

Audited Financial Statements



July 31, 2013

Quigley & Miron

**Hugh O'Brian Youth Leadership
Audited Financial Statements
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Suite 1660
3550 Wilshire Boulevard
Los Angeles, California 90010

Telephone: (213) 639-3550
Facsimile: (213) 639-3555

Suite 317
528 Arizona Avenue
Santa Monica, California 90401

Telephone: (310) 394-6687
Facsimile: (310) 394-6027

Independent Auditor's Report

Board of Directors

Hugh O'Brian Youth Leadership

Westlake Village, California

We have audited the accompanying financial statements of Hugh O'Brian Youth Leadership (Organization), a nonprofit organization, which comprise the statement of financial position as of July 31, 2013, and the related statements of activities, functional expenses, and cash flows 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. 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 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.

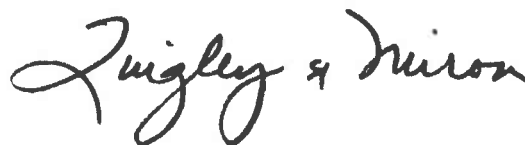
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hugh O'Brian Youth Leadership as of July 31, 2013, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited of Hugh O'Brian Youth Leadership's July 31, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 10, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Quigley & Miron". The signature is written in a cursive, flowing style.

Los Angeles, California
March 31, 2014

**Hugh O'Brian Youth Leadership
Statement of Financial Position
July 31, 2013
(with comparative totals for 2012)**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
Assets				
Cash and cash equivalents	\$ 319,836	\$	\$ 319,836	\$ 329,921
Certificates of deposit	728,002		728,002	726,490
Investments—Note 2	286,807	88,000	374,807	344,012
Pledges receivable	35,000		35,000	
Accounts receivable	55,182		55,182	61,546
Prepaid expenses	127,255		127,255	65,646
Property and equipment, net—Note 4	75,274		75,274	50,079
Total Assets	<u>\$ 1,627,356</u>	<u>\$ 88,000</u>	<u>\$ 1,715,356</u>	<u>\$ 1,577,694</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued liabilities	\$ 539,206	\$	\$ 539,206	\$ 551,382
Line of credit—Note 5	284,528		284,528	252,257
Total Liabilities	823,734		823,734	803,639
Commitments—Note 6				
Net Assets—Note 7	<u>803,622</u>	<u>88,000</u>	<u>891,622</u>	<u>774,055</u>
Total Liabilities and Net Assets	<u>\$ 1,627,356</u>	<u>\$ 88,000</u>	<u>\$ 1,715,356</u>	<u>\$ 1,577,694</u>

See notes to financial statements.

**Hugh O'Brian Youth Leadership
Statement of Activities
Year Ended July 31, 2013
(with comparative totals for 2012)**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
Public Support and Revenues				
Contributions	\$ 59,068	\$	\$ 59,068	\$ 41,936
World Leadership Congress, including in-kind contribu- tions of materials, services, and facilities totaling \$--0-- and \$14,000 in 2013 and 2012, respectively	705,740		705,740	759,088
State seminar fees	1,394,972		1,394,972	1,368,887
Special event contributions, net of related expense of \$333,400 and \$195,573 in 2013 and 2012, respectively	252,838		252,838	15,024
Interest and dividend income	3,488		3,488	13,607
Investment gains (losses)	28,848		28,848	(18,644)
Other income	24,538		24,538	11,041
Total Public Support and Revenues	2,469,492		2,469,492	2,190,939
Expenses				
Program services				
State seminars	1,202,998		1,202,998	1,228,199
Training Institute	166,126		166,126	165,755
World Leadership Congress	695,591		695,591	593,985
Total Program Services	2,064,715		2,064,715	1,987,939
Supporting services				
Management and general	186,651		186,651	183,718
Fund development	100,559		100,559	154,446
Total Supporting Services	287,210		287,210	338,164
Total Expenses	2,351,925		2,351,925	2,326,103
Change in Net Assets	117,567		117,567	(135,164)
Net Assets at Beginning of Year	686,055	88,000	774,055	909,219
Net Assets at End of Year	\$ 803,622	\$ 88,000	\$ 891,622	\$ 774,055

See notes to financial statements.

