

Audited Financial Statements

**Hugh O'Brian
Youth Leadership**

July 31, 2008

Quigley & Miron

HUGH O'BRIAN YOUTH LEADERSHIP
AUDITED FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hugh O'Brian Youth Leadership
Los Angeles, California

We have audited the accompanying statement of financial position of Hugh O'Brian Youth Leadership (Organization), a nonprofit corporation, as of July 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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. 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 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 Hugh O'Brian Youth Leadership as of July 31, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Los Angeles, California
March 9, 2009

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF FINANCIAL POSITION
July 31, 2008
(with comparative totals for 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
ASSETS					
Cash	\$ 89,587	\$ 8,900	\$	\$ 98,487	\$ 339,214
Investments	223,840			223,840	243,054
Accounts receivable	63,251			63,251	108,911
Pledges receivable		30,000		30,000	30,000
Prepaid expenses	<u>33,428</u>			<u>33,428</u>	<u>80,210</u>
TOTAL CURRENT ASSETS	410,106	38,900		449,006	801,389
Investments			88,000	88,000	88,000
Pledges receivable, net of current portion					30,000
Cash surrender value of life insurance policy	694,337			694,337	713,315
Deposits	20,000			20,000	20,000
Other assets	6,550			6,550	18,370
Property and equipment, net	<u>27,092</u>			<u>27,092</u>	<u>24,320</u>
TOTAL ASSETS	<u>\$ 1,158,085</u>	<u>\$ 38,900</u>	<u>\$ 88,000</u>	<u>\$ 1,284,985</u>	<u>\$ 1,695,394</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable and accrued liabilities	\$ 401,396	\$	\$	\$ 401,396	\$ 560,432
Deferred revenue	<u>6,091</u>			<u>6,091</u>	<u>15,969</u>
TOTAL CURRENT LIABILITIES	407,487			407,487	576,401
COMMITMENTS					
NET ASSETS	<u>750,598</u>	<u>38,900</u>	<u>88,000</u>	<u>877,498</u>	<u>1,118,993</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,158,085</u>	<u>\$ 38,900</u>	<u>\$ 88,000</u>	<u>\$ 1,284,985</u>	<u>\$ 1,695,394</u>

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF ACTIVITIES
Year Ended July 31, 2008
(with comparative totals for 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
PUBLIC SUPPORT AND REVENUES					
Grants and contributions	\$ 97,914	\$ 8,900	\$	\$ 106,814	\$ 262,327
In-kind contributions of materials, services, and facilities	29,262			29,262	37,550
Proceeds from fundraising events, net of direct benefit costs of \$33,725 and \$201,610 in 2008 and 2007, respectively	103,817			103,817	320,135
World Leadership Congress, including in-kind contributions of materials, services, and facilities totaling \$-0- and \$6,700 in 2008 and 2007, respectively	716,436			716,436	547,709
State seminar fees	1,335,516			1,335,516	1,205,899
Interest and dividend income	29,518			29,518	26,979
Investment gain (loss)	(42,052)			(42,052)	13,479
Other income	51,184			51,184	11,526
Net assets released from restrictions	<u>81,500</u>	<u>(81,500)</u>			
TOTAL PUBLIC SUPPORT AND REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	2,403,095	(72,600)		2,330,495	2,425,604
EXPENSES					
Program services					
State seminars	1,166,670			1,166,670	1,043,822
Training Institute	141,903			141,903	112,812
World Leadership Congress	795,775			795,775	643,812
TOTAL PROGRAM SERVICES	2,104,348			2,104,348	1,800,446
Supporting services					
Management and general	251,941			251,941	198,392
Fundraising	215,701			215,701	217,906
TOTAL SUPPORTING SERVICES	467,642			467,642	416,298
TOTAL EXPENSES	2,571,990			2,571,990	2,216,744
CHANGE IN NET ASSETS	(168,895)	(72,600)		(241,495)	208,860
NET ASSETS AT BEGINNING OF YEAR	919,493	111,500	88,000	1,118,993	910,133
NET ASSETS AT END OF YEAR	<u>\$ 750,598</u>	<u>\$ 38,900</u>	<u>\$ 88,000</u>	<u>\$ 877,498</u>	<u>\$ 1,118,993</u>

