Basic Financial Statements as of and for the Year Ended June 30, 2013, Required Supplementary Information and Office of Management and Budget Circular A-133 Reports, Including the Supplemental Schedule of Expenditures and Federal Awards for the Year Ended June 30, 2013, and Independent Auditors' Report

ORION ACADEMY

A PUBLIC CHARTER SCHOOL MANAGED BY NATIONAL HERITAGE ACADEMIES

Dave Yost · 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, 2012 through June 30, 2013. 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.

Dave Yost

Dave Yost
Auditor of State

April 17, 2014

This page intentionally left blank.

ORION ACADEMY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1–3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4–7
FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2013:	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11–19
SUPPLEMENTAL SCHEDULE FOR THE YEAR ENDED JUNE 20, 2013:	20
Supplemental Schedule of Expenditures of Federal Awards	21
Note to Supplemental Schedule of Expenditures of Federal Awards	22
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*	23–24
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL IN ACCORDANCE WITH OMB CIRCULAR A-133	25–26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	27-28
SCHEDULE OF PRIOR-YEAR FINDINGS AND QUESTIONED COSTS	29

This page intentionally left blank.

Deloitte.

Deloitte & Touche LLP
38 Commerce SW
Suite 600
Grand Rapids, MI 49503
USA

Tel: +1 616 336 7900
Fax: +1 616 336 7950
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Orion Academy
Cincinnati, OH

Report on the Financial Statements

We have audited the accompanying financial statements of Orion Academy (the "Academy"), which comprise the statement of net assets as of June 30, 2013, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended, and the related notes to the 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 principles generally accepted in the United States of America; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supplemental Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Supplemental Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013, 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 compliance and the results of that testing, and not to provide an opinion on 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 Academy's internal control over financial reporting and compliance.

Deloitte & Touche LLP

November 14, 2013

ORION ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

The discussion and analysis of Orion Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities through June 30, 2013. 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 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 in June 1999.

Financial Highlights

For the fiscal year ended June 30, 2013, total assets were $427,986, total liabilities were $352,755, and total net assets were $75,231.

Using this Financial Report

This report consists of the MD&A, the financial statements, and notes financial 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 nonfinancial 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 services 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 the fiscal years ended June 30:

	2013	2012
Assets:		
Current assets	$ 416,180	$ 449,708
Capital assets, net of accumulated depreciation	11,806	5,141
Total assets	427,986	454,849
Liabilities — current	352,755	407,144
Net assets:		
Invested in capital assets	11,806	5,141
Restricted — School Service Fund	33,401	-
Unrestricted	30,024	42,564
Total net assets	$ 75,231	$ 47,705

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:

	2013	2012
Operating revenues:		
Foundation payments	$ 4,279,727	$ 4,176,287
Food services	6,535	6,458
Other revenues	2,770	15,610
Total operating revenues	4,289,032	4,198,355
Operating expenses:		
Depreciation	1,034	650
Contracted service fee	7,087,022	7,139,805
Total operating expenses	7,088,056	7,140,455
Operating loss	(2,799,024)	(2,942,100)
Nonoperating revenues:		
Federal grants	1,358,933	1,276,534
State grants	23,669	145,954
Private sources — NHA	1,443,948	1,539,160
Total nonoperating revenues	2,826,550	2,961,648
Change in net assets	$ 27,526	$ 19,548

As reported in the statement of revenues, expenses, and changes in net assets, the cost of business activities was $7,088,056. 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 $27,526 in 2013. Under the terms of the Agreement, 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.

Capital Assets

At June 30, 2013, the Academy had $11,806 invested in capital assets from board discretionary funds and primarily equipment. Capital assets are substantially provided as part of the Agreement with NHA.

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 2013. The Academy also received a contribution from NHA as a result of excess Academy expenses over public revenues available.

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, 2013

CURRENT ASSETS:	
Cash	$ 30,024
Intergovernmental receivable	386,156
Total current assets	416,180
NONCURRENT ASSETS:	
Capital assets	14,194
Less accumulated depreciation	(2,388)
Total noncurrent assets	11,806
Total assets	427,986
LIABILITIES:	
Deferred revenue	174
Contracted service fee payable	352,581
Total liabilities	352,755
NET ASSETS:	
Invested in capital assets	11,806
Restricted—School Service Fund	33,401
Unrestricted	30,024
TOTAL NET ASSETS	$ 75,231

See notes to financial statements.

