

**WALTON ACADEMY  
LEARNING CENTER  
(A division of Walton  
Academy, Inc.)**

**Basic Financial Statements and  
Supplemental Information**

**For the year ended  
June 30, 2007**

**RECEIVED**

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& LAHAM  
CPAS AND ASSOCIATES, LLP**

## TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	23
Notes to Required Supplemental Information	24
SUPPLEMENTAL INFORMATION	
Schedule of Functional Expenditures - General Fund	26
Schedule of Categorical Expenses	27
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	28
MANAGEMENT LETTER	30

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Walton Academy Learning Center  
Fort Walton Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Walton Academy Learning Center (a Charter School), a division of the Walton Academy, Inc., and a component unit of the School Board of Walton County, Florida, as of and for the year ended June 30, 2007, which collectively comprise Walton Academy Learning Center's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Walton Academy Learning Center's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Walton Academy Learning Center as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of Walton Academy Learning Center at June 30, 2007, and the respective changes in financial position for the year ended, and is not intended to be a complete presentation of the Walton Academy Learning Center.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2007, on our consideration of Walton Academy Learning Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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

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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.

The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Walton Academy Learning Center's basic financial statements. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

September 7, 2007  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## **Management's Discussion and Analysis**

As management of Walton Academy Learning Center (the "School"), a division of Walton Academy, Inc., and a component unit the School Board of Walton County, Florida, we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2007 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the School's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the Basic Financial Statements found on pages 8 - 21.

### **Financial Highlights**

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$25,758.
- The government's total net assets decreased by \$7,476.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$22,488, a decrease of \$5,901 in comparison with the prior year.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### **The School as a Whole**

The information in the government-wide financial statements include all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net assets (the difference between total assets and total liabilities) over time is one indicator of whether the School's financial health is improving or deteriorating. However, you need to consider other nonfinancial factors in making an assessment of the School's health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, etc. to assess the overall health of the School.

Changes in the School's net assets were as follows:

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>%</u>
Current assets	\$ 26,478	\$ 32,551	\$ (6,073)	-19%
Capital assets—net	<u>3,270</u>	<u>4,845</u>	<u>(1,575)</u>	-33%
Total assets	<u>29,748</u>	<u>37,396</u>	<u>(7,648)</u>	-20%
Total liabilities	<u>3,990</u>	<u>4,162</u>	<u>172</u>	-4%
Net assets	<u>\$ 25,758</u>	<u>\$ 33,234</u>	<u>\$ (7,476)</u>	-22%
Net assets consist of:				
Invested in capital assets	\$ 3,270	\$ 4,845	\$ (1,575)	-33%
Restricted net assets	3,226	685	2,541	371%
Unrestricted net assets	<u>19,262</u>	<u>27,704</u>	<u>(8,442)</u>	-30%
Net assets	<u>\$ 25,758</u>	<u>\$ 33,234</u>	<u>\$ (7,476)</u>	-22%

The capital assets consist of primarily of improvements other than buildings, furniture, fixtures and equipment, and computer software.

The unrestricted net assets decreased due to the current year loss.

Changes in the School's expenses were as follows:

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>%</u>
Instruction	\$ 254,739	\$ 212,015	\$ 42,724	20%
Exceptional instruction	8,400	-	8,400	100%
Media services	-	399	(399)	-100%
Psychological services	2,147	1,578	569	36%
Staff development	755	85	670	788%
School administration	55,512	57,436	(1,924)	-3%
Fiscal services	43,792	38,477	5,315	14%
Staff services	29	-	29	100%
Data processing	-	1,233	(1,233)	-100%
Operation of plant	<u>1,622</u>	<u>907</u>	<u>715</u>	79%
Total expenses	<u>\$ 366,996</u>	<u>\$ 312,130</u>	<u>\$ 54,866</u>	18%

Due to a Board approved salary increase and the addition of one teacher, the instruction expenses increased. The School contracted an exceptional instruction teacher.

