

NONPROFIT INVESTOR

INDEPENDENT RESEARCH FOR PHILANTHROPY

HOBY

Nonprofit Investor Rating:

NEUTRAL

Mission Statement

To inspire and develop a global community of youth and volunteers to a life dedicated to leadership, service and innovation

Financial Overview

\$ in MM, Fiscal Year Ended July 31

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenue and Support	\$1.9	\$2.1	\$2.3
Operating Expenses	\$2.1	\$2.0	\$2.2
% of Total:			
Program Expenses	80.0%	87.0%	86.6%
G&A	12.1%	9.7%	9.3%
Fundraising	7.9%	3.3%	4.0%

Year Founded: 1958

Contact Details

Hugh O'Brian Youth Leadership
31255 Cedar Valley Drive, Suite 327
Westlake Village, CA 91362
(818) 851-3980

<http://hoby.org>

EIN: 95-6082886

Analyst: Michael D. Ojunga

Peer Review: John Goldston, John DiCola

Publication Date

October 12, 2012

SUMMARY

Hugh O'Brian Youth Leadership ("HOBY") programs provide youth selected by their schools opportunities to participate in unique leadership training, service-learning and motivation-building experiences. Additionally, HOBY provides volunteer opportunities for adults wishing to make a positive impact on the lives of adolescents.

STRENGTHS

▲ **Robust volunteer network.** Approximately 4,000 volunteers participate in HOBY programs each year, lessening the organization's financial burden for paid staff. HOBY has designed an infrastructure that allows for numerous volunteer opportunities on the individual and corporate level.

▲ **Disciplined financial controls.** HOBY has decreased G&A expense to less than 10% of total expenses and dedicates 87% of expenses to Program costs. Additionally, HOBY has drastically reduced Fundraising expenses by eliminating ineffective programs.

CAUTIONS

▼ **Lack of impact measurement.** There appears to be no publicly available information about program results. Increased disclosures about program efficacy and student participation collected by HOBY would improve accountability.

▼ **Management unresponsive.** Due to a lack of response by management, NPI had inadequate information to thoroughly assess the effectiveness of programs and the HOBY's financial condition.

● **Untimely financial reporting.** Audited financial statements for the Fiscal Year ended July 31, 2011 are not publicly available.

RECOMMENDATION: NEUTRAL

HOBY's robust program offerings and large volunteer network provide many students with the opportunity to make a positive impact on their community. However, the organization lacks a publicly available feedback loop or study in order to gauge the effectiveness of programs. NPI would also like to see a more accountable management team to prevent lack of communication and delayed financial reports.

OVERVIEW OF HOBY'S ACTIVITIES

The Hugh O'Brian Youth Leadership ("HOBY") organization was founded in 1958 in order to inspire and develop a global community of youth and volunteers interested in leading a life dedicated to leadership, service, and innovation. HOBY programs provide youths selected by their schools opportunities to participate in unique leadership training, service-learning and motivation-building experiences. Additionally, HOBY provides volunteer opportunities for adults wishing to make a positive impact on the lives of adolescents. Over 4,000 committed HOBY volunteers plan and execute the programs each year, serving both at the local HOBY affiliate level and on HOBY's Board of Trustees.

Program overview

HOBY programs are designed to provide youth with opportunities to participate in unique leadership training, service-learning, and motivation building experiences. The core goal of the HOBY program is leadership development. In its annual report, HOBY states that as an organization it focuses on: improving critical thinking skills; enhancing leadership skills; developing goal setting skills; realizing the importance of leadership; and active involvement in the community. HOBY's three main programs (State Seminars, Training Institute, World Leadership Congress) bring students, staff and volunteers together in order to leverage each of the respective groups' talents in order to fulfill the organization's mission. As an example, in 2011, HOBY implemented an anti-bullying program throughout the leadership curriculum as part of a strategy to deliver more impactful programming. It is the organization's aim that ambassadors will be able to transfer the leadership skills that they learn at HOBY, and successfully apply them to their schools and neighborhoods, making those areas safer and more peaceful environments.

