disclaimer of Opinion on 2021 Statement of Regulatory Activities” and the “Basis for Disclaimer of Opinion related to Commitments and Contingencies” paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of regulatory activities – regulatory basis in accordance with the financial reporting provisions of Oklahoma State Department of Education as described in Note 1. Accordingly, we do not express an opinion on these financial statements.

### Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the statement of regulatory net position referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Epic One-on-One Charter Schools, as of June 30, 2021 in accordance with the regulatory basis of accounting described in Note 1 of the financial statements.



## Other Matters

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Epic's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

Management has omitted Management's Discussion and Analysis and the budgetary comparison schedules that are required supplementary information for the regulatory basis of accounting based on standards issued by the Oklahoma State Department of Education. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statement is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated May 9, 2022, 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 solely 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 effectiveness of Epic's 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 Epic's internal control over financial reporting and compliance.

*Arledge & Associates, P.C.*

Edmond, Oklahoma  
May 9, 2022



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

**STATEMENT OF REGULATORY NET POSITION**  
**ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS**  
**June 30, 2021**

	Total General Fund	Account Group	Total (Memo Only)
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 35,585,440	\$ -	\$ 35,585,440
Property, plant and equipment	-	3,329,367	3,329,367
<b>Total assets</b>	<b>\$ 35,585,440</b>	<b>\$ 3,329,367</b>	<b>\$ 38,914,807</b>
<b>LIABILITIES</b>			
Warrants outstanding	\$ 3,821,284	\$ -	\$ 3,821,284
Encumbrances	1,056,934	-	1,056,934
<b>Total liabilities</b>	<b>4,878,218</b>	<b>-</b>	<b>4,878,218</b>
<b>FUND BALANCES</b>			
Nonspendable	-	3,329,367	3,329,367
Unassigned	30,707,222	-	30,707,222
<b>Total Fund Balances</b>	<b>30,707,222</b>	<b>3,329,367</b>	<b>34,036,589</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 35,585,440</b>	<b>\$ 3,329,367</b>	<b>\$ 38,914,807</b>

The notes to the financial statements are an integral part of this statement.

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

**STATEMENT OF REGULATORY ACTIVITIES**  
**ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS**  
**For the year ended June 30, 2021**

	General Fund	Account Group	Total (Memo Only)
<b>Revenue</b>			
Local Sources	\$ 70,395,109	\$ -	\$ 70,395,109
Intermediate Sources	13,814	-	13,814
State Sources	191,574,792	-	191,574,792
Federal Sources	9,709,744	-	9,709,744
Total Revenues	<u>271,693,459</u>	<u>-</u>	<u>271,693,459</u>
<b>Expenditures</b>			
Current			
Instruction	207,397,637	-	207,397,637
Support Services	39,632,234	-	39,632,234
Non-instruction Services	1,735,487	(201,000)	1,534,487
Total Expenditures	<u>248,765,358</u>	<u>(201,000)</u>	<u>248,564,358</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	22,928,101	201,000	23,129,101
Fund Balance, beginning of year	<u>7,779,121</u>	<u>3,128,367</u>	<u>10,907,488</u>
Fund Balance, end of year	<u>\$ 30,707,222</u>	<u>\$ 3,329,367</u>	<u>\$ 34,036,589</u>

The notes to the financial statements are an integral part of this statement.

**EPIC ONE-ON-ONE CHARTER SCHOOL**  
**Oklahoma County, Oklahoma**  
**NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS as of June 30, 2021**

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**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 the 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 which 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 One-on-One Charter School is associated with Epic Blended Learning Charter Schools. 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.

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 provides bookkeeping and consulting services including the services of a treasurer. Epic terminated this agreement with EYS on May 26, 2021.

The governing body of Epic is the Board of Education (Board) composed of 6 nominated members, who are also the executive board of Community Strategies, Inc. The Superintendent was appointed as the executive officer of Epic. Additionally, the Deputy Superintendent of Finance was appointed as the Treasurer. 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 through an independent and thorough vetting process, which is performed by Education Board Partners, 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 the State of Oklahoma's 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 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.

## 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 provides students and families with a learning environment that can meet an individual student's unique needs. 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 an open examination with the Internal Revenue Service. See subsequent event note 6.

