

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

Basic Financial Statements and
Supplemental Information

For the year ended
June 30, 2010

BERMAN & HOPKINS
WRIGHT & LAHAM
CPAS AND ASSOCIATES, LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Walton Academy
DeFuniak Springs, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Walton Academy (the "School"), a division of Walton Academy, Inc. (the "Charterholder"), and a component unit of the School Board of Walton County, Florida, as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Walton Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

As described in Note A-1, the accompanying statements referred to above present only the financial position of Walton Academy at June 30, 2010, and the respective changes in financial position for the year ended, and is not intended to be a complete presentation of the Charterholder.

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 as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2010, on our consideration of Walton Academy'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 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.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Walton Academy's basic financial statements. The accompanying supplemental information, as 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 supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

September 13, 2010
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Management's Discussion and Analysis

As management of Walton Academy (the "School"), a division of Walton Academy, Inc. (the "Charterholder") 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, 2010 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 - 13.

Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$336,849.
- The government's total net assets decreased by \$40,388.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$202,263, a decrease of \$39,106 in comparison with the prior year.
- At the end of the current fiscal year, the School's total debt decreased by \$11,937 due to principal expenditures made during the 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 are comprised of 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.

Government-wide Financial Statements

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.

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).

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 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 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 three 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 and capital outlay fund, which are considered to be major funds.

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 budgetary comparison schedules can be found on pages 27 - 28 of this report.

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

The School's net assets were as follows:

	2010	2009	Change
Current assets	\$ 236,522	\$ 269,179	\$ (32,657)
Capital assets—net	164,554	177,773	(13,219)
Total assets	<u>401,076</u>	<u>446,952</u>	<u>(45,876)</u>
Current liabilities	34,259	27,810	6,449
Long-term liabilities outstanding	29,968	41,905	(11,937)
Total liabilities	<u>64,227</u>	<u>69,715</u>	<u>(5,488)</u>
Net assets consist of:			
Invested in capital assets—net	134,586	135,868	(1,282)
Restricted net assets	108,253	109,950	(1,697)
Unrestricted net assets	<u>94,010</u>	<u>131,419</u>	<u>(37,409)</u>
Net assets	<u>\$ 336,849</u>	<u>\$ 377,237</u>	<u>\$ (40,388)</u>

Capital assets consist primarily of buildings, improvements other than buildings and furniture, fixtures and equipment. The decrease in capital assets is due to depreciation expense less capital outlay additions.

The decrease in non-current liabilities is related to principal payments on capital lease obligations. The decrease in unrestricted net assets is primarily due to the overall decrease in net assets.

The School's activities were as follows:

	2010	2009	Change
Basic instruction	\$ 347,979	\$ 401,157	\$ (53,178)
Exceptional instruction	30,194	17,303	12,891
Staff development	4,920	-	4,920
Board of directors	10,969	7,905	3,064
General administration	40,883	96,378	(55,495)
School administration	180,212	199,149	(18,937)
Facilities	65,587	43,251	22,336
Fiscal services	69,428	59,574	9,854
Food services	-	14,308	(14,308)
Staff services	38,952	55,303	(16,351)
Transportation	50,051	65,862	(15,811)
Operation of plant	88,023	60,950	27,073
Interest on note payable	<u>3,381</u>	<u>4,589</u>	<u>(1,208)</u>
Total expenses	<u>\$ 930,579</u>	<u>\$ 1,025,729</u>	<u>\$ (95,150)</u>

The decreases in the overall expenses are a direct result of reductions in full-time employees in basic instruction and general administrative functions.

The School's revenues were as follows:

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenues:			
Program revenues			
Operating grants	\$ 89,939	\$ 95,297	\$ (5,358)
Capital grants	31,052	59,944	(28,892)
General revenues	<u>769,200</u>	<u>838,372</u>	<u>(69,172)</u>
	<u>\$ 890,191</u>	<u>\$ 993,613</u>	<u>\$ (103,422)</u>

The overall revenue decrease was related to a decrease in the per student base funding of approximately 7% and a decrease in enrollment of approximately 2%.

