

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

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010**


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CERTIFICATE OF BOARD

<u>The Huguen 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, 2010, at a meeting of the governing body of the charter holder on the _____ day of January, 2011.



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.)

Harold C. Graves, CPA
J. Pat O'Neill, III, CPA

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

Michael W. Kiefer, CPA, CFE, CFF
Troy W. Domingue, CPA
Stanley "Chip" Majors, Jr., CPA.CITP

January 6, 2011

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of The Hughen Center, Inc. the Charter Holder for Bob Hope School (a nonprofit organization) as of August 31, 2010 and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the The Hughen Center, Inc.'s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010 and the respective changes in its net assets, its cash flows and its functional expenses for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2011 on our consideration of the 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 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* and should be considered in assessing the results of our audit.

January 6, 2011

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The specific purpose financial statements and supplemental financial statements on pages 18 through 28 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wathen, DeShong & Juncker, LLP
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, 2010**

ASSETS

CURRENT ASSETS

Cash on hand and in banks	\$ 307,838
Accounts receivable	89,408
Contributions receivable	98,862
Grant receivable	20,334
Due from other governments	127,834
Prepaid expenses	48,398
Other current assets	<u>510</u>

Total current assets 693,184

OTHER ASSETS

Investments	1,567,096
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PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation 917,568

Total assets \$ 3,177,848

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 86,952
Accrued expenses	57,044
Other current liabilities	<u>5,794</u>

Total current liabilities 149,790

NET ASSETS

Unrestricted	
Undesignated	1,665,327
Net investment in property, plant and equipment	917,568
Board designated, investments	<u>273,090</u>

Total unrestricted 2,855,985

Temporarily restricted 172,073

Total net assets 3,028,058

Total liabilities and net assets \$ 3,177,848

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, 2010**

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Hughen Center			
Program Service Fees:			
Adult	\$ 41,666	\$ -	\$ 41,666
Food services	24,314	-	24,314
Residential/childcare	756,962	-	756,962
Therapy	994	-	994
Total program service fees	823,936	-	823,936
Contributions:			
United Way allocations	31,029	55,000	86,029
Other	310,198	15,797	325,995
Grant Income	389,210	-	389,210
Donated equipment	12,000	-	12,000
Gain (loss) on investments	14,698	-	14,698
Interest and dividend income	6,700	-	6,700
Other income	8,324	-	8,324
Special events (net of direct costs)	90,391	-	90,391
Insurance settlement	1,465,054	-	1,465,054
Net assets released from restrictions	186,345	(186,345)	-
Total Hughen Center revenues, gains and other support	3,337,885	(115,548)	3,222,337
Bob Hope School			
Local support			
Other revenue from local sources	36,182	-	36,182
Revenue from co-curricular or enterprising services	28,789	-	28,789
Total local support	64,971	-	64,971
State program revenues			
Foundation School Program	-	73,975	73,975
Federal program revenues			
Start-Up Grant	-	307,808	307,808
Child Nutrition Program	-	2,033	2,033
Total federal program revenues	-	309,841	309,841
Net assets released from restrictions	336,658	(336,658)	-
Total Bob Hope School revenues and other support	401,629	47,158	448,787
Total revenue and other support	3,739,514	(68,390)	3,671,124

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, 2010
(CONTINUED)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
EXPENSES AND OTHER LOSSES			
Hughen Center			
Program services			
Adult	\$ 63,823	\$ -	\$ 63,823
Food services	139,797	-	139,797
Residential/childcare	884,781	-	884,781
Total program services	<u>1,088,401</u>	<u>-</u>	<u>1,088,401</u>
Support services			
Management and general	319,602	-	319,602
Total support services	<u>319,602</u>	<u>-</u>	<u>319,602</u>
Total Hughen Center expenses	<u>1,408,003</u>	<u>-</u>	<u>1,408,003</u>
Bob Hope School			
Program services			
Instruction and instructional related services	100,140	-	100,140
Instructional school leadership	47,310	-	47,310
Total program services	<u>147,450</u>	<u>-</u>	<u>147,450</u>
Support services			
Food services	6,116	-	6,116
General administration	131,671	-	131,671
Facilities maintenance and operations	857	-	857
Data processing services	14,699	-	14,699
Fund Raising	40,981	-	40,981
Total support services	<u>194,324</u>	<u>-</u>	<u>194,324</u>
Total Bob Hope School expenses	<u>341,774</u>	<u>-</u>	<u>341,774</u>
Total expenses	<u>1,749,777</u>	<u>-</u>	<u>1,749,777</u>
Change in net assets	1,989,737	(68,390)	1,921,347
Net assets, beginning of period	<u>866,248</u>	<u>240,463</u>	<u>1,106,711</u>
Net assets, end of period	<u>\$ 2,855,985</u>	<u>\$ 172,073</u>	<u>\$ 3,028,058</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, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,921,347
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	135,205
Decrease in accounts receivable	8,707
Decrease in contributions receivable	122,978
(Increase) in grant receivable	(20,334)
(Increase) in due from other governments	(127,833)
(Increase) in prepaid expense and other assets	(38,545)
Increase in accounts payable	53,261
(Decrease) in accrued expenses	(52,250)
Increase in other current liabilities	5,793
	2,008,329
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(1,312,933)
Purchase of property and equipment	(475,486)
	(1,788,419)
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of line of credit advances	(73,851)
	(73,851)
NET INCREASE IN CASH AND CASH EQUIVALENTS	146,059
CASH AND CASH EQUIVALENTS, beginning of period	161,779
CASH AND CASH EQUIVALENTS, end of period	\$ 307,838