### 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.

#### D. Measurement Focus (Continued)

Epic has the following fund types:

**Governmental funds** - are used to account for most of Epic's general activities and general fixed assets account groups. The 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.
- Vendor obligations due and payable for goods and services received are recorded as a reduction of the encumbrance when paid.
- Investments are recorded as assets when acquired.
- School supplies are recorded as expenditures and not as inventory assets.

**E. Basis of Accounting and Presentation (Continued)**

- Warrants payable are recorded as liabilities when issued.
- 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.

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. 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 and 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.

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

**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.

**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.

**8. 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.

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

**8. Fund Balance (Continued)**

*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.

*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.

**9. 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.

**10. 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.

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

**11. 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.

**12. 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.

**13. 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.

### **3. DETAILED NOTES CONCERNING THE FUNDS**

#### **A. Deposits and Investments**

##### *Custodial Credit Risk*

At June 30, 2021, Epic held deposits of approximately \$35,585,440 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 Epic 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 other than limitations outlined by state law.

##### *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.).

**EPIC ONE-ON-ONE CHARTER SCHOOL**  
**Oklahoma County, Oklahoma**  
**NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS as of June 30, 2021**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

The cash and investments held at June 30, 2021 are as follows:

Type	Market Value	Cost	Credit Rating	Weighted Average Maturity
Cash and cash equivalents:				
Demand deposits	\$ 35,585,440	\$ 35,585,440	N/A	N/A
	<u>\$ 35,585,440</u>	<u>\$ 35,585,440</u>		

*Concentration of Credit Risk*

Epic has credit risk related to deposits in various financial institutions. Epic has collateralized these deposits to cover any potential risk of loss. Additionally, deposits are 100% covered by FDIC limits of \$250,000 per institution.

**B. Capital Assets**

Epic's capital asset activity for the year ended is as follows:

Type	Balance 6/30/2020	Additions	Disposals	Balance 6/30/2021
Capital assets:				
Furniture, fixtures, and equipment	\$ 34,437	\$ -	\$ -	\$ 34,437
Building & improvements	3,895,299	214,944	-	4,110,243
Less: accumulated depreciation	(399,369)	(415,944)	-	(815,313)
Total fixed assets	<u>\$ 3,530,367</u>	<u>\$ (201,000)</u>	<u>\$ -</u>	<u>\$ 3,329,367</u>

**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- \$1,000,000,000; 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.

#### **4. OTHER INFORMATION (Continued)**

##### **b. Contingencies**

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 that may be disallowed by the grantor cannot be determined at this time although Epic expects such amounts, if any, to be immaterial.

Epic is the defendant in various lawsuits and investigations. Although the outcome of these lawsuits is not presently determinable, Epic believes the resolution of these matters will not have a material adverse effect on the financial condition of Epic.

During 2020 and extending in 2021, the worldwide coronavirus pandemic impacted local, national, and global economies. Epic is closely monitoring its operations and available fund balances and actively working to minimize current and future impacts of the unprecedented situation. As of the date of issuance of these financial statements, the full current and future impact to Epic is not known.

##### **c. Commitments**

Epic has entered into various contracts that were formed in order for the virtual school to operate successfully. The contracts are with Powerschool LLC, Spendbridge, Resource Data Inc. and TeleComp. 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. Epic has several leases that extend beyond the date of June 30, 2022. However, these leases are in violation of Title 62 Section 430.1 of Oklahoma State Statutes, which requires a mutual ratification clause each year for leases extending after one year from the fiscal year end and are not considered committed after that date as the leases are in violation of state law.

##### **d. Employee Retirement System and Plan**

###### Teachers Retirement System of Oklahoma

*Description of Plan* - Epic 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.

#### 4. OTHER INFORMATION (Continued)

##### d. Employee Retirement System and Plan (Continued)

*Benefits Provided* - The System provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. Title 70 O.S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. Benefit provisions include:

