Orion Academy

Office of Management and Budget Circular
A-133 Reports Including Supplemental
Schedule of Expenditures of Federal Awards
as of and for the Year Ended June 30, 2010

Dave Yost • Auditor of State

January 11, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

Dave Yost

DAVE YOST
Auditor of State

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www. auditor.state.oh.us

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Mary Taylor, CPA
Auditor of State

Board of Directors
Orion Academy
1798 Queen City Avenue
Cincinnati, Ohio 45214-1427

We have reviewed the *Independent Auditors' Report* of the Orion Academy, Hamilton County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2009 through June 30, 2010. 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 27, 2010

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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ORION ACADEMY

TABLE OF CONTENTS

Deloitte & Touche LLP
700 Bridgewater Place
333 Bridge Street N.W.
Grand Rapids, MI 49504-5359
USA

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Orion Academy
Cincinnati, OH 45214

We have audited the accompanying statement of net assets of Orion Academy (the "Academy") as of June 30, 2010, and the related statement of revenues, expenses and change 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 the respective 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 also 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy, as of June 30, 2010, and its changes in net assets and 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 6 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 required 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 financial statements. The accompanying supplemental schedule of expenditures and 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 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 financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2010, on our consideration of the Academy's 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

November 12, 2010

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, 2010. 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 their 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, 2010, total assets were $592,020, total liabilities were $566,102, and total net assets were $25,918.

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:

	2010	**2009**
Assets:		
Current assets	$ 585,580	$ 360,535
Capital assets, net of accumulated depreciation	6,440	-
Total assets	592,020	360,535
Liabilities—current	566,102	318,305
Net assets:		
Invested in capital assets	6,440	-
Unrestricted	19,478	42,230
Total net assets	$ 25,918	$ 42,230

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:

	2010	2009
Operating revenues:		
Foundation payments	$ 3,576,026	$3,957,488
Food services	3,338	4,196
Other revenues	19,016	8,559
Total operating revenues	3,598,380	3,970,243
Operating expenses—		
Depreciation	55	
Contracted service fee	7,032,624	6,820,775
Total operating expenses	7,032,679	6,820,775
Operating loss	(3,434,299)	(2,850,532)
Nonoperating revenues:		
Federal grants	2,000,169	1,139,776
State grants	15,985	18,929
Private sources—NHA	1,401,833	1,693,700
Total nonoperating revenues	3,417,987	2,852,405
Change in net assets	$ (16,312)	$ 1,873

As reported in the Statement of Revenues, Expenses and Changes in Net Assets, the cost of business activities was $7,032,679. 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 a decrease in net assets of $16,312 in 2010. 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.

Capital Assets

At June 30, 2010, the Academy had $6,440 invested in capital assets from board discretionary funds, 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 2011.

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, 2010

CURRENT ASSETS:	
Cash	$ 27,939
Intergovernmental receivables	557,641
Total current assets	585,580
NON-CURRENT ASSETS:	
Capital assets	6,495
Less: accumulated depreciation	(55)
Total non-current assets	6,440
Total assets	592,020
LIABILITIES:	
Deferred revenue	172
Due to National Heritage Academies, Inc.	565,930
Total liabilities	566,102
NET ASSETS:	
Invested in capital assets	6,440
Unrestricted	19,478
Total net assets	$ 25,918

See notes to financial statements.

ORION ACADEMY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010

OPERATING REVENUES:	
Foundation payments	$ 3,576,026
Food services	3,338
Other revenues	19,016
Total operating revenues	3,598,380
OPERATING EXPENSES—	
Depreciation	55
Contracted service fee	7,032,624
Total operating expenses	7,032,679
OPERATING LOSS	(3,434,299)
NONOPERATING REVENUES:	
Federal grants	2,000,169
State grants	15,985
Private sources—National Heritage Academies, Inc.	1,401,833
Total nonoperating revenue	3,417,987
CHANGE IN NET ASSETS	(16,312)
NET ASSETS—Beginning of year	42,230
NET ASSETS—End of year	$ 25,918

See notes to financial statements.

ORION ACADEMY

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from State of Ohio	$	3,576,026
Cash received from food services		3,510
Cash received from other operating revenue		19,016
Cash paid on behalf of the Academy for goods and services		(6,784,999)
Net cash used for operating activities		(3,186,447)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Federal grants received		1,752,372
State grants received		15,985
Support from private sources—National Heritage Academies, Inc.		1,401,833
Net cash provided by noncapital financing activities		3,170,190
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES - Payment for Capital Acquisitions		(6,495)
NET DECREASE IN CASH		(22,752)
CASH—Beginning of year		50,691
CASH—End of year	$	27,939
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating Loss	$	(3,434,299)
Depreciation		55
Changes in Assets and Liabilities:		
Change in deferred revenue		172
Change in due to National Heritage Academies, Inc		247,625
NET CASH USED FOR OPERATING ACTIVITIES	$	(3,186,447)

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 ended on June 30, 2010 at 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 renewal periods, 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, 2010, represents bank deposits, which are covered by federal depository insurance.

G. Capital Assets

Capital assets, which include equipment, are reported in the government-wide 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.

H. Current Liabilities

Due to National Heritage Academies, Inc.—this amount consists of payments due to NHA for management services rendered in fiscal year 2010.