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, 2010**

	Program Services				Total
	Adult	Bob Hope School Instruction	Food Services	Residential/ Child Care	
Salaries	\$ 33,417	\$ -	\$ 58,592	\$ 486,639	\$ 578,648
Payroll taxes	2,495	-	4,436	36,544	43,475
Employee benefits	1,757	-	2,425	22,969	27,150
Total personnel costs	37,669	-	65,453	546,151	649,273
Data processing services	-	-	-	-	-
Depreciation	5,029	-	13,919	103,202	122,150
Equipment	1,399	-	1,050	9,344	11,793
Facilities maintenance and operations	-	-	-	-	-
Food services	-	-	-	-	-
Fund Raising	-	-	-	-	-
Instruction	-	100,140	-	-	100,140
Instructional resources and media services	-	32,835	-	-	32,835
Insurance	2,821	-	7,807	57,954	68,582
Occupancy	4,929	-	15,230	101,153	121,312
Professional fees	2,296	-	2,400	5,324	10,020
School administration	-	-	-	-	-
School leadership	-	14,475	-	-	14,475
Supplies	359	-	2,461	16,013	18,834
Telephone	172	-	477	3,577	4,226
Transportation	6,648	-	833	11,976	19,457
Other	2,502	-	30,167	30,086	62,754
Total functional expenses	\$ 63,823	\$ 147,450	\$139,797	\$ 884,781	\$ 1,235,851

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

<u>Supporting Services</u>			
<u>Management and General</u>	<u>Bob Hope School Support</u>	<u>Total</u>	<u>Total All Services</u>
\$ 188,817	\$ -	\$ 188,817	\$ 767,465
14,351	-	14,351	57,826
9,231	-	9,231	36,381
212,399	-	212,399	861,672
-	14,699	14,699	14,699
7,452	-	7,452	129,602
11,654	-	11,654	23,447
-	857	857	857
-	6,116	6,116	6,116
-	40,981	40,981	40,981
-	-	-	100,140
-	-	-	32,835
24,454	-	24,454	93,036
8,215	-	8,215	129,527
31,187	-	31,187	41,207
-	131,671	131,671	131,671
-	-	-	14,475
15,265	-	15,265	34,099
256	-	256	4,482
247	-	247	19,704
8,473	-	8,473	71,227
<u>\$ 319,602</u>	<u>\$ 194,324</u>	<u>\$ 513,926</u>	<u>\$1,749,777</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2010

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. 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 which provides services to people with disabilities in Southeast Texas. The Center provides a residential program for individuals ages 5 to 21 and a day services program for adults. The Center is licensed by the Texas Department of Family and Protective Services (DFPS) as a Residential Basic Child Care Facility. 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.

On May 4, 2009, the Center was awarded an Open-enrollment Charter School contract to operate Bob Hope School (the "School"). The contract is in effect from the date of execution through July 31, 2014. The Bob Hope School operates grades 6 through 12 for students from the Nederland, Port Arthur and Port Neches-Groves school districts. Maximum enrollment is 250 students. The school began serving students on August 23, 2010. The School is governed by a five person Board of Trustees.

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.

B. DESCRIPTION OF MAJOR PROGRAMS AND SERVICES

The Residential Child Care Program – serves children with physical disabilities related to muscular dystrophy, cerebral palsy, spina bifida, and trauma injuries. Services address their physical, mental, medical, social and recreational needs.

