

Audited Financial Statements

**Hugh O'Brian
Youth Leadership**

July 31, 2009

Quigley & Miron

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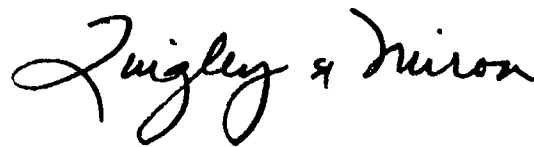
INDEPENDENT AUDITOR'S REPORT

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, 2009, 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, 2009 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 17, 2010

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF FINANCIAL POSITION
July 31, 2009
(with comparative totals for 2008)

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
ASSETS				
Cash	\$ 302,272	\$	\$ 302,272	\$ 98,487
Investments	143,060		143,060	223,840
Accounts receivable	37,189		37,189	63,251
Pledges receivable				30,000
Prepaid expenses	<u>43,816</u>		<u>43,816</u>	<u>33,428</u>
TOTAL CURRENT ASSETS	526,337		526,337	449,006
Investments		88,000	88,000	88,000
Cash surrender value of life insurance policy	671,220		671,220	694,337
Deposits				20,000
Other assets	3,847		3,847	6,550
Property and equipment, net	<u>22,850</u>		<u>22,850</u>	<u>27,092</u>
TOTAL ASSETS	<u>\$ 1,224,254</u>	<u>\$ 88,000</u>	<u>\$ 1,312,254</u>	<u>\$ 1,284,985</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 585,477	\$	\$ 585,477	\$ 401,396
Deferred revenue	<u>8,985</u>		<u>8,985</u>	<u>6,091</u>
TOTAL CURRENT LIABILITIES	594,462		594,462	407,487
COMMITMENTS				
NET ASSETS	<u>629,792</u>	<u>88,000</u>	<u>717,792</u>	<u>877,498</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,224,254</u>	<u>\$ 88,000</u>	<u>\$ 1,312,254</u>	<u>\$ 1,284,985</u>

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF ACTIVITIES
Year Ended July 31, 2009
(with comparative totals for 2008)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
PUBLIC SUPPORT AND REVENUES					
Grants and contributions	\$ 58,216	\$	\$	\$ 58,216	\$ 106,814
In-kind contributions of materials, services, and facilities					29,262
Proceeds from fundraising events, net of direct benefit costs of \$119,126 and \$33,725 in 2009 and 2008, respectively	2,841			2,841	103,817
World Leadership Congress, including in-kind contributions of materials, services, and facilities totaling \$25,166 and \$-0- in 2009 and 2008, respectively	577,315			577,315	716,436
State seminar fees	1,332,104			1,332,104	1,335,516
Interest and dividend income	11,134			11,134	29,519
Investment loss	(22,154)			(22,154)	(42,053)
Other income	7,362			7,362	51,184
Net assets released from restrictions	<u>38,900</u>	<u>(38,900)</u>			
TOTAL PUBLIC SUPPORT AND REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	2,005,718	(38,900)		1,966,818	2,330,495
EXPENSES					
Program services					
State seminars	1,025,835			1,025,835	1,166,670
Training Institute	127,499			127,499	141,903
World Leadership Congress	<u>548,252</u>			<u>548,252</u>	<u>795,775</u>
TOTAL PROGRAM SERVICES	1,701,586			1,701,586	2,104,348
Supporting services					
Management and general	257,779			257,779	251,941
Fundraising	<u>167,159</u>			<u>167,159</u>	<u>215,701</u>
TOTAL SUPPORTING SERVICES	424,938			424,938	467,642
TOTAL EXPENSES	2,126,524			2,126,524	2,571,990
CHANGE IN NET ASSETS	(120,806)	(38,900)		(159,706)	(241,495)
NET ASSETS AT					
BEGINNING OF YEAR	750,598	38,900	88,000	877,498	1,118,993
NET ASSETS AT END OF YEAR	\$ <u>629,792</u>	\$ <u> </u>	\$ <u>88,000</u>	\$ <u>717,792</u>	\$ <u>877,498</u>

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended July 31, 2009
(with comparative totals for 2008)