State Seminars (60% of total Program Expenses)

The State Leadership Seminar program, rooted in the Social Change of Leadership model developed at UCLA, aims to inspire youth to develop critical thinking, team-building, and goal-setting skills by exploring their self-knowledge and facilitate positive social change in their community. Designed for high school sophomores, the State Leadership Seminars have students participate in hands-on leadership activities and meet state leaders in business, government, education, media, and the non-profit sector. Approximately 70 Leadership Seminars are conducted each spring throughout the United States. Leadership Seminars are organized and run by a committee of HOBY volunteers, who are also responsible for raising funds to pay for program expenses. HOBY recruits students to its Leadership Programs by inviting each public, private and charter school in the country to select and register an outstanding sophomore as their representative for the respective local state seminar. As of the date of this report, greater than 9,000 sophomores, representing 7,200 schools attend HOBY State Leadership Seminars, annually.

Training Institute (7% of total Program Expenses)

The Training Institute is HOBY's annual volunteer training conference and attracts approximately 150 key volunteer leaders from each state and international locations. The three-day long program brings volunteers and staff members together in order to participate in leadership training, exchange ideas and best practices in educational methods, fundraising, and marketing for HOBY's programs. The goal of the Training Institute is to provide the proper tools for participants to be able to return to their respective locales and perform their responsibilities with a clear vision of how to better serve HOBY youth. In addition, HOBY provides fall regional training weekends in order to reach volunteers unable to participate in the annual Training Institute.

World Leadership Congress (33% of total Program Expenses)

The World Leadership Congress utilizes the same principles, philosophies, and methodologies of the aforementioned State Leadership Seminars, however, operates on a more expansive scale. Comprising eight or nine days, approximately 400 students (67% domestic, 33% international) are invited to participate in sessions involving panel discussions,

interactive workshops, training exercises, and individualized sessions that expose the students to distinguished leaders from a wide range of professional fields.

PROGRAM RESULTS AND EFFECTIVENESS

Given that the definition of what it means to lead can be open to interpretation, it is difficult to quantitatively ascertain how effective the organization is in its mission to inspire leaders. In the 2011 Annual Report, President and Chief Executive Officer of HOBY, Javier La Fianza, states that approximately 2.2 million service hours have been logged by HOBY alumni over an unspecified period of time. Delving further, according to the 2011 Annual Report, 4,148 alumni volunteered a total of 263,030 hours of their time – which HOBY estimates to be of an economic value of \$4.2MM (rate of ~\$16 per hour). While 63 average service hours per participating HOBY alumnus is an impressive number when compared to the national average of 34 hours¹, it should be noted that the individuals who participate in the HOBY program are ostensibly self-selecting, high-achieving and service oriented, and thus may be already more likely to engage in volunteer activities than their contemporaries. Thus, NPI believes it would be beneficial to see a study qualifying how much of an impact that the HOBY program has on students in their decision to dedicate time and resources to volunteer and leadership activities. On a quantitative basis, in the 2011 Annual Report it is stated that HOBY programs have successfully impacted 10,000 youth during the course of the year, which provides some measure of impact reach. It is also worth noting that given a total alumni base of 362,395 and 4, 148 volunteers in 2011, the organization has a 2011 alumni participation rate of 1.1%. Given the organization’s mission, NPI feels that efforts should be made to improve the percentage of engaged alumni. As an organization that is focusing on growing programs and creating more opportunities for its students to serve, it is in NPI’s opinion that HOBY has a unique opportunity to leverage the training and experience that its alumni have developed over the years to further influence youth and build upon the organizations mission.

