

WILLIAM A. LAWSON INSTITUTE FOR
PEACE AND PROSPERITY

FINANCIAL STATEMENTS

FOR THE

YEARS ENDED AUGUST 31, 2015 AND 2014

AND INDEPENDENT AUDITOR'S REPORT



MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY

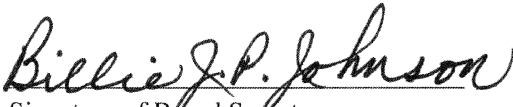
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Certificate of Board

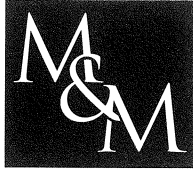
**The Lawson Academy (formerly WALIPP-TSU Preparatory Academy)
(Federal Employer Identification Number: 17-60496051)**

We, the undersigned, certify that the attached Financial and Compliance Report of The Lawson Academy (formerly WALIPP-TSU Preparatory Academy) was reviewed and (check one) ✓ approved disapproved for the year ended August 31, 2015, at a meeting of the governing body of the charter holder on the 23 day of January, 2016.


Signature of Board Secretary


Signature of Board President

If the governing body of the charter holder disapproved the independent auditor's report, the reason(s) for disapproving it is (are): (attach list as necessary)



MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
William A. Lawson Institute for Peace and Prosperity

Report on the Financial Statements

We have audited the accompanying financial statements of William A. Lawson Institute for Peace and Prosperity, which comprise the statements of financial position as of August 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of William A. Lawson Institute for Peace and Prosperity as of August 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information, including the required Texas Education Agency schedules (pages 17 through 27), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2016, on our consideration of William A. Lawson Institute for Peace and Prosperity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters (page 28). The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering William A. Lawson Institute for Peace and Prosperity's internal control over financial reporting and compliance.


Houston, Texas
January 27, 2016

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
STATEMENTS OF FINANCIAL POSITION
August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 233,840	\$ 211,841
Due from Texas Education Agency	80,283	61,644
Other current assets	<u>7,951</u>	<u>8,550</u>
Total current assets	322,074	282,035
 Capital Assets, net	 <u>3,638,133</u>	 <u>3,824,658</u>
	 <u>\$ 3,960,207</u>	 <u>\$ 4,106,693</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 130,997	\$ 177,150
Current maturities of capital lease obligations	13,409	14,002
Current maturity of note payable	<u>31,363</u>	<u>990,200</u>
Total current liabilities	<u>175,769</u>	<u>1,181,352</u>
 Long-Term Liabilities:		
Capital lease obligations, net of current maturities	110	14,971
Note payable, net of current maturity	<u>924,895</u>	<u>-</u>
	<u>925,005</u>	<u>14,971</u>
 Net Assets:		
Unrestricted	<u>2,859,433</u>	<u>2,910,370</u>
	<u>2,859,433</u>	<u>2,910,370</u>
	 <u>\$ 3,960,207</u>	 <u>\$ 4,106,693</u>

(See Notes to Financial Statements)

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
STATEMENTS OF ACTIVITIES
For the Years Ended August 31, 2015 and 2014

	2015			2014		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:						
Federal grants	\$ -	\$ 278,875	\$ 278,875	\$ -	\$ 282,734	\$ 282,734
State and local grants	8,760	1,353,690	1,362,450	12,512	1,558,229	1,570,741
Contributions	98,986	-	98,986	145,081	-	145,081
Property rental income	430,757	-	430,757	409,088	-	409,088
	538,503	1,632,565	2,171,068	566,681	1,840,963	2,407,644
Net assets released from restrictions	1,632,565	(1,632,565)	-	1,840,963	(1,840,963)	-
Total support and revenue	2,171,068	-	2,171,068	2,407,644	-	2,407,644
Expenses:						
Program services:						
Senior housing operations	345,587	-	345,587	356,009	-	356,009
Charter school operations	1,692,834	-	1,692,834	2,033,163	-	2,033,163
Total program services	2,038,421	-	2,038,421	2,389,172	-	2,389,172
Supporting services:						
Management and general	161,489	-	161,489	101,073	-	101,073
Fundraising	22,095	-	22,095	19,621	-	19,621
Total supporting services	183,584	-	183,584	120,694	-	120,694
Total expenses	2,222,005	-	2,222,005	2,509,866	-	2,509,866
Change in net assets	(50,937)	-	(50,937)	(102,222)	-	(102,222)
Net assets, beginning of year	2,910,370	-	2,910,370	3,012,592	-	3,012,592
Net assets, end of year	\$ 2,859,433	\$ -	\$ 2,859,433	\$ 2,910,370	\$ -	\$ 2,910,370

(See Notes to Financial Statements)