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended July 31, 2008
(with comparative totals for 2007)

	State Seminars	Training Institute	World Leadership Congress	Total Program Services	Management and General	Fundraising	Total Supporting Services	2008 Total	2007 Total
EXPENSES									
Salaries and employee benefits	\$ 491,566	\$	\$ 107,374	\$ 598,940	\$ 116,109	\$ 108,731	\$ 224,840	\$ 823,780	\$ 608,729
Awards	640	16	1	657		1,188	1,188	1,845	6,228
Bad debt	53		10,322	10,375	187		187	10,562	
Community relations	2,575			2,575				2,575	58,075
Depreciation and amortization	6,225		1,778	8,003	889		889	8,892	15,673
Equipment rental									9,447
Fees	3,553		1,396	4,949	1,405		1,405	6,354	4,780
Insurance	49,158		8,780	57,938	54,294	9,975	64,269	122,207	116,303
Interest					20,161		20,161	20,161	8,948
Miscellaneous	239		95	334	1,032	85	1,117	1,451	1,094
Office expense	35,690	713	23,433	59,836	7,764	7,835	15,599	75,435	54,471
Postage	6,101	960	5,088	12,149	861	3,768	4,629	16,778	32,596
Printing and publications	22,760	580	12,893	36,233	2,175	18,690	20,865	57,098	67,555
Professional services	74,752		63,605	138,357	18,490	36,264	54,754	193,111	203,622
Rent	99,463		19,806	119,269	18,908	19,552	38,460	157,729	143,942
Repairs and maintenance	1,060		363	1,423	255	218	473	1,896	2,151
Revenue share to local seminars	317,044			317,044				317,044	220,874
Supplies	1,188		53	1,241				1,241	9,254
Telephone	16,393	860	8,078	25,331	2,568	2,350	4,918	30,249	39,200
Temporary help	12,118		6,883	19,001	3,726	4,871	8,597	27,598	13,576
Travel, conferences and meetings	26,092	138,774	525,827	690,693	3,117	2,174	5,291	695,984	600,226
TOTAL EXPENSES	\$ 1,166,670	\$ 141,903	\$ 795,775	\$ 2,104,348	\$ 251,941	\$ 215,701	\$ 467,642	\$ 2,571,990	\$ 2,216,744

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF CASH FLOWS
Year Ended July 31, 2008
(with comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (241,495)	\$ 208,860
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,892	15,673
Investment (gains) losses	42,053	(13,479)
Cash surrender value of life insurance policy	18,978	9,381
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivables	45,660	(20,211)
Pledges receivable	30,000	30,000
Inventory		3,130
Prepaid expenses	46,782	72,649
Deposits		10,000
Other assets	11,820	(18,370)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(159,036)	(12,416)
Deferred revenue	(9,878)	11,232
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(206,224)</u>	<u>296,449</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(11,664)	(22,457)
Purchases of investments	(224,336)	(151,585)
Donations of investments	(3,020)	
Redemptions of investments	<u>204,517</u>	<u>135,638</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(34,503)</u>	<u>(38,404)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	400,000	400,000
Payments on loan payable	<u>(400,000)</u>	<u>(400,000)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u> </u>	<u> </u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(240,727)</u>	<u>258,045</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>339,214</u>	<u>81,169</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 98,487</u>	<u>\$ 339,214</u>
SUPPLEMENTARY DISCLOSURES		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$ 20,161</u>	<u>\$ 8,948</u>

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
NOTES TO FINANCIAL STATEMENTS
July 31, 2008
(with comparative totals for 2007)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization--Hugh O'Brian Youth Leadership (Organization) is a California not-for-profit organization formed to seek, develop, and recognize leadership potential, commencing with high school sophomores.

The Organization is funded principally through the private sector with annual fundraising campaigns, special fundraising events, program service fees for its Leadership Seminars and World Leadership Congress, and ongoing support from corporations, foundations, and individuals.