TRANSPARENCY

HOBY’s website provides information about the organization’s programs, leadership and financial situation. Program services expenses are well documented in their audited financial statements. However, audited financial statements for the fiscal year ending July 31, 2011 are not available on the organization’s website. NPI contacted the Chief Executive Officer, Javier La Fianza, to ascertain if the audited financial statements could be made available for our analysis. Despite an initial response, the organization has yet to get back to NPI regarding scheduling a conference call or the availability of the latest audited financial results. NPI is also concerned with the lack of demonstrable studies indicating the efficacy of the organization’s program offerings. As an example, a survey or questionnaire that triangulates leadership traits espoused by the organization could be administered to students at entry and graduation, in order to see the level of development that has taken place partly as a result of HOBY’s program offerings.

HOBY files its Form 990 with the IRS each year and its past financial statements have been audited by the accounting firm Quigley & Miron.

FINANCIAL OVERVIEW

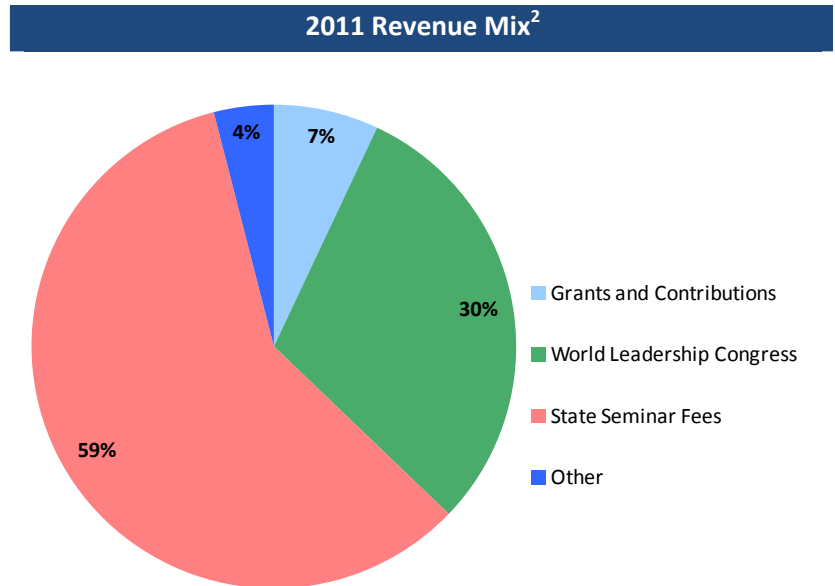
REVENUES, GAINS AND SUPPORT

Despite what appears to be a secular shift in a portion of HOBY’s funding, overall funding levels have remained relatively consistent over the period of 2008 to 2011. The organization has primarily seen a dramatic decrease in proceeds from fundraising events. Despite investment gains compensating for a portion of the diminished funding, NPI is cautious given HOBY’s history of negative operating margins. If given access to management, NPI would ask whether fundraising events

¹ Average Volunteer Hours Per Resident from 2008 – 2010 (<http://www.volunteeringinamerica.gov/rankings/States/Volunteer-Hours-per-Resident/2010>)

were discontinued because they proved to be an increasingly inefficient method in raising funds. In 2008, HOBY collected \$103,817 from fundraising events, net of a direct fundraising benefit expense of \$33,725. However, in 2009, HOBY was only able to collect \$2,841, net of a direct fundraising benefit expense of \$119,126. This structural disparity is striking and warrants deeper analysis.

HOBY is primarily funded through the private sector with annual fundraising campaigns, program service fees for its Leadership Seminars and World Leadership Congress, in addition to ongoing support from corporations, foundations, and individuals. HOBY is benefited by a significant number of large corporate donors such as JP Morgan Chase, Southwest Airlines Co., and Bank of America, among others. Nonetheless, NPI believes that there is room for funding as HOBY in the past has operated cash flow negative. As the organization looks to scale its operations and build upon its programs, a larger revenue base will be needed to sustain its programs.