The Adult Program (Hebert Adult Center) – provides daytime services – Monday through Friday – to clients who live in the Community. Services address their physical, mental, medical, social and recreational needs. Clients may attend up to five days per week, depending on eligibility.

Food Services and Therapy Programs – include the following services for the Residential Child Care Program and the Adult Program: Nutritional meals and snacks; physical exercise; and occupational, speech, and physical therapy.

Special Events – held by the Center to provide additional unrestricted funds for services offered by the Center.

Bob Hope School – Charter school for grades 6 through 12 for eligible students.

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

NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2010.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 January 6, 2011, the date on which the financial statements were available for release.

J. CAPITAL ASSETS

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the Center as assets with an individual cost or, if donated, fair value at the date of donation, of more than \$500. Capital assets are defined by 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.

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, 2010, 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2010**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2010, the Center incurred direct costs for fundraising events in the amount of \$22,956. The School incurred direct costs for fundraising events in the amount of \$40,981.

NOTE 2. CASH DEPOSITS

The charter school funds are deposited and invested with a depository bank. The depository bank must deposit for safekeeping and trust with the charter school's agent bank approved pledged securities in an amount sufficient to protect school funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2010, the carrying amount of the charter school's deposits (cash, certificate of deposit, and interest-bearing savings accounts included in temporary investments) was \$62,158 and the bank balance was \$70,603. The charter school's cash deposits at August 31, 2010, and during the year ended August 31, 2010, were entirely covered by FDIC insurance or by pledged collateral held by the charter holder's agent bank in the school's 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	\$ 1,366,632
Fixed income investments	107,515
Stocks	10,915
Mutual funds	82,034
	\$ 1,567,096

Investment return for the fiscal year ended August 31, 2010 was composed of:

Investment Income	
Interest and dividends	\$ 6,700
Gains and (losses)	
Realized	-
Unrealized	14,698
Total investment income	\$ 21,398

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

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2010**

NOTE 3. INVESTMENTS (CONTINUED)

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, 2010:				
Cash and cash equivalents	\$ 1,366,632	\$ 1,366,632	\$ -	\$ -
Fixed income investments	107,515	107,515	-	-
Stocks	10,915	10,915	-	-
Mutual funds	82,034	82,034	-	-
	<u>\$ 1,567,096</u>	<u>\$ 1,567,096</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4. CAPITAL ASSETS

Capital assets at August 31, 2010 were as follows:

	Beginning Balances	Additions	Deletions	Ending Balances
Land	\$ 80,240	\$ -	\$ -	\$ 80,240
Buildings and improvements	2,817,550	406,747	-	3,224,297
Furniture and equipment	612,015	61,439	-	673,454
Vehicles	279,187	7,300	(46,835)	239,652
Accumulated depreciation	(3,211,705)	(135,205)	46,835	(3,300,075)
Net capital assets	<u>\$ 577,287</u>	<u>\$ 340,281</u>	<u>\$ -</u>	<u>\$ 917,568</u>

Depreciation expense for the fiscal year ended August 31, 2010 was \$135,205.

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

NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2010

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. 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. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to 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 Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2010, and a state contribution rate of 6.644% for fiscal year 2010. The charter school's employees' contributions to the system for the year ended August 31, 2010 were \$4,481, equal to the required contribution for the year. In certain instances the reporting charter school is required to make all or a portion of the state's contribution. Bob Hope School paid additional state contributions for the year ended August 31, 2010 in the amount of \$3,032 on the portion of the employees' salaries that exceeded the statutory minimum and on employees funded through Federal Programs. State contributions to TRS made on behalf of the School's employees for the year ended August 31, 2010 was \$1,618.

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

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2010**

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 Retired Plan 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 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, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701 or by calling 1-800-223-8778.

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. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal year 2010. 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. For the year ended August 31, 2010, the State's contribution to TRS-Care was \$700, the active member contribution was \$455, and the school's contribution was \$385, which equaled the required contributions each year.

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 year August 31, 2010 were \$356.

NOTE 7. DUE FROM OTHER GOVERNMENTS

At August 31, 2010, due from other governments consisted of the following:

Foundation Program - 2010-2011	\$ 73,975
Public Charter School Start-Up Grant	51,825
School Breakfast Program	169
National School Lunch Program	<u>1,864</u>
Total	<u>\$ 127,833</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2010**

NOTE 8. LINE OF CREDIT

The Center has a revolving line of credit at Communitybank of Texas, N.A. and Edward Jones with maximum borrowings of \$100,000, and \$125,002, respectively. At August 31, 2010, the Center had an outstanding balance of \$-0- at both institutions. Interest on the amounts borrowed is at the prime rate. The line of credit is secured by certain assets.