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2015

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Senior Housing Operations</u>	<u>Charter School Operations</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Salaries and Related Expenses:							
Salaries	\$ -	\$ 872,861	\$ 872,861	\$ 85,361	\$ -	\$ 85,361	\$ 958,222
Employee fringe benefits	-	85,679	85,679	-	-	-	85,679
Payroll taxes	-	20,166	20,166	6,685	-	6,685	26,851
Total salaries and related expenses	-	978,706	978,706	92,046	-	92,046	1,070,752
Operating Expenses:							
Contract Services:							
Legal and professional fees	-	282,153	282,153	18,006	-	18,006	300,159
Food service	-	-	-	-	-	-	-
Transportation	-	62,248	62,248	-	-	-	62,248
Custodial services	10,116	-	10,116	600	-	600	10,716
Other contracted services	21,365	21,698	43,063	1,239	20,010	21,249	64,312
Property and equipment rent	821	145,864	146,685	-	-	-	146,685
Materials and supplies	4,984	51,670	56,654	15,616	635	16,251	72,905
Maintenance and repairs	62,659	2,262	64,921	-	-	-	64,921
Utilities	79,018	13,817	92,835	-	-	-	92,835
Insurance	-	7,280	7,280	14,782	-	14,782	22,062
Interest	51,414	567	51,981	243	-	243	52,224
Other	5,672	49,582	55,254	18,957	1,450	20,407	75,661
Total operating expenses before depreciation	236,049	637,141	873,190	69,443	22,095	91,538	964,728
Depreciation	109,538	76,987	186,525	-	-	-	186,525
Total Functional Expenses	\$ 345,587	\$ 1,692,834	\$ 2,038,421	\$ 161,489	\$ 22,095	\$183,584	\$ 2,222,005

(See Notes to Financial Statements)

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
For the Year Ended August 31, 2014

	Program Services			Supporting Services			Total Expenses
	Senior Housing Operations	Charter School Operations	Total	Management and General	Fundraising	Total	
Salaries and Related Expenses:							
Salaries	\$ -	\$ 988,326	\$ 988,326	\$ -	\$ -	\$ -	\$ 988,326
Employee fringe benefits	-	120,417	120,417	-	-	-	120,417
Payroll taxes	-	18,935	18,935	-	-	-	18,935
Total salaries and related expenses	-	1,127,678	1,127,678	-	-	-	1,127,678
Operating Expenses:							
Contract Services:							
Legal and professional fees	-	181,900	181,900	23,074	-	23,074	204,974
Food service	-	78,947	78,947	-	-	-	78,947
Transportation	-	83,450	83,450	-	-	-	83,450
Custodial services	20,471	34,385	54,856	39,703	-	39,703	94,559
Other contracted services	10,318	37,499	47,817	834	19,233	20,067	67,884
Property and equipment rent	9,187	135,331	144,518	-	-	-	144,518
Materials and supplies	-	49,707	49,707	6,069	388	6,457	56,164
Maintenance and repairs	74,409	8,759	83,168	-	-	-	83,168
Utilities	76,265	32,832	109,097	-	-	-	109,097
Insurance	-	26,034	26,034	18,213	-	18,213	44,247
Interest	50,290	865	51,155	374	-	374	51,529
Other	5,795	162,463	168,258	12,806	-	12,806	181,064
Total operating expenses before depreciation	246,735	832,172	1,078,907	101,073	19,621	120,694	1,199,601
Depreciation	109,274	73,313	182,587	-	-	-	182,587
Total Functional Expenses	\$ 356,009	\$ 2,033,163	\$ 2,389,172	\$ 101,073	\$ 19,621	\$ 120,694	\$ 2,509,866

(See Notes to Financial Statements)

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
State grant receipts	\$ 1,371,039	\$ 1,593,761
Federal grant receipts	252,246	288,067
Property rental receipts	430,757	409,088
Receipts from miscellaneous sources	98,986	152,581
Payments to vendors for goods and services rendered	(958,326)	(1,025,770)
Payments to or on behalf of employees for services rendered	(1,071,083)	(1,135,847)
Interest paid	(52,224)	(51,529)
Net cash provided by operating activities	<u>71,395</u>	<u>230,351</u>
Cash Flows from Investing Activities:		
Purchase of capital assets	<u>-</u>	<u>(150,700)</u>
Net cash used in investing activities	<u>-</u>	<u>(150,700)</u>
Cash Flows from Financing Activities:		
Payments on note payable	(33,942)	(28,502)
Payments on capital lease obligations	(15,454)	(19,597)
Net cash used in financing activities	<u>(49,396)</u>	<u>(48,099)</u>
Net increase in cash	21,999	31,552
Cash, beginning of year	<u>211,841</u>	<u>180,289</u>
Cash, end of year	<u>\$ 233,840</u>	<u>\$ 211,841</u>
Reconciliation of Change in Net Assets to Net Cash Provided		
by Operating Activities:		
Change in net assets	\$ (50,937)	\$ (102,222)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	186,525	182,587
Changes in operating assets and liabilities:		
Due from Texas Education Agency	(18,639)	14,639
Promises to give	-	7,500
Prepaid expenses	-	14,125
Other current assets	599	(411)
Accounts payable and accrued expenses	(46,153)	114,133
Net cash provided by operating activities	<u>\$ 71,395</u>	<u>\$ 230,351</u>

(See Notes to Financial Statements)

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

William A. Lawson Institute for Peace and Prosperity (“WALIPP”) is a nonprofit organization incorporated in the state of Texas in March 1996. WALIPP is governed by a Board of Directors (the “Board”) comprised of not fewer than three members. The Board is elected pursuant to the bylaws of WALIPP and has the authority to make decisions, appoint the chief executive officer of WALIPP, and significantly influence operations. The Board has primary accountability for the fiscal affairs of WALIPP.