- Members who began contributions prior to November 1, 2017 become 100% vested in benefits earned to date after five years of credited service. The vesting term for members who began contributions on or after November 1, 2017 is seven years.
- Members who joined the System prior to July 1, 1992 are eligible to retire at maximum benefits at the earlier of age 62 or when age and years of creditable service total 80. Members joining from July 1, 1992 to October 31, 2011 are eligible for maximum benefits at the earlier of age 62 or when their age and years of creditable service total 90. Members who joined the System on or after November 1, 2011 are eligible to retire with maximum benefits at the earlier of age 65 or when their age and years of creditable service total 90 as long as their age is at least 60.
- The maximum retirement benefit is 2% of final average compensation times the number of years of credited service. Reduced benefits are available at age 55 for members joining prior to November 1, 2011 or age 60 for members joining after October 31, 2011. Reduction factors vary depending on age and date of membership when joining the System.
- Final average compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for three highest years of contributing compensation. For members joining the System after June 30, 1992 final average compensation is defined as the average of the five highest consecutive years of contributing compensation. Prior to July 1, 1995 all contributions were limited to salary caps of \$40,000 or \$25,000 depending on the member's election. Salary caps were removed starting July 1, 1995.
- Upon death, the designated beneficiary of a member who has not retired shall receive total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. The surviving spouse may elect to receive the retirement benefit of the member, in lieu of the aforementioned benefits.
- Upon death of a retired member, the System will pay \$5,000 to the designated beneficiary in addition to the benefits provided by the retirement option selected by the member.
- A member is eligible for disability benefits after 10 years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.
- Upon withdrawal from the system, a member's contributions are refundable with interest, based on the years of service.

*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.

#### 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. Epic 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.

Epic's total contributions for 2021, 2020, and 2019 were \$9,625,304, \$5,797,151, and \$2,881,503, respectively, and equaled the required contributions each year

*Pension plan fiduciary net position* - Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS financial report that can be obtained at <http://www.ok.gov/trs/>.

##### e. Other Post-Employment Benefits (OPEB)

In addition to the retirement plan described in Note E, Epic participates in the state administered Supplemental Health Insurance Program (OPEB plan) within the Teachers' Retirement System of Oklahoma (the OPEB system), which is a cost-sharing multiple employer defined benefit OPEB plan administered by the TRS.

*Plan description* - Epic as the employer, participates in the Supplemental Health Insurance Program-a cost-sharing multiple-employer defined benefit OPEB plan administered by the Oklahoma Teachers Retirement System (OTRS). Title 74 O. S. Sec. 1316.3 defines the health insurance benefits. The authority to establish and amend benefit provisions rests with the State Legislature. OTRS issues a publicly available financial report that can be obtained at [www.ok.gov/OTRS](http://www.ok.gov/OTRS).

*Benefits provided* - OTRS pays a medical insurance supplement to eligible members who elect to continue their employer-provided health insurance. The supplement payment is between \$100 and \$105 per month, remitted to the Oklahoma Management Enterprise Services Employees Group Insurance Division, provided the member has ten (10) years of Oklahoma service prior to retirement.

*Contributions* - Employer and employee contributions are made based upon the TRS Plan provisions contained in Title 70, as amended. However, the statutes do not specify or identify any particular contribution source to pay the health insurance subsidy. Based on the contribution requirements of Title 70, employers and employees contribute a single amount based on a single contribution rate as described in Note E; from this amount OTRS allocates a portion of the contributions to the supplemental health insurance program. Epic's total contributions for 2021 were \$118,987.

*OPEB plan fiduciary net position* - Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report that can be obtained at <http://www.ok.gov/trs/>.

**EPIC ONE-ON-ONE CHARTER SCHOOL**  
**Oklahoma County, Oklahoma**  
**NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS as of June 30, 2021**

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**4. OTHER INFORMATION (Continued)**

**f. Surety Bonds**

The Superintendent, Minutes Clerk, Activity Fund Custodian, Treasurer and Encumbrance Clerk are bonded by Western Surety Company, bond number 71161176, for the penal sum of \$100,000 each for the term August 31, 2020 to August 31, 2021.

**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 to cover payroll and other payroll liabilities for Epic Blended.

**6. SUBSEQUENT EVENTS**

Management has evaluated subsequent events and transactions through the date of the audit report, which is the date the financial statements were available to be issued.

In December 2021, Epic agreed to pay the State Department of Education for exceeding the allowable limits on administrative expenditures per the audit of the State Auditor and Inspector. The penalty amounts to over \$9,000,000.

In January 2022, the Internal Revenue Services started an investigation of Epic's finances and governance. The final ruling of whether there will be a contingent loss is not yet determined.

The Board of Education has declared their intent to consolidate Epic One On One Charter School and Epic Blended Learning Charter. The request has been sent to the Oklahoma State Department of Education and is awaiting approval. Epic hopes to complete the consolidation on July 1, 2022. The new school district will be named "Epic Charter School" and will still be governed by Community Strategies, Inc. All assets, liabilities, debts, and appropriations will transfer to the new district.

