



EPIC ACADEMY, INC.
(A NONPROFIT CORPORATION)

Financial Statements

June 30, 2009 and Period from March 14, 2007 (Inception) to June 30, 2008

EPIC ACADEMY, INC.
(A NONPROFIT CORPORATION)

FINANCIAL STATEMENTS
JUNE 30, 2009 AND PERIOD FROM MARCH 14, 2007 (INCEPTION) TO JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
EPIC Academy, Inc.
Chicago, Illinois

We have audited the accompanying statements of financial position of EPIC Academy, Inc. (a nonprofit corporation) (the Academy) as of June 30, 2009 and 2008 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year ended June 30, 2009 and for the period from March 14, 2007 (inception) to June 30, 2008. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EPIC Academy, Inc. as of June 30, 2009 and 2008 and the results of its activities and changes in net assets and its cash flows for the year ended June 30, 2009 and for the period from March 14, 2007 (inception) to June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2009, on our consideration of the Academy'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 on compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Kutichins, Robbins & Diamond, Ltd.

September 2, 2009

EPIC ACADEMY, INC.
(A NONPROFIT CORPORATION)

BALANCE SHEETS

JUNE 30, 2009 AND 2008

See notes to financial statements.

	2009	2008
<i>ASSETS</i>		
CURRENT ASSETS		
Cash	\$ 118,076	\$ 1,026
Prepaid expenses	11,607	-
	129,683	1,026
EQUIPMENT		
Computer equipment	10,884	-
Less: accumulated depreciation	(454)	-
	10,430	-
	\$ 140,113	\$ 1,026
<i>NET ASSETS</i>		
CURRENT LIABILITIES		
Accounts payable	\$ 861	\$ -
Deferred student fees	1,610	-
	2,471	-
NET ASSETS		
Unrestricted	42,697	1,026
Temporarily restricted	94,945	-
	137,642	1,026
	\$ 140,113	\$ 1,026

(A NONPROFIT CORPORATION)

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2009 AND PERIOD FROM MARCH 14, 2007 (INCEPTION) TO JUNE 30, 2008

See notes to financial statements.

	2009		March 14, 2007 (inception) to June 30, 2008	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
SUPPORT AND REVENUE			TOTAL	TOTAL
Chicago Public school grants	\$ 17,500	\$ -	\$ 17,500	\$ -
Other grants	-	-	-	22,500
Expeditionary learning schools	32,800	-	32,800	-
Renaissance schools fund	-	200,000	200,000	-
Board contributions	8,900	-	8,900	-
Donated services	36,421	-	36,421	-
Assets released from restrictions	105,055	(105,055)	-	-
	<u>200,676</u>	<u>94,945</u>	<u>295,621</u>	<u>22,500</u>
EXPENSES				
Program services	117,642	-	117,642	19,343
Management and general	41,363	-	41,363	2,131
	<u>159,005</u>	<u>-</u>	<u>159,005</u>	<u>21,474</u>
CHANGE IN NET ASSETS	<u>41,671</u>	<u>94,945</u>	<u>136,616</u>	<u>1,026</u>
NET ASSETS AT BEGINNING OF PERIOD	<u>1,026</u>	<u>-</u>	<u>1,026</u>	<u>-</u>
NET ASSETS AT END OF PERIOD	<u>\$ 42,697</u>	<u>\$ 94,945</u>	<u>\$ 137,642</u>	<u>\$ 1,026</u>

EPIC ACADEMY, INC.
(A NONPROFIT CORPORATION)
STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009 AND PERIOD FROM MARCH 14, 2007 (INCEPTION) TO JUNE 30, 2008

See notes to financial statements.

	2009			2008		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Classroom technology and material	\$ 14,203	\$ -	\$ 14,203	\$ 102	\$ -	\$ 102
Depreciation	-	454	454	-	-	-
Insurance	-	1,133	1,133	-	-	-
Miscellaneous	227	510	737	-	1,063	1,063
Personnel costs	57,217	32,899	90,116	10,000	-	10,000
Postage	536	-	536	-	-	-
Printing	313	-	313	1,148	-	1,148
Professional development costs	33,225	-	33,225	2,204	-	2,204
Professional fees	-	4,719	4,719	-	715	715
Staff recruitment	3,848	-	3,848	-	-	-
Student recruitment	3,783	-	3,783	-	-	-
Supplies and materials	1,630	1,648	3,278	679	353	1,032
Travel	2,616	-	2,616	5,009	-	5,009
Web service	44	-	44	201	-	201
	\$ 117,642	\$ 41,363	\$ 159,005	\$ 19,343	\$ 2,131	\$ 21,474

EPIC ACADEMY, INC.
(A NONPROFIT CORPORATION)

STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2009 AND PERIOD FROM MARCH 14, 2007 (INCEPTION) TO JUNE 30, 2008

See notes to financial statements.

	<u>2009</u>	<u>Period from March 14, 2007 (inception) to June 30, 2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 136,616	\$ 1,026
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Depreciation	454	-
Changes in assets and liabilities		
Prepaid expenses	(11,607)	-
Accounts payable	861	-
Deferred student fees	1,610	-
	<u>127,934</u>	<u>1,026</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for equipment	<u>(10,884)</u>	<u>-</u>
	<u>(10,884)</u>	<u>-</u>
Net cash used in investing activities		
NET INCREASE IN CASH	117,050	1,026
CASH AT BEGINNING OF PERIOD	<u>1,026</u>	<u>-</u>
CASH AT END OF PERIOD	<u><u>\$ 118,076</u></u>	<u><u>\$ 1,026</u></u>

EPIC ACADEMY, INC.
(A NONPROFIT CORPORATION)

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND PERIOD FROM MARCH 14, 2007 (INCEPTION) TO JUNE 30, 2008

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: EPIC Academy, Inc. (the Academy) was formed to provide educational services to 480 high school students with a rigorous college preparatory curriculum based on the Expeditionary Learning School Model and a Contract high school under the Performance Agreement (the Agreement) with Chicago Public Schools (CPS) and Chicago Board of Education (Board), which is for an initial term of five years, beginning July 1, 2009. The first instruction year commencing in September 2009, with 120 students in the 9th grade and in subsequent years grades 9th through 12th to total capacity of 480 students. The Academy is to be located at 8255 South Houston, Chicago (the facility).

