Orion Academy

Office of Management and Budget Circular A-133 Reports Including Supplemental Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2009

Mary Taylor, CPA
Auditor of State

Board of Directors
Orion Academy
1798 Queen City Avenue
Cincinnati, Ohio 45214

We have reviewed the *Independent Auditors' Report* of the Orion Academy, Hamilton County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Orion Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 22, 2009

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ORION ACADEMY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orion Academy
Cincinnati, Ohio 45214

We have audited the accompanying statement of net assets of Orion Academy (the "Academy") as of June 30, 2009, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the year then ended. 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 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Academy as of June 30, 2009 and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 to 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Academy's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Academy's basic financial statements. The accompanying supplemental schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Ohio Department of Education, and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Academy's management. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2009, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 19, 2009

ORION ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The discussion and analysis of Orion Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities through June 30, 2009. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. It should be read in conjunction with the financial statements and notes to the financial statements, which immediately follow this section, to enhance the reader's understanding of the Academy's financial performance.

The Management's Discussion and Analysis ("MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board ("GASB") in their Statement No. 34 Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999.

Financial Highlights

For the fiscal year ended June 30, 2009, total assets were $360,535, total liabilities were $318,305, and total net assets were $42,230.

Using this Financial Report

This report consists of three parts, the MD&A, the financial statements, and notes to those statements. The financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities. The Academy has entered into a management agreement (the "agreement") with

National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

The table below provides a summary of the Academy's net assets for fiscal years ended June 30:

	2009	2008
Assets—current	$ 360,535	$ 396,637
Liabilities—current	318,305	356,280
Net assets—unrestricted	$ 42,230	$ 40,357

The unrestricted net assets represent the accumulated results of the Academy's operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the Academy as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which shows the change in net assets.

Statement of Revenues, Expenses and Changes in Net Assets

The table below shows the changes in net assets as well as a listing of revenues and expenses for the fiscal years ending June 30:

	2009	2008
Operating revenues:		
Foundation payments	$ 3,957,488	$4,032,164
Food services	4,196	7,095
Other revenues	8,559	12,558
Total operating revenues	3,970,243	4,051,817
Operating expenses—		
Contracted service fee	6,820,775	7,142,725
Operating loss	(2,850,532)	(3,090,908)
Nonoperating revenues:		
Federal grants	1,139,776	1,051,282
State grants	18,929	17,182
Private sources—NHA	1,693,700	2,018,327
Total nonoperating revenues	2,852,405	3,086,791
Change in net assets	$ 1,873	$ (4,117)

As reported in the Statement of Revenues, Expenses and Changes in Net Assets, the cost of business activities was $6,820,775. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. Revenues—Private sources—NHA represent a contribution granted by NHA for the excess of Academy expenses over public revenues available.

The Academy experienced an increase in net assets of $1,873 in 2009. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net assets is the timing of these discretionary expenditures.

General Economic Factors

The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2010.

Contacting the Academy's Financial Management

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste. 201, Grand Rapids, MI 49512.

ORION ACADEMY

STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS:	
Cash	$ 50,691
Intergovernmental receivable	309,844
Total assets	360,535
LIABILITIES—	
Due to National Heritage Academies, Inc.	318,305
NET ASSETS—Unrestricted	$ 42,230

See notes to financial statements.

ORION ACADEMY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009

OPERATING REVENUES:	
Foundation payments	$ 3,957,488
Food services	4,196
Other revenues	8,559
Total operating revenues	3,970,243
OPERATING EXPENSES—Contracted service fee	6,820,775
OPERATING LOSS	(2,850,532)
NONOPERATING REVENUES:	
Federal grants	1,139,776
State grants	18,929
Private sources—National Heritage Acadmies, Inc.	1,693,700
Total nonoperating revenue	2,852,405
CHANGE IN NET ASSETS	1,873
NET ASSETS—Beginning of year	40,357
NET ASSETS—End of year	$ 42,230

See notes to financial statements.