EXPENSES

From 2008 through 2011, HOBY spent an average of 10.2% of total expenses on administrative costs, with 2011 representing the lowest amount at 9.3%. NPI believes that HOBY maintains appropriate cost efficiency, as program costs represented 87% of total expenses in 2011. This cost discipline will be important as HOBY expands its programs and service offerings.

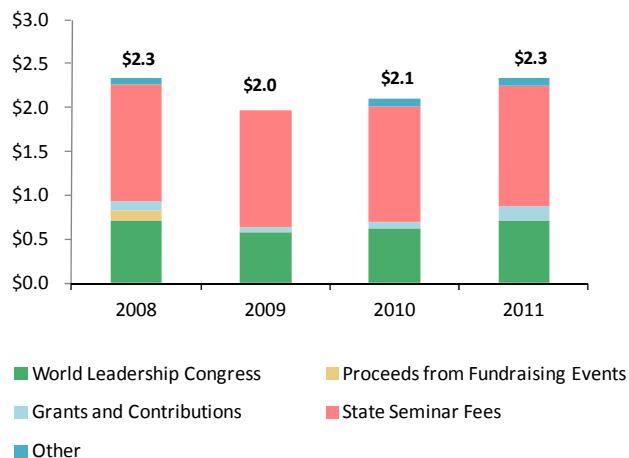
Within the organization, there appears to be a secular shift away from specific fundraising initiatives as fundraising expenses have decreased from \$215,701 (8.4% of total expenses) to \$88,629 (4.0% of total expenses). NPI would be interested in learning from management what underscored this shift in organization resource allocation, as it appears one or more employees have not been retained in this department.

HOBY clearly delineates management compensation in the Form 990, and it is consistent with the individuals' respective experience level and industry practices. Additionally, the organization provides a clear breakdown of functional expenses within its audited financial statements.

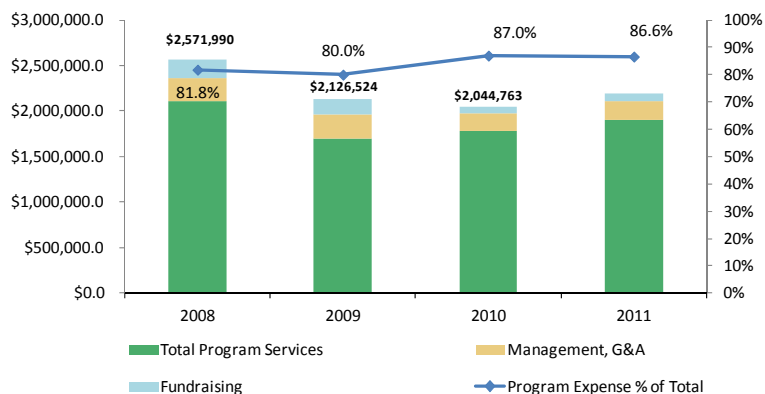
² 2011 represents unaudited financial data

Revenue Breakdown²

\$ in '000



Expense Breakdown²



Functional Allocation of Expenses

Fiscal Year Ended July 31

Program

	2008	2009	2010
Salaries & Wages	\$598,940	\$546,305	\$511,942
Non-Compensation	1,505,408	1,155,281	1,266,244
Total Program	\$2,104,348	\$1,701,586	\$1,778,186

General & Administrative

Salaries & Wages	\$116,109	\$78,450	\$93,552
Non-Compensation	135,832	179,329	105,150
Total General & Administrative	\$251,941	\$257,779	\$198,702

Fundraising

Salaries & Wages	\$108,731	\$119,536	\$31,190
Non-Compensation	106,970	47,623	36,685
Total Fundraising	\$215,701	\$167,159	\$67,875

Total Expenses

Total Expenses	\$2,571,990	\$2,126,524	\$2,044,763
-----------------------	--------------------	--------------------	--------------------

