

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

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018**

TABLE OF CONTENTS

	<u>PAGE</u>
Certificate of Board.....	1
Independent Auditor’s Report.....	2-3
 General Purpose Financial Statements	
Statement of Financial Position.....	4
Statement of Activities	5-6
Statement of Cash Flows	7
Statement of Functional Expenses.....	8
Notes to the Financial Statements.....	9-18
 Specific Purpose Financial Statements	
Statement of Financial Position.....	19-20
Statement of Activities	21-22
Statement of Cash Flows	23-24
Statement of Functional Expenses.....	25
 Supplemental Information	
Schedule of Expenses.....	26
Schedule of Property, Plant and Equipment.....	27-28
Budgetary Comparison Schedule	29
 Federal Awards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	30-31
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by The Uniform Guidance	32-33
Schedule of Findings and Questioned Costs	34-35
Status of Prior Year’s Findings.....	36
Schedule of Expenditures of Federal Awards	37
Notes to the Schedule of Expenditures of Federal Awards.....	38

CERTIFICATE OF BOARD

The Hughen Center, Inc.
Name of Charter Holder

Jefferson
County

74-1157851
Federal EIN

Bob Hope School
Name of Charter School

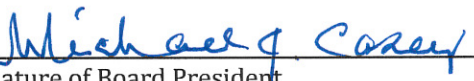
Jefferson
County

123-807
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, 2018, at a meeting of the governing body of the charter holder on the 18th day of December, 2018.



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



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

December 14, 2018

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, 2018, 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, 2018, 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 37 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 14, 2018, 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, 2018**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,200,985
Accounts receivable	163,951
Other Assets	44,719
Due from other governments	906,073
Other receivables	15,219
Prepaid expenses	<u>289,124</u>

Total current assets 3,620,071

PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation 11,625,971

OTHER ASSETS

Investments	<u>1,476,014</u>
-------------	------------------

Total assets \$ 16,722,056

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 2,910,941
Accrued expenses	244,843
Other current liabilities	419,517
Current portion of long term debt	<u>54,358</u>

Total current liabilities 3,629,659

LONG TERM DEBT

Long term debt, net of current portion	<u>4,786,846</u>
--	------------------

Total liabilities 8,416,505

NET ASSETS

Unrestricted	
Undesignated	6,631,224
Temporarily restricted	<u>1,674,327</u>

Total net assets 8,305,551

Total liabilities and net assets \$ 16,722,056

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, 2018**

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Hughen Center			
Program Service Fees:			
Adult	\$ 501,813	\$ -	\$ 501,813
Childcare fees	2,292		2,292
Food service fees	26,515	22,097	48,612
Total program service fees	530,620	22,097	552,717
Contributions	132,425	-	132,425
Gain on investments	64,820	-	64,820
Lease income (see note 13)	1,500,000	-	1,500,000
Interest and dividend income	22,299	-	22,299
Other income	616,896	-	616,896
Total revenues	2,867,060	22,097	2,889,157
Net assets released from restrictions	22,097	(22,097)	-
Total Hughen Center revenue and other support	2,889,157	-	2,889,157
Bob Hope School			
Local support			
Other local revenue	694,345	-	694,345
Revenue from co-curricular or enterprising services	18,872	-	18,872
Food service activity	-	21,674	21,674
Miscellaneous revenue	390		390
Total local support	713,607	21,674	735,281
State program revenues			
Foundation School Program	-	8,406,286	8,406,286
Available School Fund	-	148,002	148,002
Other distributed by Texas Education Agency	-	176,360	176,360
Total state program revenues	-	8,730,648	8,730,648
Federal program revenues			
Various distributed by Texas Education Agency	-	1,085,145	1,085,145
Child Nutrition Program	-	452,444	452,444
Federal Commodities	-	27,831	27,831
Total federal program revenues	-	1,565,420	1,565,420
Net assets released from restrictions	10,289,385	(10,289,385)	-
Total Bob Hope School revenues and other support	11,002,992	28,357	11,031,349
Total revenue and other support	13,892,149	28,357	13,920,506

