

LEARNING LEADERS, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2008

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, 2008, 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 2007 financial statements and, in our report dated December 4, 2007, 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, 2008, 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.

Loeb + Troper LLP

December 4, 2008

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

LEARNING LEADERS, INC.

BALANCE SHEET

JUNE 30, 2008

(With Summarized Financial Information for June 30, 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 254,433	\$ 321,597
Investments (Note 3)	6,812,764	7,653,935
Contribution and grants receivables - due within one year	1,247,169	885,673
Prepaid expenses and security deposits	240,728	246,811
Fixed assets (net of accumulated depreciation and amortization of \$536,324 in 2008) (Note 4)	<u>323,198</u>	<u>334,681</u>
Total assets	<u>\$ 8,878,292</u>	<u>\$ 9,442,697</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 67,883	\$ 31,112
Accrued payroll and vacations payable	69,973	29,544
Security deposit payable	22,867	
Deferred rent payable (Note 7)	614,399	537,634
Advances	<u>4,400</u>	<u>51,500</u>
Total liabilities	<u>779,522</u>	<u>649,790</u>
Net assets (Exhibit B)		
Unrestricted	6,308,418	7,298,555
Temporarily restricted (Note 8)	553,439	257,439
Permanently restricted (Note 8)	<u>1,236,913</u>	<u>1,236,913</u>
Total net assets	<u>8,098,770</u>	<u>8,792,907</u>
Total liabilities and net assets	<u>\$ 8,878,292</u>	<u>\$ 9,442,697</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

(With Summarized Financial Information
for the Year Ended June 30, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2008	2007
Operating revenues and other support					
Contributions and grants	\$ 1,379,971	\$ 150,000		\$ 1,529,971	\$ 1,216,000
Board of Trustees contributions	163,876			163,876	249,650
Individual giving	467,969	350,000		817,969	675,615
NYC Department of Education	500,000			500,000	400,000
Donated services (Note 5)	138,786			138,786	167,674
Value of in-kind contributions (Note 6)	93,798			93,798	211,008
Special events	\$ 1,091,548				
Less direct costs of special events	<u>(65,375)</u>	1,026,173		1,026,173	56,020
Interest and dividends	153,059			153,059	128,374
Other	1,219			1,219	8,273
Net assets released from restrictions (Note 8)	204,000	<u>(204,000)</u>			
Total operating revenues and other support	<u>4,128,851</u>	<u>296,000</u>		<u>4,424,851</u>	<u>3,112,614</u>
Expenses (Exhibit C)					
Program services	<u>3,660,447</u>			<u>3,660,447</u>	<u>3,995,766</u>
Supporting services					
Management and general	339,579			339,579	346,307
Fund raising	<u>592,556</u>			<u>592,556</u>	<u>555,299</u>
Total supporting services	<u>932,135</u>			<u>932,135</u>	<u>901,606</u>
Total expenses	<u>4,592,582</u>			<u>4,592,582</u>	<u>4,897,372</u>

-continued-

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008

(With Summarized Financial Information for
the Year Ended June 30, 2007)

	Program Services					Total	Supporting Services			Total	
	Core Instructional Program	Artworks	High Schools	Middle School Initiatives	Children's Reading Enrichment		Management and General	Fund Raising	Special Events	Total	2008
Salaries	\$ 1,499,918	\$ 58,178	\$ 92,670	\$ 129,057	\$ 237,430	\$ 2,017,253	\$ 207,293	\$ 282,946	\$ 490,239	\$ 2,507,492	\$ 2,406,525
Donated services (Note 5)	109,270				13,719	122,989	15,797		15,797	138,786	167,674
Payroll taxes and employee benefits	316,736	12,123	19,311	26,895	45,320	420,385	43,200	58,968	102,168	522,553	472,484
Total salaries and related expenses	1,925,924	70,301	111,981	155,952	296,469	2,560,627	266,290	341,914	608,204	3,168,831	3,046,683
Professional fees	95,662	3,662	5,833	8,123	13,688	126,968	13,047	17,809	30,856	157,824	399,116
Consultants	3,282	126	200	279	470	4,357	448	610	1,058	5,415	65,600
Value of in-kind contributions (Note 6)	83,559				10,239	93,798				93,798	211,008
Supplies	7,623	7,119	40,340	3,559	13,052	71,693				71,693	46,414
Occupancy	255,296	9,773	15,565	21,678	36,529	338,841	34,821	47,520	82,341	421,182	514,949
Travel and meetings	22,442	1,291	7,746	7,746	12,911	52,136				52,136	41,587
Telephone	30,510	1,168	1,860	2,590	4,365	40,493	4,162	5,682	9,844	50,337	49,791
Postage and shipping	31,287	1,198	1,907	2,657	4,476	41,525	4,267	5,824	10,091	51,616	44,082
Printing	152,024			15,347		167,371				167,371	155,035
Equipment repairs, maintenance and minor purchases	40,920	1,565	2,495	3,475	5,855	54,310	5,582	7,620	13,202	67,512	50,841
Computer expense	9,827	376	600	834	1,406	13,043	1,340	1,830	3,170	16,213	27,027
Insurance	21,773	834	1,327	1,850	3,116	28,900	2,970	4,052	7,022	35,922	38,806
Depreciation and amortization	21,898	838	1,335	1,859	3,134	29,064	2,986	4,078	7,064	36,128	44,639
Advertising and marketing	7,258	537	458	637	1,074	9,964	961	1,397	2,358	12,322	
Catering and facility fees								150,383	\$ 65,375	215,758	118,588
Miscellaneous	20,087	1,209	1,257	1,750	3,054	27,357	2,705	3,837	6,542	33,899	79,761
Total expenses	2,729,372	99,997	192,904	228,336	409,838	3,660,447	339,579	592,556	65,375	997,510	4,657,957
Less expenses deducted directly from revenues on the statement of activities									(65,375)	(65,375)	(36,555)
Total expenses reported by function (Exhibit B)	\$ 2,729,372	\$ 99,997	\$ 192,904	\$ 228,336	\$ 409,838	\$ 3,660,447	\$ 339,579	\$ 592,556	\$ 932,135	\$ 4,592,582	\$ 4,897,372