ORION ACADEMY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013

OPERATING REVENUES:	
Foundation payments	$ 4,279,727
Food services	6,535
Other revenues	2,770
Total operating revenues	4,289,032
OPERATING EXPENSES:	
Depreciation	1,034
Contracted service fee	7,087,022
Total operating expenses	7,088,056
OPERATING LOSS	(2,799,024)
NONOPERATING REVENUES:	
Federal grants	1,358,933
State grants	23,669
Private sources — NHA	1,443,948
Total nonoperating revenue	2,826,550
CHANGE IN NET ASSETS	27,526
NET ASSETS — Beginning of year	47,705
NET ASSETS — End of year	$ 75,231

See notes to financial statements.

ORION ACADEMY

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	$ 4,285,021
Cash received from food services	6,496
Cash received from other operating revenue	2,770
Cash paid on behalf of the Academy for goods and services	(5,697,424)
Net cash used in operating activities	(1,403,137)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES — Purchase of capital assets	(7,699)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	1,390,912
State grants received	24,369
Net cash provided by noncapital financing activities	1,415,281
NET INCREASE IN CASH	4,445
CASH — Beginning of year	25,579
CASH — End of year	$ 30,024
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Operating loss	$ (2,799,024)
Support from private sources — NHA	1,443,948
Depreciation	1,034
Changes in assets and liabilities:	
Change in intergovernmental receivables affecting operating revenue	5,294
Change in deferred revenue	(39)
Change in contracted service fee payable	(54,350)
NET CASH USED FOR OPERATING ACTIVITIES	$ (1,403,137)
NON-CASH ACTIVITY:	
Support from private sources — NHA	$ 1,443,948

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 moral values. The Academy operates under an approved charter received from Educational Service Center of Lake Erie West (ESCLEW or the "Sponsor"), which is responsible for oversight of the Academy's operations. The charter's term expires on June 30, 2014, and is subject to renewal. Management believes the charter will be renewed in the ordinary course of business. 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 nonprofit 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 (the "State"). 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 that 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 of the Academy has entered into a services 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 Agreement will continue until the termination or expiration of the charter contract, up to a maximum of five years, 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 — NHA* represent a contribution granted by NHA for the excess of Academy expenditures 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.

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 enterprise's activities.

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.

Nonexchange 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.

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.

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.

Cash Deposits — For cash management, all cash received by the Academy 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, 2013, represents bank deposits, which are covered by federal depository insurance.

Capital Assets — Capital assets, which include equipment, are reported in the financial statements at historical cost. Capital assets are defined by the Academy as assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year.

Equipment is depreciated using the straight-line method over useful lives of 3–10 years.

Contracted Service Fee Payable — Contracted service fee payable as of June 30, 2013, represents a timing difference between funds received from governmental sources and amounts payable to NHA in accordance with the agreement.

Unearned Revenue — Unearned revenue is reported in connection with funds that have been received for services, which have not been performed and is, therefore, not yet earned.

Intergovernmental Revenues — The Academy currently participates in the State Foundation 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.

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, 2013, the Academy had no restricted net assets.

Budgetary Process — The contract between the Academy and its Sponsor prescribes an annual budget requirement in addition to preparing a five-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 five-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

3. DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2013, the Academy's bank balance was $30,630. Based on the criteria described in GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, as of June 30, 2013, 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, 2013, 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 at June 30, 2013, is as follows:

	Amounts
Title I	$ 273,245
Title I School Improvement	9,976
Title IIA	7,786
Title III	1,978
IDEA Part B	54,873
Race to the Top ARRA	35,899
National School Lunch and Breakfast	2,399
Total intergovernmental receivables	$ 386,156

5. CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities at June 30, 2013, was follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities — equipment	$ 6,495	$ 7,699	$ -	$ 14,194
Total capital assets at historical cost	6,495	7,699	-	14,194
Less accumulated depreciation — equipment	(1,354)	(1,034)		(2,388)
Total accumulated depreciation	(1,354)	(1,034)	-	(2,388)
Total business-type activities capital assets — net	$ 5,141	$ 6,665	$ -	$ 11,806

6. PENSION PLANS

School Employees Retirement System

Plan Description — NHA and contractors of NHA, on behalf of certain employees at the Academy, contribute to the School Employees Retirement System (SERS or the "System"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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 on the SERS website at www.ohsers.org under "Employers/Audit Resources."

Funding Policy — Plan members were required to contribute 10% of their annual covered salary and NHA is required to contribute at an actuarially determined rate. NHA's current rate is 14% of annual covered payroll. A portion of NHA contributions are used to fund pension obligations with the remainder being used to fund health care benefits. For the fiscal year ending June 30, 2013, 13.05% and 0.05% of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The remaining .9% of the 14% employer contribution rate is allocated to the health care and Medicare funds. The contribution requirements of plan members and employers are established and may be amended by the SERS retirement board up to a statutory maximum amount of 10% for plan members and 14% for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions.

