

**THE HUGHEN CENTER, INC.
INCLUDING
BOB HOPE SCHOOL**

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017**

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CERTIFICATE OF BOARD

<u>The Hughen Center, Inc.</u> Name of Charter Holder	<u>Jefferson</u> County	<u>74-1157851</u> Federal EIN
<u>Bob Hope School</u> Name of Charter School	<u>Jefferson</u> County	<u>123-807</u> Co.-Dist. Number

We, the undersigned, certify that the attached annual Financial and Compliance Reports of the above named Charter Holder were reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2017, at a meeting of the governing body of the charter holder on the _____ day of December, 2017.

Signature of Board Secretary

Signature of Board President

If the governing body of the charter holder does not approve the auditor's report, the reason(s) for disapproving it is (are): (Attach list as necessary.)

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA, CFE, CFF

Wathen,
DeShong
& Juncker,
L.L.P.

Certified Public Accountants

Troy W. Domingue, CPA
Stanley "Chip" Majors, Jr., CPA, CITP, CGMA
Jane P. Burns, CPA, CDFA

December 8, 2017

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Hughen Center, Inc.
Port Arthur, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of The Hughen Center, Inc. the Charter Holder for Bob Hope School (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 The Hughen Center, Inc. the Charter Holder for Bob Hope School as of August 31, 2017, and the changes in its net assets, cash flows, and functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The specific purpose financial statements on pages 19 through 25, the supplemental financial information on pages 26 through 29, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards on page 38 are presented for purposes of additional analysis and are 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. This 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 December 8, 2017, on our consideration of The Hughen Center, Inc. the Charter Holder for Bob Hope School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Hughen Center, Inc.'s 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 The Hughen Center, Inc. the Charter Holder for Bob Hope School's internal control over financial reporting and compliance.

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DESHONG & JUNCKER, L.L.P.
Certified Public Accountants

GENERAL PURPOSE FINANCIAL STATEMENTS

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2017**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,037,768
Accounts receivable	34,597
Other Assets	4,925
Due from other governments	854,692
Other receivables	29,393
Prepaid expenses	<u>161,141</u>

Total current assets 2,122,516

PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation 5,456,349

OTHER ASSETS

Investments	<u>1,636,673</u>
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Total assets \$ 9,215,538

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 214,568
Accrued expenses	282,095
Other current liabilities	81,889
Current portion of long term debt	<u>192,050</u>

Total current liabilities 770,602

LONG TERM DEBT

Long term debt, net of current portion	<u>1,815,151</u>
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Total liabilities 2,585,753

NET ASSETS

Unrestricted	
Undesignated	4,983,815
Temporarily restricted	<u>1,645,970</u>

Total net assets 6,629,785

Total liabilities and net assets \$ 9,215,538

The accompanying notes are an integral part
of these financial statements.

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED AUGUST 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT			
Hughen Center			
Program Service Fees:			
Adult	\$ 239,026	\$ -	\$ 239,026
Childcare fees	1,775		1,775
Food service fees	<u>2,043</u>	<u>-</u>	<u>2,043</u>
Total program service fees	242,844	-	242,844
Contributions	49,000	-	49,000
Gain on investments	61,546	-	61,546
Lease income (see note 13)	1,275,000	-	1,275,000
Interest and dividend income	13,227	-	13,227
Other income	<u>23,654</u>	<u>-</u>	<u>23,654</u>
Total Hughen Center revenue and other support	<u>1,665,271</u>	<u>-</u>	<u>1,665,271</u>
Bob Hope School			
Local support			
Other local revenue	261,710	-	261,710
Revenue from co-curricular or enterprising services	14,556	-	14,556
Food service activity	-	35,059	35,059
Miscellaneous revenue	<u>147</u>		<u>147</u>
Total local support	<u>276,413</u>	<u>35,059</u>	<u>311,472</u>
State program revenues			
Foundation School Program	-	7,342,919	7,342,919
Available School Fund	-	207,905	207,905
Other distributed by Texas Education Agency	<u>-</u>	<u>67,989</u>	<u>67,989</u>
Total state program revenues	<u>-</u>	<u>7,618,813</u>	<u>7,618,813</u>
Federal program revenues			
Various distributed by Texas Education Agency	-	769,093	769,093
Child Nutrition Program	-	403,552	403,552
Federal Commodities	<u>-</u>	<u>15,587</u>	<u>15,587</u>
Total federal program revenues	<u>-</u>	<u>1,188,232</u>	<u>1,188,232</u>
Net assets released from restrictions	<u>9,212,273</u>	<u>(9,212,273)</u>	<u>-</u>
Total Bob Hope School revenues and other support	<u>9,488,686</u>	<u>(370,169)</u>	<u>9,118,517</u>
Total revenue and other support	<u>11,153,957</u>	<u>(370,169)</u>	<u>10,783,788</u>

The accompanying notes are an integral part
of these financial statements.