**Hugh O'Brian Youth Leadership
Statement of Functional Expenses
Year Ended July 31, 2013
(with comparative totals for 2012)**

	Program Services				Supporting Services			2013 Total	2012 Total
	State Seminars	Training Institute	World Leadership Congress	Subtotal	Manage- ment and General	Fund Develop- ment	Subtotal		
Salaries and employee benefits	\$ 563,283	\$	\$ 173,068	\$ 736,351	\$ 104,015	\$ 18,541	\$ 122,556	\$ 858,907	\$ 794,643
Awards	2,175	292	6,618	9,085				9,085	4,360
Depreciation and amortization	13,345		3,814	17,159		1,136	1,136	18,295	11,083
Equipment rental	1,844		1,088	2,932	1,106		1,106	4,038	2,064
Fees	2,261		906	3,167	2,499		2,499	5,666	3,159
Insurance	38,786		7,537	46,323	7,721	8,649	16,370	62,693	68,542
Interest	5,334		2,134	7,468	3,201		3,201	10,669	8,064
Miscellaneous	7,074	340	3,129	10,543	4,011		4,011	14,554	1,005
Office expense	39,195	464	19,332	58,991	8,243	1,972	10,215	69,206	56,090
Postage	23,674	1,362	2,065	27,101	1,214	236	1,450	28,551	19,871
Printing and publications	31,440	20	9,104	40,564	1,219		1,219	41,783	35,486
Professional services	91,578		10,041	101,619	38,244	58,793	97,037	198,656	202,544
Rent	17,212		11,155	28,367	8,661	7,499	16,160	44,527	78,321
Revenue share to local seminars	268,594			268,594				268,594	373,254
Telephone	21,483	100	9,697	31,280	4,653	3,354	8,007	39,287	34,348
Temporary help	7,990			7,990		373	373	8,363	12,079
Travel, conferences, and meetings	67,730	163,548	435,903	667,181	1,864	6	1,870	669,051	621,190
Total Expenses	\$ 1,202,998	\$ 166,126	\$ 695,591	\$ 2,064,715	\$ 186,651	\$ 100,559	\$ 287,210	\$ 2,351,925	\$ 2,326,103

See notes to financial statements

**Hugh O'Brian Youth Leadership
Statement of Cash Flows
Year Ended July 31, 2013
(with comparative totals for 2012)**

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 117,567	\$ (135,164)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	18,295	11,083
Investment (gains) losses	(28,107)	18,644
(Increase) decrease in operating assets:		
Pledges receivable	(35,000)	
Accounts receivable	6,364	31,258
Prepaid expenses	(61,609)	34,368
Decrease in operating liabilities:		
Accounts payable and accrued liabilities	(12,176)	(6,315)
Net Cash Provided by (Used in) Operating Activities	<u>5,334</u>	<u>(46,126)</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(43,490)	(38,313)
Purchases of certificates of deposit	(1,512)	(5,423)
Proceeds from sales of investments	361,525	
Purchases of investments	(364,213)	(8,068)
Net Cash Used in Investing Activities	<u>(47,690)</u>	<u>(51,804)</u>
Cash Flows from Financing Activities		
Proceeds from line of credit	305,000	565,000
Payments on line of credit	(272,729)	(407,128)
Net Cash Provided by Financing Activities	<u>32,271</u>	<u>157,872</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(10,085)</u>	<u>59,942</u>
Cash and Cash Equivalents at Beginning of Year	<u>329,921</u>	<u>269,979</u>
Cash and Cash Equivalents at End of Year	<u>\$ 319,836</u>	<u>\$ 329,921</u>
Supplemental Disclosures		
Income taxes paid	\$	\$
Interest paid	<u>\$ 10,669</u>	<u>\$ 8,064</u>

See notes to financial statements.

Hugh O'Brian Youth Leadership
Notes to Financial Statements
July 31, 2013

Note 1—Organization and 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.

Financial Statement Presentation—The financial statements of the Organization have been prepared on the accrual basis of accounting. 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, 2013 and 2012, the Organization had 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.

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. Accounting standards require an organization to 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 and has concluded that a provision for a tax liability is not necessary at July 31, 2013 and 2012. Generally, the Organization's information returns remain open for examination three (federal) or four (state of California) years from the date of filing.

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—Organization and Summary of Significant Accounting Policies—Continued

Certificates of Deposit and Investments—Investments in equity securities with readily determinable fair market values and all investments in debt securities, including certificates of deposit, 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.

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 Finance Committee, in consultation with professional investment advisors, determines the composition 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, 2013 and has determined that an allowance for potential losses due to credit risk in the investment portfolio is not necessary.

Contributions—Contributions 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 as unrestricted support any contributions subject to restrictions whose restrictions are satisfied within the year. Contributions receivable consist of unconditional promises to give monetary assets, primarily from foundations and individual contributors.

State seminar fees—Fees are recognized as revenue when such income is received.

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.

Hugh O'Brian Youth Leadership
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

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.

Comparative Totals for 2012—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 Organization's audited financial statements for the year ended July 31, 2012, from which the summarized information was derived.