WALIPP operates The Lawson Academy (formerly WALIPP-TSU Preparatory Academy) (the “Academy”) for boys and girls and a senior housing facility, both located in Houston, Texas. WALIPP is supported through funds received from federal, state, and local governmental agencies, as well as from private donors including corporations and non-profit organizations. Since WALIPP receives funding from federal, state, and local government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

The Academy, located in Houston, Texas, was organized in 2001 to provide educational services to students in the 6th through 8th grades. In 2011, the Texas State Board of Education granted the Academy an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Subsequently, the Academy was operated in accordance with the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter. The Academy’s programs, services, activities, and functions are governed by WALIPP’s Board. The Academy is part of the public school system of the State of Texas and is, therefore, entitled to distributions from the State’s available school fund. The Academy does not have the authority to impose ad valorem taxes on its district or to charge tuition.

The senior housing facility was constructed in 2003 and is a four-story structure with 42 two-bedroom apartments and eight one-bedroom apartments designed for independent living by adults 55 and older, of which 26 of the apartments are designated for low-income and very low-income adults. The facility is located in Houston, Texas.

Basis of Accounting and Presentation

The financial statements of WALIPP are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets, revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues included in net assets released from restrictions. Accordingly, net assets of WALIPP and changes therein are classified and reported as follows:

Unrestricted – net assets that are not subject to donor-imposed stipulations.

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily restricted – net assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specific event. There were no temporarily restricted net assets at August 31, 2015 and 2014.

Permanently restricted – net assets required to be maintained in perpetuity, with only the income used for operating activities, due to donor-imposed stipulations. There were no permanently restricted net assets at August 31, 2015 and 2014.

Support and Revenue

Grants are recognized as revenue when eligible expenditures are incurred. Contributions are recognized as revenue when an unconditional promise is received and is recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the absence or existence and nature of any restrictions. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When the restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in net assets released from restrictions on the statements of activities.

Property rental income is recognized on a straight-line basis of the total required rental payments over the lease term.

Due from Texas Education Agency

Due from Texas Education Agency consists of eligible grant expenditures incurred in excess of grant fund reimbursements awarded by the Texas Education Agency (“TEA”). Grant receivables are stated at their estimated net realizable values. An allowance for doubtful accounts is recorded based on management’s analysis of the specific grants. Receivables are charged off against the allowance for doubtful accounts when they are considered uncollectible by management. No allowance for doubtful accounts was considered necessary at August 31, 2015 and 2014.

Donated Services

Donated services are recorded at their estimated value on their donation date and recognized as contributions in the financial statements if the services create or enhance nonfinancial assets or require specialized skills, performed by people with those skills, and would otherwise be purchased by WALIPP. In 2014, donated services, included in contributions on the statements of activities, amounted to \$32,636. There were no such donated services in 2015.

Donated services that do not require specialized skills or enhance nonfinancial assets are not recorded in the financial statements because no objective basis is available to measure the value of such services. In 2015 and 2014, several individuals donated time to WALIPP’s programs; the value of which is not recorded in the financial statements.

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are recorded at cost. WALIPP has no donated capital assets to be valued. Improvements or betterments of a permanent nature are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from capital asset disposals are credited or charged to operations currently.

Capital assets are depreciated using the straight-line method over the estimated useful lives of the respective classes of assets.

Income Taxes

WALIPP is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”). WALIPP currently has no taxable unrelated business income. Accordingly, no provision for income taxes has been recorded.

Management has evaluated WALIPP’s tax positions and concluded that WALIPP has taken no uncertain tax positions that require adjustment to the financial statements. WALIPP is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2012. WALIPP records tax-related interest and penalties in expenses in the statements of activities. There were no tax-related interest or penalties in 2015 or 2014.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the statements of activities. Expenses are charged to each program and supporting service based on direct expenditures incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Accounting Standards Codification. ASU 2014-09, as further amended by ASU 2015-14, is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management is currently evaluating the impact ASU 2014-09 will have on WALIPP’s financial statements.

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 2 - CAPITAL ASSETS

Capital assets consist of the following at August 31, 2015 and 2014:

	<u>Useful Lives</u>	<u>2015</u>	<u>2014</u>
Land		\$ 343,327	\$ 343,327
Building and improvements	5 - 40 years	4,436,390	4,296,390
Furniture and equipment	3 - 5 years	243,398	220,861
Furniture and equipment under capital leases	3 - 5 years	62,375	84,912
Construction in progress		<u>-</u>	<u>140,000</u>
		5,085,490	5,085,490
Less: Accumulated depreciation		<u>1,447,357</u>	<u>1,260,832</u>
		<u>\$3,638,133</u>	<u>\$3,824,658</u>

Construction in progress represents costs incurred on the construction of a leasehold improvement that had not been completed and placed in service as of August 31, 2014.