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, 2018
(CONTINUED)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
EXPENSES			
Hughen Center			
Program services			
Adult	\$ 423,346	\$ -	\$ 423,346
Residential/childcare	440,300	-	440,300
Total program services	<u>863,646</u>	<u>-</u>	<u>863,646</u>
Support services			
Management and general	1,091,709	-	1,091,709
Total support services	<u>1,091,709</u>	<u>-</u>	<u>1,091,709</u>
Total Hughen Center expenses	<u>1,955,355</u>	<u>-</u>	<u>1,955,355</u>
 Bob Hope School			
Program services			
Instruction and instructional related services	5,014,734	-	5,014,734
Instructional school leadership	1,150,647	-	1,150,647
Total program services	<u>6,165,381</u>	<u>-</u>	<u>6,165,381</u>
Support services			
Guidance, counseling, and evaluation services	209,492	-	209,492
Health services	70,502	-	70,502
Student transportation	91,640	-	91,640
Food services	526,985	-	526,985
Cocurricular/Extracurricular activities	122,119	-	122,119
General administration	784,793	-	784,793
Facilities maintenance and operations	1,917,533	-	1,917,533
Security and monitoring services	140,917	-	140,917
Data processing services	152,607	-	152,607
Fundraising	107,416	-	107,416
Total support services	<u>4,124,004</u>	<u>-</u>	<u>4,124,004</u>
Total Bob Hope School expenses	<u>10,289,385</u>	<u>-</u>	<u>10,289,385</u>
 Total expenses	<u>12,244,740</u>	<u>-</u>	<u>12,244,740</u>
 Change in net assets	1,647,409	28,357	1,675,766
 Net assets, beginning of period	<u>4,983,815</u>	<u>1,645,970</u>	<u>6,629,785</u>
 Net assets, end of period	<u>\$ 6,631,224</u>	<u>\$ 1,674,327</u>	<u>\$ 8,305,551</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, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,675,766
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	365,988
Unrealized (gain) loss on investments	(64,820)
(Increase)Decrease in accounts receivable	(129,354)
(Increase)Decrease in due from other governments	(51,381)
(Increase)Decrease in other receivable	14,174
(Increase)Decrease in prepaid expense and other assets	(167,777)
Increase(Decrease) in accounts payable	2,696,373
Increase(Decrease) in accrued expenses	(37,252)
Increase(Decrease) in other current liabilities	<u>337,628</u>
Net cash provided by operating activities	<u>4,639,345</u>
CASH FLOWS USED BY INVESTING ACTIVITIES	
Purchase of investments	(24,521)
Withdrawal of investments	250,000
Purchase of property and equipment	<u>(6,535,610)</u>
Net cash (used) by investing activities	<u>(6,310,131)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	
Proceeds from loan	2,960,445
Repayment of Loan	<u>(126,442)</u>
Net cash provided by financing activities	<u>2,834,003</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,163,217
CASH AND CASH EQUIVALENTS, beginning of period	<u>1,037,768</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 2,200,985</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:	
Interest Expense: Cash paid for interest expense	\$ 133,084

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, 2018**

	Program Services			
		Bob Hope	Residential/	
	Adult	School Instruction	HCS	Total
Salaries	\$ 230,854	\$ -	\$ 247,081	\$ 477,935
Payroll taxes	17,307	-	18,672	35,979
Employee benefits	8,952	-	7,055	16,007
Total personnel costs	257,113	-	272,808	529,921
Cocurricular/Extracurricular activities	-	-	-	-
Data processing services	-	-	-	-
Depreciation	19,559	-	21,189	40,748
Equipment	20,301	-	170	20,471
Facilities maintenance and operations	-	-	-	-
Food services	-	-	-	-
Fundraising	-	-	-	-
Guidance, counseling, and evaluation services	-	-	-	-
Health services	-	-	-	-
Instruction and instructional related services	-	5,014,734	-	5,014,734
Instructional school leadership	-	1,150,647	-	1,150,647
Insurance	2,021	-	-	2,021
Occupancy	21,840	-	70,141	91,981
Professional fees	10,011	-	45,395	55,406
School administration	-	-	-	-
Security and monitoring services	-	-	-	-
Student transportation	-	-	-	-
Supplies	11,278	-	3,276	14,554
Telephone	1,767	-	-	1,767
Transportation	30,340	-	12,780	43,120
Other	49,116	-	14,541	63,657
Total functional expenses	\$ 423,346	\$ 6,165,381	\$ 440,300	\$ 7,029,027