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED AUGUST 31, 2017
(CONTINUED)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
EXPENSES			
Hughen Center			
Program services			
Adult	\$ 76,445	\$ -	\$ 76,445
Residential/childcare	305,504	-	305,504
Total program services	<u>381,949</u>	<u>-</u>	<u>381,949</u>
Support services			
Management and general	990,520	-	990,520
Total support services	<u>990,520</u>	<u>-</u>	<u>990,520</u>
Total Hughen Center expenses	<u>1,372,469</u>	<u>-</u>	<u>1,372,469</u>
Bob Hope School			
Program services			
Instruction and instructional related services	4,388,101	-	4,388,101
Instructional school leadership	797,242	-	797,242
Total program services	<u>5,185,343</u>	<u>-</u>	<u>5,185,343</u>
Support services			
Guidance, counseling, and evaluation services	130,868	-	130,868
Health services	84,750	-	84,750
Student transportation	79,884	-	79,884
Food services	464,931	-	464,931
Cocurricular/Extracurricular activities	125,856	-	125,856
General administration	556,945	-	556,945
Facilities maintenance and operations	1,601,631	-	1,601,631
Security and monitoring services	110,674	-	110,674
Data processing services	119,724	-	119,724
Fundraising	46,510	-	46,510
Total support services	<u>3,321,773</u>	<u>-</u>	<u>3,321,773</u>
Total Bob Hope School expenses	<u>8,507,116</u>	<u>-</u>	<u>8,507,116</u>
Total expenses	<u>9,879,585</u>	<u>-</u>	<u>9,879,585</u>
Change in net assets	1,274,372	(370,169)	904,203
Net assets, beginning of period	<u>3,709,443</u>	<u>2,016,139</u>	<u>5,725,582</u>
Net assets, end of period	<u>\$ 4,983,815</u>	<u>\$ 1,645,970</u>	<u>\$ 6,629,785</u>

The accompanying notes are an integral part
of these financial statements.

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED AUGUST 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 904,203
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	315,561
Unrealized (gain) loss on investments	(61,546)
(Increase)Decrease in accounts receivable	52,930
(Increase)Decrease in due from other governments	(422,038)
(Increase)Decrease in other receivable	80,538
(Increase)Decrease in prepaid expense and other assets	22,306
Increase(Decrease) in accounts payable	72,265
Increase(Decrease) in accrued expenses	127,852
Increase(Decrease) in other current liabilities	<u>(23,088)</u>
Net cash provided by operating activities	<u>1,068,983</u>
CASH FLOWS USED BY INVESTING ACTIVITIES	
Purchase of investments	(208,934)
Purchase of property and equipment	<u>(810,821)</u>
Net cash (used) by investing activities	<u>(1,019,755)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	
Repayment of Loan	<u>(184,645)</u>
Net cash provided by financing activities	<u>(184,645)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(135,417)
CASH AND CASH EQUIVALENTS, beginning of period	<u>1,173,185</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 1,037,768</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:	
Interest Expense: Cash paid for interest expense	\$ 78,246

The accompanying notes are an integral part
of these financial statements.

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**STATEMENT OF FUNCTIONAL EXPENSES
FISCAL YEAR ENDED AUGUST 31, 2017**

	Program Services			Total
	Adult	Bob Hope School Instruction	Residential/ HCS	
Salaries	\$ 44,651	\$ -	\$ 191,908	\$ 236,559
Payroll taxes	3,437	-	14,576	18,013
Employee benefits	353	-	4,986	5,339
Total personnel costs	48,441	-	211,470	259,911
Cocurricular/Extracurricular activities	-	-	-	-
Data processing services	-	-	-	-
Depreciation	3,007	-	26,451	29,458
Equipment	198	-	1,490	1,688
Facilities maintenance and operations	-	-	-	-
Food services	-	-	-	-
Fundraising	-	-	-	-
Guidance, counseling, and evaluation services	-	-	-	-
Health services	-	-	-	-
Instruction and instructional related services	-	4,388,101	-	4,388,101
Instructional school leadership	-	797,242	-	797,242
Insurance	-	-	-	-
Occupancy	7,309	-	12,066	19,375
Professional fees	7,113	-	42,831	49,944
School administration	-	-	-	-
Security and monitoring services	-	-	-	-
Student transportation	-	-	-	-
Supplies	617	-	2,586	3,203
Telephone	-	-	-	-
Transportation	20	-	396	416
Other	9,740	-	8,214	17,954
Total functional expenses	\$ 76,445	\$ 5,185,343	\$ 305,504	\$ 5,567,292

Supporting Services			
Management and General	Bob Hope School Support	Total	Total All Services
\$ 130,539	\$ -	\$ 130,539	\$ 367,098
9,774	-	9,774	27,787
14,773	-	14,773	20,112
155,086	-	155,086	414,997
-	125,856	125,856	125,856
-	119,724	119,724	119,724
123,968	-	123,968	153,426
6,624	-	6,624	8,312
-	1,601,631	1,601,631	1,601,631
-	464,931	464,931	464,931
	46,510	46,510	46,510
-	130,868	130,868	130,868
-	84,750	84,750	84,750
-	-	-	4,388,101
-	-	-	797,242
146,650	-	146,650	146,650
260,547	-	260,547	279,922
97,683	-	97,683	147,627
-	556,945	556,945	556,945
-	110,674	110,674	110,674
-	79,884	79,884	79,884
24,195	-	24,195	27,398
4,220	-	4,220	4,220
16,923	-	16,923	17,339
154,624	-	154,624	172,578
<u>\$ 990,520</u>	<u>\$ 3,321,773</u>	<u>\$ 4,312,293</u>	<u>\$ 9,879,585</u>

The accompanying notes are an integral part
of these financial statements.

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The general-purpose financial statements of The Hughen Center, Inc., the charter holder, were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

REPORTING ENTITY

The Hughen Center, Inc. (the "Center") is a nonprofit organization encompassing an open-enrollment Charter School (the "School"), a Home and Community-based Services (HCS) program and the Hebert Adult Center (HAC). The Center is governed by a seventeen member Board of Directors. The Board of Directors is selected pursuant to the bylaws of the corporation and has the authority to make decisions, appoint the chief executive officer of the corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the corporation.

The HCS and HAC programs are licensed through the Texas Department of Aging and Disability Services. The HCS program provides individualized services and supports people with intellectual disabilities living in a group home where no more than three people live. The Hebert Adult Center, in combination with the HCS day habilitation program, provides adult day care for up to 40 adults in need. The services address their physical, mental, medical, social and recreational needs.