NOTE 3 - NOTE PAYABLE

WALIPP has a note, payable to the Houston Housing Finance Corporation in monthly installments, of \$6,566, including interest at 5%. The note is collateralized by the senior housing facility. In February 2015, the note was amended to extend the maturity date to February 2018. At August 31, 2015 and 2014, the amount due on the note is as follows:

	<u>2015</u>	<u>2014</u>
Current maturity of note payable	\$ 31,363	\$990,200
Long-term note payable	<u>924,895</u>	<u>-</u>
	<u>\$956,258</u>	<u>\$990,200</u>

Future maturities of the note payable at August 31, 2015 are as follows:

<u>For the Year Ending August 31:</u>	
2016	\$ 31,363
2017	32,968
2018	<u>891,927</u>
	<u>\$956,258</u>

The senior housing facility is included in building and improvements and was constructed with \$1.3 million in federal funds passed through from the City of Houston, Texas (the "City"). Although the title to the facility vests with WALIPP, the federal government has an interest in the facility since funding was acquired through the HOME Investment Partnerships Program under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended. Per the terms of the grant agreement with the City, the facility is subject to a minimum affordability period of 20 years, beginning December 2004. During the affordability period, WALIPP is required to designate 26 apartment units of the total 50

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 3 - NOTE PAYABLE (CONTINUED)

residential rental units on a continuous basis for low-income and very low-income adults age 55 and older. The facility may not be mortgaged or used as collateral, sold, or otherwise transferred to another party, without the written permission of the City.

NOTE 4 - LINE OF CREDIT

In October 2014, WALIPP entered into an unsecured \$50,000 line of credit with a bank. Interest is payable monthly at prime plus 0.5%. Principal is due at maturity in October 2016. At August 31, 2015, there was no outstanding balance on the line.

NOTE 5 - CAPITAL LEASE OBLIGATION

WALIPP leases equipment with lease terms through September 2016. Obligations under capital leases have been recorded in the financial statements at the present value of future minimum lease payments, discounted at an interest rate of 3.25%. At August 31, 2015 and 2014, the assets held under capital leases are as follows:

	<u>2015</u>	<u>2014</u>
Equipment under capital leases	\$62,375	\$84,912
Less: Accumulated depreciation	<u>48,595</u>	<u>36,340</u>
Net book value	<u>\$13,780</u>	<u>\$48,572</u>

Depreciation of equipment under leases is included in depreciation expense.

Future minimum lease payments under capital leases and the net present value of the future minimum lease payments at August 31, 2015 are as follows:

<u>For the Year Ending August 31:</u>	
2016	\$13,683
2017	<u>110</u>
Total future minimum lease payments	13,793
Less: Amount representing interest	<u>274</u>
Net present value of future minimum lease payments	13,519
Less: Current maturities	<u>13,409</u>
	<u>\$ 110</u>

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 6 - PENSION PLAN OBLIGATION

Plan Description

The Academy's full-time employees participate in the Teacher Retirement System of Texas ("TRS"), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan and is qualified under Section 401(a) of the IRC. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for the Pension Plan. That report may be obtained by writing the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Web site, www.trs.state.tx.us.

The risks of participating in a multiemployer defined benefit plan are different from a single-employer plan because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if any employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

For 2015 and 2014, plan members contributed 6.7% and 6.4% of their annual covered salary, respectively. The Academy and the State of Texas contributed 6.8%. Additionally, the Academy makes a 1.5% non-OASDI surcharge payment on all TRS eligible employees. For 2015 and 2014, the Academy contributed \$24,720 and \$9,386, respectively, which does not represent more than 5% of the TRS plan's total contributions for each year.

The following presents information about the multiemployer pension plan as of August 31, 2015 and 2014:

<u>Name of Pension Fund</u>	<u>EIN and Plan Number</u>	<u>Total Plan Assets</u>	<u>Accumulated Benefit Obligations</u>	<u>Funded Percentage</u>
August 31, 2015:				
Teacher Retirement System of Texas	Not available	\$149.8 billion	\$163.9 billion	78.43%
August, 31, 2014:				
Teacher Retirement System of Texas	Not available	\$157.3 billion	\$159.5 billion	83.25%

NOTE 7 - POSTRETIREMENT HEALTH CARE BENEFIT

Plan Description

WALIPP contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer, defined benefit, other postemployment benefit plan administered by the TRS. The statutory authority for TRS-Care is the Texas Insurance Code, Chapter 1575. Under Section 1575.052, TRS has the authority to establish basic and optional group insurance coverage for participants. TRS-Care is funded on a pay-as-you-go basis and is subject to change based on available funding. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Eligibility generally includes TRS retirees with more than ten years of service. Retirees may receive a free basic coverage with optional coverage and dependent coverage.

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 7 - POST-RETIREMENT HEALTH CARE BENEFIT (CONTINUED)

Funding Policy

Texas Insurance Code, Chapter 1575, Section 202 to 204 establishes state, active employee, and public school contributions. Funding for free basic coverage is provided by TRS-Care based on public school district payroll. Public school contributions may not be less than 0.25% or greater than 0.75% of the salary of each active employee. Funding for optional coverage is provided by the participants selecting the optional coverage. Contribution rates and amounts for fiscal year 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Active Member:		
Rate	0.65%	0.65%
Amount	\$4,944	\$6,750
Academy:		
Rate	0.55%	0.55%
Amount	\$4,184	\$5,689

NOTE 8 - HEALTH CARE COVERAGE

The 77th Texas Legislature enacted the Texas Active School Employees Uniform Group Benefits Act (H.B. 3343), establishing a statewide health coverage program for public school employees and their dependents. On September 1, 2002, TRS began administering this program, known as TRS-ActiveCare. For 2015 and 2014, WALIPP contributed \$367 and \$497 per month per employee, respectively. Employees, at their option, authorize payroll withholdings for payment of dependent premiums. All premiums were paid to licensed insurers. The risk associated with this program is retained by the participants, and no risk is transferred to TRS, WALIPP, or the State of Texas.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Operating Leases

WALIPP leases campus space and equipment under noncancelable operating leases that expire in August 2016 and July 2019, respectively. Future minimum lease payments of the operating leases are as follows:

<u>For the Year Ending August 31:</u>	
2016	\$148,030
2017	7,162
2018	7,162
2019	<u>6,565</u>
	<u>\$168,919</u>

For the years ended August 31, 2015 and 2014, rent expense was \$145,864 and \$119,081, respectively.