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the year ended August 31, 2010 consisted of the following:

Hughen Center	
Maintenance and purchase of fixed assets	\$ 17,504
Subsequent operations	98,862
Other	8,549
Total	<u>124,915</u>
Bob Hope School	
Public Charter School Start-Up Grant	<u>47,158</u>
Total	<u>47,158</u>
Total temporarily restricted net assets	<u>\$ 172,073</u>

NOTE 10. 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.

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

NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2010

NOTE 11. OPERATING LEASE

The Hughen Center, Inc. is obligated under an operating (noncapitalized) lease for printer equipment. The following is a schedule of minimum lease payments under non-cancelable operating leases as of August 31, 2010.

The future annual rental payments are as follows:

<u>As of August 31</u>	
2011	\$ 580

Rent expense was approximately \$1,784 during the year ended August 31, 2010.

NOTE 12. 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 and, at the close of the year, actual attendance is calculated by the Texas Education Agency and State Foundation Program earnings is 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.

The initial student services for the School began in August 2010 for the 2010 – 2011 school year. No funds were received as of August 31, 2010. Teachers at the School worked a total of 7 instructional days in August, 2010. Based upon the estimated State Foundation Program revenue for 2010-2011 school year as provided by the Texas Education Agency, the School earned \$73,975 of State Foundation Program revenue for these days of instruction. This revenue has been accrued at August 31, 2010 and will be received after September 1, 2010. Bob Hope School considered all of these funds to be earned subject only to any possible TEA enrollment and attendance audit.

NOTE 13. ACCRUED SALARIES

During the month of August, 2010, the School's teachers worked 13 days for which they were not paid prior to the close of the year. Accrued salaries totaled \$34,020 as of August 31, 2010.

NOTE 14. INDIVIDUAL FUND DISCLOSURES

For the year ended August 31, 2010, Functions 23 School Leadership, 35 Food Services and 81 Facilities Acquisition and Construction, exceeded budget by \$629, \$44, and \$40,981, respectively. At August 31, 2010, the Food Service Special Revenue Fund had a deficit fund balance position of (\$2,698).

SPECIFIC PURPOSE FINANCIAL STATEMENTS

THE HUGHEN CENTER, INC.

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 245,680
Accounts receivable	89,408
Contributions receivable	98,862
Grant receivable	20,334
Prepaid expenses	48,398
Other current assets	510

Total current assets 503,192

PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation 873,732

OTHER ASSETS

Investments 1,567,096

Total other assets 1,567,096

Total assets \$ 2,944,020

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 83,275
Accrued expenses	23,023

Total liabilities 106,298

NET ASSETS

Unrestricted	
Undesignated	1,565,985
Net investment in property, plant and equipment	873,732
Board designated, investments	273,090

Total Unrestricted 2,712,807

Temporarily restricted 124,915

Total net assets 2,837,722

Total liabilities and net assets \$ 2,944,020

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

BOB HOPE SCHOOL

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2010

ASSETS

CURRENT ASSETS

Cash on hand and in banks	\$ 62,158
Due from other governments	<u>127,834</u>

Total current assets 189,992

PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation 43,836

Total assets \$ 233,828

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 3,677
Accrued salaries	34,021
Other current liabilities	<u>5,794</u>

Total liabilities 43,492

NET ASSETS

Unrestricted	
Undesignated	99,342
Net investment in property, plant and equipment	<u>43,836</u>

Total unrestricted 143,178

Temporarily restricted 47,158

Total net assets 190,336

Total liabilities and net assets \$ 233,828

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

THE HUGHEN CENTER, INC.