Bob Hope (Charter) School opened in 2010 under contract with the Texas State Board of Education. The School provides parents a choice in education for students, grades 6 through 12, from the Nederland, Port Arthur and Port Neches-Groves school districts. It has a maximum enrollment of 750 students.

In 2016, TEA approved amendments to increase enrollment to 1,400, expand to another campus and to provide a pre-kindergarten through fifth grade program for the 2016/2017 school year. The Hughen Center, with approval from the board, purchased a new facility in May, 2016 for the new elementary campus to provide services for pre-kindergarten through second grade students. The school opened the new campus in August, 2016. Annual expansion to accomplish the complete elementary campus will take place each year until the school reaches the complete level from pre-kindergarten through grade twelve.

In 2017, the Bob Hope (Charter) School was granted an expansion amendment by TEA to serve students in Beaumont. Beginning in the 2018/2019 school year, the new campus will serve pre-kindergarten through second grade. Each subsequent year an additional grade will be added to reach the full complement of pre-kindergarten through grade twelve.

Since the Organization receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

These general-purpose financial statements reflect the combined operations of The Hughen Center, the charter holder, and the Bob Hope School, the charter school.

THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. DESCRIPTION OF MAJOR PROGRAMS AND SERVICES

Hebert Adult Center (HAC) - provides day time services, Monday through Friday, to clients living in the community and those who are part of Hughen's Home and Community-based Services program. The services include lunch, snacks, skilled nursing care, activities, transportation, and attendant care. Clients may attend up to five days per week, depending upon eligibility.

Home and Community-based Services (HCS) Program - provides individualized services and supports people with intellectual disabilities living in a group home where no more than three people live. The HCS program includes a day habilitation program in combination with the Hebert Adult Center. The services include skilled nursing care, activities, transportation, and attendant care.

Bob Hope School - an Open enrollment Charter school for eligible students grades pre-kindergarten through second grade and grade six through twelve.

C. FEDERAL INCOME TAX STATUS

The Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Center has been determined by the Internal Revenue Service not to be a private foundation within the meaning of section 509(a) of the code and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

D. BASIS OF ACCOUNTING AND PRESENTATION

The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Income is recognized when earned. Expenses are recognized when incurred. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets are classified and reported as follows:

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

Temporarily restricted - net assets subject to donor-imposed stipulations that may or will be met, either by actions of the organization or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted - net assets required to be maintained in perpetuity with only the income to be used for the organization's activities due to donor-imposed restrictions.

Designated unrestricted - net assets that are subject to self-imposed limits by action of the governing board.

E. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CONTRIBUTIONS AND GRANTS

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. There are no permanently restricted net assets at August 31, 2017.

Management anticipates that all promises to give will be received in the next fiscal year.

G. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Organization considers all highly-liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

H. BAD DEBTS

The organization records bad debts on the direct write off method. Because of the nature of the Organization's receivables, management has determined that the results of this method do not differ materially from the allowance method.

I. SUBSEQUENT EVENTS

The Center has evaluated subsequent events through December 8, 2017, the date on which the financial statements were available for release.

J. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, which includes buildings and improvements, furniture and equipment, vehicles, and other personal property, is reported in the general-purpose and specific-purpose financial statements. Property, plant and equipment is defined by both the Center and the School as assets with an individual cost or, if donated, fair value at the date of donation, of more than \$5,000. Major improvements and renewals are capitalized while repairs and maintenance are charged against operations as incurred. Depreciation is provided using the straight-line method over the useful lives (5-40 years) of the assets. Donations of property and equipment are reported as unrestricted support at fair value unless the donor has restricted the donated asset to a specific purpose.

K. INVESTMENTS

Investments consist of U.S. Treasury Bills, Notes, Government Agency Bonds, Corporate Bonds with maturities in excess of three months, and common stocks. Accounting Standards Codification (ASC) 958-320 "Accounting for Certain Investments Held by Not-For-Profit Organizations" requires investments to be reported at fair value. Fair values are based on quoted market prices. Investment income or loss (including gains and losses on investments, interest and dividend) is included in the Statement of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

L. DONATED SERVICES AND IN-KIND SUPPORT

The Organization receives services, equipment and materials without payment or compensation. When the value of such services meets the recognition criteria, it is reflected in the financial statements as revenues and expenses in accordance with ASC 958-605. Equipment and other noncash donations are recorded as contributions at cost or estimated fair market value determined at the date of the donation.

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. FUNCTIONAL EXPENSES

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

N. HEALTH CARE

During the year ended August 31, 2017, employees of the School were covered by a state-wide health care program known as TRS-Active Care. This is administered by the Teacher Retirement System of Texas. The School paid \$150 per month per participating employee (in addition to the \$75 per month that is provided by the State of Texas), and participating employees, at their option, authorized payroll withholdings to fund contributions for dependents.

O. FUNDRAISING COSTS

The Center incurs minimal fundraising costs because fundraising activities are primarily carried on by volunteers. During the fiscal year ended August 31, 2017, the Center did not incur direct costs for fundraising events. The School incurred direct costs for fundraising events in the amount of \$46,510.

P. COMPENSATED ABSENCES

For the Center, employees receive 10 to 20 days of vacation pay per year depending on years of service. Any unused vacation is non cumulative year to year but is paid if the employee leaves prior to his or her anniversary date and provides a full two-week notice. The liability is immaterial to the financial statements. Unused sick leave is not paid at termination.

For Bob Hope School, employees do not receive compensation for unused vacation and/or sick leave at termination.

NOTE 2. CASH DEPOSITS

The charter school funds are deposited and invested with a depository bank under terms of a depository agreement. At August 31, 2017, the carrying amount of the charter school's deposits (cash, certificate of deposit, and interest-bearing savings accounts included in temporary investments) was \$911,922 and the bank balance was \$1,042,420. During 2016-2017, the school's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the school and held by the depository's agent in the schools name.