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2015 and 2014

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concentrations of Credit Risk

WALIPP receives a large portion of its funding from the TEA. In 2015 and 2014, TEA funding was approximately 72.4% and 76.5% of total support and revenue, respectively. An unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the Academy to continue to provide the current level of services to its students.

WALIPP receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the TEA and is subject to audit and adjustment. In addition, expenses charged to federal and state programs are subject to audit and adjustment by the grantor agencies. These funding sources may suspend payments, require reimbursement of expenses or return of funds, or both, as a result of noncompliance with the terms of their funding agreements. This could result in a liability or decrease of revenues for WALIPP. Also, grants and contributions are funded annually and subject to annual funding renewals. In management's opinion, the risk of these events occurring is minimal.

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 27, 2016, the date the financial statements were available to be issued.

THE LAWSON ACADEMY
(formerly WALIPP-TSU PREPARATORY ACADEMY)
STATEMENTS OF FINANCIAL POSITION
August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 83,287	\$ 126,048
Due from Texas Education Agency	80,283	61,644
Other current assets	<u>7,951</u>	<u>8,550</u>
Total current assets	171,521	196,242
Capital Assets, net	<u>154,686</u>	<u>231,673</u>
	<u>\$ 326,207</u>	<u>\$ 427,915</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 100,304	\$ 164,142
Current maturities of capital lease obligations	<u>8,479</u>	<u>9,539</u>
Total current liabilities	<u>108,783</u>	<u>173,681</u>
Long-Term Liabilities:		
Capital lease obligations, net of current maturities	<u>-</u>	<u>9,840</u>
Net Assets:		
Unrestricted	<u>217,424</u>	<u>244,394</u>
	<u>217,424</u>	<u>244,394</u>
	<u>\$ 326,207</u>	<u>\$ 427,915</u>

THE LAWSON ACADEMY
(formerly WALIPP-TSU PREPARATORY ACADEMY)
STATEMENTS OF ACTIVITIES
For the Years Ended August 31, 2015 and 2014

	2015			2014		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:						
Local support:						
5744 Gifts and bequests	\$ 26,450	\$ -	\$ 26,450	\$ 133,342	\$ -	\$ 133,342
5749 Other revenues from local sources	<u>6,849</u>	<u>-</u>	<u>6,849</u>	<u>12,655</u>	<u>-</u>	<u>12,655</u>
	<u>33,299</u>	<u>-</u>	<u>33,299</u>	<u>145,997</u>	<u>-</u>	<u>145,997</u>
State program revenues:						
5811 Per capital apportionment	-	49,995	49,995	-	468,254	468,254
5812 Foundation School Program Act entitlements	<u>-</u>	<u>1,303,695</u>	<u>1,303,695</u>	<u>-</u>	<u>1,089,975</u>	<u>1,089,975</u>
	<u>-</u>	<u>1,353,690</u>	<u>1,353,690</u>	<u>-</u>	<u>1,558,229</u>	<u>1,558,229</u>
Federal program revenues:						
5921 School breakfast program	-	16,571	16,571	-	12,399	12,399
5922 National school lunch program	-	55,592	55,592	-	51,837	51,837
5929 Federal revenues distributed by the Texas Education Agency	-	146,041	146,041	-	218,498	218,498
5939 Federal revenues distributed by State of Texas government agencies	<u>-</u>	<u>60,671</u>	<u>60,671</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>278,875</u>	<u>278,875</u>	<u>-</u>	<u>282,734</u>	<u>282,734</u>
Net assets released from restrictions:						
Restrictions satisfied by payments	<u>1,632,565</u>	<u>(1,632,565)</u>	<u>-</u>	<u>1,840,963</u>	<u>(1,840,963)</u>	<u>-</u>
Total revenues	<u>1,665,864</u>	<u>-</u>	<u>1,665,864</u>	<u>1,986,960</u>	<u>-</u>	<u>1,986,960</u>

THE LAWSON ACADEMY
(formerly WALIPP-TSU PREPARATORY ACADEMY)
STATEMENT OF ACTIVITIES (CONTINUED)
For the Years Ended August 31, 2015 and 2014