Note 2—Investments

As of July 31, 2013 and 2012 the fair value of investments consists of the following:

	<u>2013</u>	<u>2012</u>
Common stock	\$ 3,626	\$ 2,886
Mutual funds	371,181	341,126
Totals	<u>\$ 374,807</u>	<u>\$ 344,012</u>

The following schedule summarizes the investment return in the statement of activities for the years ended July 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Reinvestment of interest and dividends	\$ 1,947	\$ 8,068
Investment gains (losses)	28,848	(18,644)
Total Investment Return	<u>\$ 30,795</u>	<u>\$ (10,576)</u>

Hugh O'Brian Youth Leadership
Notes to Financial Statements—Continued

Note 3—Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy is categorized into three levels based on the inputs as follows:

Level 1—Quoted market prices in active markets for identical assets or liabilities. Level 1 assets include equity securities and mutual funds valued at the closing price reported on the active market on which the individual securities are traded.

Level 2—Observable market-based inputs, either directly or indirectly, but are other than quoted prices in actively traded markets. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs that can be corroborated by observable market data.

Level 3—Unobservable inputs that are supported by little or no market activity which are significant to the fair value of the asset or liability. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination for which category within the fair value hierarchy is appropriate is based on the lowest level input that is significant to the fair value measurement in its entirety.

The estimated fair values of the Organization'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.

Investments at July 31, 2013 consist solely of common stock and mutual funds, which are considered Level 1 assets for fair value purposes.

Note 4—Property and Equipment, Net

Net property and equipment is comprised of the following at July 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Furniture and fixtures	\$ 9,467	\$ 9,467
Office equipment	175,491	132,001
Leasehold improvements	8,511	8,511
	<u>193,469</u>	<u>149,979</u>
Less accumulated depreciation and amortization	(118,195)	(99,900)
Net	<u>\$ 75,274</u>	<u>\$ 50,079</u>

Hugh O'Brian Youth Leadership
Notes to Financial Statements—Continued

Note 5—Line of Credit

In July 2013, the Organization amended a previously negotiated revolving line of credit of \$700,000 with a bank. This line of credit was originally negotiated in March 2011. The loan is collateralized by a certificate of deposit, bears interest at the Prime Referenced Rate minus one and a quarter percent (2.00% at July 31, 2013) and matures on demand. The balances owed related to these lines of credit at July 31, 2013 and 2012, are \$284,528 and \$252,257, respectively.

Note 6—Commitments

In September 2008, the Organization entered into a five-year non-cancellable operating lease on a new property in Westlake Village, California, beginning January 1, 2009. In February 2012, this lease was extended through February 2018. 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>	
2014	\$ 71,737
2015	68,989
2016	68,540
2017	70,602
2018	<u>41,886</u>
Total	<u>\$ 321,754</u>

Rental expense for the years ended July 31, 2013 and 2012 was \$57,560 and \$62,557, respectively.

Note 7—Permanently Restricted Net Assets

Permanently restricted net assets at July 31, 2013 and 2012 are restricted to:

	<u>2013</u>	<u>2012</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 the Organization's operations and activities	<u>23,000</u>	<u>23,000</u>
Totals	<u>\$ 88,000</u>	<u>\$ 88,000</u>

Hugh O'Brian Youth Leadership
Notes to Financial Statements—Continued

Note 8—Endowment Net Assets

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the State of California as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Prior to July 31, 2013 (see Note 6), the Organization's endowment net assets consisted solely of permanently restricted net asset funds established for a variety of purposes. All endowment fund assets were invested in a balanced mutual fund. Earnings from endowment fund assets were appropriated for expenditure as needed, and as the nature of expenditures met endowment restrictions and designations. Activity in the endowment related accounts during the years ended July 31, 2013 and 2012 is summarized as follows:

Hugh O'Brian Youth Leadership
Notes to Financial Statements—Continued

Note 8—Endowment Net Assets—Continued

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2012:			
Endowment net assets at August 1, 2011	\$	\$ 88,000	\$ 88,000
Interest and dividend income	2,081		2,081
Appropriation of endowment assets for expenditure	<u>(2,081)</u>		<u>(2,081)</u>
Endowment Net Assets at July 31, 2012	<u><u>\$</u></u>	<u><u>\$ 88,000</u></u>	<u><u>\$ 88,000</u></u>
2013:			
Endowment net assets at August 1, 2012	\$	\$ 88,000	\$ 88,000
Interest and dividend income	443		443
Appropriation of endowment assets for expenditure	<u>(443)</u>		<u>(443)</u>
Endowment Net Assets at July 31, 2013	<u><u>\$</u></u>	<u><u>\$ 88,000</u></u>	<u><u>\$ 88,000</u></u>

Note 9—Subsequent Events

Subsequent events were evaluated through March 31, 2014, which is the date the financial statements were available to be issued and concluded that no material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.