NOTE 3. INVESTMENTS

Investments are presented in the financial statements at fair value and consist of the following:

	Fair Value
Cash and cash equivalents	\$ 472,429
Certificates of deposits	269,511
Fixed income investments	112,839
Stocks	175,990
Mutual funds	605,904
	\$ 1,636,673

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2017**

NOTE 3. INVESTMENTS (CONTINUED)

Investment return for the fiscal year ended August 31, 2017 consisted of the following:

Investment Income	
Interest and dividends, excluding	
Bank interest	\$ 13,227
Gains and (losses) unrealized	<u>61,546</u>
Total investment income	<u>\$ 74,773</u>

Fair value measurements of investments are as follows:

	Fair Value Measurements			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2017				
Cash and cash equivalents	\$ 472,429	\$ 472,429	\$ -	\$ -
Certificate of deposits	269,511	269,511	-	-
Fixed income investments	112,839	112,839	-	-
Stocks	175,990	175,990	-	-
Mutual funds	<u>605,904</u>	<u>605,904</u>	-	-
	<u>\$ 1,636,673</u>	<u>\$ 1,636,673</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at August 31, 2017 consisted of the following:

	Beginning Balances	Additions	Capitalizations	Ending Balances
Land	\$ 548,565	\$ -	\$ -	\$ 548,565
Buildings and improvements	7,384,517	144,638	11,700	7,540,855
Furniture and equipment	831,262	157,533	-	988,795
Vehicles	513,270	134,089	-	647,359
Construction-in-progress	<u>11,700</u>	<u>374,562</u>	<u>(11,700)</u>	<u>374,562</u>
Total Property, Plant & Equipment	9,289,314	810,822	-	10,100,136
Accumulated depreciation	<u>(4,328,226)</u>	<u>(315,561)</u>	-	<u>(4,643,787)</u>
Net assets	<u>\$4,961,088</u>	<u>\$ 495,261</u>	<u>\$ -</u>	<u>\$ 5,456,349</u>

Depreciation expense for the fiscal year ended August 31, 2017 was \$315,561.

Construction-in-progress includes renovations to the elementary campus and earnest money paid towards a purchase of land for the construction of a new campus.

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2017**

NOTE 5. PENSION PLAN OBLIGATIONS

Plan Description. Bob Hope School contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. Charters are legally separate entities from the state and each other and the assets contributed by one charter may be used for the benefit of an employee of another charter. The unfunded obligations get passed along to the other charters. There is no withdrawal penalty for leaving the TRS system.

TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees.

Pension Plan Fiduciary Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; on the internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2016 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary position as of August 31, 2016.

Total Plan Assets	\$ 152,925,647,396
Accumulated Benefit Obligations	\$ 171,797,150,487
Less: Plan Fiduciary Net Position	<u>(134,008,637,473)</u>
Net Pension Liability	\$ 37,788,513,014
Funded	78.00%

Contributions. Contribution rates and contributions for fiscal years 2017-2015 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting entity is required to make all or a portion of the state's and/or member's contribution.

Year	Member		State		Employer	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	7.70%	\$ 331,050	6.80%	\$ 265,743	6.80%	\$ 26,613
2016	7.20%	192,009	6.80%	168,787	6.80%	12,555
2015	6.70%	138,770	6.80%	127,005	6.80%	13,837

The charter's contributions to the plan did not represent more than 5% of the total contributions to the plan. The contributions for new employee salaries (90 days) for the year August 31, 2017 was \$29,215. The pension surcharge for the year August 31, 2017 was \$0. The Non-OASDI participating surcharge payment for the year August 31, 2017 was \$64,490.

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2017**

NOTE 6. RETIREE HEALTH PLAN

Plan Description. Bob Hope School contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS web-site at www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school.

Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2017 - 2015.

Contribution rates

Year	Active Member		State		Entity	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$ 27,946	1.00%	\$ 42,993	0.55%	\$ 23,646
2016	0.65%	17,335	1.00%	26,668	0.55%	14,667
2015	0.65%	13,462	1.00%	20,711	0.55%	11,392

Medicare Part D On-Behalf Payments. The Medicare Prescription Drug Act of 2003, which became effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments for Bob Hope School for the years August 31, 2017, 2016 and 2015 were \$12,802, \$10,411 and \$8,484, respectively.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement for a portion of the cost of health care benefits to retirees between the ages of 55 - 64 and their covered dependents. TRS-Care did not participate in this program for the year ended August 31, 2017.

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2017**

NOTE 7. DUE FROM OTHER GOVERNMENTS

At August 31, 2017, Due From Other Governments consisted of the following:

Foundation Program - 2016-2017	\$ 696,534
ESEA, Title I Part A	18,623
School Breakfast Program	2,847
National School Lunch Program	20,783
School Lunch Matching	23
Public Charter School	108,634
Title III, Part A-LEP	976
Textbooks & Kindergarten Materials	2,711
Summer School Program	3,561
 Total	 \$ 854,692

NOTE 8. LINE OF CREDIT

At the end of the current fiscal year, the Center had revolving lines of credit at Capital One Bank and Edward Jones with maximum borrowing limits of \$100,000 and \$540,770, respectively. The Center did not borrow on the lines during the fiscal year ended August 31, 2017.

NOTE 9. LONG TERM DEBT

Long term debt at August 31, 2017 consisted of the following notes payable:

Financial institution, first lien note, interest only through May 2015, interest at 4.75% with a monthly installment of \$12,624, matures May 2025, secured by assets of The Hughen Center, Inc., Charter Holder for Bob Hope School	\$ 980,314
Financial institution, second lien note, interest at 3.40%, with monthly installment of \$2,999, matures June 2020, secured by assets of The Hughen Center, Inc., Charter Holder for Bob Hope School	93,821
Financial institution, third lien note, interest at 4.50%, with monthly installment of \$7,682, matures May 2031, secured by assets of The Hughen Center, Inc., Charter Holder for Bob Hope School	933,066
	2,007,201
Less: Current portion	(192,050)
 Long-term portion	 \$ 1,815,151

Interest expense through August 31, 2017 was \$98,013.

**THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL**

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2017**

NOTE 9. LONG-TERM DEBT (CONTINUED)

Future maturities of Note Payable – Financial Institution

	2018	\$ 192,050
	2019	200,775
	2020	200,614
	2021	182,677
	2022	191,393
	2023-2027	737,814
	2028-2031	<u>301,878</u>
		<u><u>\$ 2,007,201</u></u>

NOTE 10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the year ended August 31, 2017 consisted of the following:

Hughen Center		
Subsequent operations - Residential Program	\$	162,719
Other Revenue		<u>21,106</u>
Total		<u>183,825</u>
Bob Hope School		
Other revenues distributed by Texas Education Agency		<u>1,462,145</u>
Total		<u>1,462,145</u>
Total temporarily restricted net assets		<u><u>\$ 1,645,970</u></u>

NOTE 11. COMMITMENTS AND CONTINGENCIES

The School receives funds through federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, School funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

NOTE 12. TROPICAL STORM HARVEY

On August 30, 2017, a portion of The Hughen Center, Inc.'s facilities were negatively impacted by the record rainfalls of Tropical Storm Harvey. The Center remains fully operational and has the liquid assets to address ongoing repairs and replacement on a timely basis. The damage is covered by commercial and flood insurance and management anticipates reimbursement for a portion of the cost of repairs from commercial and flood insurance and from the Federal Emergency Management Agency (FEMA). Management does not anticipate that net repair costs and revenue reductions will be material to the financial position of the Hughen Center Inc. going forward.

THE HUGHEN CENTER, INC.
CHARTER HOLDER FOR BOB HOPE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2017

NOTE 13. OPERATING LEASES

The Bob Hope School is obligated under an operating (noncapitalized) lease for printer equipment and temporary modular buildings. Rent expense was approximately \$20,416 during the year ended August 31, 2017. The following is a schedule of minimum lease payments under non-cancelable operating leases as of August 31, 2017:

<u>As of August 31</u>	
2018	\$ 29,103
2019	11,790
2020	8,146
2021	<u>559</u>
	<u>\$ 49,598</u>

The Hughen Center, Inc. rents space to The Bob Hope School under terms of an operating lease agreement. Lease expense under the terms of this agreement through August 31, 2017 was \$1,275,000.

NOTE 14. STATE FOUNDATION PROGRAM REVENUE

Charter schools in the State of Texas participate in the State Foundation Program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period. At the close of the year, actual attendance is calculated by the Texas Education Agency with State Foundation Program earnings computed by formula. The enrollment and attendance reports are subject to audit by the Texas Education Agency and final State Foundation Program earnings may be adjusted as a result of any such audit.

Based on the above described formula, Bob Hope School earned \$7,342,919 of State Foundation Program Revenue and \$207,905 of Available School Fund Revenue for the 2016-2017 school year. Of this total, \$761,997 has been accrued at August 31, 2017 and will be received after September 1, 2017. Bob Hope School considers these funds to be earned subject only to any possible TEA enrollment and attendance audit.

NOTE 15. ACCRUED SALARIES

During the month of August, 2017, the School's staff worked 17 days for which they were not paid prior to the close of the year. Accrued salaries totaled \$243,978 as of August 31, 2017.

NOTE 16. INDIVIDUAL FUND DISCLOSURES

For the year ended August 31, 2017, Bob Hope School had an amended expense budget of \$7,666,512 and actual expenses of \$7,564,145. Actual expenses exceeded budget by a total of \$22,553 in a combined total of three functional categories.

NOTE 17. SUBSEQUENT EVENT

Subsequent to August 31, 2017, The Hughen Center, Inc., (the charter holder) purchased land for \$1,049,685 to accommodate the new facility for the new campus discussed in Note 1A. The Hughen Center, Inc. paid \$218,485 and will finance \$831,200.

SPECIFIC PURPOSE FINANCIAL STATEMENTS

THE HUGHEN CENTER, INC.

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 125,646
Accounts receivable	34,597
Other assets	4,925
Prepaid expenses	<u>161,141</u>

Total current assets 326,309

PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation 3,900,142

OTHER ASSETS

Investments	<u>1,466,996</u>
-------------	------------------

Total assets \$ 5,693,447

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 55,055
Accrued expenses	19,758
Current portion of long term debt	<u>192,050</u>

Total current liabilities 266,863

LONG-TERM DEBT

Long term debt, net of current portion	<u>1,815,151</u>
--	------------------

Total liabilities 2,082,014

NET ASSETS

Unrestricted	
Undesignated	3,427,608

Temporarily restricted	<u>183,825</u>
------------------------	----------------

Total net assets 3,611,433

Total liabilities and net assets \$ 5,693,447

The accompanying notes are an integral part
of these financial statements.

BOB HOPE SCHOOL

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 912,122
Due from other governments	854,692
Other Receivables	<u>29,393</u>

Total current assets 1,796,207

OTHER ASSETS

Investments	169,677
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PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation 1,556,207

Total assets \$ 3,522,091

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued expenses	\$ 262,337
Accounts payable	159,513
Other current liabilities	<u>81,889</u>

Total liabilities 503,739

NET ASSETS

Unrestricted	
Undesignated	1,556,207
Temporarily restricted	<u>1,462,145</u>

Total net assets 3,018,352

Total liabilities and net assets \$ 3,522,091

The accompanying notes are an integral part
of these financial statements.

THE HUGHEN CENTER, INC.