	<u>2015</u>			<u>2014</u>		
	<u>Temporarily</u>			<u>Temporarily</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Expenses:						
11 Instruction	\$ 839,123	\$ -	\$ 839,123	\$ 959,088	\$ -	\$ 959,088
13 Curriculum development and instructional staff development	7,510	-	7,510	16,306	-	16,306
23 School leadership	147,812	-	147,812	216,462	-	216,462
31 Guidance, counseling and evaluation services	(4,583)	-	(4,583)	47,842	-	47,842
33 Health services	-	-	-	-	-	-
34 Student (pupil) transportation	62,248	-	62,248	83,450	-	83,450
35 Food services	153,449	-	153,449	124,198	-	124,198
36 Cocurricular/extracurricular activities	21,371	-	21,371	66,864	-	66,864
41 General administration	224,792	-	224,792	277,625	-	277,625
51 Plant maintenance and operations	216,683	-	216,683	214,855	-	214,855
53 Data processing services	23,862	-	23,862	26,473	-	26,473
71 Debt Service	567	-	567	-	-	-
Total expenses	<u>1,692,834</u>	<u>-</u>	<u>1,692,834</u>	<u>2,033,163</u>	<u>-</u>	<u>2,033,163</u>
Change in net assets	(26,970)	-	(26,970)	(46,203)	-	(46,203)
Net assets, beginning of year	<u>244,394</u>	<u>-</u>	<u>244,394</u>	<u>290,597</u>	<u>-</u>	<u>290,597</u>
Net assets, end of year	<u>\$ 217,424</u>	<u>\$ -</u>	<u>\$ 217,424</u>	<u>\$ 244,394</u>	<u>\$ -</u>	<u>\$ 244,394</u>

THE LAWSON ACADEMY
(formerly WALIPP-TSU PREPARATORY ACADEMY)
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
State grant receipts	\$ 1,362,279	\$ 1,576,270
Federal grant receipts	252,246	288,067
Receipts from miscellaneous sources	33,299	148,497
Payments to vendors for goods and services rendered	(700,743)	(722,879)
Payments to or on behalf of employees for services rendered	(978,375)	(1,135,847)
Interest paid	(567)	-
Net cash provided by (used in) operating activities	(31,861)	154,108
Cash Flows from Investing Activities:		
Purchase of capital assets	-	(150,700)
Net cash used in investing activities	-	(150,700)
Cash Flows from Financing Activities:		
Payments on capital lease obligations	(10,900)	(15,276)
Net cash used in financing activities	(10,900)	(15,276)
Net decrease in cash	(42,761)	(11,868)
Cash, beginning of year	126,048	137,916
Cash, end of year	\$ 83,287	\$ 126,048
Reconciliation of Change in Net Assets to Net Cash Provided		
by (Used in) Operating Activities:		
Change in net assets	\$ (26,970)	\$ (46,203)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	76,987	73,312
Changes in operating assets and liabilities:		
Due from Texas Education Agency	(18,639)	14,639
Promises to give	-	2,500
Prepaid expenses	-	14,125
Other current assets	599	(5,390)
Accounts payable and accrued expenses	(63,838)	101,125
Net cash provided by (used in) operating activities	\$ (31,861)	\$ 154,108

THE LAWSON ACADEMY
(formerly WALIPP-TSU PREPARATORY ACADEMY)
SCHEDULES OF EXPENSES
For the Years Ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Expenses:		
6100 Payroll costs	\$ 978,706	\$ 1,127,678
6200 Professional and contracted services	528,042	593,103
6300 Supplies and materials	51,670	49,707
6400 Other operating costs	133,849	261,814
6500 Debt service	<u>567</u>	<u>861</u>
Total expenses	<u>\$ 1,692,834</u>	<u>\$ 2,033,163</u>

THE LAWSON ACADEMY
(formerly WALIPP-TSU PREPARATORY ACADEMY)
SCHEDULES OF CAPITAL ASSETS
For the Years Ended August 31, 2015 and 2014

		<u>Local</u>	<u>Ownership Interest</u> <u>State</u>	<u>Federal</u>
<u>2015</u>				
1520	Buildings and improvements	\$ -	\$ 140,000	\$ -
1539	Furniture and equipment	64,890	10,700	129,853
1559	Furniture and equipment under capital leases	61,435	-	-
		<u>126,325</u>	<u>150,700</u>	<u>129,853</u>
	Less: accumulated depreciation			
1571	Buildings and improvements	-	28,000	-
1573	Furniture and equipment	47,195	7,072	117,747
1576	Furniture and equipment under capital leases	52,178	-	-
		<u>99,373</u>	<u>35,072</u>	<u>117,747</u>
	Total capital assets, net	<u>\$ 26,952</u>	<u>\$ 115,628</u>	<u>\$ 12,106</u>

		<u>Local</u>	<u>Ownership Interest</u> <u>State</u>	<u>Federal</u>
<u>2014</u>				
1520	Buildings and improvements	\$ -	\$ 140,000	\$ -
1539	Furniture and equipment	64,890	10,700	129,853
1559	Furniture and equipment under capital leases	61,435	-	-
		<u>126,325</u>	<u>150,700</u>	<u>129,853</u>
	Less: accumulated depreciation			
1573	Furniture and equipment	25,566	3,269	103,448
1576	Furniture and equipment under capital leases	42,922	-	-
		<u>68,488</u>	<u>3,269</u>	<u>103,448</u>
	Total capital assets, net	<u>\$ 57,837</u>	<u>\$ 147,431</u>	<u>\$ 26,405</u>

