

**LEARNING LEADERS, INC.  
FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**JUNE 30, 2007**

**LEARNING LEADERS, INC.**

**TABLE OF CONTENTS**

**Independent Auditor's Report**

**Exhibit**

**A - Balance Sheet**

**B - Statement of Activities**

**C - Statement of Functional Expenses**

**D - Statement of Cash Flows**

**Notes to Financial Statements**

LLI-FS07



LOEB & TROPER LLP

**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, 2007, 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 2006 financial statements and, in our report dated September 12, 2006, 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, 2007, 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.

*Steel & Tupper LLP*

December 4, 2007

**Auditors and Consultants**  
*Serving the Health Care & Not-for-Profit Sectors*

655 Third Avenue, 12th Floor, New York, NY 10017  
(212) 867-4000 / Fax (212) 867-9810 / [www.loebandtroper.com](http://www.loebandtroper.com)

LEARNING LEADERS, INC.

EXHIBIT A

BALANCE SHEET

JUNE 30, 2007

(With Summarized Financial Information for June 30, 2006)

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 321,597	\$ 936,532
Investments (Note 3)	7,653,935	8,627,156
Grants receivable - due within one year	885,673	465,675
Prepaid expenses and security deposits	246,811	305,242
Fixed assets (net of accumulated depreciation and amortization of \$500,196) (Note 4)	<u>334,681</u>	<u>379,320</u>
Total assets	<u>\$ 9,442,697</u>	<u>\$ 10,713,925</u>

**LIABILITIES AND NET ASSETS**

<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 31,112	\$ 206,980	
Accrued payroll and vacations payable	29,544	106,357	
Deferred rent payable (Note 7)	537,634	450,257	
Advances	<u>51,500</u>	<u>4,650</u>	
Total liabilities	<u>649,790</u>	<u>768,244</u>	
<b>Net assets (Exhibit B)</b>			
Unrestricted	7,298,555	8,277,251	
Temporarily restricted (Note 8)	257,439	431,517	
Permanently restricted (Note 8)	<u>1,236,913</u>	<u>1,236,913</u>	
Total net assets	<u>8,792,907</u>	<u>9,945,681</u>	
Total liabilities and net assets	<u>\$ 9,442,697</u>	<u>\$ 10,713,925</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, 2007  
 (With Summarized Financial Information  
 for the Year Ended June 30, 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2007</u>	<u>2006</u>
Operating revenues, losses and other support					
Contributions and grants	\$ 597,000	\$ 619,000		\$ 1,216,000	\$ 1,520,820
Board of Trustees contributions	249,650			249,650	203,280
Individual giving	675,615			675,615	761,097
NYC Department of Education	400,000			400,000	712,000
Donated services (Note 5)	167,674			167,674	218,376
Value of in-kind contributions (Note 6)	211,008			211,008	229,030
Special events	\$ 92,575				
Less direct costs of special events	<u>(36,555)</u>			56,020	426,345
Interest and dividends	128,374			128,374	151,530
Other	8,273			8,273	4,892
Loss on disposal of fixed assets					(14,759)
Net assets released from restrictions (Note 8)	<u>793,078</u>	<u>(793,078)</u>			
Total operating revenues, losses and other support	<u>3,286,692</u>	<u>(174,078)</u>		<u>3,112,614</u>	<u>4,212,611</u>
Expenses (Exhibit C)					
Program services	<u>3,995,766</u>			<u>3,995,766</u>	<u>4,418,227</u>
Supporting services					
Management and general	346,307			346,307	378,350
Fund raising	<u>555,299</u>			<u>555,299</u>	<u>619,321</u>
Total supporting services	<u>901,606</u>			<u>901,606</u>	<u>997,671</u>
Total expenses	<u>4,897,372</u>			<u>4,897,372</u>	<u>5,415,898</u>

-continued-

LEARNING LEADERS, INC.

EXHIBIT B

-2-

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

(With Summarized Financial Information  
for the Year Ended June 30, 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2007	2006
Change in net assets from operations	\$ (1,610,680)	\$ (174,078)		\$ (1,784,758)	\$ (1,203,287)
Net realized and unrealized gains on investments	631,984			631,984	873,457
Change in net assets (Exhibit D)	(978,696)	(174,078)		(1,152,774)	(329,830)
Net assets - beginning of year	8,277,251	431,517	\$ 1,236,913	9,945,681	10,275,511
Net assets - end of year (Exhibit A)	<u>\$ 7,298,555</u>	<u>\$ 257,439</u>	<u>\$ 1,236,913</u>	<u>\$ 8,792,907</u>	<u>\$ 9,945,681</u>

LOEB & TROPER LLP

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2007

(With Summarized Financial Information for  
the Year Ended June 30, 2006)