Changes in the School's revenues were as follows:

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>%</u>
Revenues				
Program revenues				
Operating grants	\$ 27,545	\$ 38,250	\$ (10,705)	-28%
General revenues	<u>331,975</u>	<u>275,765</u>	<u>56,210</u>	20%
	<u>\$ 359,520</u>	<u>\$ 314,015</u>	<u>\$ 45,505</u>	14%

The increase in FEFP money was a result of the FEFP state and local funding increase per student.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected funding and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School that are principally supported by district, state, and federal funding (governmental activities) and charges for services from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the School include the overall operations of the School.

The government-wide financial statements include only the School itself, which is a component unit of the School Board of Walton County, Florida. The School Board of Walton County, Florida includes the operations of the School in their operational results.

The government-wide financial statements can be found on pages 8 and 9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the operations of Walton Academy Learning Center are presented in governmental funds only.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues,

expenditures, and changes in fund balances for the general fund, which is considered to be a major fund.

The School adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the school to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10 - 13 of this report.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 14 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$25,758 at the close of the most recent fiscal year.

A portion of the School's net assets is reflected in its investment in capital assets (e.g., land, building, machinery, and equipment); less any related outstanding debt used to acquire those assets that is still outstanding. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

Although the School's investment in its capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For the end of the current fiscal year, the School is reporting a positive balance of net assets totaling \$25,758.

### **Financial Analysis of the Government's Funds**

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$22,488.

The general fund is the main operating fund of the School. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$19,262.

The fund balance of the School's general fund decreased by \$5,901 during the current fiscal year.

## **General Fund Budgetary Highlights**

Actual revenues equaled budgeted revenues and other financing sources while budgeted expenses exceeded actual expenses by \$7,625.

## **Capital asset and debt administration**

**Capital assets.** The School's investment in capital assets for its governmental type activities as of June 30, 2007, amounts to \$3,270 (net of accumulated depreciation). This investment in capital assets includes improvements other than buildings, furniture, fixtures and equipment, and computer software.

## **Request for Information**

This financial report is designed to provide a general overview of Walton Academy, Inc.'s finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The Rader Group, 1982 Lewis Turner Boulevard, Suite D, Fort Walton Beach, FL 32547.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**STATEMENT OF NET ASSETS**

**June 30, 2007**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 24,088
Prepaid expenses	2,390
Total current assets	<u>26,478</u>
<b>CAPITAL ASSETS</b>	
Capital assets, net of accumulated depreciation:	
Improvements other than buildings	1,457
Furniture, fixtures and equipment	1,462
Computer software	351
Total capital assets	<u>3,270</u>
Total assets	<u>29,748</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accrued payroll and payroll taxes	1,806
Due to related schools	2,184
Total liabilities	<u>3,990</u>
<b>NET ASSETS</b>	
Investment in capital assets	3,270
Restricted for:	
Categorical projects	3,226
Unrestricted	19,262
Total net assets	<u>\$ 25,758</u>

The accompanying notes are an integral part of this financial statement.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**STATEMENT OF ACTIVITIES**

**For the year ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
Basic instruction	\$ 254,739	\$ -	\$ 27,545	\$ -	\$ (227,194)
Exceptional instruction	8,400	-	-	-	(8,400)
Psychological services	2,147	-	-	-	(2,147)
Staff development	755	-	-	-	(755)
School administration	55,512	-	-	-	(55,512)
Fiscal services	43,792	-	-	-	(43,792)
Staff services	29	-	-	-	(29)
Operation of plant	1,622	-	-	-	(1,622)
<b>Total governmental activities</b>	<b>\$ 366,996</b>	<b>\$ -</b>	<b>\$ 27,545</b>	<b>\$ -</b>	<b>(339,451)</b>

General revenues:	
School Board of Walton County	331,975
Change in net assets	(7,476)
Net assets at July 1, 2006	33,234
Net assets at June 30, 2007	<u>\$ 25,758</u>

