

Audited Financial Statements

**Hugh O'Brian
Youth Leadership**

July 31, 2010

Quigley & Miron

HUGH O'BRIAN YOUTH LEADERSHIP
AUDITED FINANCIAL STATEMENTS
TABLE OF CONTENTS
July 31, 2010

Page
Number

AUDITED FINANCIAL STATEMENTS	
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6

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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, 2010, 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, 2010 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
January 19, 2011

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF FINANCIAL POSITION
July 31, 2010
(with comparative totals for 2009)

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
ASSETS				
Cash and cash equivalents	\$ 188,839	\$	\$ 188,839	\$ 302,272
Investments	230,519		230,519	143,060
Accounts receivable	58,870		58,870	37,189
Prepaid expenses	<u>41,882</u>		<u>41,882</u>	<u>43,816</u>
TOTAL CURRENT ASSETS	520,110		520,110	526,337
Certificates of deposit	714,660		714,660	
Investments		88,000	88,000	88,000
Cash surrender value of life insurance policy				671,220
Other assets				3,847
Property and equipment, net	<u>33,483</u>		<u>33,483</u>	<u>22,850</u>
TOTAL ASSETS	<u>\$ 1,268,253</u>	<u>\$ 88,000</u>	<u>\$ 1,356,253</u>	<u>\$ 1,312,254</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 297,786	\$	\$ 297,786	\$ 298,991
Deferred revenue				<u>8,985</u>
TOTAL CURRENT LIABILITIES	297,786		297,786	307,976
Lines of credit	<u>289,413</u>		<u>289,413</u>	<u>286,486</u>
TOTAL LIABILITIES	587,199		587,199	594,462
COMMITMENTS				
NET ASSETS	<u>681,054</u>	<u>88,000</u>	<u>769,054</u>	<u>717,792</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,268,253</u>	<u>\$ 88,000</u>	<u>\$ 1,356,253</u>	<u>\$ 1,312,254</u>

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF ACTIVITIES
Year Ended July 31, 2010
(with comparative totals for 2009)

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
PUBLIC SUPPORT AND REVENUES				
Grants and contributions	\$ 75,777	\$.	\$ 75,777	\$ 58,216
Proceeds from fundraising events, net of direct benefit costs of \$119,126 in 2009, no event held in 2010				2,841
World Leadership Congress, including in-kind contributions of materials, services, and facilities totaling \$3,480 and \$25,166 in 2010 and 2009, respectively	618,460		618,460	577,315
State seminar fees	1,317,914		1,317,914	1,332,104
Interest and dividend income	9,231		9,231	11,134
Investment gain (loss)	17,655		17,655	(22,154)
Realized gain on sale of life insurance policy	38,780		38,780	
Other income	18,208		18,208	7,362
	<u>2,096,025</u>		<u>2,096,025</u>	<u>1,966,818</u>
TOTAL PUBLIC SUPPORT AND REVENUES				
EXPENSES				
Program services				
State seminars	1,070,263		1,070,263	1,025,835
Training Institute	128,394		128,394	127,499
World Leadership Congress	579,529		579,529	548,252
TOTAL PROGRAM SERVICES	<u>1,778,186</u>		<u>1,778,186</u>	<u>1,701,586</u>
Supporting services				
Management and general	198,702		198,702	257,779
Fundraising	67,875		67,875	167,159
TOTAL SUPPORTING SERVICES	<u>266,577</u>		<u>266,577</u>	<u>424,938</u>
	<u>2,044,763</u>		<u>2,044,763</u>	<u>2,126,524</u>
TOTAL EXPENSES				
CHANGE IN NET ASSETS	51,262		51,262	(159,706)
NET ASSETS AT BEGINNING OF YEAR	<u>629,792</u>	<u>88,000</u>	<u>717,792</u>	<u>877,498</u>
NET ASSETS AT END OF YEAR	<u>\$ 681,054</u>	<u>\$ 88,000</u>	<u>\$ 769,054</u>	<u>\$ 717,792</u>

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended July 31, 2010
(with comparative totals for 2009)