The Academy will not charge tuition from any student, unless the student would otherwise be liable under the School Code, as defined within the agreement with the Board. The Academy may charge reasonable fees as permitted for textbooks, instructional material, summer school programs, after school programs and other student activities. The per capita tuition payment for each student from the Board is to be calculated on the basis of the budget adopted by the Board each fiscal year and paid to the Academy on a quarterly basis. These payments are expected to be reduced by a facility charge. The Academy may be eligible for additional funding for programs such as special education reimbursements and supplemental programs.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include resources that are not subject to donor-imposed restrictions plus those resources for which donor-imposed restrictions have been satisfied. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

Temporarily restricted net assets are subject to donor-imposed restrictions related to specific purposes. Satisfaction of temporarily restricted net assets (i.e., when the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) is reported as a reclassification from temporarily restricted net assets to unrestricted net assets. The Academy reports contributions with a donor-imposed restriction whose restrictions are met in the same reporting period as unrestricted support in the statements of activities.

Permanently restricted net assets are subject to donor-imposed restrictions that will never lapse, thus requiring that the funds be retained permanently. The Academy has no permanently restricted net assets.

Revenue Recognition: Revenue from the state and local government resulting from the Academy's contract status is to be based on the number of students enrolled and is to be recorded when the services are performed in accordance with the Performance Agreement.

Functional Allocation of Expense: The costs of providing the program and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

EPIC ACADEMY, INC.
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND PERIOD FROM MARCH 14, 2007 (INCEPTION) TO JUNE 30, 2008

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk: The Academy maintains cash balances in a financial institution which are insured by the Federal Deposit Insurance Corporation (FDIC). The balances held in the institution do not exceed the FDIC insured limits.

Equipment: Equipment is carried at cost. The Academy has established a \$500 threshold above which assets are capitalized. Depreciation is computed using straight-line with half year convention over the estimated useful lives of the related assets, which range from three to five years.

Deferred Student Fees: Student fees received for the subsequent school year are recorded as deferred student fees and are to be recognized as income in the fiscal year the instruction is provided.

Donated Services: As required by SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, the Academy recognizes the fair value of contributed services when the contributed services (a) create or enhance nonfinancial assets of (b) require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation.

The donated accountant and legal services revenue represents the estimated value of services performed for the Academy. The services revenue totaled \$3,103 for the year ended June 31, 2009. Additionally, Expeditionary Learning Schools has contracted with the Academy to provide training and set up help to the Academy, the value of these services totaling \$33,318. Accordingly, the donated services are included as both revenue and expense in the accompanying statements of activities and changes in net assets.

Tax Status: The Academy is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

Accounting for uncertain tax positions: In June 2006, the FASB issued Interpretation No.48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. On December 30, 2008, the FASB issued FASB Staff Position FIN 48-3 which deferred the effective implementation date of FIN 48 to the Academy's annual financial statements ending on December 31, 2009. The Academy does not expect that the adoption of FIN 48 will have a material effect on its financial position, results of its activities and changes in net assets or cash flows.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND PERIOD FROM MARCH 14, 2007 (INCEPTION) TO JUNE 30, 2008

EMPLOYEE BENEFIT PLAN

Beginning in June 2009, the Academy adopted a safe harbor 403(b) salary deferral plan that covers full time and part time employees. The Academy intends to match employee contributions up to 3% of the employee's salary. At June 30, 2009, no contributions have been made into the plan.

FACILITY AGREEMENT

The Academy entered into a facility agreement with the Board that commenced on July 1, 2009 and terminates June 30, 2014. The agreement calls for an annual facility fee for the costs related to utilities, maintenance and security of the facility and is expected to be \$185,880.

VULNERABILITY DUE TO REGULATORY UNCERTAINTIES

The Academy's ability to operate would be dependent on its agreement being renewed and funding under the agreement. The Academy will be operating under a highly regulated environment and administrative directives, rules and regulations of various federal, state and local regulatory agencies, which are subject to change by an act of the Illinois State Legislature or an administrative change mandated by the Chicago Board of Education or the Illinois State Board of Education.

SEGREGATION OF NET ASSETS

Temporarily Restricted: The Academy has temporarily restricted net assets to support the:

	<u>2009</u>	<u>2008</u>
School Program	\$ <u>94,945</u>	\$ <u>-</u>

During the year ended June 30, 2009, temporarily restricted net assets were released from restrictions as the Academy incurred expenses, satisfying the restricted purpose designated by the donor. Temporarily restricted net assets were released from restrictions to support the:

	<u>2009</u>	<u>2008</u>
School Program	\$ <u>105,055</u>	\$ <u>-</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
EPIC Academy, Inc.

We have audited the financial statements of EPIC Academy, Inc. (the Academy) as of and for the year ended June 30, 2009, and have issued our report thereon dated September 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy'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*.

We noted certain matters that we reported to management of the Academy's in a separate letter dated September 2, 2009.

This report is intended solely for the information and use of management, Board of Directors, others within the Academy and the Chicago Public Schools and the Chicago Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Kitchins, Robbins & Diamond, Ltd.

September 2, 2009