<u>Supporting Services</u>			
<u>Management and General</u>	<u>Bob Hope School Support</u>	<u>Total</u>	<u>Total All Services</u>
\$ 104,136	\$ -	\$ 104,136	\$ 582,071
7,827	-	7,827	43,806
19,733	-	19,733	35,740
131,696	-	131,696	661,617
-	122,119	122,119	122,119
-	152,607	152,607	152,607
122,242	-	122,242	162,990
2,480	-	2,480	22,951
-	1,917,533	1,917,533	1,917,533
-	526,985	526,985	526,985
-	107,416	107,416	107,416
-	209,492	209,492	209,492
-	70,502	70,502	70,502
-	-	-	5,014,734
-	-	-	1,150,647
162,166	-	162,166	164,187
287,209	-	287,209	379,190
138,418	-	138,418	193,824
-	784,793	784,793	784,793
-	140,917	140,917	140,917
-	91,640	91,640	91,640
48,339	-	48,339	62,893
5,435	-	5,435	7,202
23,796	-	23,796	66,916
169,928	-	169,928	233,585
<u>\$ 1,091,709</u>	<u>\$ 4,124,004</u>	<u>\$ 5,215,713</u>	<u>\$ 12,244,740</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, 2018**

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 fifteen 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 60 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 had a maximum enrollment of 250 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 and increased enrollment to 200 by TEA to serve students in the Beaumont Independent School District. 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, 2018**

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 third 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, 2018

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, 2018.

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 14, 2018, 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, 2018**

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, 2018, 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, 2018, the Center did not incur direct costs for fundraising events. The School incurred direct costs for fundraising events in the amount of \$107,416.

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, 2018, the carrying amount of the charter school's deposits (cash, certificate of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,770,858 and the bank balance was \$2,164,791. During 2017-2018, 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	\$ 302,378
Certificates of deposits	202,059
Fixed income investments	109,224
Stocks	207,453
Mutual funds	654,900
	\$ 1,476,014

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

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2018**

NOTE 3. INVESTMENTS (CONTINUED)

Investment return for the fiscal year ended August 31, 2018 consisted of the following:

Investment Income	
Interest and dividends, excluding	
Bank interest	\$ 24,521
Gains and (losses) unrealized	<u>64,820</u>
Total investment income	<u><u>\$ 89,341</u></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, 2018				
Cash and cash equivalents	\$ 302,378	\$ 302,378	\$ -	\$ -
Certificate of deposits	202,059	202,059	-	-
Fixed income investments	109,224	109,224	-	-
Stocks	207,453	207,453	-	-
Mutual funds	<u>654,900</u>	<u>654,900</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,476,014</u>	<u>\$ 1,476,014</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at August 31, 2018 consisted of the following:

	Beginning Balances	Additions	Capitalizations	Ending Balances
Land	\$ 548,565	\$ 1,182,284	\$ -	\$ 1,730,849
Buildings and improvements	7,540,855	409,397	750,226	8,700,478
Furniture and equipment	988,795	113,304	-	1,102,099
Vehicles	647,359	188,644	-	836,003
Construction-in-progress	<u>374,562</u>	<u>4,641,981</u>	<u>(750,226)</u>	<u>4,266,317</u>
Total Property, Plant & Equipment	10,100,136	6,535,610	-	16,635,746
Accumulated depreciation	<u>(4,643,787)</u>	<u>(365,988)</u>	<u>-</u>	<u>(5,009,775)</u>
Net assets	<u>\$ 5,456,349</u>	<u>\$ 6,169,622</u>	<u>\$ -</u>	<u>\$ 11,625,971</u>

Depreciation expense for the fiscal year ended August 31, 2018 was \$365,988.

