

**LEARNING LEADERS, INC.**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**JUNE 30, 2006**

**LEARNING LEADERS, INC.**

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**Independent Auditor's Report**

**Board of Trustees  
Learning Leaders, Inc.**

We have audited the accompanying balance sheet of Learning Leaders, Inc as of June 30, 2006, 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. The prior year summarized comparative information has been derived from the Organization's 2005 financial statements and, in our report dated September 21, 2005, we expressed an unqualified opinion on those financial statements.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Learning Leaders, Inc as of June 30, 2006, 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.

September 12, 2006

## LEARNING LEADERS, INC.

## BALANCE SHEET

JUNE 30, 2006

(With Summarized Financial Information for June 30, 2005)

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 936,532	\$ 781,209
Investments (Note 3)	8,627,156	8,005,381
Grants receivable (Note 4)	465,675	1,151,000
Prepaid expenses and security deposits	305,242	462,219
Fixed assets (net of accumulated depreciation and amortization of \$455,557 in 2006 and \$503,673 in 2005) (Note 5)	<u>379,320</u>	<u>88,171</u>
Total assets	<u>\$ 10,713,925</u>	<u>\$ 10,487,980</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 206,980	\$ 87,714
Accrued payroll and vacations payable	106,357	85,528
Capital lease payable		7,327
Deferred rent payable (Note 8)	450,257	
Advances	<u>4,650</u>	<u>31,900</u>
Total liabilities	<u>768,244</u>	<u>212,469</u>
Net assets (Exhibit B)		
Unrestricted	8,277,251	8,337,793
Temporarily restricted (Note 9)	431,517	700,805
Permanently restricted (Note 9)	<u>1,236,913</u>	<u>1,236,913</u>
Total net assets	<u>9,945,681</u>	<u>10,275,511</u>
Total liabilities and net assets	<u>\$ 10,713,925</u>	<u>\$ 10,487,980</u>

See independent auditor's report

The accompanying notes are an integral part of these statements

LEARNING LEADERS, INC

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006  
 (With Summarized Financial Information  
 for the Year Ended June 30, 2005)

LOEB & TROPER

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2006	2005
Operating revenues, losses and other support					
Contributions and grants	\$ 633,520	\$ 887,300		\$ 1,520,820	\$ 1,779,217
Board of Trustees	203,280			203,280	202,176
Individual giving	761,097			761,097	724,500
NYC Department of Education	712,000			712,000	550,000
Donated services (Note 6)	218,376			218,376	192,200
Value of in-kind contributions (Note 7)	229,030			229,030	180,765
Special events	\$ 518,936				
Less direct costs of special events	(92,591)				
Interest and dividends	426,345			426,345	402,198
Other	151,530			151,530	157,190
Loss on disposal of fixed assets	4,892			4,892	36,663
Loss on disposal of fixed assets	(14,759)			(14,759)	
Net assets released from restrictions (Note 9)	1,156,588	(1,156,588)			
Total operating revenues, losses and other support	4,481,899	(269,288)		4,212,611	4,224,909
Expenses (Exhibit C)					
Program services	4,418,227			4,418,227	3,737,992
Supporting services					
Management and general	378,350			378,350	303,766
Fund raising	619,321			619,321	494,544
Total supporting services	997,671			997,671	798,310
Total expenses	5,415,898			5,415,898	4,536,302

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LEARNING LEADERS, INC.

EXHIBIT B

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STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

(With Summarized Financial Information  
for the Year Ended June 30, 2005)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2006</u>	<u>2005</u>
Change in net assets from operations	\$ (933,999)	\$ (269,288)		\$ (1,203,287)	\$ (311,393)
Net realized and unrealized gains on investments	<u>873,457</u>	<u>                    </u>		<u>873,457</u>	<u>132,593</u>
Change in net assets (Exhibit D)	(60,542)	(269,288)		(329,830)	(178,800)
Net assets - beginning of year	<u>8,337,793</u>	<u>700,805</u>	\$ <u>1,236,913</u>	<u>10,275,511</u>	<u>10,454,311</u>
Net assets - end of year (Exhibit A)	<u>\$ 8,277,251</u>	<u>\$ 431,517</u>	<u>\$ 1,236,913</u>	<u>\$ 9,945,681</u>	<u>\$ 10,275,511</u>



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See independent auditor's report

The accompanying notes are an integral part of these statements

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2006  
(With Summarized Financial Information for  
the Year Ended June 30, 2005)