As previously noted, 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 \$336,849 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, buildings, improvements other than buildings, and furniture, fixtures 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 \$336,849.

Financial Analysis of the Government's Funds

As previously noted, 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 \$202,263.

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 \$79,955.

During the current fiscal year, the fund balance of the School's general fund decreased by \$31,417.

General Fund Budgetary Highlights

Budgeted revenues exceeded actual revenues by \$2,049 and budgeted expenditures exceeded actual expenditures by \$27,141.

Capital Asset and Debt Administration

Capital assets. The School's investment in capital assets for its governmental type activities as of June 30, 2010, amounts to \$134,586 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, improvements other than buildings, furniture, fixtures and equipment, and vehicles.

Debt. At the end of the current fiscal year, the School had a capital lease payable of \$29,968 for the modular buildings in which the School operates.

The School's total debt decreased by \$11,937 due to principal payments made during the current fiscal year.

Request for Information

This financial report is designed to provide a general overview of Walton Academy'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, 101-A Business Centre, Miramar Beach, FL 32550.

Walton Academy
(A division of Walton Academy, Inc.)

STATEMENT OF NET ASSETS

June 30, 2010

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash	\$ 193,737
Accounts receivable	27
Due from other agencies	24,493
Due from management company	3,157
Due from related party	1,053
Prepaid expenses	8,034
Deposits receivable	6,021
Total current assets	236,522
CAPITAL ASSETS	
Capital assets not being depreciated:	
Land	13,413
Capital assets, net of accumulated depreciation:	
Buildings	89,765
Improvements other than buildings	45,722
Furniture, fixtures and equipment	14,529
Vehicles	1,125
Total capital assets	164,554
Total assets	401,076
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	31,475
Accrued benefits and payroll liabilities	2,784
Noncurrent liabilities:	
Due within one year	13,090
Due in more than one year	16,878
Total liabilities	64,227
NET ASSETS	
Investment in capital assets, net of related debt	134,586
Restricted for:	
Categorical	12,406
Capital outlay	95,847
Unrestricted	94,010
Total net assets	\$ 336,849

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

Walton Academy
(A division of Walton Academy, Inc.)

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Basic instruction	\$ 347,979	\$ -	\$ 53,790	\$ -	\$ (294,189)
Exceptional instruction	30,194	-	-	-	(30,194)
Staff development	4,920	-	-	-	(4,920)
Board of directors	10,969	-	-	-	(10,969)
General administration	40,883	-	-	-	(40,883)
School administration	180,212	-	-	-	(180,212)
Facilities	65,587	-	36,149	27,671	(1,767)
Fiscal services	69,428	-	-	-	(69,428)
Staff services	38,952	-	-	-	(38,952)
Transportation	50,051	-	-	-	(50,051)
Operation of plant	88,023	-	-	-	(88,023)
Interest on capital lease obligations	3,381	-	-	3,381	-
Total governmental activities	\$ 930,579	\$ -	\$ 89,939	\$ 31,052	(809,588)
General revenues:					
State passed through local school district					767,727
Other income					1,473
Total general revenues					769,200
Change in net assets					(40,388)
Net assets at July 1, 2009					377,237
Net assets at June 30, 2010					\$ 336,849

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

Walton Academy
(A division of Walton Academy, Inc.)

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 193,737	\$ -	\$ -	\$ 193,737
Accounts receivable	27	-	-	27
Due from other agencies	24,493	-	-	24,493
Due from management company	3,157	-	-	3,157
Due from related party	1,053	-	-	1,053
Due from other funds	-	95,847	-	95,847
Prepaid expenses	8,034	-	-	8,034
Deposits receivable	6,021	-	-	6,021
Total assets	\$ 236,522	\$ 95,847	\$ -	\$ 332,369
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 31,475	\$ -	\$ -	\$ 31,475
Accrued benefits and payroll liabilities	2,784	-	-	2,784
Due to other funds	95,847	-	-	95,847
Total liabilities	130,106	-	-	130,106
FUND BALANCES				
Reserved for:				
Categorical	12,406	-	-	12,406
Prepaid expenses	8,034	-	-	8,034
Deposits receivable	6,021	-	-	6,021
Unreserved	79,955	95,847	-	175,802
Total fund balances	106,416	95,847	-	202,263
Total liabilities and fund balances	\$ 236,522	\$ 95,847	\$ -	\$ 332,369

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

Walton Academy
(A division of Walton Academy, Inc.)