Construction-in-progress includes construction of the new Beaumont campus.

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

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2018**

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.

Contributions. Contribution rates and contributions for fiscal years 2018-2016 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
2018	7.70%	\$ 402,940	6.80%	\$ 325,439	6.80%	\$ 30,129
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

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, 2018 was \$31,261. The pension surcharge for the year August 31, 2018 was \$0. The Non-OASDI participating surcharge payment for the year August 31, 2018 was \$75,604.

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

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2018**

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 (OPEB) 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 2018 – 2016.

Year	Contribution rates					
	Active Member		State		Entity	
	Rate	Amount	Rate	Amount	Rate	Amount
2018	0.65%	\$ 33,956	1.25%	\$ 65,303	0.75%	\$ 39,182
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

The charter’s contributions to the plan did not represent more than 5% of the total contributions to the plan. The contributions for Federal TRS-Care for the year August 31, 2018 was \$5,752. The TRS-Care surcharge for the year August 31, 2018 was \$0.

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, 2018, 2017 and 2016 were \$13,452, \$12,802 and \$10,411, 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, 2018.

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

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2018**

NOTE 7. DUE FROM OTHER GOVERNMENTS

At August 31, 2018, Due From Other Governments consisted of the following:

Foundation Program 2017-2018	\$ 15,550
Foundation Program 2018-2019	347,541
ESEA, Title I Part A	3,412
ESEA, Title II Part A	2,288
School Breakfast Program	4,099
National School Lunch Program	17,635
2017-2019 Public Charter School Program Start-Up	40,973
2018-2020 Public Charter School Program Start-Up	257,497
IDEA-B Formula	24,779
IDEA-B Preschool	1,500
Textbooks & Kindergarten Materials	141,450
Restart Harvey Recovery	49,349
	<hr/>
Total	<u>\$ 906,073</u>

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 \$532,977, respectively. The Center did not borrow on the lines during the fiscal year ended August 31, 2018.

NOTE 9. LONG TERM DEBT

Long term debt at August 31, 2018 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. \$907,841 was refinanced with the fourth lien note.	\$ -
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. \$71,761 was refinanced with the fourth lien note.	-
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. \$901,056 was refinanced with the fourth lien note.	-
Financial institution, fourth lien note, interest only through May 25, 2019, interest at 3.55%, full note of \$6,338,000 matures June 1, 2039, secured by the assets of The Hughen Center, Inc., Charter Holder for Bob Hope School. Only \$4,841,204 of the note has been withdrawn as of August 31, 2018.	4,841,204
	<hr/>
	4,841,204
Less: Current portion	(54,358)
	<hr/>
Long-term portion	<u>\$ 4,786,846</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2018**

NOTE 9. LONG-TERM DEBT (CONTINUED)

Future maturities of Note Payable – Financial Institution

	\$ 54,358
2019	222,313
2020	230,334
2021	238,645
2022	247,257
2023	1,376,728
2024-2028	1,643,697
2029-2033	827,872
2034-2038	<u>827,872</u>
	<u>\$ 4,841,204</u>

Interest expense through August 31, 2018 was \$133,084.

NOTE 10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the year ended August 31, 2018 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>1,490,502</u>
Total	<u>1,490,502</u>
Total temporarily restricted net assets	<u>\$ 1,674,327</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 remained fully operational and had the liquid assets to address ongoing repairs and replacement on a timely basis. The damage was covered by commercial and flood insurance and management received reimbursement for a portion of the cost of repairs from commercial and flood insurance.

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

**NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED AUGUST 31, 2018**

NOTE 13. OPERATING LEASES

The Bob Hope School is obligated under an operating (noncapitalized) lease for printer equipment. The Hughen Center, Inc. is obligated under a operating (noncapitalized) leases for temporary modular buildings and a commercial lease. Rent expense was approximately \$62,825 during the year ended August 31, 2018. The following is a schedule of minimum lease payments under non-cancelable operating leases as of August 31, 2018:

As of August 31	
2019	\$ 492,360
2020	475,126
2021	438,739
2022	438,180
2023	438,180
2024-2028	1,691,580
	\$ 3,974,165

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, 2018 was \$1,500,000.