Basis of Presentation--The financial statements of the Organization have been prepared on the accrual basis of accounting.

Financial Statement Presentation--The Organization recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets--Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Organization.

Temporarily restricted net assets--Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.

Permanently restricted net assets--Net assets that are restricted by the donors for investment in perpetuity. The investment income generated from these funds is available for general support of the Organization's programs and operations.

Pledges and Grants--Pledges and grants are recorded as receivables and support in the period they are made. Amounts restricted to specific purposes are recorded as either temporarily restricted or permanently restricted support until such restrictions are met and reclassification to unrestricted net assets is appropriate. The Organization recognizes contributions subject to restrictions whose restrictions are satisfied within the year as unrestricted support. Pledges receivable consists of unconditional promises to give monetary assets, primarily from foundations and individual contributors.

Cash and Cash Equivalents--Cash and cash equivalents consist of cash and short-term investments. Cash includes cash balances held in banks and cash on-hand. Short-term investments include money market funds and investments with original maturities of less than three months.

HUGH O'BRIAN YOUTH LEADERSHIP
NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Investments--Investments in equity securities with readily determinable fair market values and all investments in debt securities are measured at fair value in the statement of financial position. Realized and unrealized gains and losses, interest and dividends on investments are reflected in the statement of activities as unrestricted unless these activities are restricted by donor or by law.

Inventory--Inventory, consisting of Organization merchandise, is stated on a LIFO average cost basis.

Property and Equipment--Purchases of property and equipment, consisting of furniture and fixtures, office equipment and leasehold improvements, are recorded at cost. Depreciation and amortization are recorded on the straight-line basis over the estimated useful lives, ranging from three to five years. Normal repairs and maintenance are expensed as incurred, whereas significant charges which materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Income Taxes--The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and from California franchise taxes under Section 23701d of the California Revenue and Taxation Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Allocation of Functional Expenses--The costs of providing the various programs and other activities have been summarized on a program basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted based on actual labor hours incurred with respect to the various programs and support services.

Use of Estimates--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

Fair Value of Financial Instruments--Generally accepted accounting principles require entities to disclose the fair value of financial instruments for which it is practicable to estimate fair value. The carrying amount of the Organization's financial instruments, other than investments which are carried at market value, approximates fair value due to the relatively short-term nature of such assets.

HUGH O'BRIAN YOUTH LEADERSHIP
NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Concentrations of Credit Risk--Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, investments, and receivables. The Organization places its cash and money market funds principally with a high credit quality financial institution where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per institution. At times, such cash and money market fund balances may be in excess of the FDIC insurance limits. Management of the Organization regularly reviews the financial stability of its cash and money market fund depository and deems the risk of loss due to these concentrations to be minimal. The Organization's investments are supervised by the Organization's Finance Committee, which, in consultation with professional investment advisors, determines the investment mix of the investment portfolio in accordance with a Board-approved investment policy. Management of the Organization has assessed the credit risk associated with the investments held at July 31, 2008 and has determined that an allowance for potential losses due to credit risk in the investment portfolio is not necessary. Pledges receivables at July 31, 2008 are due from a private foundation well-known to the Organization, with a favorable past payment history. Management of the Organization has assessed the credit risk associated with this contribution receivable and has determined that an allowance for potential uncollectible amounts is not necessary.

In-Kind Contributions--Securities, materials, services, equipment, and facilities that are donated to the Organization are recognized as contributions and are recorded at their fair market value as of the donation date.

The value of donated services is recognized as both revenue and expense in the records of the Organization. Donated services were utilized in fundraising activities and to assist in special events held by the Organization. The value of donated materials is recognized as revenue and as an asset in the records of the Organization.

Comparative Totals for 2007--The accompanying financial statements include certain prior-year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organizations's audited financial statements for the year ended July 31, 2007, from which the summarized information was derived.

NOTE 2--PLEDGES RECEIVABLE

Pledges receivable at July 31, 2008 and 2007 consist of a grant from a Los Angeles-based private foundation, with expected annual awards of \$30,000 through March 2009.