The accompanying notes are an integral part of this financial statement.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2007**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 24,088	\$ -	\$ 24,088
Prepaid expenses	2,390	-	2,390
Total assets	\$ 26,478	\$ -	\$ 26,478
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accrued payroll and payroll taxes	\$ 1,806	\$ -	\$ 1,806
Due to related school	2,184	-	2,184
Total liabilities	3,990	-	3,990
<b>FUND BALANCES</b>			
Reserved for:			
Categorical projects	3,226	-	3,226
Unreserved	19,262	-	19,262
Total fund balances	22,488	-	22,488
Total liabilities and fund balances	\$ 26,478	\$ -	\$ 26,478

The accompanying notes are an integral part of this financial statement.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET ASSETS**

**June 30, 2007**

Fund balances - total governmental funds	\$ 22,488
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The net assets reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of:

Improvements other than buildings, net of \$843 accumulated depreciation	\$ 1,457	
Furniture, fixtures, and equipment, net of \$3,756 accumulated depreciation	1,462	
Computer software, net of \$552 accumulated depreciation	<u>351</u>	
Total capital assets		3,270

Total net assets of governmental activities	<u><u>\$ 25,758</u></u>
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The accompanying notes are an integral part of this financial statement.

**Walton Academy Learning Center**  
**(A division of Walton Academy, Inc.)**

**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

**For the year ended June 30, 2007**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Federal passed through local school district	\$ -	\$ 27,545	\$ 27,545
State passed through local school district	331,975	-	331,975
<b>Total revenues</b>	<u>331,975</u>	<u>27,545</u>	<u>359,520</u>
<b>Expenditures</b>			
<b>Current</b>			
Basic instruction	225,943	27,545	253,488
Exceptional instruction	8,400	-	8,400
Psychological services	2,147	-	2,147
Staff development	755	-	755
School administration	55,188	-	55,188
Fiscal services	43,792	-	43,792
Staff services	29	-	29
Operation of plant	1,622	-	1,622
<b>Total expenditures</b>	<u>337,876</u>	<u>27,545</u>	<u>365,421</u>
Deficiency of revenues under expenditures	(5,901)	-	(5,901)
Fund balances at July 1, 2006	<u>28,389</u>	<u>-</u>	<u>28,389</u>
Fund balances at June 30, 2007	<u>\$ 22,488</u>	<u>\$ -</u>	<u>\$ 22,488</u>

The accompanying notes are an integral part of this financial statement.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**For the year ended June 30, 2007**

Deficiency of revenues under expenditures - total government funds	\$ (5,901)
The changes in net assets reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation	<u>(1,575)</u>
Change in net assets of governmental activities	<u>\$ (7,476)</u>

The accompanying notes are an integral part of this financial statement.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Reporting entity

Walton Academy Learning Center (the "School") is a division of Walton Academy, Inc., which is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes. The School provides educational services to students who are residents of the Department of Juvenile Justice Residential Commitment Facility (DJJ) in Walton County, Florida. The governing body of the School is the Board of Directors, which is composed of four members. The financial information presented is that of Walton Academy Learning Center only.

The general operating authority of Walton Academy Learning Center is contained under the authority of Rule 6A-1.099, Florida Administrative Code. The School operates under a contract of the sponsoring school district, which is the School Board of Walton County, Florida (the "District"). The current contract is effective through June 30, 2007 (see Note I). At the end of the term of the contract, the District may choose not to renew the contract under grounds specified in the contract in which case the District is required to notify the School in writing at least 30 days prior to the contract's expiration. During the term of the contract, the District may also terminate the contract if good cause is shown. Walton Academy Learning Center is considered a component unit of the School Board of Walton County, Florida.

2. Government-wide and fund financial statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report information on all of the nonfiduciary activities of the School. As part of the consolidation process, all interfund activities are eliminated from these statements. Both statements report only governmental activities as the School does not engage in any business type activities.