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 \$8,406,286 of State Foundation Program Revenue and \$148,002 of Available School Fund Revenue for the 2017-2018 school year. Of this total, \$749,134 has been accrued at August 31, 2018 and will be received after September 1, 2018. 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, 2018, the School's staff worked 10 days for which they were not paid prior to the close of the year. Accrued salaries totaled \$226,338 as of August 31, 2018.

NOTE 16. INDIVIDUAL FUND DISCLOSURES

For the year ended August 31, 2018, Bob Hope School had an amended expense budget of \$8,822,754 and actual expenses of \$8,654,653. Actual expenses exceeded budget by a total of \$13,637 in a combined total of six functional categories.

SPECIFIC PURPOSE FINANCIAL STATEMENTS

THE HUGHEN CENTER, INC.

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 430,127
Accounts receivable	163,951
Other assets	44,719
Prepaid expenses	<u>270,124</u>

Total current assets 908,921

PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation 9,479,693

OTHER ASSETS

Investments	<u>1,303,949</u>
-------------	------------------

Total assets \$ 11,692,563

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 2,287,620
Accrued expenses	18,504
Current portion of long term debt	<u>54,358</u>

Total current liabilities 2,360,482

LONG-TERM DEBT

Long term debt, net of current portion	<u>4,786,846</u>
--	------------------

Total liabilities 7,147,328

NET ASSETS

Unrestricted	
Undesignated	4,361,410

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

Total net assets 4,545,235

Total liabilities and net assets \$ 11,692,563

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

BOB HOPE SCHOOL

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,770,858
Due from other governments	906,073
Other Receivables	15,219
Prepaid expenses	<u>19,000</u>

Total current assets 2,711,150

OTHER ASSETS

Investments	172,065
-------------	---------

PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation 2,146,278

Total assets \$ 5,029,493

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued expenses	\$ 226,339
Accounts payable	623,321
Other current liabilities	<u>419,517</u>

Total liabilities 1,269,177

NET ASSETS

Unrestricted	
Undesignated	2,269,814
Temporarily restricted	<u>1,490,502</u>

Total net assets 3,760,316

Total liabilities and net assets \$ 5,029,493

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

THE HUGHEN CENTER, INC.

STATEMENT OF ACTIVITIES FISCAL YEAR ENDED AUGUST 31, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Program Service Fees:			
Adult	\$ 501,813	\$ -	\$ 501,813
Childcare fees	2,292		2,292
Food service fees	26,515	22,097	48,612
Total program service fees	530,620	22,097	552,717
Contributions	132,425	-	132,425
Gain on investments	64,820	-	64,820
Lease income (see note 13)	1,500,000	-	1,500,000
Interest and dividend income	22,299	-	22,299
Other income	616,896	-	616,896
Total revenues	2,867,060	22,097	2,889,157
Net assets released from restrictions	22,097	(22,097)	-
Total revenue and other support	2,889,157	-	2,889,157
EXPENSES			
Program services:			
Adult	423,346	-	423,346
Residential/childcare	440,300	-	440,300
Total program service expenses	863,646	-	863,646
Support services:			
Management and general	1,091,709	-	1,091,709
Total support services expenses	1,091,709	-	1,091,709
Total expenses	1,955,355	-	1,955,355
CHANGE IN NET ASSETS	933,802	-	933,802
NET ASSETS , beginning of period	3,427,608	183,825	3,611,433
NET ASSETS , end of period	\$ 4,361,410	\$ 183,825	\$ 4,545,235