**EPIC ONE-ON-ONE CHARTER SCHOOLS  
SINGLE AUDIT REPORTS  
AND SUPPLEMENTARY SCHEDULES**

**June 30, 2021**

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*

To the Board of Directors of  
Epic One on One Charter Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements, which comprise the statement of regulatory net position – regulatory basis and the related statement of regulatory activities – regulatory basis of Epic One on One Charter Schools (“Epic”), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Epic’s basic financial statements and have issued our report thereon dated May 9, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Epic’s internal control over financial reporting (internal control) as a basis for designing 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’s internal control. Accordingly, we do not express an opinion on the effectiveness of Epic’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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001, 2021-002, 2021-003, and 2021-008 that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Epic’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2021-004, 2021-005, 2021-006, and 2021-007.

**Epic’s Response to Findings**

Epic’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Epic’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## 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.

*Arledge & Associates, P.C.*

Edmond, Oklahoma  
May 9, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE; AND  
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Board of Education  
Epic One-on-One Charter Schools  
Oklahoma City, Oklahoma County, Oklahoma

**Report on Compliance for Each Major Federal Program**

We have audited Epic One-on-One Charter School's ("Epic") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Epic's major federal programs for the year ended June 30, 2021. Epic's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Epic's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Epic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Epic's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Epic, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-008. Our opinion on each major federal program is not modified with respect to these matters.

Epic's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Epic's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of Epic is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered

Epic's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Epic's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2021-008, that we consider to be a material weakness.

Epic's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Epic's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements – regulatory basis of Epic as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Epic's basic financial statements. We issued our report thereon dated May 9, 2022, which contained modifications to the opinion related to the use of the regulatory basis of accounting instead of generally accepted accounting principles ("GAAP"), an inability to obtain sufficient evidence related to opening net position and related to outstanding litigation and compliance issues that could have significant liabilities that were not estimable as of the date of the report. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis is required by the Uniform Guidance 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 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.

*Arledge & Associates, P.C.*

Edmond, Oklahoma  
May 9, 2022



**Epic One on One Charter Schools**  
**Schedule of Expenditures of Federal Awards By Grant**  
**For the Year Ended June 30, 2021**

<i><b>Federal Grantor/Program or Cluster Title</b></i>	<i><b>Federal AL Number</b></i>	<i><b>Pass-through Grantor and Number</b></i>	<i><b>Name of Grant - Grant ID No.</b></i>	<i><b>Federal Expenditures(\$)</b></i>
<b>Special Education Cluster (IDEA)-Cluster</b>				
Department of Education				
Special Education Grants to States				
Special Education Grants to States	84.027	Oklahoma State Department of Education		169,169
Special Education Grants to States	84.027	Oklahoma State Department of Education		5,408
Special Education Grants to States	84.027	Oklahoma State Department of Education		3,148,786
Total Special Education Grants to States				3,323,363
Special Education Preschool Grants				
Special Education Preschool Grants	84.173	Oklahoma State Department of Education		27,170
Total Special Education Preschool Grants				27,170
Total Department of Education				3,350,533
<b>Total Special Education Cluster (IDEA)-Cluster</b>				
<b>Other Programs</b>				
Department of Education				
Title I Grants to Local Educational Agencies				
Title I Grants to Local Educational Agencies	84.010	Oklahoma State Department of Education		3,935,979
Title I Grants to Local Educational Agencies	84.010	Oklahoma State Department of Education		15,555
Title I Grants to Local Educational Agencies	84.010	Oklahoma State Department of Education		14,342
Total Title I Grants to Local Educational Agencies				3,965,876
English Language Acquisition State Grants				
English Language Acquisition State Grants	84.365	Oklahoma State Department of Education		3,778
Total English Language Acquisition State Grants				3,778
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)				
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	Oklahoma State Department of Education		561,251
Total Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)				561,251
Education Stabilization Fund Under The Coronavirus Aid, Relief, And Economic Security Act				
Education Stabilization Fund Under The Coronavirus Aid, Relief, And Economic Security Act	84.425	Oklahoma State Department of Education		1,768,182
Total Education Stabilization Fund Under The Coronavirus Aid, Relief, And Economic Security Act				1,768,182
Total Department of Education				6,299,088
<b>Total Other Programs</b>				
<b>Total Expenditures of Federal Awards</b>				
				\$ 9,649,621

The accompanying notes are an integral part of this schedule

## **Epic One-on-One Charter Schools**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year Ended June 30, 2021**

#### **NOTE A—BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of Epic One-on-One Charter Schools (“Epic”) under programs of the federal government for the year ended June 30, 2021. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of Epic, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Epic.