ORION ACADEMY

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	$ 3,956,173
Cash received from food services	4,196
Cash received from other operating revenue	8,559
Cash paid on behalf of the Academy for goods and services	(6,856,906)
Net cash used for operating activities	(2,887,978)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	1,177,222
State grants received	18,929
Support from private sources—National Heritage Academies, Inc.	1,693,700
Net cash provided by noncapital financing activities	2,889,851
NET INCREASE IN CASH	1,873
CASH—Beginning of year	48,818
CASH—End of year	$ 50,691
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Operating loss	$ (2,850,532)
Changes in Assets and Liabilities:	
Decrease in deferred state revenue	(1,315)
Change in due to National Heritage Academies, Inc	(36,131)
Net change in assets and liabilities	(37,446)
NET CASH USED FOR OPERATING ACTIVITIES	$ (2,887,978)

See notes to financial statements.

1. NATURE OF OPERATIONS

Orion Academy (the "Academy") is an Ohio Public School Academy which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy operates under an approved charter received from Lucas County Educational Service Center ("LCESC" or the "Sponsor"), which is responsible for oversight of the Academy's operations. The charter's term ends on May 30, 2010 pat which time it will automatically renew on a year-to-year basis, unless at least 90 days written notice is given by either the Academy or LCESC. The Academy provides education to students in kindergarten through the eighth grade, at no cost to the parent. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy was established and is operated as a non-profit corporation under Chapter 1702 of the Ohio Revised Code and believes itself to be exempt from taxation under Internal Revenue Code Section 115(1) because its income is derived from the exercise of an essential governmental function and accrues to the State of Ohio. Donations to the Academy qualify as a charitable deduction under Internal Revenue Code Section 170(c)(1).

The Academy operates under the direction of a Board of Directors (the "Board"). The Board is responsible for carrying out the provisions of the contract with the Sponsor which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Board has entered into a management agreement (the "Agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the Agreement, NHA also provides the facility in which the Academy operates. The facility lease term is from July 1st to June 30th and is renewable on a year to year basis. The Agreement will continue until termination of the charter contract, inclusive of any charter contract renewals, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the Agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. Revenues—private sources—National Heritage Academies, Inc. represent a contribution granted by NHA for the excess of Academy expenses over public revenues available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board ("FASB") statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB statements or interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprises activities.

C. Basis of Accounting

Basis of Accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the Academy to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Estimates

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

F. Cash Deposits

For cash management, all cash received by the Chief Financial Officer is pooled in a non-interest bearing central bank account. Total cash for the Academy is presented as “Cash” on the accompanying Statement of Net Assets. Cash as of June 30, 2009, represents bank deposits, which are covered by federal depository insurance.

G. Current Liabilities

Due to National Heritage Academies, Inc.—this amount consists of payments due to NHA for management services rendered in fiscal year 2009.

H. Operating Revenues and Expenses

Intergovernmental Revenues—the Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (“DPIA”) Program, the State Intervention Services Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as nonoperating revenue in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At fiscal year end June 30, 2009, the Academy had no restricted net assets.

3. DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2009, the Academy’s bank balance was $55,935. Based on the criteria described in GASB Statement No. 40, “Deposit and Investment Risk Disclosure,” as of June 30, 2009, none of the bank balance was exposed to custodial risk as discussed below and all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Bank or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

4. RECEIVABLES

Receivables at June 30, 2009, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Title I	$ 241,114
Title I School Improvement	65
Title IIA	26,220
Title IID	816
Title V	3,065
IDEA Part B	30,810
National School Lunch and Breakfast	7,754
Total intergovernmental receivables	$ 309,844

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System—NHA, on behalf of certain employees at the Academy, contributes to the School Employees Retirement System ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and NHA is required to contribute at an actuarially determined rate. The current NHA rate is 14 percent of annual covered payroll. A portion of NHA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. NHA's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007, were $59,050, $65,176, and $47,710, respectively; and 100 percent was contributed for each fiscal year.

B. State Teachers Retirement System—NHA, on behalf of teachers at the Academy, participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad St., Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit ("DB") Plan, a Defined Contribution ("DC") Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The

Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10 percent of their annual covered salaries. NHA was required to contribute 14 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. NHA's required contributions for pension obligations for the fiscal years ended June 30, 2009, 2008 and 2007, were $247,272, $272,162, and $186,871, respectively; 100 percent was contributed for each fiscal year.

6. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio and to retired, non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2009, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2009, 2008 and 2007 were $17,662, $19,440 and $13,348, respectively; 100 percent was contributed for each fiscal year.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2008 (the latest information available) the balance in the Fund was $3.7 billion. For the year ended June 30, 2008, net health care costs paid by STRS Ohio were approximately $325.8 million and STRS Ohio had 126,506 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2009, employer contributions to fund health care benefits were 4.16 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2009, the minimum pay was established at $35,800. For the Academy, the amounts contributed to fund health care benefits, including the surcharge, for the fiscal years ended June 30, 2009, 2008 and 2007, were equaled $21,767, $24,835, and $16,453, respectively.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provided for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2008, were approximately $131.8 million. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2008, the value of the health care fund was $392.7 million, which is about 235 percent of next year's projected net health care costs of approximately $167.1 million. On the basis of actuarial projections, the allocated contributions will be less than the total claims in future years and the future reserve amounts will eventually be less than the target of 150 percent of estimated annual net claim costs. SERS has approximately 64,818 participants receiving health care benefits.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions to Medicare Part B for the fiscal years ended June 30, 2009, 2008 and 2007 were $3,163, $3,073 and $2,317 respectively, 100 percent was contributed in each fiscal year.

7. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained through Indiana Insurance Company. General liability coverage provides $1,000,000 per occurrence and $5,000,000 in the aggregate with no deductible. The Indiana Insurance Company also provides umbrella liability coverage of $1,000,000 per occurrence, as well as, in the aggregate. There have been no significant reductions in insurance coverage during fiscal year 2009, and claims did not exceed coverage less retained risk deductible amounts during the past three fiscal years.

8. CONTINGENCIES

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

B. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 33`4, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in the State funding being adjusted. The Academy does not anticipate any material adjustments to State funding for fiscal year 2008, as a result of such a review.

9. CONTRACTED SERVICE FEE

NHA incurred the following actual direct and indirect expenses on behalf of the Academy for the year ended June 30, 2009:

Direct Expenses:	
Salaries, wages and benefits	$ 2,870,310
Professional and technical services	367,032
Property services	1,648,210
Travel	124,847
Utilities	118,341
Contracted (trade) services	33,148
Purchased services	39,575
Books, periodicals and films	145,113
Food and related supplies	341,417
Supplies	168,518
Insurance and property taxes	125,113
Field trips and student activities	31,713
Equipment lease and purchases	136,480
Total direct expenses	6,149,817
Total indirect expenses (overhead)	670,958
Total contracted service fee	$ 6,820,775

NHA charges expenses benefiting more than one school (i.e. indirect overhead expenses) based on key cost drivers. These charges represent indirect cost of services provided in the operation of the Academy. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

10. SPONSORSHIP AGREEMENT

The Academy entered into a sponsorship agreement with the LCESC. This agreement provides that LCESC receives approximately one percent of State Foundation funds received by the Academy from the State of Ohio. This amounted to $39,575 for fiscal year 2009.

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SUPPLEMENTAL SCHEDULE

ORION ACADEMY

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenses
U.S. Department of Education—				
Passed through the Ohio Department of Education:				
Title I Grants to Local Educational Agencies	2008	84.010	$ 249,376	$ 52,296
	2009		351,674	446,416
			601,050	498,712
Title I School Improvement	2009	84.377	59,935	59,935
Title II Improving Teacher Quality	2008	84.367	565	-
	2009		9,557	8,902
			10,122	8,902
Title IID Technology Education	2008	84.318	312	312
	2009		8,771	8,771
			9,083	9,083
Title IV Safe & Drug Free Schools	2008	84.186	(438)	-
Title V LEA Allocation	2009	84.298	-	784
Special Education Cluster—				
IDEA Part B	2008	84.027	31,867	1,259
	2009		97,010	129,078
			128,877	130,337
Total U.S. Department of Education			808,629	707,753
U.S. Department of Agriculture—				
Passed through the Ohio Department of Education:				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program—		10.555		
Entitlement Commodities	2009		13,239	13,239
Total Non-Cash Assistance			13,239	13,239