EXPENSES	State Seminars	Training Institute	World Leadership Congress	Total Program Services	Management and General	Fundraising	Total Supporting Services	2009		2008	
								Total	Total	Total	Total
Salaries and employee benefits	\$ 444,888	\$	\$ 101,417	\$ 546,305	\$ 78,450	\$ 119,536	\$ 197,986	\$ 744,291	\$ 823,780		
Awards	1,088	4,074	79	5,241				5,241	1,845		
Bad debt			400	400				400	10,562		
Community relations	1,425			1,425		1,426	1,426	2,851	2,575		
Depreciation and amortization	5,041		1,440	6,481	721		721	7,202	8,892		
Equipment rental	3,333		1,094	4,427	1,094	1,216	2,310	6,737			
Fees	2,361		964	3,325	2,528		2,528	5,853	6,354		
Insurance	44,744		8,903	53,647	61,779	10,189	71,968	125,615	122,207		
Interest					26,502		26,502	26,502	20,161		
Miscellaneous	2,913		685	3,598	1,028		1,028	4,626	1,451		
Office expense	14,762	719	2,824	18,305	4,081	2,658	6,739	25,044	75,435		
Postage	18,107	209	4,024	22,340	701	740	1,441	23,781	16,778		
Printing and publications	19,868		11,180	31,048	5,538	855	6,393	37,441	57,098		
Professional services	71,798		8,621	80,419	42,424		42,424	122,843	193,111		
Rent	55,545		24,501	80,046	25,209	20,030	45,239	125,285	157,729		
Repairs and maintenance	225		64	289	32		32	321	1,896		
Revenue share to local seminars	281,843			281,843				281,843	317,044		
Supplies									1,241		
Telephone	15,372	623	3,154	19,149	3,126	3,373	6,499	25,648	30,249		
Temporary help	15,915		9,596	25,511	794	5,757	6,551	32,062	27,598		
Travel, conferences and meetings	26,607	121,874	369,306	517,787	3,772	1,379	5,151	522,938	695,984		
TOTAL EXPENSES	\$ 1,025,835	\$ 127,499	\$ 548,252	\$ 1,701,586	\$ 257,779	\$ 167,159	\$ 424,938	\$ 2,126,524	\$ 2,571,990		

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF CASH FLOWS
Year Ended July 31, 2009
(with comparative totals for 2008)

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (159,706)	\$ (241,495)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	7,202	8,892
Investment losses	22,154	42,053
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivables	26,062	45,660
Pledges receivable	30,000	30,000
Prepaid expenses	(10,388)	46,782
Cash surrender value of life insurance policy	23,117	18,978
Deposits	20,000	
Other assets	2,703	11,820
Increase (decrease) in:		
Accounts payable and accrued liabilities	(102,405)	(159,036)
Deferred revenue	2,894	(9,878)
NET CASH USED IN OPERATING ACTIVITIES	<u>(138,367)</u>	<u>(206,224)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,960)	(11,664)
Purchases of investments	(187,050)	(224,336)
Donations of investments		(3,020)
Redemptions of investments	245,676	204,517
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>55,666</u>	<u>(34,503)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	550,000	400,000
Payments on loan payable	(263,514)	(400,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>286,486</u>	<u></u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	203,785	(240,727)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>98,487</u>	<u>339,214</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 302,272</u>	<u>\$ 98,487</u>
SUPPLEMENTARY DISCLOSURES		
Income taxes paid	<u>\$ 26,502</u>	<u>\$ 20,161</u>
Interest paid	<u>\$ 26,502</u>	<u>\$ 20,161</u>

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
NOTES TO FINANCIAL STATEMENTS
July 31, 2009
(with comparative totals for 2008)

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. In July 2006, Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) was issued. Under FIN 48, an organization must evaluate its tax positions and provide for a liability for any positions that would not be considered "more likely than not" to be upheld under a tax authority examination. The FASB has granted nonpublic companies and nonprofit organizations the election to defer the effective date for implementation of FIN 48 to years beginning after December 15, 2008. Management has elected to defer the application of FIN 48 and will continue to evaluate its tax positions using the guidance of FASB Statement No. 5, *Accounting for Contingencies*.

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.

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

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

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.

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 \$250,000 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, 2009 and has determined that an allowance for potential losses due to credit risk in the investment portfolio 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 2008--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, 2008, from which the summarized information was derived.

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

NOTE 2--PLEDGES RECEIVABLE

Pledges receivable at July 31, 2008 consist of a grant from a Los Angeles-based private foundation.