STATEMENT OF ACTIVITIES FISCAL YEAR ENDED AUGUST 31, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Program Service Fees:			
Adult	\$ 239,026	\$ -	\$ 239,026
Childcare fees	1,775		1,775
Food service fees	2,043	-	2,043
Total program service fees	242,844	-	242,844
Contributions	49,000	-	49,000
Gain on investments	61,546	-	61,546
Lease income (see note 13)	1,275,000	-	1,275,000
Interest and dividend income	13,227	-	13,227
Other income	23,654	-	23,654
Total revenues and other support	1,665,271	-	1,665,271
EXPENSES			
Program services:			
Adult	76,445	-	76,445
Residential/childcare	305,504	-	305,504
Total program service expenses	381,949	-	381,949
Support services:			
Management and general	990,520	-	990,520
Total support services expenses	990,520	-	990,520
Total expenses	1,372,469	-	1,372,469
CHANGE IN NET ASSETS	292,802	-	292,802
NET ASSETS , beginning of period	3,134,806	183,825	3,318,631
NET ASSETS , end of period	\$ 3,427,608	\$ 183,825	\$ 3,611,433

The accompanying notes are an integral part
of these financial statements.

BOB HOPE SCHOOL

STATEMENT OF ACTIVITIES FISCAL YEAR ENDED AUGUST 31, 2017

Data Control Codes		Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT				
	Local support			
5740	Other local revenue	\$ 261,710	\$ -	\$ 261,710
5750	Revenue from co-curricular or enterprising services	14,556	-	14,556
5750	Food Service Activity	-	35,059	35,059
5760	Miscellaneous revenue	147		147
	Total local support	276,413	35,059	311,472
	State program revenues			
5810	Foundation School Program	-	7,342,919	7,342,919
5811	Available School Fund	-	207,905	207,905
5820	Other Distributed by Texas Education Agency	-	67,989	67,989
	Total state program revenues	-	7,618,813	7,618,813
	Federal program revenues			
5920	Other distributed by Texas Education Agency	-	769,093	769,093
5920	Child Nutrition Program	-	403,552	403,552
5920	Federal Commodities	-	15,587	15,587
	Total federal program revenues	-	1,188,232	1,188,232
	Net assets released from restrictions	9,212,273	(9,212,273)	-
	Total revenue and other support	9,488,686	(370,169)	9,118,517
EXPENSES AND OTHER LOSSES				
0011	Instruction	4,186,174	-	4,186,174
0012	Instructional resources and media services	131,027	-	131,027
0013	Curriculum and Instructional Staff Development	70,900	-	70,900
0021	Instructional leadership	299,340	-	299,340
0023	School leadership	497,902	-	497,902
0031	Guidance, counseling, and evaluation services	130,868	-	130,868
0033	Health services	84,750	-	84,750
0034	Student transportation	79,884	-	79,884
0035	Food services	464,931	-	464,931
0036	Cocurricular/Extracurricular activities	125,856	-	125,856
0041	General administration	556,945	-	556,945
0051	Facilities maintenance and operations	1,601,631	-	1,601,631
0052	Security and monitoring services	110,674	-	110,674
0053	Data processing services	119,724	-	119,724
0081	Fund Raising	46,510	-	46,510
	Total expenses	8,507,116	-	8,507,116
	CHANGE IN NET ASSETS	981,570	(370,169)	611,401
	NET ASSETS , beginning of period	574,637	1,832,314	2,406,951
	NET ASSETS , end of period	\$ 1,556,207	\$ 1,462,145	\$ 3,018,352

The accompanying notes are an integral part
of these financial statements.

THE HUGHEN CENTER, INC.

STATEMENT OF CASH FLOWS FISCAL YEAR ENDED AUGUST 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 292,802
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	153,426
Unrealized (gain)loss on investments	(61,546)
(Increase)Decrease in accounts receivable	52,930
(Increase) Decrease in prepaid expense	10,212
Increase(Decrease) in accounts payable	28,798
Increase(Decrease) in accrued expenses	<u>11,360</u>
Net cash provided by operating activities	<u>487,982</u>
CASH FLOWS USED BY INVESTING ACTIVITIES	
Purchase of investments	(206,583)
Purchase of property and equipment	<u>(149,686)</u>
Net cash (used) by investing activities	<u>(356,269)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	
Loan payments	<u>(184,645)</u>
Net cash provided by financing activities	<u>(184,645)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(52,932)
CASH AND CASH EQUIVALENTS, beginning of period	<u>178,578</u>
CASH AND CASH EQUIVALENTS, end of period	<u><u>\$ 125,646</u></u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:	
Interest Expense: Cash paid for interest expense	\$ 98,013

The accompanying notes are an integral part of these financial statements.

BOB HOPE SCHOOL

STATEMENT OF CASH FLOWS FISCAL YEAR ENDED AUGUST 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 611,401
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	162,135
(Increase)Decrease in due from other governments	(422,038)
(Increase)Decrease in other receivables	80,538
(Increase)Decrease in prepaid expenses	12,094
Increase(Decrease) in accounts payable	43,467
Increase(Decrease) in accrued expenses	116,492
Increase(Decrease) in other current liabilities	<u>(23,088)</u>
Net cash provided by operating activities	<u>581,001</u>

CASH FLOWS USED BY INVESTING ACTIVITIES

Purchase of investments	(2,351)
Purchase of property and equipment	<u>(661,135)</u>
Net cash (used) by investing activities	<u>(663,486)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(82,485)

CASH AND CASH EQUIVALENTS, beginning of period

994,607

CASH AND CASH EQUIVALENTS, end of period

\$ 912,122

The accompanying notes are an integral part of these financial statements.