	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	2007	2006
Salaries	\$ 1,439,522	\$ 55,836	\$ 88,938	\$ 123,860	\$ 227,870	\$ 1,936,026	\$ 198,946	\$ 271,553		\$ 470,499	\$ 2,406,525	\$ 2,512,986
Donated services (Note 5)	148,970				18,704	167,674					167,674	218,376
Payroll taxes and employee benefits	286,388	10,962	17,461	24,318	40,978	380,107	39,061	53,316		92,377	472,484	512,817
Total salaries and related expenses	1,874,880	66,798	106,399	148,178	287,552	2,483,807	238,007	324,869		562,876	3,046,683	3,244,179
Professional fees	241,917	9,261	14,750	20,542	34,615	321,085	32,994	45,037		78,031	399,116	483,049
Consultants	39,762	1,522	2,425	3,376	5,690	52,775	5,423	7,402		12,825	65,600	105,815
Independent contractors												13,638
Value of in-kind contributions (Note 6)	187,975					211,008					211,008	229,030
Program and office supplies	4,935	4,609	26,116	2,304	8,450	46,414					46,414	60,425
Occupancy	312,127	11,948	19,030	26,503	44,660	414,268	42,571	58,110		100,681	514,949	570,015
Travel and meetings	17,901	1,030	6,179	6,179	10,298	41,587					41,587	40,383
Telephone	30,180	1,155	1,840	2,562	4,318	40,055	4,116	5,620		9,736	49,791	48,960
Postage and shipping	26,720	1,023	1,629	2,269	3,823	35,464	3,644	4,974		8,618	44,082	61,548
Printing	140,819			14,216		155,035					155,035	174,490
Equipment repairs, maintenance, and minor purchases	30,816	1,179	1,879	2,617	4,409	40,900	4,203	5,738		9,941	50,841	103,753
Computer expense	16,382	627	999	1,391	2,344	21,743	2,234	3,050		5,284	27,027	24,847
Insurance	23,521	901	1,434	1,998	3,366	31,220	3,208	4,378		7,586	38,806	42,661
Depreciation and amortization	27,057	1,035	1,650	2,297	3,872	35,911	3,690	5,038		8,728	44,639	61,062
Interest												231
Bad debt												4,025
Catering and facility fees										82,033	118,588	195,474
Miscellaneous	46,977	3,476	2,963	4,126	6,952	64,494	6,217	9,050	\$ 36,555	118,588	79,761	44,904
Total expenses	3,021,969	104,564	187,293	238,558	443,382	3,995,766	346,307	555,299	36,555	938,161	4,933,927	5,508,489
Less expenses deducted directly from revenues on the statement of activities									(36,555)	(36,555)	(36,555)	(92,591)
Total expenses reported by function (Exhibit B)	\$ 3,021,969	\$ 104,564	\$ 187,293	\$ 238,558	\$ 443,382	\$ 3,995,766	\$ 346,307	\$ 555,299	\$ -	\$ 901,606	\$ 4,897,372	\$ 5,415,898

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## LEARNING LEADERS, INC.

## EXHIBIT D

## STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (1,152,774)	\$ (329,830)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities		
Net realized and unrealized gains on investments	(631,984)	(873,457)
Depreciation and amortization	44,639	61,062
Loss on disposal of fixed assets		14,759
Decrease (increase) in assets		
Grants receivable	(419,998)	685,325
Prepaid expenses and security deposits	58,431	156,977
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(175,868)	119,266
Accrued payroll and vacations payable	(76,813)	20,829
Deferred rent payable	87,377	450,257
Advances	46,850	(27,250)
Net cash provided (used) by operating activities	<u>(2,220,140)</u>	<u>277,938</u>
Cash flows from investing activities		
Fixed asset acquisitions	2,258,396	(366,970)
Proceeds from sale of investments	(653,191)	1,331,127
Purchase of investments	<u>1,605,205</u>	<u>(1,079,445)</u>
Net cash provided (used) by investing activities		(115,288)
Cash flows from financing activities		
Principal payments on capital lease		<u>(7,327)</u>
Net increase (decrease) in cash and cash equivalents	(614,935)	155,323
Cash and cash equivalents - beginning of year	936,532	781,209
Cash and cash equivalents - end of year	<u>\$ 321,597</u>	<u>\$ 936,532</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ -	<u>\$ 231</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, 2007

**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.

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.

Investments include limited liability corporations whose estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment manager. The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

-continued-



LOEB & TROPER LLP

LEARNING LEADERS, INC.

2.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 2006* - 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, 2006, from which the summarized information was derived.

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

**NOTE 3 - INVESTMENTS**

	<u>Cost</u>	<u>Fair Value</u>
Equity securities	\$ 2,908,732	\$ 5,814,879
Mutual fund (bond fund)	1,552,550	1,516,306
Limited liability corporation	<u>257,017</u>	<u>322,750</u>
	<u>\$ 4,718,299</u>	<u>\$ 7,653,935</u>

**NOTE 4 - 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>	<u>15 years</u>
Less accumulated depreciation and amortization	834,877 <u>(500,196)</u>	
	<u>\$ 334,681</u>	

**NOTE 5 - DONATED SERVICES**

LL received in-kind assistance of \$167,674 from the New York City Department of Education, which has been reflected as revenues and expenses in the accompanying statement of activities.

**NOTE 6 - VALUE OF IN-KIND CONTRIBUTIONS**

LL received in-kind contributions of \$211,008 from several sources. These gifts are in the form of advertising, books and other materials.

**NOTE 7 - 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.

## LEARNING LEADERS, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

**NOTE 7 - LEASE COMMITMENT (continued)**

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

2008	\$ 435,112
2009	445,990
2010	457,140
2011	494,563
2012	509,290
Thereafter	5,319,169

Rent expense for the year ended June 30, 2007 was \$465,767.

**NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following:

Parent volunteer scholarship	\$ 62,439
Project Impact	75,000
Time restrictions	<u>120,000</u>
	\$ <u>257,439</u>

During 2007, 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
Book Buddies	25,000
Children's reading enrichment program	53,500
Project Impact	126,500
Middle School Initiative	10,000
Artworks	57,078
High schools/college planning	63,000
Family literacy/numeracy	95,000
Satisfaction of time restrictions	255,000
Strategic plan implementation	95,000
Network equipment	<u>5,000</u>
	\$ <u>793,078</u>

## LEARNING LEADERS, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

**NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

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 9 - 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, 2007 was \$57,970.

**NOTE 10 - 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.