Net assets, the difference between assets and liabilities, as presented in the statement of net assets, are subdivided into three categories: amounts invested in capital assets, restricted net assets, and unrestricted net assets. Net assets are reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, laws or regulations of other governments, or enabling legislation.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

2. Government-wide and fund financial statements (continued)

The statement of activities presents a comparison between the direct and indirect expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net assets for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function. Indirect expenses are costs the School has allocated to various functions. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements is on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. One of the School's funds was deemed a major fund. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

3. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized when a liability is incurred.

All governmental fund financial statements are reported using a current financial resources measurement focus on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the current fiscal period. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recorded when the related fund liability is incurred. However, principal and interest on general long-term debt are recorded as expenditures only when payment is due.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

3. Measurement focus, basis of accounting, and financial statement presentation (continued)

The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Accordingly, the financial statements are organized on the basis of funds. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund equity, revenues, expenditures, and other financing sources and uses.

Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The School reports the following major governmental fund:

General Fund - the general operating fund of the School. It is used to account for all financial resources not required to be accounted for in another fund.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Cash

Cash is made up of cash on hand at the School and a checking account held at a financial institution. The School has no cash equivalents.

5. Interfund receivables and payables

Activity between the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds.

6. Capital assets

Capital assets are reported in the applicable governmental columns on the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$750 and an estimated useful life of more than one year. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair market values at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

6. Capital assets (continued)

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Improvements other than buildings	10
Furniture, fixtures, and equipment	5
Computer software	3

7. Revenue sources

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33(18), Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District. Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE students and related data to the Florida Department of Education (DOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect revised calculations by the DOE under the Florida Education Finance Program and actual weighted FTE students reported by the School during designated FTE student survey periods.

The School receives federal awards for the enhancement of various educational programs. This assistance is generally based on applications submitted to and approved by various granting agencies. These federal awards may have eligibility requirements whereby the issuance of grant funds is withheld until such eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

Additionally, other revenues may be derived from various fundraising activities and certain other programs.

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

9. Reserves of fund balances

The School has a portion of their general fund balance designated for local categoricals. Categoricals are funds the legislature may appropriate for specified programs, activities, or purposes.

**NOTE B - CASH**

*Custodial credit risk* - The carrying amount of the School's deposits were \$47,724 at June 30, 2007. The deposits are insured by the FDIC up to \$100,000 per entity. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the School pursuant to Section 280.08, Florida Statutes.

**NOTE C - CAPITAL ASSETS**

Changes in capital assets activity for the year ended were as follows:

	Balance at July 1, 2006	Additions	Deletions	Balance at June 30, 2007
Capital assets depreciated:				
Improvements other than buildings	\$ 2,300	\$ -	\$ -	\$ 2,300
Furniture, fixtures and equipment	5,218	-	-	5,218
Computer software	903	-	-	903
Total assets depreciated	<u>8,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>8,421</u>
Less accumulated depreciation:				
Improvements other than buildings	\$ 613	\$ 230	\$ -	\$ 843
Furniture, fixtures and equipment	2,712	1,044	-	3,756
Computer software	251	301	-	552
Total accumulated depreciation	<u>3,576</u>	<u>\$ 1,575</u>	<u>\$ -</u>	<u>5,151</u>
Total governmental activities capital assets, net	<u>\$ 4,845</u>			<u>\$ 3,270</u>

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE C - CAPITAL ASSETS (continued)**

Depreciation expense for the year ended June 30, 2007 was charged to functions of the School as follows:

Basic instruction	\$ 1,251
School administration	<u>324</u>
Total depreciation	<u><u>\$ 1,575</u></u>

**NOTE D - CONCENTRATIONS**

Revenue sources

As stated in Note A-7, the School receives revenues for current operations primarily from the State of Florida through the District. The following is a schedule of revenue sources and amounts:

<u>Sources</u>	<u>Amounts</u>
School Board of Walton County	
Base funding	\$ 344,600
Instructional materials allocation	4,847
Administration fee withheld (5%)	<u>(17,472)</u>
Subtotal	331,975
Title one	<u>27,545</u>
Total from School Board of Walton County	<u><u>\$ 359,520</u></u>

**NOTE E - COMMITMENTS AND CONTINGENCIES**

1. Management service contract

The School has entered into a cancelable service agreement with a third party management service, commencing on July 1, 2005. The contract is for management services through June 2010. The management fee is calculated as 10% of the funding received for the school, payable in twelve monthly installments. Current year management fees charged to operations totaled \$35,302.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE E - COMMITMENTS AND CONTINGENCIES (continued)**

2. Consultant agreement

The School has a consulting agreement for exceptional student education consulting, training and support. The contract requires monthly payments of \$700 and expires June 30, 2009. The contract may be terminated by either party with sixty days notice.

Current year exceptional student education consulting fees paid to an outside consultant totaled \$8,400.

**NOTE F - RELATED PARTY**

1. Management service contract

The management company provides oversight and management services based on a contractual arrangement with the school. The management company manages the finances and operations and makes recommendations to the school's independent board of directors, which makes the final determinations regarding policies and contracts. Total management fees charged to operations for the year ended June 30, 2007 are \$35,302 (see Note E-1).

The School's executive director also serves as a board member for another charter schools managed by the same management company.

2. Payroll

During the year, the employee's payroll taxes and retirement payments are processed through a related charter school. The school's are under the same division and both are managed by the same management company. All the payroll transactions are reimbursed. At June 30, 2007, the amount due to the Walton Academy was \$2,184.

**NOTE G - RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. Under the plan for property insurance, the School's liability is \$1,000 per occurrence. Settled claims resulting from the risks described above have not exceeded the insurance coverage since inception.

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE H - RETIREMENT PLAN**

Participation - Effective July 1, 2003, employees of the School began participating in the Florida Retirement System (FRS), a cost-sharing multiple-employer retirement system, established by Chapter 121, Florida Statutes. Participation is compulsory for full-time and part-time employees working in regularly established positions. Eligible employees may elect to participate in the Deferred Retirement Option Program (DROP), deferring receipt of retirement benefits while continuing employment with a Florida Retirement System employer.

Contributions - Chapter 121 requires the employer to pay all contributions (employee noncontributory) based upon state-wide rates established by the State of Florida. During the 2006 - 2007 fiscal year, the School contributed an average of 9.85% of each qualified regular employee's gross salary. The School's contribution for the years ended June 30, 2007, 2006, and 2005 were \$21,215, \$12,072, and \$13,473, respectively, equal to the total required contributions for each year. Contributions for the year ending June 30, 2007, represented 9.5% of covered payroll.

Benefit Provisions - The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The FRS provides for vesting of benefits after 10 years of creditable service. Normal retirement benefits are available to employees who retire at or after age 62 with 10 or more years of service, or to those employees who have at least 30 years of creditable service, regardless of age. Early retirement is available after 10 years of service with a 5 percent reduction of benefits for each year prior to the normal retirement age. Retirement benefits are based upon age, average compensation and years-of-service credit where average compensation is computed as the average of an individual's five highest years of earnings. For DROP participants, the deferred monthly benefit plus interest compounded monthly, accrues for the specified period of the DROP participation. Upon retirement, the participant receives the total accumulated DROP benefits and begins to receive current benefits at the previously determined rate.

Financial Report of the Plan - The Florida Retirement System issues a stand-alone financial report. A copy can be obtained by contacting the State of Florida, Division of Retirement, Tallahassee, Florida.

**NOTE I - SUBSEQUENT EVENT**

After year end, the School's charter contract was renewed for the 2007-2008 school year (see Note A-1).