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

June 30, 2010

Fund balances - total governmental funds	\$ 202,263
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	
Land	\$ 13,413
Buildings, net of \$68,096 accumulated depreciation	89,765
Improvements other than buildings, net of \$56,897 accumulated depreciation	45,722
Furniture, fixtures and equipment, net of \$77,571 accumulated depreciation	14,529
Vehicles, net of \$3,075 accumulated depreciation	<u>1,125</u>
Total capital assets	164,554
Noncurrent liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of	
Capital leases	<u>(29,968)</u>
Total net assets of governmental activities	<u><u>\$ 336,849</u></u>

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

Walton Academy
(A division of Walton Academy, Inc.)

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

For the year ended June 30, 2010

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Federal passed through local school district	\$ -	\$ -	\$ 53,790	\$ 53,790
State passed through local school district	767,727	67,201	-	834,928
Other revenues	1,473	-	-	1,473
Total revenues	769,200	67,201	53,790	890,191
Expenditures				
Current				
Basic instruction	288,605	-	53,790	342,395
Exceptional instruction	30,194	-	-	30,194
Staff development	4,920	-	-	4,920
Board of directors	10,969	-	-	10,969
General administration	40,883	-	-	40,883
School administration	179,177	-	-	179,177
Facilities	-	36,149	-	36,149
Fiscal services	69,428	-	-	69,428
Staff services	38,952	-	-	38,952
Transportation	49,466	-	-	49,466
Operation of plant	88,023	-	-	88,023
Fixed capital outlay	-	23,423	-	23,423
Debt service				
Payment of principal	-	11,937	-	11,937
Interest expense	-	3,381	-	3,381
Total expenditures	800,617	74,890	53,790	929,297
Deficiency of revenues under expenditure	(31,417)	(7,689)	-	(39,106)
Fund balances at July 1, 2009	137,833	103,536	-	241,369
Fund balances at June 30, 2010	\$ 106,416	\$ 95,847	\$ -	\$ 202,263

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

Walton Academy
(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, 2010

Net change in fund balances - total government funds	\$ (39,106)
The change 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 costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Fixed capital outlay additions	\$ 23,423
Depreciation	<u>(36,642)</u>
	(13,219)
The issuance of long-term liabilities provides current financial resources to governmental funds, while the repayment of the principal of long-term liabilities consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The net effect of these differences in the treatment of long-term debt and related items increase net assets.	
Principal payments on capital lease obligations	<u>11,937</u>
Change in net assets of governmental activities	<u>\$ (40,388)</u>

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

Walton Academy
(A division of Walton Academy, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Walton Academy (the "School") is a division of Walton Academy, Inc. (the "Charterholder"), 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 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 only.

The general operating authority of Walton Academy is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, which is the School Board of Walton County, Florida (the "District"). The current charter is effective through June 30, 2010 (see note K-1). At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. Walton Academy 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.

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.

Walton Academy
(A division of Walton Academy, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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. Two of the School's funds were deemed major funds. 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.

The School's financial statements have been prepared in conformity 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.

Walton Academy
(A division of Walton Academy, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 funds:

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.

Capital Outlay Fund - is a special revenue fund used in accordance with guidelines established by the School Board of Walton County, Florida. This fund accounts for all resources for the leasing or acquisition of capital facilities by the School to the extent funded by capital grants.