NHA's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012, and 2011, were $34,492, $33,155, and $41,508, respectively; and 100% was contributed for each fiscal year.

State Teachers Retirement System

Plan Description — 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 publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained on the STRS Ohio website at www.strsoh.org under "Publications."

New members have a choice of three retirement plans, a defined benefit plan (the "DB Plan"), a defined contribution plan (the "DC Plan"), and a combined plan (the "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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60; the defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB Plan 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy — Plan members were required to contribute 10% of their annual covered salaries. NHA was required to contribute 14%; 13% was used to fund pension obligations and 1% was used for the health care stabilization fund. Contribution rates are established by the State Teachers Retirement Board (the "Retirement Board"), upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

NHA's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012, and 2011, were $282,089, $269,824, and $260,797, respectively; 100% was contributed for each fiscal year.

7. POSTEMPLOYMENT BENEFITS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

Plan Description — NHA and contractors of NHA, on behalf of certain employees at the Academy, participates in two cost-sharing, multiple-employer postemployment benefit plans administered by SERS for noncertificated retirees and their beneficiaries, a health care plan (the "Health Care Plan") and a Medicare Part B plan (the "Medicare Part B Plan"). The Health Care Plan includes hospitalization and physicians' fees through several types of plans, including health maintenance organizations, preferred provider organizations, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for, and receive, a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999, Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was $99.90 for most participants and the SERS' reimbursement to retirees was $45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both plans are included in the SERS Comprehensive Annual Financial Report, which may be obtained on SERS website at www.ohsers.org under "Employers/Audit Resources."

Funding Policy — State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to a health care fund (the "Health Care Fund"). The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, 0.16% of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll, nor may SERS collect in aggregate more than 1.5% of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was $20,525.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

NHA's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012, and 2011, were $89, $2,013, and $1,711, respectively; 100% was contributed in each fiscal year.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current-employer contribution rate to the Medicare Part B fund. For fiscal year 2013, the actuarially required allocation is 0.74% of covered payroll. NHA's contributions (including surcharge) to the Medicare B fund for the fiscal years ended June 30, 2013, 2012, and 2011, were $431, $2,080, and $1,542, respectively; 100% was contributed in each fiscal year.

State Teachers Retirement System

Plan Description — NHA, on behalf of teachers at the Academy, contributes to the cost sharing, multiple-employer defined benefit health plan (the "Plan") administered by STRS Ohio for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio, which may be obtained by visiting www.strsoh.org under "Publications."

Funding Policy — Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund.

NHA's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011, were $21,699, $20,756, and $20,061, respectively; 100% was contributed for each fiscal year.

8. 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 Citizens Insurance Company of America as follows:

General Liability:	$1,000,000 per occurrence $3,000,000 in the aggregate with no deductible
Umbrella Liability:	$3,000,000 per occurrence $3,000,000 in the aggregate with no deductible

There have been no significant reductions in insurance coverage during fiscal year 2013, and claims did not exceed coverage, less retained risk deductible amounts during the past three fiscal years.

9. CONTINGENCIES

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.

State Funding — The Ohio Department of Education conducts reviews of enrollment data and full-time equivalent 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 2013, as a result of such a review.

10. CONTRACTED SERVICE FEE

NHA incurred actual direct and indirect expenses on behalf of the Academy for the year ended June 30, 2013, as follows:

Direct expenses:	
Salaries, wages, and benefits	$ 3,412,659
Professional and technical services	290,759
Contracted (trade) services	32,524
Property services	1,655,059
Books, periodicals, and films	92,246
Supplies	161,449
Utilities	85,770
Food service	472,257
Travel and training	105,338
Purchases services	65,007
Equipment lease and purchases	123,213
Field trips and student activities	7,323
Insurance and property taxes	19,039
Total direct expenses	6,522,643
Indirect expenses (overhead)	564,379
Total contracted service fee	$ 7,087,022

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, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support, and marketing and communications.

11. SPONSORSHIP AGREEMENT

The Academy entered into a sponsorship agreement with the ESCLEW. This agreement provides that ESCLEW receives 2% of State Foundation funds received by the Academy from the State. This amounted to $65,007 for fiscal year 2013. The sponsor's duties mainly include monitoring the school's academic and fiscal performance on an annual basis and also intervening if the school is found not to be operating at the desired financial or academic level.

12. OPERATING LEASE

The Academy has entered into a sublease agreement with NHA for a facility to house the Academy. The lease term is from July 1, 2012, through June 30, 2013. Annual rental payments required by the lease are $1,451,040 payable in 12 monthly payments of $120,920. This lease is automatically renewed on a year-to-year basis, unless a notice of nonrenewal is provided by either the Academy or NHA.