**REQUIRED SUPPLEMENTAL INFORMATION**

**Walton Academy Learning Center**  
**(A division of Walton Academy, Inc.)**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND**

**For the year ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
FTE revenue	\$ 301,895	\$ 331,975	\$ 331,975	\$ -
Expenditures				
Salaries	183,380	206,000	205,114	886
Retirement	17,879	19,500	19,158	342
Social security	14,029	16,500	16,513	(13)
Group insurance	21,160	19,050	16,652	2,398
Unemployment compensation	2,600	2,500	2,339	161
Other employment benefits	715	828	828	-
Management services	30,190	35,302	35,302	-
ESE services	8,400	8,400	8,400	-
Auditing services	8,400	8,488	8,488	-
In-county travel	-	-	66	(66)
Out-of-county travel	800	1,700	1,577	123
Repairs and maintenance	250	-	182	(182)
Computer repair	500	2,500	2,297	203
Copier lease	250	602	401	201
Postage	500	100	47	53
Telephone	300	550	433	117
Internet	1,040	959	879	80
Advertising	-	-	10	(10)
Printing	600	100	-	100
Supplies	4,500	4,000	3,699	301
Textbooks	4,672	4,672	2,261	2,411
Furniture, equipment under \$750	500	-	-	-
Software	975	-	-	-
Dues and Fees	600	250	130	120
Other personal services	6,000	13,500	13,100	400
Total expenditures	<u>308,240</u>	<u>345,501</u>	<u>337,876</u>	<u>7,625</u>
Deficiency of revenues under expenditures	(6,345)	(13,526)	(5,901)	7,625
Fund balance at July 1, 2006	<u>28,389</u>	<u>28,389</u>	<u>28,389</u>	-
Fund balance at June 30, 2007	<u>\$ 22,044</u>	<u>\$ 14,863</u>	<u>\$ 22,488</u>	<u>\$ 7,625</u>

See notes to required supplemental information

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

**June 30, 2007**

**NOTE A - BUDETARY INFORMATION**

1. Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for the general and other governmental funds and may be amended by the Board of Directors (the "Board"). The budgets presented for fiscal year ended June 30, 2007, have been amended according to Board procedures.

Budgets are presented on the modified accrual basis of accounting. The legal level of budgetary control is the object level.

**SUPPLEMENTAL INFORMATION**

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**SCHEDULE OF FUNCTIONAL EXPENDITURES - GENERAL FUND**

**For the year ended June 30, 2007**

	Basic Instruction	Exceptional Instruction	Psychological Services	Staff Development
Dues and fees	\$ -	\$ -	\$ -	\$ -
Employee benefits	828	-	-	-
Group insurance	11,854	-	-	-
Other personal services	13,100	-	-	-
Out-of-county travel	-	-	822	755
Postage	-	-	-	-
Printing	-	-	-	-
Professional services	-	8,400	-	-
Rental	-	-	-	-
Repairs and maintenance	2,297	-	-	-
Retirement	15,060	-	-	-
Salaries	161,854	-	1,186	-
Social security	13,240	-	91	-
Supplies	3,422	-	-	-
Telephone	-	-	-	-
Textbooks	2,261	-	-	-
Unemployment compensation	2,027	-	48	-
	<u>\$ 225,943</u>	<u>\$ 8,400</u>	<u>\$ 2,147</u>	<u>\$ 755</u>

School Administration	Fiscal Services	Staff Services	Operation of Plant	Total
\$ -	\$ 2	\$ -	\$ 128	\$ 130
-	-	-	-	828
4,798	-	-	-	16,652
-	-	-	-	13,100
66	-	-	-	1,643
47	-	-	-	47
10	-	-	-	10
-	43,790	-	-	52,190
401	-	-	-	401
-	-	-	-	2,297
4,098	-	-	-	19,158
42,074	-	-	-	205,114
3,182	-	-	-	16,513
248	-	29	182	3,881
-	-	-	1,312	1,312
-	-	-	-	2,261
264	-	-	-	2,339
<u>\$ 55,188</u>	<u>\$ 43,792</u>	<u>\$ 29</u>	<u>\$ 1,622</u>	<u>\$ 337,876</u>