THE LAWSON ACADEMY
(formerly WALIPP-TSU PREPARATORY ACADEMY)
BUDGETARY COMPARISON SCHEDULES
For the Year Ended August 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
5700 Local and intermediate sources	\$ 85,000	\$ 102,155	\$ 33,299	\$ 68,856
5800 State program	1,452,500	1,378,258	1,353,690	24,568
5900 Federal program	<u>150,000</u>	<u>236,816</u>	<u>278,875</u>	<u>(42,059)</u>
Total revenues	<u>1,687,500</u>	<u>1,717,229</u>	<u>1,665,864</u>	<u>51,365</u>
Expenses:				
11 Instruction	720,098	722,209	839,123	(116,914)
13 Curriculum development and instructional staff development	18,000	10,000	7,510	2,490
23 School leadership	192,170	148,714	147,812	902
31 Guidance, counseling and evaluation services	58,175	(4,584)	(4,583)	(1)
33 Health services	-	-	-	-
34 Student (pupil) transportation	98,000	73,000	62,248	10,752
35 Food services	122,000	121,200	153,449	(32,249)
36 Cocurricular/extracurricular activities	35,500	29,871	21,371	8,500
41 General administration	189,742	274,112	224,792	49,320
51 Plant maintenance and operations	189,576	196,531	216,683	(20,152)
53 Data processing services	40,500	30,500	23,862	6,638
71 Debt service	-	1,000	567	433
Total expenses	<u>1,663,761</u>	<u>1,602,553</u>	<u>1,692,834</u>	<u>(90,281)</u>
Change in net assets	23,739	114,676	(26,970)	141,646
Net assets, beginning of year	<u>15,515</u>	<u>260,003</u>	<u>244,394</u>	<u>15,609</u>
Net assets, end of year	<u>\$ 39,254</u>	<u>\$ 374,679</u>	<u>\$ 217,424</u>	<u>\$ 157,255</u>

THE LAWSON ACADEMY
(formerly WALIPP - TSU PREPARATORY ACADEMY)
BUDGETARY COMPARISON SCHEDULES (CONTINUED)
For the Year Ended August 31, 2015

MATERIAL BUDGET VARIANCE REVENUE

- (1) The following is an explanation of the 10% variances from original budget to final budget of revenue reported on the Budgetary Comparison Schedule for the year ended August 31, 2015.

Object 5700 – Local revenue for the National School lunch Program projections was not included.

Object 5900 – The National School Lunch Program and revisions to Title I, Part A and IDEA-B federal programs were not included.

MATERIAL BUDGET VARIANCE EXPENDITURES

- (2) The following is an explanation of the 10% variances from original budget to final budget of expenses reported on the Budgetary Comparison Schedule for the year ended August 31, 2015.

Function 13 – Enrollment was lower than original budget.

Function 23 – Terminating personnel was replaced with lower-paid personnel.

Function 31 – Academy counselor position was not replaced

Function 34 – Enrollment was lower than original budget

Function 36 – Transportation to extracurricular activities is no longer provided by the Academy.

Function 41 – Depreciation expense was not included, which was offset by a reduction in personnel costs.

Function 53 – Enrollment was lower than original budget.

Function 71 – \$1,000 of debt service was originally budgeted to Function 41.

MATERIAL BUDGET VARIANCE REVENUE

- (1) The following is an explanation of the 10% variances from final budget to actual revenue reported on the Budgetary Comparison Schedule for the year ended August 31, 2015.

Object 5700 – The Academy did not hold its annual luncheon and did not receive a gift in kind for donated services.

Object 5900 – A grant for an afterschool snacks meal program was awarded and funded from the Texas Department of Agriculture.

THE LAWSON ACADEMY
(formerly WALIPP - TSU PREPARATORY ACADEMY)
BUDGETARY COMPARISON SCHEDULES (CONTINUED)
For the Year Ended August 31, 2015

MATERIAL BUDGET VARIANCE EXPENDITURES

- (2) The following is an explanation of the 10% variances from final budget to actual expenses reported on the Budgetary Comparison Schedule for the year ended August 31, 2015.

Function 11 – Management was not successful in reducing all Academy expenses.

Function 13 – Professional development on SmartBoards was not required.

Function 34 – Transportation for daily routes were lower than expected.

Function 35 – A grant for an afterschool snacks meal program was awarded and funded from the Texas Department of Agriculture.

Function 36 – Athletics was reduced from eight teams to five teams.

Function 41 – Legal services were not needed.

Function 51 – Building lease/ utilities and maintenance supplier expenses are higher than expected, which is offset by employee benefits being omitted from the budget.

Function 53 – The contract with Computer Decisions ended and a new server was not purchased.

Function 71 – Budget is a general estimate.

THE LAWSON ACADEMY
(formerly WALIPP-TSU PREPARATORY ACADEMY)
BUDGETARY COMPARISON SCHEDULES (CONTINUED)
For the Year Ended August 31, 2014