STATEMENT OF ACTIVITIES FISCAL YEAR ENDED AUGUST 31, 2010

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Program Service Fees:			
Adult	\$ 41,666	\$ -	\$ 41,666
Food services	24,314	-	24,314
Residential/childcare	756,962	-	756,962
Therapy	994	-	994
Total program service fees	823,936	-	823,936
Contributions:			
United Way allocations	31,029	55,000	86,029
Other	310,198	15,797	325,995
Grant Income	389,210	-	389,210
Donated equipment	12,000	-	12,000
Gain (loss) on investments	14,698	-	14,698
Interest and dividend income	6,700	-	6,700
Other income	8,324	-	8,324
Special events (net of direct costs)	90,391	-	90,391
Insurance settlement	1,465,054	-	1,465,054
Net assets released from restrictions	186,345	(186,345)	-
Total revenues, gains and other support	3,337,885	(115,548)	3,222,337
 EXPENSES AND LOSSES			
Program services:			
Adult	63,823	-	63,823
Food services	139,797	-	139,797
Residential/childcare	884,781	-	884,781
Total program service expenses	1,088,401	-	1,088,401
Support services:			
Management and general	319,602	-	319,602
Total support services expenses	319,602	-	319,602
Total expenses	1,408,003	-	1,408,003
CHANGE IN NET ASSETS	1,929,882	(115,548)	1,814,334
NET ASSETS , beginning of period	782,925	240,463	1,023,388
NET ASSETS , end of period	\$ 2,712,807	\$ 124,915	\$ 2,837,722

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

BOB HOPE SCHOOL

STATEMENT OF ACTIVITIES FISCAL YEAR ENDED AUGUST 31, 2010

<u>Data Control Codes</u>		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
	REVENUE AND OTHER SUPPORT			
	Local support			
5740	Other revenue from local sources	\$ 36,182	\$ -	\$ 36,182
5750	Revenue from co-curricular or enterprising services	<u>28,789</u>	<u>-</u>	<u>28,789</u>
	Total local support	<u>64,971</u>	<u>-</u>	<u>64,971</u>
	State program revenues			
5810	Foundation School Program	<u>-</u>	<u>73,975</u>	<u>73,975</u>
	Federal program revenues			
5920	Start-Up Grant	-	307,808	307,808
5920	Child Nutrition Program	<u>-</u>	<u>2,033</u>	<u>2,033</u>
	Total federal program revenues	<u>-</u>	<u>309,841</u>	<u>309,841</u>
	Net assets released from restrictions	<u>336,658</u>	<u>(336,658)</u>	<u>-</u>
	Total revenue and other support	<u>401,629</u>	<u>47,158</u>	<u>448,787</u>
	EXPENSES AND OTHER LOSSES			
0011	Instruction	100,140	-	100,140
0012	Instructional resources and media services	32,835	-	32,835
0023	School leadership	14,475	-	14,475
0035	Food services	6,116	-	6,116
0041	General administration	131,671	-	131,671
0051	Facilities maintenance and operations	857	-	857
0053	Data processing services	14,699	-	14,699
0081	Fund Raising	<u>40,981</u>	<u>-</u>	<u>40,981</u>
	Total expenses	<u>341,774</u>	<u>-</u>	<u>341,774</u>
	CHANGE IN NET ASSETS	59,855	47,158	107,013
	NET ASSETS, beginning of period	<u>83,323</u>	<u>-</u>	<u>83,323</u>
	NET ASSETS, end of period	<u>\$ 143,178</u>	<u>\$ 47,158</u>	<u>\$ 190,336</u>

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

THE HUGHEN CENTER, INC.

STATEMENT OF CASH FLOWS FISCAL YEAR ENDED AUGUST 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,814,334
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	129,602
Decrease in accounts receivable	8,707
Decrease in contributions receivable	122,978
(Increase) in grant receivable	(20,334)
(Increase) in prepaid expense and other assets	(38,545)
Increase in accounts payable	49,584
(Decrease) in accrued expenses	<u>(86,271)</u>
Net cash provided by operating activities	<u>1,980,055</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(1,312,933)
Purchase of property and equipment	<u>(426,047)</u>
Net cash used by investing activities	<u>(1,738,980)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of line of credit advances	<u>(73,851)</u>
Net cash used by financing activities	<u>(73,851)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	167,224
CASH AND CASH EQUIVALENTS, beginning of period	<u>78,456</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 245,680</u>

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

BOB HOPE SCHOOL

STATEMENT OF CASH FLOWS FISCAL YEAR ENDED AUGUST 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 107,013
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	5,603
(Increase) in due from other governments	(127,833)
Increase in accounts payable	3,677
Increase in accrued expenses	34,021
Increase in other current liabilities	<u>5,793</u>
Net cash provided by operating activities	<u>28,274</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(49,439)</u>
Net cash used by investing activities	<u>(49,439)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,165)
CASH AND CASH EQUIVALENTS, beginning of period	<u>83,323</u>
CASH AND CASH EQUIVALENTS, end of period	<u><u>\$ 62,158</u></u>

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

THE HUGHEN CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES FISCAL YEAR ENDED AUGUST 31, 2010