% of Total

Program	82%	80%	87%
General & Administrative	10%	12%	10%
Fundraising	8%	8%	3%

% of Support & Revenue

Program	90%	87%	85%
General & Administrative	11%	11%	9%
Fundraising	9%	7%	3%

Source: Audited Financial Statements

Detailed Allocation of Expenses

Fiscal Year Ended July 31, 2010

	State Seminars	Training Institute	World Leadership Congress	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Expenses								
Salaries and Employee Benefits	\$412,410	\$0	\$99,532	\$511,942	\$93,552	\$31,190	\$124,742	\$636,684
Awards	2,380	3,766	857	7,003	0	0	0	7,003
Bad Debt	473	0	29	502	1,121	0	1,121	1,623
Depreciation and Amortization	7,118	0	2,034	9,152	1,016	0	1,016	10,168
Equipment Rental	139	0	56	195	83	0	83	278
Fees	4,472	0	1,824	6,296	3,806	0	3,806	10,102
Insurance	42,555	0	13,320	55,875	9,078	10,167	19,245	75,120
Interest	0	0	0	0	14,381	0	14,381	14,381
Miscellaneous	1,136	0	5,000	6,136	0	0	0	6,136
Office Expense	13,108	884	19,127	33,119	4,865	2,143	7,008	40,127
Postage	6,469	135	838	7,442	241	837	1,078	8,520
Printing and Publications	30,623	550	12,717	43,890	2,231	1,765	3,996	47,886
Professional Services	116,752	0	15,295	132,047	48,436	0	48,436	180,483
Rent	36,889	0	16,707	53,596	15,828	15,318	31,146	84,742
Revenue Share to Local Seminars	347,414	0	0	347,414	0	0	0	347,414
Telephone	12,111	0	3,868	15,979	3,249	3,391	6,640	22,619
Temporary Help	6,294	0	11,046	17,340	84	3,064	3,148	20,488
Travel, Conferences, and Meetings	29,920	123,059	377,279	530,258	731	0	731	530,989
Total Expenses	\$1,070,263	\$128,394	\$579,529	\$1,778,186	\$198,702	\$67,875	\$266,577	\$2,044,763

Source: Audited Financial Statements

NET ASSETS

As a shield against cyclical downturns, HOBY maintains a positive liquidity profile, with a cash and investments balance of over \$400,000. NPI believes that HOBY would be prudent in building its asset base in order to better insulate the organization against economic downturns and program expansion.

Detailed Financial Information³

Fiscal Year Ended July 31

	2008	2009	2010	2011
Revenue and Expenses (GAAP Accounting Basis)				
Operating Revenue:				
Grants and Contributions	\$106,814	\$58,216	\$75,777	\$163,512
In-Kind Contributions of Materials, Services, and Facilities	29,262	-	-	-
Proceeds from Fundraising Events	103,817	2,841	-	-
World Leadership Congress	716,436	577,315	618,460	704,400
State Seminar Fees	1,335,516	1,332,104	1,317,914	1,374,229
Interest and Dividend Income	29,519	11,134	9,231	10,364
Investment Gain (Loss)	(42,053)	(22,154)	17,655	33,710
Realized Gain on Sale of Life Insurance Policy	-	-	38,780	-
Other Income	51,184	7,362	18,208	49,081
Total Support and Revenues	\$2,330,495	\$1,966,818	\$2,096,025	\$2,335,296
<i>% Growth</i>		(15.6%)	6.6%	11.4%
Expenses:				
Program Services:				
State Seminars	\$1,166,670	\$1,025,835	\$1,070,263	-
Training Institute	141,903	127,499	128,394	-
World Leadership Congress	795,775	548,252	579,529	-
Total Program Services Expenses:	2,104,348	1,701,586	1,778,186	1,901,861
Supporting Services:				
Fundraising	215,701	167,159	67,875	88,629
Management and General	251,941	257,779	198,702	204,691
Total Expenses:	\$2,571,990	\$2,126,524	\$2,044,763	\$2,195,181
<i>% of Revenue</i>	110.4%	108.1%	97.6%	94.0%
Change in Net Assets	(\$241,495)	(\$159,706)	\$51,262	\$140,115
KEY BALANCE SHEET INFORMATION				
Cash and Cash Equivalents	\$98,487	\$302,272	\$188,839	\$269,797
Investments	223,840	143,060	230,519	266,588
Total Assets	1,284,985	1,312,254	1,356,253	1,473,301
Total Liabilities	\$407,487	\$594,462	\$587,199	\$652,082
Net Assets	\$877,498	\$717,792	\$769,054	\$821,219
Expenses by Function (GAAP Accounting Basis)				
Total Program Services	\$2,104,348	\$1,701,586	\$1,778,186	\$1,901,861
Management, G&A	251,941	257,779	198,702	204,691
Fundraising	215,701	167,159	67,875	88,629
Total Expenses	\$2,571,990	\$2,126,524	\$2,044,763	\$2,195,181
Program Costs as a % of Total Expenses	81.8%	80.0%	87.0%	86.6%
G&A as a % of Total Expenses	9.8%	12.1%	9.7%	9.3%
Fundraising as a % of Total Expenses	8.4%	7.9%	3.3%	4.0%