#### **NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the SEFA are reported on the basis of the financial reporting provisions of 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 Oklahoma State Department of Education. 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. Epic has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

#### **NOTE C—SUBRECIPIENTS**

During the year ended June 30, 2021, Epic did not provide federal awards to subrecipients.

## Epic One-on-One Charter Schools

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2021

#### Section I--Summary of Auditor's Results

##### *Financial statements*

Type of auditor's report issued on whether the financial statements were in accordance with GAAP:

*Adverse*

Internal control over financial reporting:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☒ yes ☐ no

##### *Federal Awards*

Internal control over major federal programs:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☒ yes ☐ no

Identification of major federal programs:

<u>Program</u>	<u>Federal AL Number</u>
Special Education Cluster (IDEA)	*
Title I Grants to LEAs	84.010
Education Stabilization Fund Under CARES Act	84.425

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

## **Epic One-on-One Charter Schools**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2021**

#### **Section II--Findings Required to be Reported in Accordance with *Government Auditing Standards*:**

##### **A. Internal Control**

###### **Finding 2021-001 – Maintenance of proper control environment**

**Criteria:** A properly functioning control environment has 5 essential principles relating to it:

- 1) The organization demonstrates a commitment to integrity and ethical values.
- 2) The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
- 3) Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- 4) The organization demonstrates a commitment to attracting, developing, and retaining competent individuals in alignment with objectives.
- 5) The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

**Condition:** Previous management did not set an appropriate “tone at the top” to ensure ethical behavior and ensure that the structures designed were in alignment with the objectives of Epic.

**Cause and Effect:** Prior to May 2021, Epic was managed by individuals who also controlled Epic Youth Services (“EYS”). EYS charged management fees to Epic without outlining specific services provided. The management of EYS also served in management roles for Epic and approved payments to EYS. Additionally, management of Epic, and consequently, EYS, were allowed to appoint board members for Epic. This circular relationship created a conflict of interest between EYS and Epic where approvals were made without appropriate scrutiny for payments to EYS.

**Recommendation:** We recommend that Epic have a management and a board that would be completely independent of any vendors and that related parties be appropriately disclosed to the board prior to the approval of any payment or contract. Additionally, we recommend that the board enforce any conflict of interest policy for themselves as well as the management of Epic. Finally, we recommend that the relationship with EYS be terminated.

**Management Response:** We agree with the causes and findings as outlined above. The relationship with EYS was terminated on May 26<sup>th</sup>, 2021. A conflict of interest policy was approved by the Board in November 2020 that applies to all management and Board members.

###### **Finding 2021-002 – Tracking and recording of capital assets**

**Criteria:** Capital assets should be recorded at their initial historical cost and depreciated on a straight line basis over the historical life of the asset. Periodically, management should do an inventory of the capital assets and tag them where possible to ensure missing assets can be identified timely.

## **Epic One-on-One Charter Schools**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2021**

**Condition:** Capital assets were not tracked and a final detail of capital asset balances owned by Epic was considered to be inaccurate by management.

**Cause and Effect:** As a result, capital assets were included in the final capital asset balances that may not exist and there could be capital assets acquired that were not recorded. The amounts in question are unlikely to be material to the financial statements.

**Recommendation:** We recommend that management perform a full inventory on capital assets and implement controls surrounding their tracking and implement an annual reconciliation on capital assets acquired.

**Management Response:** We agree with the causes and findings as outlined above. We will implement the recommendations of the auditor and ensure the proper controls are in place for Epic.

#### **Finding 2021-003 – Monitoring of Student Learning Funds**

**Criteria:** Amounts remitted for student learning funds by the State of Oklahoma are approved for specific uses for the students and should be used for those purposes.

**Condition:** Upon receipt of the Student Learning Funds by Epic, amounts remitted for Student Learning Funds were remitted to EYS and were not monitored by the management of Epic.