	Program Services			Total	Supporting Services	Total
	Adult	Food Services	Residential/ Child Care		Management and General	
Salaries	\$ 33,417	\$ 58,592	\$ 486,639	\$ 578,648	\$ 188,817	\$ 767,465
Payroll taxes	2,495	4,436	36,544	43,475	14,351	57,826
Employee benefits	1,757	2,425	22,969	27,150	9,231	36,381
 Total personnel costs	 37,669	 65,453	 546,151	 649,273	 212,399	 861,672
Depreciation	5,029	13,919	103,202	122,150	7,452	129,602
Equipment	1,399	1,050	9,344	11,793	11,654	23,447
Insurance	2,821	7,807	57,954	68,582	24,454	93,036
Occupancy	4,929	15,230	101,153	121,312	8,215	129,527
Professional fees	2,296	2,400	5,324	10,020	31,187	41,207
Supplies	359	2,461	16,013	18,834	15,265	34,099
Telephone	172	477	3,577	4,226	256	4,482
Transportation	6,648	833	11,976	19,457	247	19,704
Other	2,502	30,167	30,086	62,754	8,473	71,227
 Total functional expenses	 <u>\$ 63,823</u>	 <u>\$139,797</u>	 <u>\$ 884,781</u>	 <u>\$ 1,088,401</u>	 <u>\$ 319,602</u>	 <u>\$1,408,003</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, 2010

Data
Control
Codes

EXPENSES		
6100	Payroll	\$ 123,969
6200	Professional and contracted services	27,944
6300	Supplies and materials	52,869
6400	Other operating costs	91,807
6500	Debt	-
6600	Capital outlay	<u>45,185</u>
	Total expenses	<u><u>\$ 341,774</u></u>

THE HUGHEN CENTER, INC.

SCHEDULE OF CAPITAL ASSETS FISCAL YEAR ENDED AUGUST 31, 2010

	Ownership Interest		
	Local	State	Federal
Land and improvements	\$ 80,240	\$ -	\$ -
Building and improvements	3,224,297	-	-
Vehicles	239,652	-	-
Furniture and equipment	624,015	-	-
	<u>\$ 4,168,204</u>	<u>\$ -</u>	<u>\$ -</u>

BOB HOPE SCHOOL

SCHEDULE OF CAPITAL ASSETS FISCAL YEAR ENDED AUGUST 31, 2010

<u>Data Control Codes</u>		<u>Ownership Interest</u>		
		<u>Local</u>	<u>State</u>	<u>Federal</u>
1539	Furniture and equipment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,439</u>
		<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 49,439</u></u>

BOB HOPE SCHOOL

BUDGETARY COMPARISON SCHEDULE FISCAL YEAR ENDED AUGUST 31, 2010

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive or (Negative)
		Original	Final		
REVENUE AND OTHER SUPPORT					
	Local support				
5740	Other revenue from local sources	\$ -	\$ -	\$ 36,182	\$ 36,182
5750	Revenue from co-curricular or enterprising services	-	-	28,789	28,789
	Total local support	-	-	64,971	64,971
	State program revenues				
5810	Foundation School Program	-	-	73,975	73,975
	Federal program revenues				
5920	Start-Up Grant	450,000	450,000	307,808	(142,192)
5920	Child Nutrition Program	-	-	2,033	2,033
	Total federal program revenues	450,000	450,000	309,841	(142,192)
	Total revenue and other support	450,000	450,000	448,787	(1,213)
EXPENSES AND OTHER LOSSES					
0011	Instruction	130,844	130,844	100,140	30,704
0012	Instructional resources and media service	51,785	51,785	32,835	18,950
0023	School leadership	13,846	13,846	14,475	(629)
0033	Health services	2,000	2,000	-	2,000
0035	Food services	6,072	6,072	6,116	(44)
0041	General administration	161,440	161,440	131,671	29,769
0051	Facilities maintenance and operations	26,213	26,213	857	25,356
0052	Security and monitoring services	14,000	14,000	-	14,000
0053	Data processing services	43,800	43,800	14,699	29,101
0081	Fund Raising	-	-	40,981	(40,981)
	Total expenses	450,000	450,000	341,774	108,226
	CHANGE IN NET ASSETS	-	-	107,013	107,013
	NET ASSETS, beginning of period	83,323	83,323	83,323	-
	NET ASSETS, end of period	\$ 83,323	\$ 83,323	\$ 190,336	\$ 107,013

FEDERAL AWARD SECTION

Harold C. Graves, CPA
J. Pat O'Neill, III, CPA

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

Michael W. Kiefer, CPA, CFE, CFF
Troy W. Domingue, CPA
Stanley "Chip" Majors, Jr., CPA, CITP