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

BOB HOPE SCHOOL

STATEMENT OF ACTIVITIES FISCAL YEAR ENDED AUGUST 31, 2018

Data Control Codes		Unrestricted	Temporarily Restricted	Total
	REVENUE AND OTHER SUPPORT			
	Local support			
5740	Other local revenue	\$ 694,345	\$ -	\$ 694,345
5750	Revenue from co-curricular or enterprising services	18,872	-	18,872
5750	Food Service Activity	-	21,674	21,674
5760	Miscellaneous revenue	390		390
	Total local support	713,607	21,674	735,281
	State program revenues			
5810	Foundation School Program	-	8,406,286	8,406,286
5811	Available School Fund	-	148,002	148,002
5820	Other Distributed by Texas Education Agency	-	176,360	176,360
	Total state program revenues	-	8,730,648	8,730,648
	Federal program revenues			
5920	Other distributed by Texas Education Agency	-	1,085,145	1,085,145
5920	Child Nutrition Program	-	452,444	452,444
5920	Federal Commodities	-	27,831	27,831
	Total federal program revenues	-	1,565,420	1,565,420
	Net assets released from restrictions	10,289,385	(10,289,385)	-
	Total revenue and other support	11,002,992	28,357	11,031,349
	EXPENSES AND OTHER LOSSES			
0011	Instruction	4,856,079	-	4,856,079
0012	Instructional resources and media services	120,853	-	120,853
0013	Curriculum and Instructional Staff Development	37,802	-	37,802
0021	Instructional leadership	262,345	-	262,345
0023	School leadership	888,302	-	888,302
0031	Guidance, counseling, and evaluation services	209,492	-	209,492
0033	Health services	70,502	-	70,502
0034	Student transportation	91,640	-	91,640
0035	Food services	526,985	-	526,985
0036	Cocurricular/Extracurricular activities	122,119	-	122,119
0041	General administration	784,793	-	784,793
0051	Facilities maintenance and operations	1,917,533	-	1,917,533
0052	Security and monitoring services	140,917	-	140,917
0053	Data processing services	152,607	-	152,607
0081	Fund Raising	107,416	-	107,416
	Total expenses	10,289,385	-	10,289,385
	CHANGE IN NET ASSETS	713,607	28,357	741,964
	NET ASSETS , beginning of period	1,556,207	1,462,145	3,018,352
	NET ASSETS , end of period	\$ 2,269,814	\$ 1,490,502	\$ 3,760,316

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

THE HUGHEN CENTER, INC.

STATEMENT OF CASH FLOWS FISCAL YEAR ENDED AUGUST 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 933,802
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	162,990
Unrealized (gain)loss on investments	(64,820)
(Increase)Decrease in accounts receivable	(129,354)
(Increase)Decrease in other assets	(39,794)
(Increase) Decrease in prepaid expense	(108,983)
Increase(Decrease) in accounts payable	2,232,565
Increase(Decrease) in accrued expenses	(1,254)
	<hr/>
Net cash provided by operating activities	2,985,152
CASH FLOWS USED BY INVESTING ACTIVITIES	
Purchase of investments	(22,133)
Withdrawal of investments	250,000
Purchase of property and equipment	(5,742,541)
	<hr/>
Net cash (used) by investing activities	(5,514,674)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	
Proceeds from loans	2,960,445
Loan payments	(126,442)
	<hr/>
Net cash provided by financing activities	2,834,003
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	304,481
CASH AND CASH EQUIVALENTS, beginning of period	125,646
	<hr/>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 430,127</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:	
Interest Expense: Cash paid for interest expense	\$ 133,084

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

BOB HOPE SCHOOL

STATEMENT OF CASH FLOWS FISCAL YEAR ENDED AUGUST 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 741,964
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	202,998
(Increase)Decrease in due from other governments	(51,381)
(Increase)Decrease in other receivables	14,174
(Increase)Decrease in prepaid expenses	(19,000)
Increase(Decrease) in accounts payable	463,808
Increase(Decrease) in accrued expenses	(35,998)
Increase(Decrease) in other current liabilities	337,628
	<hr/>
Net cash provided by operating activities	1,654,193
CASH FLOWS USED BY INVESTING ACTIVITIES	
Purchase of investments	(2,388)
Purchase of property and equipment	(793,069)
	<hr/>
Net cash (used) by investing activities	(795,457)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	858,736
CASH AND CASH EQUIVALENTS, beginning of period	912,122
	<hr/>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 1,770,858</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, 2018