NOTE 3--INVESTMENTS

As of July 31, 2009 and 2008 the fair value of investments consists of the following:

	<u>2009</u>	<u>2008</u>
Common stock	\$ 2,387	\$ 2,816
U.S. equities funds		128,878
U.S. fixed income funds		137,985
International funds	<u>228,673</u>	<u>42,161</u>
TOTALS	<u>\$ 231,060</u>	<u>\$ 311,840</u>

The following schedule summarizes the investment return in the statement of activities for the years ended July 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Investments, beginning of year	\$ 311,840	\$ 331,054
Purchases of investments	179,912	204,517
Donations of investments		3,020
Redemptions of investments	(245,676)	(204,517)
Reinvestment of interest and dividends	7,138	19,819
Investment losses	<u>(22,154)</u>	<u>(42,053)</u>
INVESTMENTS, END OF YEAR	<u>\$ 231,060</u>	<u>\$ 311,840</u>

NOTE 4--PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following at July 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Furniture and fixtures	\$ 9,467	\$ 9,467
Office equipment	72,887	69,599
Leasehold improvements	<u>8,511</u>	<u>8,511</u>
	90,865	87,577
Less accumulated depreciation and amortization	<u>(68,015)</u>	<u>(60,485)</u>
NET	<u>\$ 22,850</u>	<u>\$ 27,092</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 consist of amounts restricted by donor-imposed stipulations to fund expenses in the following areas:

World Leadership Congress	\$	8,900
General operations, restricted due to passage of time		<u>30,000</u>
TOTAL	\$	<u>38,900</u>

NOTE 6--PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at July 31, 2009 and 2008 are restricted to:

	<u>2009</u>	<u>2008</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 consist of the following:

Services	\$	2,500
Supplies and awards		26,662
Travel		<u>100</u>
TOTAL	\$	<u>29,262</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>	
2010	\$ 92,908
2011	89,867
2012	91,777
2013	94,383
2014	<u>38,167</u>
	TOTAL \$ <u>407,102</u>

Rental expense for the years ended July 31, 2009 and 2008 was \$104,018 and \$138,382, respectively.

NOTE 9--LINE OF CREDIT

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 4.75% payable monthly with all principal and remaining interest due on December 15, 2009. The balance owed at July 31, 2009 is \$286,486.

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

NOTE 10--FAIR VALUE MEASUREMENTS

HOBY adopted Financial Accounting Standard (FAS) No. 157, *Fair Value Measurements*, on July 1, 2008, with no material impact to the financial statements. FAS 157 requires disclosures of financial position in periods subsequent to initial recognition, whether the measurements are made on a recurring basis or a nonrecurring basis, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosure about fair market value measurements. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking quality and reliability of the information used to determine fair value. FAS 157 applies to all assets and liabilities that are being measured and reported on a fair value basis, and are disclosed in one of the following three categories:

Level 1--Quoted market prices in active markets for identical assets or liabilities.

Level 2--Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3--Unobservable inputs that are not corroborated by market data.

The estimated fair values of HOBY's short-term financial instruments, including receivables and payables arising in the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

The balances of assets measured at fair value on a recurring basis by hierarchy level at July 31, 2009 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stock	\$ 2,387	\$ 2,387	\$	\$
International mutual funds	<u>228,673</u>	<u>228,673</u>	<u> </u>	<u> </u>
TOTALS	<u>\$ 231,060</u>	<u>\$ 231,060</u>	<u>\$</u>	<u>\$</u>

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, FAS 157 requires reconciliation of the beginning and ending balances, separately for each major category of assets and liabilities, except for derivative assets and liabilities, which may be presented net. For the year ended July 31, 2009, no Level 3 activity occurred that required the reconciliation of HOBY's assets measured at fair value on a recurring basis using significant unobservable inputs.

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

NOTE 11--ENDOWMENT NET ASSETS

In August 2008, The Financial Accounting Standards Board issued Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FAS 117-1). FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The FAS 117-1 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

HOBY's endowment net assets consist solely of a board-designated unrestricted net asset fund established for a variety of purposes (see Note 6). Activity in the endowment related accounts during the year ended July 31, 2009, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at August 1, 2008	\$	\$ 38,900	\$ 88,000	\$ 126,900
Interest and dividend income				
Contributions				
Appropriation of endowment assets for expenditure	_____	(38,900)	_____	(38,900)
ENDOWMENT NET ASSETS AT JULY 31, 2009	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 88,000</u>	<u>\$ 88,000</u>

All endowment fund assets are invested in cash and international mutual funds. Earnings from endowment fund assets are appropriated for expenditure as needed and as the nature of expenditures meets endowment restrictions and designations. There were no investment earnings applicable to the endowment funds during the year ended July 31, 2009.

NOTE 12--SUBSEQUENT EVENTS

In October, 2009, the life insurance policy was sold to a third party resulting in cash proceeds of \$710,000. The proceeds from the life insurance policy were placed in a certificate of deposit with HOBY's lending bank and used to collateralize a new line of credit of \$695,000 bearing interest at two percent over the time certificate of deposit rate and maturing in November, 2011.