**Cause and Effect:** As the funds were transferred to EYS, it is unknown whether or not funds were used according to specified purposes by the student and it is also unknown how much of the funds were utilized. As a result, there could be unused funds that should be returned to Epic or student activities that were approved that were not allowed under school policy and/or state statute.

**Recommendation:** We recommend that the Student Learning Funds be retained and monitored by Epic to ensure that funds are used for valid purposes in accordance with state appropriations.

**Management Response:** We agree with the causes and findings as outlined above. The Student Learning Fund was transitioned to public/school control effective July 1, 2021. All funds are part of the General Fund of Epic, subject to all policies and procedures for School funds.

## **B. Compliance Findings**

#### **Finding 2021-004 – Payments to Epic Youth Services for Administration**

**Criteria:** Per Title 70 of State Statutes, Schools are required to comply with the following requirements:

- 1) (Chapter 1, Section 18-124) Any school district with an average daily attendance (ADA) of more than one thousand five hundred (1,500) students for the preceding year which expends for administrative services in the 2005-06 school year or any school year thereafter, less expenditures for legal services, more than five percent (5%) of the amount it expends for total expenditures, less expenditures for legal services, shall have the amount which exceeds the five percent (5%) withheld the following year from the Foundation and Salary Incentive Aid for Epic. (Chapter 1

## **Epic One-on-One Charter Schools**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2021**

Section 5.200) Contracts for educational management organizations require itemized expenditure information for the goods or services provided by the management organization as defined by the Oklahoma Cost Accounting System (“OCAS”) expenditure codes.

- 2) (Chapter 1 Article III Section 3-136) Estimates or prorated amounts are not permitted for expenditures under OCAS.
- 3) (Chapter 1 Article XVIII) Administrative services mean costs associated with:
  - a. Staff for the board of education
  - b. Secretary/clerk for the board of education
  - c. Staff relations
  - d. Negotiations staff
  - e. Immediate staff of the superintendent, any elementary superintendent, or any assistant superintendent
  - f. Any superintendent, elementary superintendent, or assistant superintendent
  - g. Any employee of a school district employed as a director, coordinator, supervisor, or who has responsibility for the administrative functions of the school.
  - h. Any consultant hired by the school district.

**Condition:** EYS charged a standard rate for administrative services of 10% to Epic. These expenses were not itemized on invoices submitted and the costs were estimated by each line item on the invoice.

**Cause and Effect:** Payments were made totaling \$52,478,358 to Epic Youth Services during the fiscal year ending June 30, 2021. The invoices submitted did not comply with the requirements outlined by Title 70 under state statutes nor with the requirements noted under the Uniform Guidance. As a result, expenditures under these invoices may not have been allowable as administrative services.

**Recommendation:** We recommend that management deny approval through their control processes for any invoices not meeting the established criteria outlined in Title 70 of Oklahoma State Statutes and within the Uniform Guidance.

**Management Response:** We agree with the causes and findings as outlined above. The relationship with EYS was terminated on May 26<sup>th</sup>, 2021. Unless ordered by a court, Epic has not and will not pay any invoices to EYS after June 30, 2021.

#### **Finding 2021-005 – Lease commitments exceeding one year**

**Criteria:** Per Title 62 Section 430.1 of Oklahoma State Statutes, the governing board of any county, city or town, or school district is authorized to rent on a monthly basis real or personal property as authorized by the governing board and to pay the rental charges thereon for usage during any fiscal period, or portion thereof, out of appropriations made and approved for such purposes for, or during, such fiscal year. Any such rental contract extending beyond June 30 of the fiscal year shall contain provisions for mutual ratification of renewal under the conditions provided in this section.

**Condition:** Epic has 4 lease agreements that do not contain mutual ratification of renewal terms that have committed State funds beyond June 30, 2022.

## **Epic One-on-One Charter Schools**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2021**

**Cause and Effect:** Previous management signed lease agreements that have lease terms with varying terms of expiration but are all beyond the allowable date of June 30, 2022 and do not contain mutual renewal conditions in the contracts. This has resulted in the commitment of State funds beyond the appropriated budget year.

**Recommendation:** We recommend that Epic amend the lease agreements with the lessor to add the mutual ratification amendments to comply with state statutes.

**Management Response:** We agree with the causes and findings as outlined above. We will implement the recommendations of the auditor and ensure the proper controls are in place for Epic.