EXPENSES	State	Training	World	Total	Management	Total	2010	2009
	Seminars	Institute	Leadership Congress	Program Services	and General	Supporting Services	Total	Total
Salaries and employee benefits	\$ 412,410	\$	\$ 99,532	\$ 511,942	\$ 93,552	\$ 124,742	\$ 636,684	\$ 744,291
Awards	2,380	3,766	857	7,003			7,003	5,241
Bad debt	473		29	502	1,121	1,121	1,623	400
Depreciation and amortization	7,118		2,034	9,152	1,016	1,016	10,168	7,202
Equipment rental	139		56	195	83	83	278	6,737
Fees	4,472		1,824	6,296	3,806	3,806	10,102	5,853
Insurance	42,555		13,320	55,875	9,078	19,245	75,120	125,615
Interest					14,381	14,381	14,381	26,502
Miscellaneous	1,136		5,000	6,136			6,136	7,477
Office expense	13,108	884	19,127	33,119	4,865	7,008	40,127	25,044
Postage	6,469	135	838	7,442	241	1,078	8,520	23,781
Printing and publications	30,623	550	12,717	43,890	2,231	3,996	47,886	37,441
Professional services	116,752		15,295	132,047	48,436	48,436	180,483	122,843
Rent	36,889		16,707	53,596	15,828	31,146	84,742	125,606
Revenue share to local seminars	347,414			347,414			347,414	281,843
Telephone	12,111		3,868	15,979	3,249	6,640	22,619	25,648
Temporary help	6,294		11,046	17,340	84	3,148	20,488	32,062
Travel, conferences and meetings	29,920	123,059	377,279	530,258	731	731	530,989	522,938
TOTAL EXPENSES	\$ 1,070,263	\$ 128,394	\$ 579,529	\$ 1,778,186	\$ 198,702	\$ 266,577	\$ 2,044,763	\$ 2,126,524

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
STATEMENT OF CASH FLOWS
Year Ended July 31, 2010
(with comparative totals for 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 51,262	\$ (159,706)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,168	7,202
Investment (gains) losses	(17,655)	22,154
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivables	(21,681)	26,062
Pledges receivable		30,000
Prepaid expenses	1,934	(10,388)
Cash surrender value of life insurance policy	671,220	23,117
Deposits		20,000
Other assets	3,847	2,703
Increase (decrease) in:		
Accounts payable and accrued liabilities	(1,205)	(102,405)
Deferred revenue	(8,985)	2,894
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>688,905</u>	<u>(138,367)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(20,801)	(2,960)
Purchases of certificates of deposit	(714,660)	
Purchases of investments	(69,804)	(187,050)
Redemptions of investments		245,676
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(805,265)</u>	<u>55,666</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from lines of credit	871,075	550,000
Payments on lines of credit	(868,148)	(263,514)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>2,927</u>	<u>286,486</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(113,433)	203,785
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>302,272</u>	<u>98,487</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 188,839</u>	<u>\$ 302,272</u>
SUPPLEMENTARY DISCLOSURES		
Income taxes paid	\$	\$
Interest paid	<u>\$ 14,381</u>	<u>\$ 26,502</u>

See notes to financial statements.

HUGH O'BRIAN YOUTH LEADERSHIP
NOTES TO FINANCIAL STATEMENTS
July 31, 2010
(with comparative totals for 2009)

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. At July 31, 2010 and 2009, there are no temporarily restricted net assets.

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.

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

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

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.

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.

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. Under Accounting Standards Codification (ASC) 740, *Income Taxes*, 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. Management has evaluated its tax positions using the guidance of ASC Topic 450, *Contingencies*, and has concluded that a provision for a tax liability is not necessary at July 31, 2010 and 2009.

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, 2010 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 2009--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, 2009, from which the summarized information was derived.