The Academy subsequently renewed the sublease with NHA for the period of July 1, 2013, through June 30, 2014, at the same rental rate.

* * * * * *

SUPPLEMENTAL SCHEDULE

ORION ACADEMY

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Education —				
Passed through the Ohio Department of Education:				
Title I Part A Cluster				
Title I Part A	2012	84.010	$ 196,853	$ 85,461
	2013		378,053	571,592
			574,906	657,053
Title I School Improvement (Sub A)	2012	84.010	16,190	-
	2013		-	2,750
			16,190	2,750
Title I Part A Cluster			591,096	659,803
Title IIA Improving Teacher Quality	2012	84.367	18,329	18,329
	2013		9,600	9,600
			27,929	27,929
Title IID Technology Education	2012	84.318	3,741	1,153
Race to the Top	2012	84.395	62,400	3,177
	2013		51,636	55,541
Race to the Top - Ohio Resident Educator	2012		700	-
			114,736	58,718
Special Education Cluster —				
IDEA Part B	2012	84.027	37,098	-
	2013		137,965	192,838
			175,063	192,838
Title III English Language Acquisition	2013	84.365	10,464	10,464
			10,464	10,464
Total U.S. Department of Education			923,029	950,905
U.S. Department of Agriculture —				
Passed through the Ohio Department of Education:				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program — Entitlement Commodities	2013	10.555	25,488	25,488
Total Non-Cash Assistance			25,488	25,488
Cash Assistance:			585	26
National School Breakfast Program	2012	10.553	157,900	158,816
	2013		158,485	158,842
National School Lunch Program	2012	10.555	910	41
	2013		286,466	287,949
			287,376	287,990
Total Cash Assistance			445,861	446,832
Total U.S. Department of Agriculture and Child Nutrition Cluster			471,349	472,320
TOTAL			$ 1,394,378	$ 1,423,225

See Independent Auditors' Reporting on Supplemental Inforamtion.

ORION ACADEMY

NOTE TO SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

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 Circular A-133, and is prepared using the cash basis of accounting.

Deloitte.

Deloitte & Touche LLP
38 Commerce SW
Suite 600
Grand Rapids, MI 49503
USA

Tel: +1 616 336 7900
Fax: +1 616 336 7950
www.deloitte.com

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*

To the Board of Directors of
Orion Academy
Cincinnati, OH

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 of Orion Academy (the "Academy") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's financial statements, and have issued our report thereon dated November 14, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

November 14, 2013

Deloitte & Touche LLP
38 Commerce SW
Suite 600
Grand Rapids, MI 49503
USA

Tel: +1 616 336 7900
Fax: +1 616 336 7950
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Orion Academy
Cincinnati, OH

Report on Compliance for Each Major Federal Program

We have audited Orion Academy (the "Academy's") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2013. The Academy's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Academy'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, the Academy 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, 2013.

Report on Internal Control over Compliance

Management of the Academy 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 the Academy'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 OMB Circular A-133, 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 *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 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

November 14, 2013

ORION ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

PART I — SUMMARY OF AUDITORS' 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 None Reported
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 None Reported
Type of auditors' report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133?	_____ Yes	X No

Identification of major programs:

Name of Federal Program or Cluster Number	**CFDA Number**
Title I Grants to Local Educational Agencies Cluster: Title I, Part A	84.010

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

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
FOR THE YEAR ENDED JUNE 30, 2012

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.

Deloitte.

Deloitte & Touche LLP
38 Commerce SW
Suite 600
Grand Rapids, MI 49503
USA

Tel: +1 616 336 7900
Fax: +1 616 336 7950
www.deloitte.com

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of
National Heritage Academies, Inc. and Subsidiaries
Grand Rapids, Michigan

Mr. Dave Yost, CPA
Auditor of the State of Ohio
Columbus, Ohio

We have performed the procedures enumerated below, which were agreed to by National Heritage Academies, Inc., and subsidiaries (the "Company"), the Orion Academy (the "Academy"), and the Ohio Auditor of State's Office (the AOS), solely to assist you and the AOS in evaluating the Academy's compliance with antiharassment policy of the Academy, in accordance with Section 3313.666, HB116 amendment, of the revised State of Ohio code, during the year ended June 30, 2013. The Company's management is responsible for compliance with those requirements. 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 those parties specified in this report. 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.

The procedure that we performed and our finding are as follows:

1. We read board meeting minutes and noted the board of directors of Alliance Academy of Cincinnati amended its antiharassment policy at its meeting on June 13, 2012, to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

   No exceptions noted.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. 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 specified parties listed above and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

November 14, 2013

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
MAY 8, 2014