	Program Services			Supporting Services	Total
	Adult	Residential/ HCS	Total	Management and General	
Salaries	\$ 230,854	\$ 247,081	\$ 477,935	\$ 104,136	\$ 582,071
Payroll taxes	17,307	18,672	35,979	7,827	43,806
Employee benefits	8,952	7,055	16,007	19,733	35,740
Total personnel costs	257,113	272,808	529,921	131,696	661,617
Depreciation	19,559	21,189	40,748	122,242	162,990
Equipment	20,301	170	20,471	2,480	22,951
Insurance	2,021	-	2,021	162,166	164,187
Occupancy	21,840	70,141	91,981	287,209	379,190
Professional fees	10,011	45,395	55,406	138,418	193,824
Supplies	11,278	3,276	14,554	48,339	62,893
Telephone	1,767	-	1,767	5,435	7,202
Transportation	30,340	12,780	43,120	23,796	66,916
Other	49,116	14,541	63,657	169,928	233,585
Total functional expenses	<u>\$ 423,346</u>	<u>\$ 440,300</u>	<u>\$ 863,646</u>	<u>\$ 1,091,709</u>	<u>\$ 1,955,355</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, 2018

<u>Data Control Codes</u>	EXPENSES	
6100	Payroll	\$ 5,852,888
6200	Professional and contracted services	2,381,319
6300	Supplies and materials	1,673,187
6400	Other operating costs	<u>381,991</u>
	Total expenses	<u>\$ 10,289,385</u>

THE HUGHEN CENTER, INC.

**SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT
FISCAL YEAR ENDED AUGUST 31, 2018**

	Ownership Interest		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
Land and improvements	\$ 1,730,849	\$ -	\$ -
Building and improvements	6,913,975	-	-
Vehicles	349,443	-	-
Furniture and equipment	637,061	-	-
Construction in progress	<u>4,266,317</u>	<u>-</u>	<u>-</u>
	<u>\$ 13,897,645</u>	<u>\$ -</u>	<u>\$ -</u>

BOB HOPE SCHOOL

SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT FISCAL YEAR ENDED AUGUST 31, 2018

Data Control Codes		Ownership Interest		
		Local	State	Federal
1520	Buildings & Improvements	\$ 1,786,503	\$ -	\$ -
1531	Vehicles	486,560	-	-
1539	Furniture and equipment	333,663	-	131,375
		<u>\$ 2,606,726</u>	<u>\$ -</u>	<u>\$ 131,375</u>