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

NOTE 2--INVESTMENTS

As of July 31, 2010 and 2009 the fair value of investments consists of the following:

	<u>2010</u>	<u>2009</u>
Common stock	\$ 2,744	\$ 2,387
Balanced mutual fund	<u>315,775</u>	<u>228,673</u>
TOTALS	<u>\$ 318,519</u>	<u>\$ 231,060</u>

The following schedule summarizes the investment return in the statement of activities for the years ended July 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Investments, beginning of year	\$ 231,060	\$ 311,840
Purchases of investments	66,020	179,912
Redemptions of investments		(245,676)
Reinvestment of interest and dividends	3,784	7,138
Investment gains (losses)	<u>17,655</u>	<u>(22,154)</u>
INVESTMENTS, END OF YEAR	<u>\$ 318,519</u>	<u>\$ 231,060</u>

NOTE 3--PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following at July 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Furniture and fixtures	\$ 9,467	\$ 9,467
Office equipment	93,688	72,887
Leasehold improvements	<u>8,511</u>	<u>8,511</u>
	111,666	90,865
Less accumulated depreciation and amortization	<u>(78,183)</u>	<u>(68,015)</u>
NET	<u>\$ 33,483</u>	<u>\$ 22,850</u>

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

NOTE 4--PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at July 31, 2010 and 2009 are restricted to:

	<u>2010</u>	<u>2009</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 5--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 September 2013 and December 2014, 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>	
2011	\$ 94,172
2012	96,577
2013	99,183
2014	42,967
2015	<u>2,000</u>
TOTAL	<u>\$ 334,899</u>

Rental expense for the years ended July 31, 2010 and 2009 was \$92,319 and \$104,018, respectively.

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

NOTE 6--LINES OF CREDIT

In October 2009, a 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. The balance owed at July 31, 2010 is \$289,413.

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 bore interest at 4.75% payable monthly with all principal and remaining interest due on December 15, 2009. The balance owed at July 31, 2009 was \$286,486. The line of credit was paid in full in October 2009 and was not renewed.

NOTE 7--FAIR VALUE MEASUREMENTS

HOBY adopted Accounting Standards Codification (ASC) 840, *Fair Value Measurements and Disclosures*, on July 1, 2008, with no material impact to the financial statements. ASC 840 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. ASC 840 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.

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

NOTE 7--FAIR VALUE MEASUREMENTS--Continued

The balances of assets measured at fair value on a recurring basis by hierarchy level at July 31, 2010 and 2009 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2010:				
Common stock	\$ 2,744	\$ 2,744	\$	\$
Balanced mutual fund	<u>315,775</u>	<u>315,775</u>	<u> </u>	<u> </u>
TOTALS	<u>\$ 318,519</u>	<u>\$ 318,519</u>	<u>\$ </u>	<u>\$ </u>
2009:				
Common stock	\$ 2,387	\$ 2,387	\$	\$
Balanced mutual fund	<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, ASC 840 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 years ended July 31, 2010 and 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.

NOTE 8--ENDOWMENT NET ASSETS

In August 2008, The Financial Accounting Standards Board issued Accounting Standards Codification (ASC) 958-205-55, *Classification of Donor-Restricted Endowment Funds Subject to the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. ASC 958-205-55 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 ASC 958-205-55 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 permanently restricted net asset funds established for a variety of purposes (see Note 4). Activity in the endowment related accounts during the years ended July 31, 2010 and 2009, follows:

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

NOTE 8--ENDOWMENT NET ASSETS--Continued

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2010:				
Endowment net assets at August 1, 2009	\$	\$	\$ 88,000	\$ 88,000
Interest and dividend income		1,070		1,070
Appropriation of endowment assets for expenditure		<u>(1,070)</u>		<u>(1,070)</u>
ENDOWMENT NET ASSETS AT JULY 31, 2010	<u>\$</u>	<u>\$</u>	<u>\$ 88,000</u>	<u>\$ 88,000</u>
2009:				
Endowment net assets at August 1, 2008	\$	\$	\$ 88,000	\$ 88,000
Interest and dividend income		1,804		1,804
Appropriation of endowment assets for expenditure		<u>(1,804)</u>		<u>(1,804)</u>
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 a balanced mutual fund. Earnings from endowment fund assets are appropriated for expenditure as needed and as the nature of expenditures meets endowment restrictions and designations.

NOTE 9--SUBSEQUENT EVENTS

Subsequent events were evaluated through January 19, 2011, which is the date the financial statements were available to be issued.