HUGH O'BRIAN YOUTH LEADERSHIP
 NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 3--INVESTMENTS

As of July 31, 2008 and 2007 the fair value of investments consists of the following:

	<u>2008</u>	<u>2007</u>
Common stock	\$ 2,816	\$
U.S. equities funds	128,878	201,351
U.S. fixed income funds	137,985	129,703
International funds	<u>42,161</u>	
TOTALS	<u>\$ 311,840</u>	<u>\$ 331,054</u>

The following schedule summarizes the investment return in the statement of activities for the years ended July 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Investments, beginning of year	\$ 331,054	\$ 301,628
Purchases of investments	204,517	135,000
Donations of investments	3,020	
Redemptions of investments	(204,517)	(135,638)
Reinvestment of interest and dividends	19,819	16,585
Investment gains (losses)	<u>(42,053)</u>	<u>13,479</u>
INVESTMENTS, END OF YEAR	<u>\$ 311,840</u>	<u>\$ 331,054</u>

NOTE 4--PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following at July 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Furniture and fixtures	\$ 9,467	\$ 9,467
Office equipment	69,599	273,434
Leasehold improvements	<u>8,511</u>	<u>8,511</u>
	87,577	291,412
Less accumulated depreciation and amortization	<u>(60,485)</u>	<u>(267,092)</u>
NET	<u>\$ 27,092</u>	<u>\$ 24,320</u>

HUGH O'BRIAN YOUTH LEADERSHIP
 NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 5--TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at July 31, 2008 and 2007 consist of amounts restricted by donor-imposed stipulations to fund expenses in the following areas:

	<u>2008</u>	<u>2007</u>
Student scholarships	\$	\$ 6,500
World Leadership Congress	8,900	45,000
General operations, restricted due to passage of time	<u>30,000</u>	<u>60,000</u>
TOTALS	<u>\$ 38,900</u>	<u>\$ 111,500</u>

NOTE 6--PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at July 31, 2008 and 2007 are restricted to:

	<u>2008</u>	<u>2007</u>
Endowment in perpetuity, the income from which is expendable to fund two students per year to the World Leadership Congress	\$ 65,000	\$ 65,000
Endowment in perpetuity, the income from which is expendable to support Organization operations and activities	<u>23,000</u>	<u>23,000</u>
TOTALS	<u>\$ 88,000</u>	<u>\$ 88,000</u>

NOTE 7--IN-KIND CONTRIBUTIONS

In-kind contributions for the years ended July 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Services	\$ 2,500	\$ 18,306
Supplies and awards	26,662	23,956
Travel	<u>100</u>	<u>1,988</u>
TOTALS	<u>\$ 29,262</u>	<u>\$ 44,250</u>

HUGH O'BRIAN YOUTH LEADERSHIP
NOTES TO FINANCIAL STATEMENTS--Continued

NOTE 8--COMMITMENTS

The Organization had a lease for office space in Los Angeles, California that expired in December 2008. This property was vacated at the end of the lease. In September 2008 the Organization entered into a five-year non-cancelable operating lease on a new property in Westlake Village, California beginning January 1, 2009. The new lease may be extended for one additional five-year term. The Organization is also a party to two operating equipment lease agreements, expiring in August 2010 and October 2013, respectively. Future minimum rental payments due under the terms of the operating lease agreements, with remaining terms of one year or more, by year, are as follows:

<u>Year Ending July 31,</u>	
2009	\$ 113,344
2010	92,908
2011	89,867
2012	91,777
2013	94,383
Thereafter	<u>38,167</u>
	TOTAL \$ <u>520,446</u>

Rental expense for the years ended July 31, 2008 and 2007 was \$138,382 and \$134,541, respectively.

NOTE 9--SUBSEQUENT EVENTS

In August 2008 the Organization obtained a line of credit of \$575,000 from a bank, collateralized by the cash surrender value of a life insurance policy. The line bears interest at 6.50% payable monthly with all principal and remaining interest due on December 15, 2009. Through March 9, 2009, the line has been actively utilized.