BOB HOPE SCHOOL

BUDGETARY COMPARISON SCHEDULE FISCAL YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Funds			Variance with Final Budget Positive or (Negative)	
	Budgeted Amounts		Actual Amounts		
	Original	Final			
REVENUE AND OTHER SUPPORT					
	Local support				
5740	Other Local Revenues	\$ -	\$ 48,463	\$ 63,544	\$ 15,081
5750	Revenue from co-curricular or enterprising services	20,000	17,237	18,872	1,635
5750	Food Service Activity	41,151	21,674	21,674	-
5760	Miscellaneous Revenue	-	-	390	390
	Total local support	61,151	87,374	104,480	17,106
	State program revenues				
5810	Foundation School Program	8,725,629	8,377,866	8,406,286	28,420
5811	Available School Fund	-	-	148,002	148,002
5820	Other Distrib. By Texas Educ. Agency	-	3,046	3,046	-
	Total state program revenues	8,725,629	8,380,912	8,557,334	176,422
	Federal program revenues				
5920	Child Nutrition Program	474,121	361,459	452,444	90,985
5920	Other Distrib. By Texas Educ. Agency	-	-	3,361	3,361
5920	Federal Commodities	-	-	27,831	27,831
	Total federal program revenues	474,121	361,459	483,636	122,177
	Total revenue and other support	9,260,901	8,829,745	9,145,450	315,705
EXPENSES					
0011	Instruction	4,155,855	3,722,291	3,620,157	102,134
0012	Instructional Resources, Media Services	75,858	74,205	72,293	1,912
0013	Curriculum and Instructional Staff Development	13,500	9,510	11,110	(1,600)
0021	Instructional Leadership	190,989	263,485	251,619	11,866
0023	School Leadership	700,897	748,017	741,150	6,867
0031	Guidance, Counseling, and Evaluation Services	154,443	162,104	159,060	3,044
0033	Health Services	133,805	73,539	70,502	3,037
0034	Student Transportation	85,467	97,283	91,640	5,643
0035	Food Services	496,092	515,365	521,988	(6,623)
0036	Cocurricular/Extracurricular Activities	117,126	121,474	122,119	(645)
0041	General Administration	774,869	739,068	740,946	(1,878)
0051	Facilities Maintenance and Operations	1,774,863	1,962,799	1,916,129	46,670
0052	Security and Monitoring Services	115,000	139,085	140,917	(1,832)
0053	Data Processing	129,950	153,172	152,607	565
0081	Fund Raising	35,814	41,357	42,416	(1,059)
	Total expenses	8,954,528	8,822,754	8,654,653	168,101
	CHANGE IN NET ASSETS	306,373	6,991	490,797	483,806
	NET ASSETS, beginning of period	3,018,352	3,018,352	3,018,352	-
	NET ASSETS, end of period	\$ 3,324,725	\$ 3,025,343	\$ 3,509,149	\$ 483,806
	Budgeted Funds Actual - Revenue			\$ 9,145,450	
	Nonbudgeted Funds Actual - Revenue			1,885,899	
	Total Revenue - Actual			<u>\$ 11,031,349</u>	
	Budgeted Funds Actual - Expenses			\$ 8,654,653	
	Nonbudgeted Funds Actual - Expenses			1,634,732	
	Total Expenses - Actual			<u>\$ 10,289,385</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 14, 2018

**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, 2018, 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 14, 2018.

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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

**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 14, 2018

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, 2018. 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, 2018.

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 QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2018

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
84.010A	Title I, Part A, Improving Basic Programs
84.282A	Public Charter School Program, Start Up Grant

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 QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2018
(CONTINUED)**

Section II - Financial Statement Findings

-- NONE NOTED --

Section III - Federal Award Findings and Questioned Costs

-- NONE NOTED --

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

**STATUS OF PRIOR YEAR'S FINDINGS
FISCAL YEAR ENDED AUGUST 31,2018**

COMPLIANCE FINDINGS AND QUESTIONED COSTS

2017-001 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. 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.

DISTRICT ACTION

The administrative staff established procedures to ensure that each board member received the required number of hours of training.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED AUGUST 31, 2018**

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	18610101123807	\$ 346,114
ESEA, Title II, Part A, Supporting Effective Instruction	84.367A	18694501123807	32,133
ESEA, Title III, Part A, English Language Acquisition	84.365A	18671001123807	39,239
IDEA - Part B Formula	84.027A	186600011238076000	140,839
IDEA - Part B Preschool	84.173A	186610011238076000	1,500
2017-2019 Public Charter School Program, Start Up Grant	84.282A	175900087110001	215,112
2018-2020 Public Charter School Program, Start Up Grant	84.282A	185900097110009	257,497
Restart Hurricane Recovery	84.938A	18511701123807	49,349
Total Passed Through State Department of Education			<u>1,081,783</u>
Total U.S. Department of Education			<u>1,081,783</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Agriculture:			
School Breakfast Program*	10.553	71401801	58,332
National School Lunch Program*	10.555	71301801	394,112
Total Child Nutrition Cluster			<u>452,444</u>
Commodity Supplemental Program (Food Distribution Program)	10.565		27,831
National School Lunch Program (Equip Assistance Grant)	10.579	6TX300355	3,362
Child and Adult Care Food Program	10.558	06057	22,097
Total Passed Through State Department of Agriculture			<u>505,734</u>
Total U.S. Department of Agriculture			<u>505,734</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,587,517</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, 2018**

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, 2018. 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.
5. \$22,097 was received from the Texas Department of Agriculture by The Hughen Center.
6. Not included on the Schedule of Expenditures of federal Awards is \$26,515 of pass through money from Jefferson County Adult Day Care.