THE HUGHEN CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES FISCAL YEAR ENDED AUGUST 31, 2017

	Program Services			Supporting Services	Total
	Adult	Residential/ HCS	Total	Management and General	
Salaries	\$ 44,651	\$ 191,908	\$ 236,559	\$ 130,539	\$ 367,098
Payroll taxes	3,437	14,576	18,013	9,774	27,787
Employee benefits	353	4,986	5,339	14,773	20,112
Total personnel costs	48,441	211,470	259,911	155,086	414,997
Depreciation	3,007	26,451	29,458	123,968	153,426
Equipment	198	1,490	1,688	6,624	8,312
Insurance	-	-	-	146,650	146,650
Occupancy	7,309	12,066	19,375	260,547	279,922
Professional fees	7,113	42,831	49,944	97,683	147,627
Supplies	617	2,586	3,203	24,195	27,398
Telephone	-	-	-	4,220	4,220
Transportation	20	396	416	16,923	17,339
Other	9,740	8,214	17,954	154,624	172,578
Total functional expenses	<u>\$ 76,445</u>	<u>\$ 305,504</u>	<u>\$ 381,949</u>	<u>\$ 990,520</u>	<u>\$ 1,372,469</u>

The accompanying notes are an integral part
of these financial statements.

SUPPLEMENTAL INFORMATION

BOB HOPE SCHOOL

SCHEDULE OF EXPENSES FISCAL YEAR ENDED AUGUST 31, 2017

<u>Data Control Codes</u>	EXPENSES	
6100	Payroll	\$ 4,997,038
6200	Professional and contracted services	1,994,408
6300	Supplies and materials	1,199,257
6400	Other operating costs	<u>316,413</u>
	Total expenses	<u>\$ 8,507,116</u>

THE HUGHEN CENTER, INC.

**SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT
FISCAL YEAR ENDED AUGUST 31, 2017**

	Ownership Interest		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
Land and improvements	\$ 548,564	\$ -	\$ -
Building and improvements	6,604,386	-	-
Vehicles	349,443	-	-
Furniture and equipment	637,061	-	-
Construction in progress	<u>15,650</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,155,104</u>	<u>\$ -</u>	<u>\$ -</u>

BOB HOPE SCHOOL

SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT FISCAL YEAR ENDED AUGUST 31, 2017

Data Control Codes		Ownership Interest		
		Local	State	Federal
1520	Buildings & Improvements	\$ 936,469	\$ -	\$ -
1531	Vehicles	297,916	-	-
1539	Furniture and equipment	288,338	-	63,397
1580	Construction in progress	358,912	-	-
		<u>\$ 1,881,635</u>	<u>\$ -</u>	<u>\$ 63,397</u>

BOB HOPE SCHOOL

BUDGETARY COMPARISON SCHEDULE FISCAL YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Funds		Actual Amounts	Variance with Final Budget Positive or (Negative)
		Budgeted Amounts			
		Original	Final		
REVENUE AND OTHER SUPPORT					
	Local support				
5740	Other Local Revenues	\$ -	\$ 26,404	\$ 103,100	\$ 76,696
5750	Revenue from co-curricular or enterprising services	20,000	17,004	14,556	(2,448)
5750	Food Service Activity	56,589	36,795	35,059	(1,736)
5760	Miscellaneous Revenue	-	-	147	147
	Total local support	76,589	80,203	152,862	72,659
	State program revenues				
5810	Foundation School Program	7,175,264	7,529,325	7,342,919	(186,406)
5811	Available School Fund	-	-	207,905	207,905
5820	Other Distrib. By Texas Educ. Agency	-	-	1,941	1,941
	Total state program revenues	7,175,264	7,529,325	7,552,765	23,440
	Federal program revenues				
5920	Child Nutrition Program	359,341	405,721	403,552	(2,169)
5920	Federal Commodities	-	-	15,587	15,587
	Total federal program revenues	359,341	405,721	419,139	13,418
	Total revenue and other support	7,611,194	8,015,249	8,124,766	109,517
EXPENSES					
0011	Instruction	3,139,924	3,493,396	3,415,663	77,733
0012	Instructional Resources, Media Services	61,316	78,070	80,992	(2,922)
0013	Curriculum and Instructional Staff Development	27,945	10,197	9,197	1,000
0021	Instructional Leadership	282,668	302,025	299,232	2,793
0023	School Leadership	442,234	494,631	487,728	6,903
0031	Guidance, Counseling, and Evaluation Services	148,955	132,390	129,555	2,835
0033	Health Services	97,991	94,772	84,750	10,022
0034	Student Transportation	83,626	80,358	79,884	474
0035	Food Services	418,068	445,350	464,931	(19,581)
0036	Cocurricular/Extracurricular Activities	144,273	133,903	125,161	8,742
0041	General Administration	518,418	525,680	525,730	(50)
0051	Facilities Maintenance and Operations	1,545,219	1,602,961	1,601,631	1,330
0052	Security and Monitoring Services	120,000	108,455	99,592	8,863
0053	Data Processing	119,428	113,730	113,589	141
0081	Fund Raising	35,710	50,594	46,510	4,084
	Total expenses	7,185,775	7,666,512	7,564,145	102,367
	CHANGE IN NET ASSETS	425,419	348,737	560,621	211,884
	NET ASSETS, beginning of period	2,406,951	2,406,951	2,406,951	-
	NET ASSETS, end of period	<u>\$ 2,832,370</u>	<u>\$ 2,755,688</u>	<u>\$ 2,967,572</u>	<u>\$ 211,884</u>
	Budgeted Funds Actual - Revenue			\$ 8,124,766	
	Nonbudgeted Funds Actual - Revenue			993,751	
	Total Revenue - Actual			<u>\$ 9,118,517</u>	
	Budgeted Funds Actual - Expenses			\$ 7,564,145	
	Nonbudgeted Funds Actual - Expenses			942,971	
	Total Expenses - Actual			<u>\$ 8,507,116</u>	