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. Receivables

The School's receivables consist of amounts due from other agencies, management company, related school, and other miscellaneous amounts at June 30, 2010. After reviewing the individual account balances, the School's management has determined that 100% of receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

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
(A division of Walton Academy, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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>
Buildings	9
Improvements other than buildings	7 - 15
Furniture, fixtures and equipment	5 - 9
Vehicles	3

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of the debt issued as other financing sources and the repayment of debt as debt service expenditures.

8. 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(17), 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 (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect revised calculations by the FDOE 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.

Walton Academy
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NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. 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.

10. Reserves of fund balances and restrictions on net assets

The School has a portion of their general fund balance reserved for local categorical, prepaid expense, and deposits receivable. Categoricals are funds the legislature may appropriate for specified programs, activities, or purposes. In addition, the School has restricted the capital outlay net assets for future lease payments related to the acquisition of capital facilities. Capital outlay revenues are funded by capital grants in accordance with guidelines established by the School Board of Walton County, Florida.

11. Interfund activity

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.

12. Income taxes

The School qualifies as a tax-exempt entity, and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

NOTE B - INTERFUND ACTIVITY

Interfund receivable and payable balances for the year ended June 30, 2010 are as follows:

	Due To Other Funds	Due From Other Funds
General fund	\$ 95,847	\$ -
Capital outlay fund	-	95,847
	\$ 95,847	\$ 95,847

Walton Academy
(A division of Walton Academy, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE C - CASH

Custodial credit risk - The bank balance of the School's deposits were \$210,160 at June 30, 2010. The deposits are insured by the FDIC up to \$250,000 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 D - CAPITAL ASSETS

Changes in capital assets activity were as follows:

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Capital assets not being depreciated:				
Land	\$ 13,413	\$ -	\$ -	\$ 13,413
Capital assets depreciated:				
Buildings	157,861	\$ -	\$ -	157,861
Improvements other than buildings	84,644	17,975	-	102,619
Furniture, fixtures, and equipment	88,152	3,948	-	92,100
Vehicles	10,900	1,500	8,200	4,200
Total assets depreciated	<u>341,557</u>	<u>\$ 23,423</u>	<u>\$ 8,200</u>	<u>356,780</u>
Less accumulated depreciation:				
Buildings	50,556	\$ 17,540	\$ -	68,096
Improvements other than buildings	46,663	10,234	-	56,897
Furniture, fixtures, and equipment	69,288	8,283	-	77,571
Vehicles	10,690	585	8,200	3,075
Total accumulated depreciation	<u>177,197</u>	<u>\$ 36,642</u>	<u>\$ 8,200</u>	<u>205,639</u>
Total governmental activities capital assets, net	<u>\$ 177,773</u>			<u>\$ 164,554</u>

Depreciation expense for the year ended June 30, 2010 was charged to functions of the School as follows:

Basic instruction	\$ 5,584
School administration	1,035
Facilities	29,438
Transportation	585
Total depreciation	<u>\$ 36,642</u>

Walton Academy
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NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE E - LONG-TERM LIABILITIES

1. Changes in long-term liabilities

Changes in long-term liabilities were as follows:

	Balance at July 1, 2009	Additions	Reductions	Balance at June 30, 2010	Due within one year
Capital leases	\$ 41,905	\$ -	\$ 11,937	\$ 29,968	\$ 13,090

2. Capital leases

The School entered into a lease agreement January 27, 2007 as a lessee for financing the acquisition of modular buildings. The lease agreement qualifies as capital leases for accounting purposes and, therefore, is recorded at the present value of the future minimum lease payments at the inception date. The lease requires monthly installments of \$1,277 with an interest rate of approximately 9.5% and expires August 2012.

The assets acquired through the capital leases are recorded in the government-wide statements as follows:

	Governmental Activities:
Asset	
Building	\$ 99,009
Less: accumulated depreciation	31,169
	\$ 67,840

The future minimum lease obligations and the net present value of the minimum lease payments are as follows:

Fiscal years ending June 30,	
2011	\$ 15,318
2012	15,318
2013	2,553
Total minimum lease payments	33,189
Less: amount representing interest	(3,221)
Present value of future minimum lease payments	\$ 29,968

Walton Academy
(A division of Walton Academy, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE F - COMMITMENTS AND CONTINGENCIES

1. Operating leases

The School leases equipment under various operating agreements that expire during the 2010 fiscal year. Current year equipment operating lease expenses totaled \$6,997.