January 6, 2011

**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 the financial statements of The Hughen Center, Inc. (including Bob Hope School) (a Nonprofit organization) as of and for the year ended August 31, 2010, and have issued our report thereon dated January 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Hughen Center, Inc.'s (including Bob Hope School) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Hughen Center, Inc.'s (including Bob Hope School) internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as Items 10-1 through 10-3 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Boards of Directors
The Hughen Center, Inc.
Including Bob Hope School
Page 2
January 6, 2011

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Hughen Center, Inc. and Bob Hope School responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit these responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of The Hughen Center, Inc, including Bob Hope School, in a separate letter dated January 6, 2011.

This report is intended solely for the information and use of management, the audit committee, Boards of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wathen, DeShong & Juncker, LLP
WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants

Harold C. Graves, CPA
J. Pat O'Neill, III, CPA

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

Michael W. Kiefer, CPA, CFE, CFF
Troy W. Domingue, CPA
Stanley "Chip" Majors, Jr., CPA, CITP

January 6, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of The Hughen Center, Inc. (including Bob Hope School) (a Nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Hughen Center, Inc's major federal programs for the year ended August 31, 2010. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of The Hughen Center, Inc's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Hughen Center, Inc's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The Hughen Center, Inc's compliance with those requirements.

In our opinion, The Hughen Center, Inc complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

The management of The Hughen Center, Inc. including Bob Hope School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal program. In planning and performing our audit, we considered The Hughen Center, Inc's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Hughen Center, Inc's internal control over compliance.

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

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

This report is intended solely for the information and use of management, others within the organization, the Boards of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


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

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

**SCHEDULE OF FINDINGS AND RESPONSES
FISCAL YEAR ENDED AUGUST 31, 2010**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: unqualified

Internal control over financial reporting:

- Material weakness identified? _____ yes no
- Significant deficiency identified that is not considered to be a material weakness? _____ 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 that is not considered to be a material weakness? _____ yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 501(1) of

- Circular A-133? _____ yes no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
93.667	Social Services Block Grant Disaster Recovery
84.282A	Public Charter School Start-Up Grant

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

- Auditee qualified as low-risk auditee? _____ yes no

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

**SCHEDULE OF FINDINGS AND RESPONSES
FISCAL YEAR ENDED AUGUST 31, 2010
(CONTINUED)**

Section II – Financial Statement Findings and Responses

10-1 and 10-2

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission has defined Internal Control as “a process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reports and compliance with laws and regulations.

The COSO internal control framework consists of five interrelated components derived from the way management runs a business. According to COSO, these components provide an effective framework for describing and analyzing the internal control system implemented in an organization as required by financial regulations. The five components are Control Environment; Risk assessment; Control activities; Information and Communication; and Monitoring. Two of the five are discussed below:

10-1 Specific Requirement - Risk Assessment: Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives and thus risk assessment is the identification and analysis of relevant risks to the achievement of assigned objectives. Risk assessment is a prerequisite for determining how the risks should be managed.

10-2 Specific Requirement - Monitoring: Internal control systems need to be monitored – a process that assesses the quality of the system’s performance over time. This is accomplished through ongoing monitoring activities or separate evaluations. Internal control deficiencies detected through these monitoring activities should be reported upstream and corrective actions should be taken to ensure continuous improvement of the system.

10-1 Condition - Risk assessment: The Hughen Center, Inc. has a 22 page “Internal Control Structure Questionnaire for Residential Care”. This questionnaire addresses the primary service program of The Hughen Center, Inc. However, it does not address the assessment of risks associated with the preparation, maintenance and reporting of financial information.

10-2 Condition - Monitoring: Financial information as reflected in various general ledger control accounts for Bob Hope School as of and for the fiscal year ended August 31, 2010 was not supported by detail subsidiary information at the time of audit fieldwork.

10-1 and 10-2

Context - Risk Assessment and Monitoring: Observation and discussion with auditee.

10-1 Effect - Risk Assessment: Without the expansion of risk assessment as discussed in Condition above, The Hughen Center, Inc. is exposed to the possibility that there will be internal or external reliance on incomplete financial data.

