Audited Financial Statements

HUGH O'BRIAN YOUTH LEADERSHIP

December 31, 2014

Quigley & Miron

Hugh O'Brian Youth Leadership
Audited Financial Statements
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Quigley & Miron

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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 December 31, 2014, 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 December 31, 2014, 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.

Quigley & Miron

Los Angeles, California
July 10, 2015

Hugh O'Brian Youth Leadership
Statement of Financial Position
December 31, 2014

	Unrestricted	Permanently Restricted	Total
Assets			
Cash and cash equivalents	$ 436,832	$	$ 436,832
Certificates of deposit—Note 6	729,278		729,278
Investments—Note 2	301,210		301,210
Pledges receivable	25,000		25,000
Accounts receivable	50,793		50,793
Prepaid expenses	52,655		52,655
Other current assets	1,504		1,504
Property and equipment, net—Note 4	75,771		75,771
Beneficial interest in agency endowment—Note 5	(681)	113,541	112,860
Total Assets	**$ 1,672,362**	**$ 113,541**	**$ 1,785,903**
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued liabilities	$ 241,253	$	$ 241,253
Line of credit—Note 6	479,528		479,528
Total Liabilities	**720,781**		**720,781**
Commitments—Note 7			
Net Assets—Note 8	**951,581**	**113,541**	**1,065,122**
Total Liabilities and Net Assets	**$ 1,672,362**	**$ 113,541**	**$ 1,785,903**

See notes to financial statements.

Hugh O'Brian Youth Leadership
Statement of Activities
Year Ended December 31, 2014

	Unrestricted	Permanently Restricted	Total
Public Support and Revenues			
Contributions	$ 62,393	$	$ 62,393
Registration fees			
State seminars	1,714,415		1,714,415
World Leadership Congress	699,958		699,958
Special event contributions, net of related expense of $232,258	266,247		266,247
Interest and dividend income	7,193		7,193
Gain on investments	14,607		14,607
Change in value of beneficial interest in agency endowment—Note 8	(681)		(681)
Other income	22,170		22,170
Transfer to beneficial interest in agency endowment—Note 5	(25,541)	25,541	
Total Public Support and Revenues	**2,760,761**	**25,541**	**2,786,302**
Expenses			
Program services			
State seminars	1,442,049		1,442,049
Training Institute	163,975		163,975
World Leadership Congress	710,788		710,788
Total Program Services	**2,316,812**		**2,316,812**
Supporting services			
Management and general	225,597		225,597
Fund development	131,065		131,065
Total Supporting Services	**356,662**		**356,662**
Total Expenses	**2,673,474**		**2,673,474**
Change in Net Assets	**87,287**	**25,541**	**112,828**
Net Assets at Beginning of Year	**864,294**	**88,000**	**952,294**
Net Assets at End of Year	**$ 951,581**	**$ 113,541**	**$ 1,065,122**

See notes to financial statements.

Hugh O'Brian Youth Leadership
Statement of Functional Expenses
Year Ended December 31, 2014

	Program Services				Supporting Services			
	State Seminars	Training Institute	World Leadership Congress	Subtotal	Management and General	Fund Development	Subtotal	Total
Salaries and employee benefits	$ 652,859	$	$ 175,930	$ 828,789	$ 106,098	$ 9,740	$ 115,838	$ 944,627
Awards	19,599	6,788	3,114	29,501	510		510	30,011
Depreciation and amortization	5,795		2,775	8,570	18,169		18,169	26,739
Equipment rental	2,391		1,596	3,987	4,655		4,655	8,642
Fees	3,590		1,545	5,135	3,491		3,491	8,626
Insurance	35,509		11,626	47,135	14,349		14,349	61,484
Interest	3,501		1,401	4,902	2,101		2,101	7,003
Miscellaneous	37,099		13,281	50,380	4,560	75	4,635	55,015
Office expense	46,004	875	31,395	78,274	9,393	2,512	11,905	90,179
Postage	29,171	2,312	3,517	35,000	306	1,854	2,160	37,160
Printing and publications	23,155	679	10,197	34,031	1,206	3,043	4,249	38,280
Professional services	58,437		21,912	80,349	46,731	75,515	122,246	202,595
Rent	27,413		12,427	39,840	10,166	10,240	20,406	60,246
Revenue share to local seminars	384,900			384,900				384,900
Telephone	17,980	60	5,477	23,517	1,489	1,352	2,841	26,358
Temporary help	560			560				560
Travel, conferences, and meetings	94,086	153,261	414,595	661,942	2,373	26,734	29,107	691,049
Total Expenses	**$ 1,442,049**	**$ 163,975**	**$ 710,788**	**$ 2,316,812**	**$ 225,597**	**$ 131,065**	**$ 356,662**	**$ 2,673,474**

See notes to financial statements

Hugh O'Brian Youth Leadership
Statement of Cash Flows
Year Ended December 31, 2014

Cash Flows from Operating Activities		
Change in net assets	$	112,828
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		26,739
Gain on investments		(14,607)
Change in value of beneficial interest in agency endowment		681
(Increase) decrease in operating assets:		
Pledges receivable		(25,000)
Accounts receivable		(8,382)
Prepaid expenses		31,904
Other current assets		(1,224)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities		27,307
Net Cash Provided by Operating Activities		**150,246**
Cash Flows from Investing Activities		
Purchases of property and equipment		(18,528)
Purchases of certificates of deposit		(818)
Proceeds from sales of investments		113,541
Purchases of investments		(6,235)
Net Cash Provided by Investing Activities		**87,960**
Cash Flows from Financing Activities		
Proceeds from line of credit		300,000
Payments on line of credit		(200,000)
Transfer to beneficial interest in agency endowment		(113,541)
Net Cash Used in Financing Activities		**(13,541)**
Net Increase in Cash and Cash Equivalents		**224,665**
Cash and Cash Equivalents at Beginning of Year		**212,167**
Cash and Cash Equivalents at End of Year	**$**	**436,832**
Supplemental Disclosures		
Income taxes paid	$	
Interest paid	$	7,003

See notes to financial statements.