The Charterholder entered into a third party non-cancelable lease agreement for facilities, commencing on July 1, 2009. The contract requires monthly payments of \$4,217 and expires on June 30, 2013. The lease has a renewal option to renew at an increase of the Consumer Price Index.

The School is subleasing a portion of the above stated leased facilities for monthly installments of \$703. The management company also leases a portion of this facility for \$2,108 monthly. Additionally, two related schools under the same management company are leasing a portion of this facility for \$703 monthly installments each. On behalf of the Charterholder and other subleases mentioned above the School is paying the total monthly lease payment of \$4,217. Once the total monthly installment is made the management company and other related subleases reimburse the School \$3,514 for their portion of the lease agreement. At June 30, 2010, the management company and one of the related schools had outstanding reimbursements to the School of approximately \$3,150 and \$1,050, respectively.

During the year ending, June 30, 2010, the School's operating facilities expense was \$8,436.

Future minimum lease payments for equipment and facilities for years ended June 30:

2011	\$ 10,848
2012	10,044
2012	<u>8,436</u>
Total minimum lease payments	<u><u>\$ 29,328</u></u>

2. Management agreement

The School has entered into a cancelable service agreement with a third party for management services, commencing on July 1, 2005. The contract is for management services through June 2010 (see Note K-1). The management fee is calculated as \$78 times the FTE student count, payable in twelve monthly installments. Current year management fees charged to operations totaled \$94,536.

Walton Academy
(A division of Walton Academy, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE F - COMMITMENTS AND CONTINGENCIES (continued)

3. Consulting agreement

The School has a consulting agreement for exceptional student education consulting, training and support. The contract requires monthly payments of \$2,000 and expires June 30, 2010 (see Note K-3) and may be terminated by either party with sixty days notice. Current year exceptional student education consulting fees paid to outside consultants totaled \$24,000.

NOTE G - RELATED PARTY

1. Management agreement

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, 2010 are \$94,536 (see Note F-2).

The School's Director also serves as a Director for another charter school managed by the same management company and is also a board member for another charter school managed by the same management company.

The School's Executive Director also serves as an Executive Director for two other related schools managed by the same management company.

2. Payroll

During the year, the School processes certain payroll transactions with two related charter schools. One school is under the same Charterholder and both are managed by the same management company. All of the payroll transactions are reimbursed by the related schools. At June 30, 2010 there were no payroll balances due from the related schools.

NOTE H - 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 for the past three years.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE I - CONCENTRATIONS

Revenue sources

As stated in Note A-8, 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:

Sources	Amounts
School Board of Walton County:	
Base funding	\$ 349,336
Referral billing	24,492
ESE guaranteed allocation	16,986
Supplemental academic instruction	17,756
Class size reduction	86,214
Other FEFP	27,909
Safe schools	2,604
Discretionary local effort	141,152
Voted discretionary millage	96,450
Instructional materials allocation	8,460
Student transportation	34,213
Lead teacher program	1,273
Administration fee withheld (5%)	(39,118)
Subtotal	767,727
Capital outlay funds	67,201
Title 1	53,790
Total from School Board of Walton County	888,718
Other revenues:	
Miscellaneous revenue	1,473
	\$ 890,191

NOTE J - RETIREMENT PLAN

1. Participation

Employees of the School participate 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.

Walton Academy
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NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE J - RETIREMENT PLAN (continued)

2. Contributions

Chapter 121 requires the employer to pay all contributions (employee noncontributory) based upon state-wide rates established by the State of Florida. During 2009, 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, 2010, 2009, and 2008 were \$43,547, \$43,284, and \$46,986, respectively, equal to the total required contributions for each year. Contributions represented 9.63%, 7.69%, and 9.63% of covered payroll for the years ended June 30, 2010, 2009, and 2008, respectively.