	Program Services						Supporting Services			Total		
	Core Instructional Program	Artworks	High Schools	Middle School Initiatives	Children's Reading Enrichment	Total	Management and General	Fund Raising	Special Events	Total	2006	2005
Salaries	\$ 1,503,204	\$ 58,306	\$ 92,872	\$ 129,340	\$ 237,951	\$ 2,021,673	\$ 207,747	\$ 283,566		\$ 491,313	\$ 2,512,986	\$ 2,357,770
Donated services (Note 6)	194,016				24,360	218,376					218,376	192,200
Payroll taxes and employee benefits	310,835	11,898	18,952	26,394	44,476	412,555	42,395	57,867		100,262	512,817	452,048
Total salaries and related expenses	2,008,055	70,204	111,824	155,734	306,787	2,652,604	250,142	341,433		591,575	3,244,179	3,002,018
Professional fees	292,792	11,208	17,852	24,862	41,895	388,609	39,932	54,508		94,440	483,049	152,351
Consultants	64,138	2,455	3,911	5,446	9,177	85,127	8,748	11,940		20,688	105,815	96,630
Independent contractors	13,638					13,638					13,638	104,839
Value of in-kind contributions (Note 7)	204,030				25,000	229,030					229,030	159,186
Program and office supplies	6,425	6,000	34,000	3,000	11,000	60,425					60,425	93,279
Occupancy	345,505	13,226	21,066	29,338	49,437	458,572	47,123	64,320		111,443	570,015	331,459
Travel and meetings	17,383	1,000	6,000	6,000	10,000	40,383					40,383	56,691
Telephone	29,676	1,136	1,809	2,520	4,246	39,387	4,047	5,526		9,573	48,960	44,774
Postage and shipping	37,306	1,428	2,275	3,168	5,338	49,515	5,088	6,945		12,033	61,548	46,885
Printing	158,490			16,000		174,490					174,490	190,593
Equipment repairs, maintenance, and minor purchases	62,888	2,407	3,834	5,340	8,998	83,467	8,577	11,709		20,286	103,753	26,736
Computer expense	15,061	576	918	1,279	2,155	19,989	2,054	2,804		4,858	24,847	49,296
Insurance	25,858	990	1,577	2,196	3,700	34,321	3,527	4,813		8,340	42,661	32,099
Depreciation and amortization	37,012	1,416	2,257	3,142	5,296	49,123	5,048	6,891		11,939	61,062	49,000
Interest							231			231	231	1,481
Bad debt	2,440	93	149	207	349	3,238	333	454		787	4,025	5,500
Catering and facility fees								102,883	\$ 92,591	195,474	195,474	183,148
Miscellaneous	26,447	1,957	1,668	2,323	3,914	36,309	3,500	5,095		8,595	44,904	20,468
Total expenses	3,347,144	114,096	209,140	260,555	487,292	4,418,227	378,350	619,321	92,591	1,090,262	5,508,489	4,646,433
Less expenses deducted directly from revenues on the statement of activities									(92,591)	(92,591)	(92,591)	(110,131)
Total expenses reported by function (Exhibit B)	\$ 3,347,144	\$ 114,096	\$ 209,140	\$ 260,555	\$ 487,292	\$ 4,418,227	\$ 378,350	\$ 619,321	\$ -	\$ 997,671	\$ 5,415,898	\$ 4,536,302

See independent auditor's report

The accompanying notes are an integral part of these statements

## LEARNING LEADERS, INC.

## STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (329,830)	\$ (178,800)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities		
Net realized and unrealized gains on investments	(873,457)	(132,593)
Depreciation and amortization	61,062	49,000
Loss on disposal of fixed assets	14,759	
Donated equipment		(21,579)
Decrease (increase) in assets		
Grants receivable	685,325	(607,061)
Prepaid expenses and security deposits	156,977	(408,369)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	119,266	(5,524)
Accrued payroll and vacations payable	20,829	52,302
Deferred rent payable	450,257	
Advances	(27,250)	(3,100)
Net cash provided (used) by operating activities	<u>277,938</u>	<u>(1,255,724)</u>
Cash flows from investing activities		
Fixed asset acquisitions	(366,970)	
Proceeds from sale of investments	1,331,127	2,071,572
Purchase of investments	(1,079,445)	(1,323,993)
Net cash provided (used) by investing activities	<u>(115,288)</u>	<u>747,579</u>
Cash flows from financing activities		
Principal payments on capital lease	(7,327)	(6,341)
Net increase (decrease) in cash and cash equivalents	155,323	(514,486)
Cash and cash equivalents - beginning of year	<u>781,209</u>	<u>1,295,695</u>
Cash and cash equivalents - end of year	<u>\$ 936,532</u>	<u>\$ 781,209</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 231</u>	<u>\$ 1,481</u>

See independent auditor's report

The accompanying notes are an integral part of these statements

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

**NOTE 1 - NATURE AND PURPOSE OF ORGANIZATION**

Learning Leaders, Inc. ("LL") is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. LL was established as New York City School Volunteer Program, Inc. in 1956 and incorporated in the State of New York in 1970.

Effective July 14, 1999, LL changed its name from New York City School Volunteer Program, Inc. to Learning Leaders, Inc.