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 it 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 December 31, 2014, 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 December 31, 2014. 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.

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.

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

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 December 31, 2014 and has determined that an allowance for potential losses due to credit risk in the investment portfolio is not necessary.

Pledges receivable at December 31, 2014 are principally with individuals and businesses. Accounts receivable at December 31, 2014 consist of short-term, interest-free loans to various Organization state affiliates who were in need of assistance in covering the related costs incurred in holding their annual Leadership Seminars. Management of the Organization has assessed the credit risk associated with these receivables and has determined that an allowance for potential uncollectible amounts is not necessary.

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

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.

Fund Development Expense and Total Expense—Fund development expense and total expense for the year ended December 31, 2014, including special event expense of $232,258, amounted to $363,323 and $2,804,539, respectively.

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.

Note 2—Investments

As of December 31, 2014, the fair value of investments consists of the following:

Common stock	$	3,917
Mutual funds		297,293
Total	**$**	**301,210**

Investment return for the year ended December 31, 2014 is summarized as follows:

Reinvestment of interest and dividends	$	6,235
Investment gain		14,607
Total Investment Return	**$**	**20,842**

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.

Note 3—Fair Value Measurements—*Continued*

Investments measured at fair value on a recurring basis at December 31, 2014 consist of the following:

	Fair Value	Level 1	Level 2	Level 3
Common stock	$ 3,917	$ 3,917	$	$
Mutual funds	297,293	297,293		
Beneficial interest in agency endowment	112,860			112,860
Totals	**$ 414,070**	**$ 301,210**	**$**	**$ 112,860**

A reconciliation of the Organization's Level 3 assets and liabilities for the year ended December 31, 2014, is as follows:

Beginning balance	$
Transfer to beneficial interest in agency endowment	113,541
Change in value of beneficial interest in agency endowment	(681)
Ending Balance	**$ 112,860**

Note 4—Property and Equipment, Net

Net property and equipment is comprised of the following at December 31, 2014:

Furniture and fixtures	$ 15,596
Office equipment	138,198
	153,794
Less accumulated depreciation and amortization	(78,023)
Net	**$ 75,771**

Note 5—Beneficial Interest in Agency Endowment

On May 20, 2014, the Organization established an agency endowment, the Hugh O'Brian Legacy Fund (Fund), at the California Community Foundation (CCF). The Fund supports registration fee scholarships for students to attend Organization programs and direct expenditures related to the Fund's management and development. According to the Fund agreement, CCF holds, manages, invests and reinvests the Fund, collects the income and makes distributions from the Fund. The Organization is the sole beneficiary of the Fund with distributions being made at least annually. The value of the beneficial interest is based upon the fair value of the assets held in the Fund. Annual earnings are recorded as investment income. Adjustments in the value of the beneficial interest are recorded as changes in beneficial interest in agency endowment.

Note 5—Beneficial Interest in Agency Endowment—*Continued*

The Fund makes up the Organization's entire permanently restricted net assets balance and is part of the pooled investments at CCF. On June 15, 2014, the Organization initiated the Fund by transferring $113,541 to CCF. This transfer included restricted funding that was permitted by the donor, amounting to $88,000. No reclassification of net assets was necessary as the net assets were already classified as permanently restricted. An additional $25,541 was transferred from the Organization's unrestricted net assets and is shown as a reclassification of net assets from unrestricted to permanently restricted on the statement of activities. At December 31, 2014, the Fund's balance was $112,860.

Note 6—Line of Credit

In 2014, 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 December 31, 2014) and matures on demand. The balance owed related to this line of credit at December 31, 2014 is $479,528. The interest amount paid during 2014 totaled $7,003.

Note 7—Commitments

The Organization leases space in Westlake Village, California, under a non-cancellable operating lease, expiring February 2018. Future minimum rental payments due are as follows:

Year Ending December 31,		
2015	$	55,600
2016		57,306
2017		59,013
2018		9,907
Total	**$**	**181,826**

Rental expense for the year ended December 31, 2014 was $53,894.

Note 8—Permanently Restricted Net Assets

The Organization's endowment consists of an agency endowment at CCF (see Note 5), subject to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the State of California. As such, the Board of Directors interpreted UPMIFA 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 classified 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 was added to the fund. The remaining portion of the donor-restricted endowment

Note 8—Permanently Restricted Net Assets—*Continued*

fund that was not classified in permanently restricted net assets was 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 considered 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

From time to time, the fair value of assets associated with the agency endowment fund may fall below the Fund's total corpus amount. Deficiencies of this nature that are reported in unrestricted net assets at December 31, 2014 were $681. These deficiencies resulted from unfavorable market fluctuations that existed at December 31, 2014.

Activity in the investment portfolio for the year ended December 31, 2014 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2014	$	$	$ 88,000	$ 88,000
Interest and dividend income		724		724
Appropriation of endowment assets for expenditure		(724)		(724)
Board reclassification of net assets	25,541			25,541
Transfer to beneficial interest in agency endowment	(25,541)		25,541	
Change in value of beneficial interest in agency endowment		(681)		(681)
Funds with deficiencies	(681)	681		
Endowment Net Assets at December 31, 2014	**$ (681)**	**$**	**$ 113,541**	**$ 112,860**

Note 9—Subsequent Events

Subsequent events were evaluated through July 10, 2015, 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.