(Continued)

ORION ACADEMY

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009 (CONTINUED)

Federal Grantor/Pass-Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenses
U.S. Department of Agriculture—				
Passed through the Ohio Department of Education:				
Cash Assistance:				
National School Breakfast Program				
	2008	10.553	16,785	-
	2009		108,564	111,311
			125,349	111,311
National School Lunch Program				
	2008	10.555	28,942	-
	2009		201,063	206,071
			230,005	206,071
Total Non-Cash Assistance			355,354	317,382
Total U.S. Department of Agriculture			368,593	330,621
TOTAL			$ 1,177,222	$ 1,038,374

See note to supplemental schedule of expenditures of federal awards.

ORION ACADEMY

NOTE TO SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

A. BASIS OF PRESENTATION

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented in accordance with the U.S. Office of Management and Budget ("OMB") Circular A-133 and is prepared using the accrual basis of accounting.

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

Board of Directors
Orion Academy
Cincinnati, Ohio 45214

We have audited the financial statements of Orion Academy (the "Academy") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 19, 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 defici*ency 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 a certain matter that we reported to the management of the Academy in a separate letter dated October 19, 2009.

This report is intended solely for the information and use of the Board of Directors, management of the Academy, National Heritage Academies, Inc., Lucas County Education Service Center, federal awarding agencies, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 19, 2009

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Orion Academy
Cincinnati, Ohio 45214

Compliance

We have audited the compliance of Orion Academy (the "Academy") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the Ohio School Auditing Manual that are applicable to each of its major federal programs for the year ended June 30, 2009. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the Ohio Department of Education. Those standards and OMB Circular A-133 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 the Academy'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. Our audit does not provide a legal determination of the Academy's compliance with those requirements.

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Academy's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management of the Academy, National Heritage Academies, Inc., Lucas County Education Service Center, federal awarding agencies, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 19, 2009

ORION ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

PART I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued	Unqualified	
Internal control over financial reporting: Material weakness(es) identified?	_____ Yes	_X_ No
Significant deficiency(s) identified not considered to be material weaknesses?	_____ Yes	_X_ N/A
Noncompliance material to financial statements noted?	_____ Yes	_X_ No

Federal Awards

Internal control over major programs: Material weakness(es) identified?	_____ Yes	_X_ No
Significant deficiency(s) identified not considered to be material weaknesses?	_____ Yes	_X_ N/A
Type of auditors' report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))?	_____ Yes	_X_ No

Identification of major programs:

Name of Federal Program or Cluster Number	CFDA Number
Title I Grants to Local Educational Agencies	84.010
Child Nutrition Cluster:	
National School Breakfast Program	10.553
National School Lunch Program	10.555

Dollar threshold used to distinguish between Type A and Type B programs	$300,000	
Auditee qualified as low-risk auditee?	_X_ Yes	____ No

ORION ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009 (CONTINUED)

PART II—FINANCIAL STATEMENT FINDINGS

Findings relating to the financial statements, which are required to be reported in accordance with *Government Auditing Standards*:

No matters are reportable.

PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters are reportable.

ORION ACADEMY

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

PART I—FINANCIAL STATEMENT FINDINGS

Findings relating to the financial statements, which are required to be reported in accordance with *Government Auditing Standards*:

No matters are reportable.

PART II—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters are reportable.

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors of Orion Academy:

We have performed the procedures enumerated below, which were agreed to by the Academy, solely to assist the Academy in evaluating whether Orion Academy (the "Academy") has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management of the Academy is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Academy. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Academy adopted an anti-harassment policy at its meeting on June 4, 2008.

2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):

   (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;

   (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;

   (3) A procedure for reporting prohibited incidents;

   (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

   (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

   (6) A procedure for documenting any prohibited incident that is reported;

   (7) A procedure for responding to and investigating any reported incident;

(8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

(9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

(10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors of Orion Academy and is not intended to be and should not be used by anyone other than this specified party.

Deloitte & Touche LLP

October 19, 2009

ORION ACADEMY

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 5, 2010

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