Source: Financial Statements as audited by Quigley & Miron

³ 2011 represents unaudited financial data

OTHER THIRD PARTY RATINGS

HOBY is not currently covered by Charity Navigator, GreatNonprofits, Philanthropedia, or GiveWell.

GET INVOLVED

Make Donations	Become A Volunteer - Positions
General Gift https://reg.hoby.org/donations/	World Leadership Congress http://www.hoby.org/volunteerforWLC.php
HOBY Visa Credit Card http://www.hoby.org/132.php	Local HOBY Programs https://reg.hoby.org/HOBYVolunteerApplication/
Corporate Sponsorship http://www.hoby.org/teamhobysponsorship.php	Community Leadership Workshops (CleW) http://www.hoby.org/clew.php
Product or Service Donation http://www.hoby.org/hobywishlist.php	HOBY Headquarters hoby@hoby.org
Leadership Awards Dinners http://www.hoby.org/NYHOBYGALA.php	AYUSA International – Host a Foreign Student http://www.ayusa.org/families/what-hosting

DISCLOSURES

Michael D. Ojunga certifies that he does not have any affiliation with HOBY and has never made a donation to the organization. Additionally, Michael D. Ojunga has not supported directly competing organizations in a greater capacity than a nominal donation. NPI analysts and NPI as an organization do not receive any form of compensation from reviewed charities.

This report is for informational purposes only and does not constitute a solicitation for donations. While the reliability of information contained in this report has been assessed by NPI, NPI makes no representation as to its accuracy or completeness, except with respect to the Disclosure Section of the report. Any opinions expressed herein reflect our judgment as of the date of the materials and are subject to change without notice. NPI has no obligation to update, modify or amend any report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject organization is withdrawn.

Opinions and recommendations in our reports do not take into account specific reader circumstances, objectives, or needs. The recipients of our reports must make their own independent decisions regarding any organization mentioned by NPI.

ABOUT NONPROFIT INVESTOR

Nonprofit Investor is a nonprofit organization with the mission of improving philanthropic capital allocation and nonprofit effectiveness through research and analysis. NPI brings together volunteers with professional due diligence skills to produce independent, in-depth evaluations of nonprofits. NPI research is available for free, public download here: www.nonprofitinvestor.org/research. To suggest a charity for NPI to review or to apply as a volunteer, please contact us: www.nonprofitinvestor.org/contact. NPI is a tax-exempt charity under section 501(c)(3) of the Internal Revenue Code (EIN: 45-3627609). Follow Nonprofit Investor on Twitter: [@nonprofitinvest](https://twitter.com/nonprofitinvest)