3. 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% 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.

4. Financial report of the plan

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

NOTE K - SUBSEQUENT EVENTS

1. Charter agreement

After year end, the School's charter contract was renewed and expires June 30, 2015 (see Note A-1).

2. Management agreement

After year end, the School's management agreement was renewed and expires June 30, 2015 (see Note F-2).

Walton Academy
(A division of Walton Academy, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE K - SUBSEQUENT EVENTS (continued)

3. Consulting agreement

The School renewed the consulting agreement for exceptional student education consulting, training and support for the 2010 - 2011 school year. The previously noted terms and conditions still apply. The contract expires June 30, 2011 (see Note F-3).

4. Subsequent evaluation

The School has evaluated subsequent events through September 13, 2010 the date which the financial statements were issued.

REQUIRED SUPPLEMENTAL INFORMATION

Walton Academy
(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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
FTE revenue	\$ 787,433	\$ 744,249	\$ 743,234	\$ (1,015)
Yearbook sales	-	-	32	32
Miscellaneous	2,000	2,000	1,441	(559)
Referral billing	30,000	25,000	24,493	(507)
Total revenues	819,433	771,249	769,200	(2,049)
Expenditures				
Salaries	464,670	415,060	414,917	143
Retirement	45,770	40,883	39,858	1,025
Social security	35,547	33,000	32,760	240
Group insurance	47,700	46,000	45,952	48
Worker's compensation	7,000	3,000	2,736	264
Unemployment compensation	4,000	4,000	3,424	576
Management services	98,280	94,536	94,536	-
ESE services	24,000	24,000	24,000	-
Auditing services	10,500	10,500	10,500	-
School resource officer	19,500	20,700	20,700	-
Staff development	750	1,200	1,173	27
Misc contract services	-	400	400	-
Insurance	12,000	14,500	13,771	729
In-county travel	500	500	271	229
Out-of-county travel	3,500	4,000	3,857	143
Repairs and maintenance	11,500	15,100	4,984	10,116
Fire alarm inspection	174	200	196	4
Copier lease	3,138	3,600	2,908	692
Radios lease	4,400	3,700	3,532	168
Miscellaneous rental	250	610	730	(120)
Postage	1,000	1,000	641	359
Telephone	4,600	7,000	7,689	(689)
Internet	1,200	1,200	-	1,200
Water and sewer	1,400	2,900	2,777	123
Garbage	1,200	1,500	1,485	15
Advertising	500	500	475	25
Printing	300	300	166	134
Pest control	660	705	704	1
Alarm monitoring	240	240	240	-
Lawn service	1,800	2,000	2,000	-
Non-professional services	600	600	590	10
Electricity	20,500	25,000	23,560	1,440
Vehicle gasoline	14,000	14,000	10,000	4,000
Supplies	10,000	15,000	14,877	123
Textbooks	10,000	8,094	2,468	5,626
Dues and fees	1,500	2,500	2,347	153
Lunches	200	200	-	200
Oil and grease	30	30	-	30
Other personal services	5,000	9,500	9,393	107
Total expenditures	867,909	827,758	800,617	27,141
Deficiency of revenues under expenditures	(48,476)	(56,509)	(31,417)	25,092
Fund balances at July 1, 2009	137,833	137,833	137,833	-
Fund balances at June 30, 2010	\$ 89,357	\$ 81,324	\$ 106,416	\$ 25,092

See note to required supplemental information.

Walton Academy
(A division of Walton Academy, Inc.)