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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (694,137)	\$ (1,152,774)
Adjustments to reconcile change in net assets to cash used by operating activities		
Net realized and unrealized loss (gains) on investments	526,406	(631,984)
Depreciation and amortization	36,128	44,639
Decrease (increase) in assets		
Contributions and grants receivable	(361,496)	(419,998)
Prepaid expenses and security deposits	6,083	58,431
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	36,771	(175,868)
Accrued payroll and vacations payable	40,429	(76,813)
Security deposit payable	22,867	
Deferred rent payable	76,765	87,377
Advances	(47,100)	46,850
Net cash used by operating activities	<u>(357,284)</u>	<u>(2,220,140)</u>
Cash flows from investing activities		
Fixed asset acquisitions	(24,645)	
Proceeds from sale of investments	1,478,066	2,258,396
Purchase of investments	<u>(1,163,301)</u>	<u>(653,191)</u>
Net cash provided by investing activities	<u>290,120</u>	<u>1,605,205</u>
Net decrease in cash and cash equivalents	(67,164)	(614,935)
Cash and cash equivalents - beginning of year	<u>321,597</u>	<u>936,532</u>
Cash and cash equivalents - end of year	<u>\$ 254,433</u>	<u>\$ 321,597</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, 2008

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 managers. 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-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 - Fixed assets are 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 2007 - 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, 2007, from which the summarized information was derived.

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 3 - INVESTMENTS

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 183,145	\$ 183,145
Equity securities	3,030,586	4,913,735
Mutual fund (bond fund)	1,592,311	1,555,596
Limited liability corporations	<u>130,213</u>	<u>160,288</u>
	<u>\$ 4,936,255</u>	<u>\$ 6,812,764</u>

NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Equipment	\$ 488,788	3-5 years
Capital lease equipment	29,782	5 years
Leasehold improvements	<u>340,952</u>	15 years
	859,522	
Less accumulated depreciation and amortization	<u>(536,324)</u>	
	<u>\$ 323,198</u>	

NOTE 5 - DONATED SERVICES

LL received in-kind assistance of \$138,786 from the New York City Department of Education, which has been reflected as revenues and expenses in the accompanying statement of activities. Included in the amount above is \$15,797 of pro bono legal services received from a board member.

NOTE 6 - VALUE OF IN-KIND CONTRIBUTIONS

LL received in-kind contributions of \$93,798 from several sources. These gifts are in the form of advertising, books and other materials.

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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.

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

2009	\$	445,990
2010		457,140
2011		494,563
2012		509,290
2013		522,023
Thereafter		4,797,146

Total rent expense for the year was \$465,767. \$110,008 received from a tenant sharing space is reflected as a reduction of rent expense.

NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

Parent volunteer scholarship	\$	53,439
Strategic plan implementation		52,000
Time restrictions		<u>448,000</u>
	\$	<u>553,439</u>

During 2008, 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	\$	9,000
Project Impact		75,000
Time restrictions		<u>120,000</u>
	\$	<u>204,000</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.

-continued-

LEARNING LEADERS, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2008****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, 2008 was \$66,035.

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. Management believes that these financial institutions have strong credit ratings and that the credit risk related to these accounts is minimal.

NOTE 11 - CONTINGENCY

Learning Leaders, Inc. invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' declines, and that such changes could materially affect the Learning Leaders, Inc.'s balance sheet.