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

**SCHEDULE OF FINDINGS AND RESPONSES
FISCAL YEAR ENDED AUGUST 31, 2010
(CONTINUED)**

Section II – Financial Statement Findings and Responses (Continued)

10-2 <u>Effect</u> -	Monitoring: Same as <u>Condition</u> above.
10-1 and 10-2 <u>Cause</u> -	<p>Risk Assessment and Monitoring: In April 2010, The Hughen Center, Inc. began incurring costs and hiring staff in preparation for accepting students into a charter school in August 2010. This process included the implementation of and familiarization with a school software system and coordination between the Texas Education Agency and the new school administration.</p> <p>Coinciding with the above referenced start-up effort, The Hughen Center, Inc. was the recipient of two major grants, a Social Services Block Grant and a Charter School Start-Up Grant. The significant accounting and reporting requirements associated with these grants impacted staff time available for traditional assessing and monitoring activities.</p> <p>Additionally, recording and monitoring of financial transactions was impacted by personnel issues with a child nutrition program manager position and the school business manager position.</p>
10-1 and 10-2 <u>Recommendation</u> -	<p>We recommend the expansion and implementation of risk assessment policies and procedures which will include a checklist indicating initial financial reporting risk assessment and periodic update.</p> <p>We recommend that the Center and School administration continue to develop and document monitoring procedures in the areas of general ledger maintenance and adjustment.</p>
10-1 and 10-2 <u>Management's Response</u> -	<p>The Center's Chief Financial Officer, Ms. Myrna Cedars, will expand the Center's risk assessment and monitoring processes. Particular emphasis will be given to the general ledger preparation and adjustment process.</p> <p>In addition, subsequent to August 31, 2010, a degreed accountant with 20+ years experience has been hired as business manager for the School and specific risk assessment and monitoring processes will be developed in that area.</p>

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

**SCHEDULE OF FINDINGS AND RESPONSES
FISCAL YEAR ENDED AUGUST 31, 2010
(CONTINUED)**

Section II – Financial Statement Findings and Responses (Continued)

- 10-3 Specific Requirements - Statement of Auditing Standards No. 115, which supersedes SAS No. 112, was issued by the Auditing Standards Board of the American Institute of Certified Public Accountants and was effective for financial statements for periods ending on or after December 15, 2009. This statement continues to define the levels of internal control effectiveness and continues to clarify the impact of auditor participation in the general ledger adjustment and financial statement preparation process.
- Conditions - The level of auditor assistance in the general ledger adjustment process and the financial statement preparation process, even though under the direction of The Hughen Center, Inc. Management, rises to the level of a significant deficiency.
- Context - Observation and discussion with auditee.
- Cause - Overall workload and the assignment of specific duties along with a conscious decision related to an informal cost/benefit analysis have led to the utilization of nonattest services provided by the auditor under the direction of The Hughen Center, Inc. personnel.
- Management's Response - The Hughen Center, Inc. has determined that the cost of internally preparing financial statements in accordance with GAAP exceeds the benefits derived from this function and will continue to rely on the auditor's assistance. Ms. Myrna Cedars, Chief Financial Officer, will continue the direction of and overview functions relating to the general ledger adjustment process and the preparation of financial statements.

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

**SCHEDULE OF FINDINGS AND RESPONSES
FISCAL YEAR ENDED AUGUST 31, 2010
(CONTINUED)**

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, 2010**

-- NOT APPLICABLE --

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED AUGUST 31, 2010**

Federal Grantor / Pass Through Grantor / Program	(02) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(03) Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through South East Texas Regional Planning Commission (SETRPC)			
Social Services Block Grant Disaster Recovery	93.667	SSBG IKE	\$ 367,334
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
Public Charter School Start-Up Grant	84.282A	095900147110009	307,808
U.S. GENERAL SERVICES ADMINISTRATION			
Passed Through Texas Facilities Commission			
Surplus Property Program	39.003	44439	94
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Agriculture:			
School Breakfast Program	10.553*	123-2007	9,067
National School Lunch Program	10.555*	123-2007	8,799
Total Passed Through State Department of Agriculture			17,866
Passed Through State Department of Agriculture:			
School Breakfast Program	10.553*	123-807	169
National School Lunch Program	10.555*	123-807	1,864
Total Passed Through State Department of Agriculture			2,033
Passed Through Texas Health and Human Services Commission			
Child and Adult Care Food Program	10.558	123-6008	6,045
Cash in Lieu of Commodities	10.558	123-6008	309
Total Passed Through Texas Health and Human Services Commission			6,354
Total U.S. Department of Agriculture			26,253
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 701,489

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

The accompanying notes are an integral part of this schedule.

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED AUGUST 31, 2010**

1. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of The Hughen Center, Inc. including Bob Hope School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.
2. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant.
3. 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 Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement – June 2010.