#### **Finding 2021-006 – Funding diversion from apportioned amounts**

**Criteria:** Under Title 70 Chapter 1 Section 19-118 – School districts and officers and employees who divert any monies received by a district from the purpose for which the monies were apportioned to the district shall be jointly and severally liable.

**Condition:** Funds earmarked in the budget for certain costs were diverted from the state-approved apportioned expenditures.

**Cause and Effect:** Payroll costs for Epic One on One Charter School and Epic Blended Learning Charter School were both paid by the appropriations made to Epic One on One during fiscal year ending June 30, 2021. While the costs were reimbursed, one district should not pay expenses on behalf of the other.

**Recommendation:** We recommend that management ensure that any costs submitted for approval for payment be assigned to the appropriate budget item and that costs not conforming to the approved budget be denied for payment.

**Management Response:** We agree with the causes and findings as outlined above. Effective July 1, 2021, neither district will pay costs on behalf of the other district and seek reimbursement. Both districts have their own payroll. The relationship with Epic California was terminated on June 30, 2021.

#### **Finding 2021-007 – Compliance with OCAS reporting requirements**

**Criteria:** Costs reported to the state must comply with requirements outlined under the Oklahoma Cost Accounting System (“OCAS”) per Title 70 Section 5-200 of Oklahoma State Statutes.

**Condition:** Certain expenditures of Epic were not submitted correctly or invoices were submitted for payment that were not correctly itemized so that coding to OCAS codes would have been possible.

**Cause and Effect:** Costs were reported to OCAS that did not conform to the requirements per statutes. Management underwent an extensive analysis during the year to the proper reporting of these costs going

## **Epic One-on-One Charter Schools**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2021**

forward. Primary issues surrounded how staff were reported as many staff had multiple functions within their job descriptions that applied to multiple categories per OCAS.

**Recommendation:** We recommend that Epic review their job descriptions and other expenditures and map items appropriately to the categories per the OCAS system.

**Management Response:** We agree with the causes and findings as outlined above. We will implement the recommendations of the auditor and ensure the proper controls are in place for Epic.

### **Section III--Findings Required to be Reported in Accordance with the Uniform Guidance:**

#### **A. Internal Control**

##### **Finding 2021-008 – Proper procurement for contracts**

**Criteria:** From the Uniform Guidance sections 200.31-200.326, there are five general procurement standards that cover the purchase of property, supplies and services under the Uniform Guidance:

1. The organization must maintain written policies and procedures for procurement covering the methods available under these regulations.
2. Costs must be reasonable and necessary
3. Must provide for full and open competition
4. The organization must maintain written standards of conduct covering internal and external conflicts of interest
5. The organization must maintain documentation addressing cost and price analysis and vendor selections where applicable based on the method of procurement used.

**Condition:** Prior to July 1, 2021, management did not have a formal bid policy in place for contracts that required formal bids that were consistent with requirements outlined by the Uniform Guidance.

**Cause and Effect:** Epic had an expenditure exceeding \$25,000 that did not follow the specified process where an open competition occurred, a price analysis was performed, and there was no bid process was followed.

**Recommendation:** We recommend that management establish a formal procurement policy that meets the requirements outlined by the Uniform Guidance.

**Management Response:** We agree with the causes and findings as outlined above. A procurement procedure that meets the requirements outlined by the Uniform Guidance has been in effect since January 2022.

#### **B. Compliance Findings**

No findings to report as of June 30, 2021

**Epic One-on-One Charter Schools**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

**June 30, 2021**

**Section II--Findings Required to be Reported in Accordance with *Government Auditing Standards*:**

**A. Internal Control**

No findings to report

**B. Compliance Findings**

No findings to report

**Section III--Findings Required to be Reported in Accordance with the Uniform Guidance:**

**A. Internal Control**

No findings to report

**B. Compliance Findings**

No findings to report

**EPIC ONE-ON-ONE CHARTER SCHOOLS  
OKLAHOMA COUNTY OKLAHOMA  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT  
JULY 1, 2020 TO JUNE 30, 2021**

State of Oklahoma)  
County of Oklahoma)

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 One-on-One Charter Schools for the audit year July 1, 2020 to June 30, 2021.

Arledge & Associates, P.C.  
Auditing Firm

By

  
Authorized Agent

Subscribed and sworn to before me on this

10<sup>th</sup> day of May, 2022

Gretchen Martin  
NOTARY PUBLIC

My commission expires on:

6<sup>th</sup> day of August, 2023