FEDERAL AWARDS SECTION

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA, CFE, CFF

**Wathen,
DeShong
& Juncker,**
L.L.P.
Certified Public Accountants

Troy W. Domingue, CPA
Stanley "Chip" Majors, Jr., CPA, CITP, CGMA
Jane P. Burns, CPA, CDFA

INDEPENDENT AUDITOR'S REPORT

December 8, 2017

**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***

Boards of Directors
The Hughen Center, Inc.
Including Bob Hope School
Port Arthur, Texas

We have audited, 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, the financial statements of The Hughen Center, Inc. (including Bob Hope School) (a nonprofit organization) which comprise the statement of financial position as of August 31, 2017, 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 December 8, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Hughen Center, Inc.'s (including Bob Hope School) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Hughen Center, Inc.'s (including Bob Hope School) internal control. Accordingly, we do not express an opinion on the effectiveness of The Hughen Center, Inc.'s (including Bob Hope School) 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether The Hughen Center, Inc.'s (including Bob Hope School) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2017-001.

The Hughen Center Inc.'s Responses to Findings

The Hughen Center Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hughen Center Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DESHONG & JUNCKER, L.L.P.
Certified Public Accountants

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA, CFE, CFF

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Jane P. Burns, CPA, CDFA

December 8, 2017

INDEPENDENT AUDITOR'S REPORT

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Boards of Directors
The Hughen Center, Inc.
Including Bob Hope School
Port Arthur, Texas

Members of the Board:

Report on Compliance for Each Major Federal Program

We have audited The Hughen Center, Inc. (including Bob Hope School) (a nonprofit organization) (the Organization)'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Responses.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, The Hughen Center, Inc. (including Bob Hope School) complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

Report of Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants

THE HUGHEN CENTER, INC.
INCLUDING BOB HOPE SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: unmodified

Internal control over financial reporting:

- Material weakness identified? _____ yes no
- Significant deficiency identified? _____ yes none reported

Noncompliance material to financial statements noted? _____ yes no

Federal Awards

Internal control over major programs:

- Material weakness identified? _____ yes no
- Significant deficiency identified? _____ yes none reported

Type of auditor’s report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? _____ yes no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.282A	Public Charter School Program Startup Grant
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ yes no

**THE HUGHEN CENTER, INC.
INCLUDING BOB HOPE SCHOOL**

**SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2017
(CONTINUED)**

Section II – Financial Statement Findings and Responses

2017-001 – Compliance – Board of Director Training

Criteria: Per Texas Education Agency (TEA) training requirements, returning members of governing bodies of Charter Holder and School are required to attend six hours of training.

Condition: Administrative files maintained by The Hughen Center, Inc. (including Bob Hope School) do not support the required number of training hours for each board member.

Cause: Expansion of grade services and campus logistics along with obtaining additional staffing have consumed available administrative oversight hours.

Effect: Lack of training is a noncompliance issue that does not have a direct and material effect on the determination of financial statement amounts, but such training provides members of the board with the knowledge required to make informed decisions for Bob Hope School.

Recommendation: Management should review the TEA’s training requirements and establish procedures to ensure that each board member receives the required number of hours.

View of Responsible Officials: Management concurs with this statement of condition. See corrective action plan.

Section III – Federal Award Findings and Responses

-- NONE NOTED --

**THE HUGHEN CENTER, INC.
INCLUDING BOB HOPE SCHOOL**

**STATUS OF PRIOR YEAR'S FINDINGS
FISCAL YEAR ENDED AUGUST 31, 2017**

--Not Applicable--

THE HUGHEN CENTER, INC.
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2017

2017-001 - Compliance - Board of Director Training

Corrective Action Plan:

The administrative staff will establish procedures to ensure that each board member receives the required number of hours of training.

Anticipated Completion Date:

January, 2018

Responsible Party:

Ellen Messick, Chief Operating Officer

**THE HUGHEN CENTER, INC.
INCLUDING BOB HOPE SCHOOL**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED AUGUST 31, 2017**

Federal Grantor / Pass Through Grantor / Program	(02) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(03) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
ESEA, Title I, Part A, Improving Basic Programs	84.010A	17610100000000	\$ 406,481
IDEA - Part B Formula	84.027A	176600000000000000	130,662
ESEA, Title II, Part A, Teacher and Principal Training	84.367A	17694500000000	61,282
ESEA, Title III, Part A, LEP	84.365A	17671000000000	27,496
Public Charter School Program, Start Up Grant	84.282A	1759000000000000	139,611
ESEA, Title III, Part A LEP Summer School	84.369A	69551702	<u>3,561</u>
Total Passed Through State Department of Education			<u>769,093</u>
Total U.S. Department of Education			<u>769,093</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Agriculture:			
School Breakfast Program*	10.553	71401701	49,845
National School Lunch Program*	10.555	71301701	353,707
Commodity Supplemental Program (Food Distribution Program)	10.565		<u>15,587</u>
Total Passed Through State Department of Agriculture			<u>419,139</u>
Total U.S. Department of Agriculture			<u>419,139</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,188,232</u></u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

**THE HUGHEN CENTER, INC.
INCLUDING BOB HOPE SCHOOL**

**NOTES TO THE SCHEDULE OF EXPENITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED AUGUST 31, 2017**

1. The accompanying Schedule Of Expenditures Of Federal Awards (Schedule) includes the federal grant activity of The Hughen Center, Inc. (including Bob Hope School) (the Organization), under programs of the Federal government for the year ended August 31, 2017. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net position or cash flows of the Organization.

2. The District utilizes the fund types specified in the Texas Education Agency's Financial Accountability System Resource Guide.

Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

3. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

4. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date or as specified in a program regulation, in accordance with provisions in Office of management and Budget (OMB) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* – Section 200.343 Closeout.