LL recruits and trains volunteers to help meet the educational needs of children in the New York City public schools. LL's professional staff of field-based coordinators provides training and support to the volunteers. LL's primary activity is the core instructional program, which delivers volunteer support to students from pre-kindergarten through high school. LL also supplies books, learning games and other materials to help volunteers and children work together. In addition to the core program, LL operates special volunteer projects designed to meet the special needs and interests of students in the New York City public schools. LL is supported primarily by contributions and grants.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of accounting* - The financial statements are prepared on the accrual basis.

*Use of estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and cash equivalents* - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities when acquired of three months or less.

*Investments* - Investments are recorded at fair value, which is based on quoted market value. Limited liability corporation net asset value is based upon market value or value determined by investment managers.

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## LEARNING LEADERS, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Grants receivable** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution and grants revenue. Conditional promises to give are not included as support until the conditions are substantially met.

**Fixed assets** - Equipment is stated at cost or at fair value at the date of gift. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Amortization of capital lease assets and leasehold improvements is recorded over the terms of the leases.

**Net assets** - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use by LL has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by LL in perpetuity.

**Contributions** - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**In-kind contributions** - In-kind contributions are reported at fair value.

**Functional allocation of expenses** - The costs of providing LL's programs have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services.

**Summarized financial information for 2005** - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2005, from which the summarized information was derived. Certain amounts from the 2005 financial statements have been reclassified to conform with the 2006 presentation.

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## LEARNING LEADERS, INC

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

## NOTE 3 - INVESTMENTS

	<u>Cost</u>	<u>Fair Value</u>
Equity securities	\$ 4,107,417	\$ 7,112,672
Mutual fund (bond fund)	1,300,009	1,232,292
Limited liability corporation	<u>250,000</u>	<u>282,192</u>
	<u>\$ 5,657,426</u>	<u>\$ 8,627,156</u>

## NOTE 4 - GRANTS RECEIVABLE

LL received various grants from foundations, corporations and individuals to fund its programs. Included in grants receivable as of June 30, 2006 are the following unconditional promises to give:

Amounts due in	
Less than one year	\$ 420,675
One to three years	<u>45,000</u>
	<u>\$ 465,675</u>

## NOTE 5 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Equipment	\$ 464,143	3-5 years
Capital lease equipment	29,782	5 years
Leasehold improvements	<u>340,952</u>	15 years
	834,877	
Less accumulated depreciation and amortization	<u>(455,557)</u>	
	<u>\$ 379,320</u>	

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## LEARNING LEADERS, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

**NOTE 6 - DONATED SERVICES**

LL received in-kind assistance of \$218,376 from the New York City Department of Education and National Urban Fellows, Inc. The total salaries and benefits paid by the Department of Education of the City of New York and National Urban Fellows, Inc. was \$158,376 and \$60,000, respectively, which has been reflected as revenues and expenses in the accompanying statement of activities.

**NOTE 7 - VALUE OF IN-KIND CONTRIBUTIONS**

LL received in-kind contributions from several sources. These gifts are in the form of computer equipment, books and other materials.

**NOTE 8 - LEASE COMMITMENT****Operating Lease**

In August 2005, Learning Leaders entered into a lease expiring on May 31, 2021. Per the lease agreement, Learning Leaders received a ten-month rent concession. As a result, rent is being expensed on the straight-line method over the term of the lease.

Minimum lease payments for the next five years and thereafter are as follows:

2007	\$	424,500
2008		435,112
2009		445,990
2010		457,140
2011		494,563
Thereafter		5,828,459

Rent expense for the year ended June 30, 2006 was \$510,930.

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## LEARNING LEADERS, INC

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

**NOTE 9 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes

Parent volunteer scholarship	\$	70,439
Impact		50,000
Children's reading enrichment program		50,000
Artworks		23,078
Strategic plan implementation		95,000
High schools/college planning		63,000
Family literacy/numeracy		20,000
Time restrictions		<u>60,000</u>
	\$	<u>431,517</u>

During 2006, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes or by the occurrence of other events specified by the donors

Parent volunteer scholarship	\$	8,000
Program coordinators		50,000
Children's reading enrichment program		7,500
Impact		289,000
Strategic plan implementation		474,666
Artworks		112,422
High schools/college planning		69,000
Family literacy/numeracy		131,000
Time restrictions		<u>15,000</u>
	\$	<u>1,156,588</u>

Permanently restricted net assets of \$1,236,913 are restricted to investment in perpetuity, the income from which is available for general purposes. Investment income and gains on investments are not added to the principal of the fund.

**NOTE 10 - PENSION PLAN**

Effective January 1, 2004, Learning Leaders, Inc established a 403(b) tax-deferred annuity plan for all employees. Pension expense for the year ended June 30, 2006 was \$61,396.

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**LEARNING LEADERS, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006****NOTE 11 - CONCENTRATIONS**

Financial instruments which potentially subject LL to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. These financial institutions have strong credit ratings and management believes that credit risk related to these accounts is minimal.