	<u>Budgeted Amounts</u>			<u>Variance from</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Revenues:				
5700 Local and intermediate sources	\$ 75,000	\$ 75,000	\$ 145,997	\$ (70,997)
5800 State program	1,938,307	2,074,843	1,558,229	516,614
5900 Federal program	<u>304,538</u>	<u>243,002</u>	<u>282,734</u>	<u>(39,732)</u>
Total revenues	<u>2,317,845</u>	<u>2,392,845</u>	<u>1,986,960</u>	<u>405,885</u>
Expenses:				
11 Instruction	1,127,588	1,021,961	959,088	62,873
13 Curriculum development and instructional staff development	20,060	20,060	16,306	3,754
23 School leadership	225,178	225,178	216,462	8,716
31 Guidance, counseling and evaluation services	56,366	56,366	47,842	8,524
33 Health services	3,870	3,870	-	3,870
34 Student (pupil) transportation	116,810	106,810	83,450	23,360
35 Food services	124,750	124,750	124,198	552
36 Cocurricular/extracurricular activities	57,959	57,959	66,864	(8,905)
41 General administration	249,390	208,029	277,625	(69,596)
51 Plant maintenance and operations	266,049	253,549	214,855	38,694
53 Data processing services	68,500	68,500	26,473	42,027
71 Debt service	-	-	-	-
Total expenses	<u>2,316,520</u>	<u>2,147,032</u>	<u>2,033,163</u>	<u>113,869</u>
Change in net assets	1,325	245,813	(46,203)	292,016
Net assets, beginning of year	<u>14,190</u>	<u>14,190</u>	<u>290,597</u>	<u>(276,407)</u>
Net assets, end of year	<u>\$ 15,515</u>	<u>\$ 260,003</u>	<u>\$ 244,394</u>	<u>\$ 15,609</u>

THE LAWSON ACADEMY
(formerly WALIPP - TSU PREPARATORY ACADEMY)
BUDGETARY COMPARISON SCHEDULES (CONTINUED)
For the Year Ended August 31, 2014

MATERIAL BUDGET VARIANCE REVENUE

- (1) The following is an explanation of the 10% variances from original budget to final budget of revenue reported on the Budgetary Comparison Schedule for the year ending August 31, 2014.

Object 5900 – Enrollment was lower than original budget.

MATERIAL BUDGET VARIANCE EXPENDITURES

- (2) The following is an explanation of the 10% variances from original budget to final budget of expenses reported on the Budgetary Comparison Schedule for the year ending August 31, 2014.

Function 41 – Business manager terminated in the first quarter of the fiscal year and was not replaced.

MATERIAL BUDGET VARIANCE REVENUE

- (1) The following is an explanation of the 10% variances from final budget to actual revenue reported on the Budgetary Comparison Schedule for the year ending August 31, 2014.

Object 5700 – Increase in contributions from local sources for construction in progress, luncheon, donated services, and general purposes.

Object 5800 – Decrease in the number of students.

Object 5900 – No budget allotment for one category of federal funding.

MATERIAL BUDGET VARIANCE EXPENDITURES

- (2) The following is an explanation of the 10% variances from final budget to actual expenses reported on the Budgetary Comparison Schedule for the year ending August 31, 2014.

Function 13 – Curriculum costs were lower when the Academy changed curriculum from C-Scope to TEKS Resource System.

Function 31 – Academy counselor resigned before the end of the school year.

Function 33 – No nursing services were engaged.

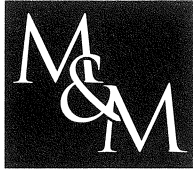
Function 34 – Lower cost associated with student transportation than expected.

Function 36 – Athletic programming included one additional sport, soccer.

Function 41 – Depreciation expense of \$57,171 was not included in budget.

Function 51 – Decrease in maintenance personnel.

Function 53 – Decrease in the number of students and deferral of costs to a subsequent year.



MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors of
William A. Lawson Institute for Peace and Prosperity

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of William A. Lawson Institute for Peace and Prosperity ("WALIPP"), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 27, 2016 (pages 2 - 3).

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered WALIPP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WALIPP's internal control. Accordingly, we do not express an opinion on the effectiveness of WALIPP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WALIPP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of WALIPP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering WALIPP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Melton & Melton, LLP

Houston, Texas
January 27, 2016

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2015

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of William A. Lawson Institute for Peace and Prosperity ("WALIPP").
2. There are no material weaknesses or significant deficiencies disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of WALIPP were disclosed during the audit.

Findings - Financial Statements Audit

None

WILLIAM A. LAWSON INSTITUTE FOR PEACE AND PROSPERITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2015

2014-01 Significant Deficiency in Internal Control over Financial Reporting

Condition: WALIPP's 2014 general ledger contained numerous errors. During the course of the audit, several adjustments, which in the aggregate, are significant to WALIPP's 2014 fiscal year, were required. Some of the identified errors are as follows:

- WALIPP coded expenses to federal funds in excess of the revenue received for such federal funds. Such excess should be coded to FSP Fund 420 to reduce the restricted net assets in that fund.
- WALIPP coded local revenues to FSP Fund 420. Such revenues should be coded to Local Fund 199.
- Unusual and significant reconciling items were outstanding and included in WALIPP's fiscal year-end bank reconciliation.

Current Status: Finding is resolved in the 2015 fiscal year.

2014-02 Compliance with Laws and Regulations (Board Training)

Condition: WALIPP's board of directors did not complete the required training courses consisting of instructional hours required by the State of Texas. Texas Administrative Code (TAC), Title 19, Rule 100.1102 requires that every member of the governing body of a charter holder or a member of the governing body of a charter school must complete training courses consisting of twelve instructional hours within one calendar year of appointment and six instructional hours thereafter. Instructional hours exclude breaks, administrative tasks, and other noninstructional time, delivered by a course provider registered under TAC, Title 19, Rule 100.1107 (relating to Course Providers).

Current Status: Finding is resolved in the 2015 fiscal year.