**Walton Academy Learning Center  
(A division of Walton Academy, Inc.)**

**SCHEDULE OF CATEGORICAL EXPENDITURES**

**For the year ended June 30, 2007**

Categorical	Prior Year	FY 2006-2007		
	Carryforward	Revenue	Expenditures	Carryforward
Instructional materials	\$ 640	\$ 4,847	\$ 2,261	\$ 3,226
Instructional technology	45	-	45	-
Total	<u>\$ 685</u>	<u>\$ 4,847</u>	<u>\$ 2,306</u>	<u>\$ 3,226</u>

Partners:

John R. Hopkins

James A. Wright, Jr.

James S. LaHam

Ross A. Whitley

W. Ed Moss, Jr.

Phillip J. Hayes

Brian L. Nemeroff

**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  
Walton Academy Learning Center  
Fort Walton Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Walton Academy Learning Center (a Charter School), a division of the Walton Academy, Inc., and is a component unit of the School Board of Walton County, Florida, as of and for the year ended June 30, 2007, which collectively comprise Walton Academy Learning Center's basic financial statements, and have issued our report thereon dated September 7, 2007. 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.

BREVARD OFFICE

8035 Spyglass Hill Rd.

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phone 321-757-2020

fax 321-242-4844

ORLANDO OFFICE

480 N. Orlando Ave.

Suite 218

Winter Park, FL 32789

phone 407-644-5811

fax 407-644-6022

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Walton Academy Learning Center'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 Walton Academy Learning Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Walton Academy Learning Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Walton Academy Learning Center's financial statements that is more than inconsequential will not be prevented or detected by the Walton Academy Learning Center's internal control.

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

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

Compliance and other matters

As part of obtaining reasonable assurance about whether Walton Academy Learning Center'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*.

This report is intended solely for the information and use of Walton Academy Learning Center's management, the School Board of Walton County, the State of Florida Office of the Auditor General and other regulatory agencies of federal and state governments, and is not intended to be and should not be used by anyone other than these specified parties.

September 7, 2007  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

Partners:

John R. Hopkins

James A. Wright, Jr.

James S. LaHam

Ross A. Whitley

W. Ed Moss, Jr.

Phillip J. Hayes

Brian L. Nemeroff

## MANAGEMENT LETTER

To the Board of Directors  
Walton Academy Learning Center  
Fort Walton Beach, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Walton Academy Learning Center (a Charter School), a division of the Walton Academy, Inc., and is a component unit of the School Board of Walton County, Florida, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 7, 2007.

We issued our report on internal control over financial reporting and on compliance and other matters dated September 7, 2007. Disclosures in that report, if any, should be considered in conjunction with this management letter.

The discussion required by the rules of the Auditor General follows:

### BREVARD OFFICE

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phone 321-757-2020

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### ORLANDO OFFICE

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1. There were no significant findings and recommendations made in the preceding annual financial audit report.
2. In connection with our audit, we determined that the School has not met any of the conditions described in Section 218.503(1)(e), Florida Statutes.
3. Based on our professional judgment, there were no matters that were inconsequential to the financial statements considering both quantitative and qualitative factors, including the following:
  - a. Violations of laws, rules, regulations, contracts, and grant agreements or abuse that: (1) have occurred, or are likely to have occurred; and (2) were discovered within the scope of the financial audit.
  - b. Improper expenditures discovered within the scope of the financial audit.
  - c. Deficiencies in internal control of inconsequential effect in relation to the financial statements and other recommendations to improve present financial management, accounting procedures, and internal controls.

4. The official title of the School is *Walton Academy Learning Center* (a Charter School), a division of the Walton Academy, Inc., and is a component unit of the School Board of Walton County, Florida, which is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes.

This management letter is intended for the information of Walton Academy Learning Center's management, the School Board of Walton County, the State of Florida Office of the Auditor General and other regulatory agencies of federal and state governments, and is not intended to be and should not be used by anyone other than these specified parties.

September 7, 2007  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*