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

For the year ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Capital outlay	\$ 75,000	\$ 60,000	\$ 67,201	\$ 7,201
Total revenues	<u>75,000</u>	<u>60,000</u>	<u>67,201</u>	<u>7,201</u>
Expenditures				
Insurance	5,116	5,116	5,116	-
Repairs and maintenance	25,000	10,000	6,998	3,002
Furnitures, fixtures, and equipment	7,500	7,500	7,148	352
Computer hardware	13,000	13,000	11,068	1,932
Computer software	1,000	1,200	1,037	163
Remodeling/renovations	5,000	18,000	17,975	25
Dues & fees	300	300	300	-
Lease - facility	8,435	8,435	8,430	5
Buses	-	1,500	1,500	-
Payment of principal	11,937	11,937	11,937	-
Interest expense	3,381	3,381	3,381	-
Total expenditures	<u>80,669</u>	<u>80,369</u>	<u>74,890</u>	<u>5,479</u>
Deficiency of revenues under expenditures	(5,669)	(20,369)	(7,689)	12,680
Fund balance at July 1, 2009	<u>103,536</u>	<u>103,536</u>	<u>103,536</u>	<u>-</u>
Fund balance at June 30, 2010	<u>\$ 97,867</u>	<u>\$ 83,167</u>	<u>\$ 95,847</u>	<u>\$ 12,680</u>

See note to required supplemental information.

Walton Academy
(A division of Walton Academy, Inc.)

NOTE TO REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2010

NOTE A - BUDGETARY INFORMATION

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 all governmental fund activities and may be amended by the Board of Directors (the "Board"). The budgets presented for fiscal year ended June 30, 2010, 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 fund level.

SUPPLEMENTAL INFORMATION

Walton Academy
(A division of Walton Academy, Inc.)

SCHEDULE OF FUNCTIONAL EXPENDITURES - GENERAL FUND

For the year ended June 30, 2010

	Basic Instruction	Exceptional Instruction	Staff Development	Board of Directors	General Administration	School Administration
Dues and fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,904
Electricity	-	-	-	-	-	-
Gas	-	-	-	-	-	-
Garbage	-	-	-	-	-	-
Group insurance	17,586	-	-	-	1,489	14,470
In-county travel	-	-	-	-	-	271
Insurance	-	-	-	9,025	-	-
Miscellaneous	-	-	1,173	-	-	-
Non-professional services	-	-	-	-	-	-
Other personal services	8,793	-	-	-	-	-
Out-of-county travel	-	-	-	1,544	-	2,313
Postage	-	-	-	-	-	641
Printing	-	-	-	-	-	641
Professional services	-	24,000	-	400	200	20,500
Rental	-	-	-	-	-	4,195
Repairs and maintenance	-	-	-	-	-	4,959
Retirement	21,450	-	310	-	2,353	10,715
Salaries and related benefits	216,455	5,551	3,150	-	33,288	103,221
Social security	17,160	425	241	-	2,624	8,124
Supplies	4,446	-	-	-	362	5,981
Telephone	-	-	-	-	-	-
Textbooks	2,468	-	-	-	-	-
Unemployment compensation	247	218	46	-	567	1,242
Water and sewer	-	-	-	-	-	-
Worker's compensation	-	-	-	-	-	-
	<u>\$ 288,605</u>	<u>\$ 30,194</u>	<u>\$ 4,920</u>	<u>\$ 10,969</u>	<u>\$ 40,883</u>	<u>\$ 179,177</u>

Fiscal Services	Staff Services	Transportation	Operation of Plant	Total
\$ 226	\$ 80	\$ 137	\$ -	\$ 2,347
-	-	-	23,560	23,560
-	-	10,000	-	10,000
-	-	-	1,485	1,485
-	-	5,335	7,072	45,952
-	-	-	-	271
-	-	4,746	-	13,771
-	-	-	-	1,173
-	-	-	3,534	3,534
-	-	600	-	9,393
-	-	-	-	3,857
-	-	-	-	641
-	-	-	-	641
68,900	36,136	-	-	150,136
-	-	3,532	(557)	7,170
-	-	-	221	5,180
-	-	1,889	3,141	39,858
-	-	21,191	32,061	414,917
-	-	1,638	2,548	32,760
302	-	-	3,786	14,877
-	-	-	7,689	7,689
-	-	-	-	2,468
-	-	398	706	3,424
-	-	-	2,777	2,777
-	2,736	-	-	2,736
<u>\$ 69,428</u>	<u>\$ 38,952</u>	<u>\$ 49,466</u>	<u>\$ 88,023</u>	<u>\$ 800,617</u>

Walton Academy
(A division of Walton Academy, Inc.)