I. 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.

J. 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, 2010, the Academy had no restricted net assets.

3. DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2010, the Academy's bank balance was $28,372. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2010, 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, 2010, 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	$ 183,911
Title I School Improvement	32,902
Title IIA	21,631
Title IID	111
Title V	2,522
State ARRA	186,731
IDEA ARRA	112,691
State Aid	11,592
National School Lunch and Breakfast	5,550
Total intergovernmental receivables	$ 557,641

5. CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities:				
Equipment	$ -	$ 6,495	$ -	$ 6,495
Total capital assets at historical cost	-	6,495	-	6,495
Less: accumulated depreciation				
Equipment	-	(55)	-	(55)
Total accumulated depreciation	-	(55)	-	(55)
Total governmental activities capital assets, net	$ -	$ 6,440	$ -	$ 6,440

6. 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, 2010, 2009 and 2008, were $56,546, $59,050, and $65,176, 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, 2010, 2009 and 2008, were $256,275, $247,272, and $272,162, respectively; 100 percent was contributed for each fiscal year.

7. 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, 2010, 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, 2010, 2009 and 2008 were $18,305, $17,662 and $19,440, respectively; 100 percent was contributed for each fiscal year.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2009 (the latest information available) the balance in the Fund was $2.7 billion. For the year ended June 30, 2009, net health care costs paid by STRS Ohio were approximately $332.7 million and STRS Ohio had 129,659 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, 2010, employer contributions to fund health care benefits were .46 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 2010, 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, 2010, 2009 and 2008, were equaled $5,492, $21,767, and $24,835, 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, 2009, were approximately $118.1 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, 2009, the value of the health care fund was $376.5 million, which is about 235 percent of next year's projected net health care costs of approximately $160.2 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 65,757 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 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions to Medicare Part B for the fiscal years ended June 30, 2010, 2009 and 2008 were $3,070, $3,163 and $3,073 respectively, 100 percent was contributed in 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 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 2010, and claims did not exceed coverage less retained risk deductible amounts during the past three fiscal years.

9. 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. 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 2010, as a result of such a review.

10. CONTRACTED SERVICE FEE

NHA incurred the following actual direct and indirect expenses on behalf of the Academy for the year ended June 30, 2010:

Direct Expenses:	
Salaries, wages and benefits	$ 2,939,254
Professional and technical services	340,348
Contracted (trade) services	42,403
Property services	1,684,116
Books, periodicals and films	160,864
Supplies	178,839
Utilities	104,734
Food and related supplies	381,950
Travel and training	181,770
Purchases service	53,425
Equipment lease and purchases	191,528
Field trips, student activities and transportation	34,811
Insurance and property taxes	87,823
Total Direct Expenses	6,381,865
Total Indirect Expenses (Overhead)	650,759
Total Contracted Service Fee	$ 7,032,624

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.

11. 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 $53,425 for fiscal year 2010.

* * * * * *

SUPPLEMENTAL SCHEDULE

ORION ACADEMY

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title Grant Number	Pass Through Grant Year	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Education—				
Passed through the Ohio Department of Education:				
ARRA State Fiscal Stabilization Fund	2010	84.394	$ 245,468	$ 245,468
Title I Grants to Local Educational Agencies Cluster:				
Title I Grants to Local Educational Agencies	2009	84.010	152,612	57,870
	2010		458,650	528,399
			611,262	586,269
ARRA Title I Grants to Local Educational Agencies	2010	84.389	283,572	347,988
Title I School Improvement (Sub A)	2010	84.377	27,156	48,537
Title I School Improvement (Sub G)	2010		6	65
			27,162	48,602
Title II Improving Teacher Quality	2009	84.367	-	654
	2010		20,969	4,810
			20,969	5,464
Title IID Technology Education	2009	84.318	1,614	1,614
	2010		4,052	4,052
			5,666	5,666
Title V LEA Allocation	2009	84.298	635	(149)
Special Education Cluster—				
IDEA Part B	2009	84.027	27,414	(761)
	2010		133,912	133,912
			161,326	133,151
ARRA IDEA Part B	2010	84.391	38,336	114,247
Total U.S. Department of Education			1,394,396	1,486,706

(Continued)

ORION ACADEMY

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010 (CONTINUED)

Federal Grantor/Pass-Through Grantor/Program Title	Pass Through Grant Year	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Agriculture—				
Passed through the Ohio Department of Education:				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program—				
Entitlement Commodities	2010	10.555	$ 12,769	$ 12,769
Bonus Commodities	2010		1,988	1,988
Total Non-Cash Assistance			14,757	14,757
Cash Assistance:				
National School Breakfast Program				
	2009	10.553	2,747	-
	2010		122,978	122,978
			125,725	122,978
National School Lunch Program				
	2009	10.555	5,008	-
	2010		224,171	229,721
			229,179	229,721
Total Cash Assistance			354,904	352,699
Total U.S. Department of Agriculture			369,661	367,456
TOTAL			$ 1,764,057	$ 1,854,162

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, 2010

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 cash basis of accounting.

Deloitte.

Deloitte & Touche LLP
700 Bridgewater Place
333 Bridge Street N.W.
Grand Rapids, MI 49504-5359
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*

Board of Directors
Orion Academy
Cincinnati, OH 45214

We have audited the financial statements of Orion Academy (the "Academy") as of and for the year ended June 30, 2010, and have issued our report thereon dated November 12, 2010. 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 *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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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*.

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 Educational Service Center, federal awarding agencies, state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 12, 2010

Deloitte.

Deloitte & Touche LLP
700 Bridgewater Place
333 Bridge Street N.W.
Grand Rapids, MI 49504-5359
USA

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

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, OH 45214

Compliance

We have audited Orion Academy's (the "Academy") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the Ohio School Audit Manual that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2010. 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; 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 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, 2010.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, 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, state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 12, 2010

ORION ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

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
ARRA State Fiscal Stabilization Fund	84.394
Title I Grants to Local Educational Agencies Cluster:	
Title I Grants to Local Education Agencies	84.010
Title I – ARRA	84.389

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
YEAR ENDED JUNE 30, 2010

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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Mary Taylor, CPA
Auditor of State

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 11, 2011

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us