SCHEDULE OF FUNCTIONAL EXPENDITURES - CAPITAL OUTLAY FUND

For the year ended June 30, 2010

	<u>Facilities</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Total</u>
Dues and fees	\$ 300	\$ -	\$ -	\$ 300
Insurance	5,116	-	-	5,116
Repairs and maintenance	15,428	-	-	15,428
Buses	-	1,500	-	1,500
Remodeling and renovations	-	17,975	-	17,975
Furniture and fixtures	3,200	3,948	-	7,148
Computer hardware	11,068	-	-	11,068
Computer software	1,037	-	-	1,037
Payment of principal	-	-	11,937	11,937
Interest	-	-	3,381	3,381
	<u>\$ 36,149</u>	<u>\$ 23,423</u>	<u>\$ 15,318</u>	<u>\$ 74,890</u>

Walton Academy
(A division of Walton Academy, Inc.)

SCHEDULE OF CATEGORICAL EXPENDITURES

For the year ended June 30, 2010

<u>Categorical</u>	Prior Year	FY 2009-2010		
	<u>Carryforward</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Carryforward</u>
Instructional materials	\$ 6,414	\$ 8,460	\$ 2,468	\$ 12,406
Safe schools	-	2,604	2,604	-
Transportation	-	34,213	34,213	-
Total	<u>\$ 6,414</u>	<u>\$ 45,277</u>	<u>\$ 39,285</u>	<u>\$ 12,406</u>

**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
DeFuniak Springs, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Walton Academy, a division of Walton Academy, Inc. (the "Charterholder"), and a component unit of the School Board of Walton County, Florida, as of and for the year ended June 30, 2010, which collectively comprise Walton Academy's basic financial statements, and have issued our report thereon dated September 13, 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 Walton 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 Walton Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Walton 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 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 over financial reporting 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'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 did not disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a matter that we reported to management of the School, in the accompanying management letter dated September 13, 2010.

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

September 13, 2010
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT LETTER

To the Board of Directors
Walton Academy
DeFuniak Springs, Florida

We have audited the financial statements of Walton Academy, a division of Walton Academy, Inc. (the "Charterholder"), and a component unit of the School Board of Walton County, Florida, as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated September 13, 2010.

We conducted our audit 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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which are dated September 13, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of the charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule:

- Section 10.854(1)(e)1, Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations in the preceding audit report.
- Section 10.854(1)(e)3, Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.854(1)(e)4, Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

- Section 10.854(1)(e)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we identified a recommendation as listed under the heading Current Year Management Recommendations at 10-1.
- Section 10.854(1)(e)6, Rules of the Auditor General, requires the name or official title of the school. The official title of the school is *Walton Academy* (a Charter School), a division of Walton Academy, Inc. (the "Charterholder"), 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.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that Walton Academy did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(10), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of Walton Academy's management, Board of Directors, others within the entity, the School Board of Walton County, the State of Florida Auditor General, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 13, 2010
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

CURRENT YEAR MANAGEMENT RECOMMENDATIONS

10-1 Student Attendance

Criteria: Florida Statute 1003.23 requires that attendance of all public school students be checked each school day and recorded in the teacher's register or by some approved system of recording attendance. These records must be used to prepare and submit reports as required by law and by rules of the State Board of Education and district school boards.

Condition: Of the 10 students sampled, 2 students' records of attendance were incorrectly reported to the District. Both students were incorrectly reported to the District as absent instead of present on the days tested.

Effect: The School's attendance was incorrectly recorded; therefore, the FTE student count could possibly be understated.

Auditors' recommendation: We recommend the School implement a review policy to ensure that original attendance data and any changes that are made to attendance are recorded correctly.

WALTON ACADEMY, INC.

September 13, 2010

Response to Current Year Management Recommendations:

Walton Academy will implement procedures that will require teachers to sign off on attendance printouts during FTE period as a double check against data entry errors.



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