

LEAP LEARNING SYSTEMS

Report on Audited Financial Statements

December 31, 2006 and 2005

**MANNING SILVERMAN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
(847) 459-8850**

LEAP LEARNING SYSTEMS
TABLE OF CONTENTS
DECEMBER 31, 2006 AND 2005

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6 - 8

**MANNING SILVERMAN
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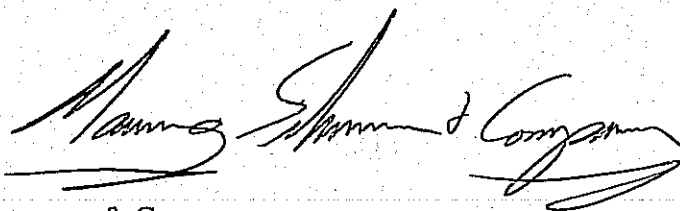
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Board of Directors
Leap Learning Systems
Chicago, Illinois

We have audited the accompanying statements of financial position of Leap Learning Systems as of December 31, 2006 and 2005, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of Leap Learning Systems management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Leap Learning Systems as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Manning Silverman & Company
Certified Public Accountants

May 7, 2007

"Thank you for the opportunity to serve you and for your referrals!"

LEAP LEARNING SYSTEMS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets		
Cash and Cash Equivalents	\$ 69,965	\$ 85,812
Accounts and Pledges Receivable	<u>98,687</u>	<u>50,000</u>
Total Current Assets	<u>168,652</u>	<u>135,812</u>
Fixed Assets		
Equipment (Net of accumulated depreciation of \$13,223 and \$9,384)	<u>429</u>	<u>4,268</u>
Other Assets		
Investments	0	30,125
Security Deposits	<u>2,100</u>	<u>2,100</u>
Total Other Assets	<u>2,100</u>	<u>32,225</u>
Total Assets	<u>\$ 171,181</u>	<u>\$ 172,305</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts Payable and Accrued Expenses	\$ 972	\$ 1,772
Bank Line of Credit	<u>47,982</u>	<u>45,054</u>
Total Liabilities	<u>48,954</u>	<u>46,826</u>
Net Assets		
Unrestricted Net Assets	57,227	100,479
Temporarily Restricted Net Assets	<u>65,000</u>	<u>25,000</u>
Total Net Assets	<u>122,227</u>	<u>125,479</u>
Total Liabilities and Net Assets	<u>\$ 171,181</u>	<u>\$ 172,305</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of these financial statements.

LEAP LEARNING SYSTEMS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues						
Program Fees	\$ 132,160	\$	\$ 132,160	\$ 65,752	\$	\$ 65,752
Donations	520,826	60,000	580,826	304,238	321,000	625,238
In-kind Donations	116,436		116,436	122,206		122,206
Interest Income	249		249	453		453
Unrealized Gain on Investments	157		157	1,279		1,279
Gain on Sale of Investments						0
Release of Restrictions	20,000	(20,000)	0	347,370	(347,370)	0
Total Revenues	789,828	40,000	829,828	841,298	(26,370)	814,928
Expenses						
Program Expenses	694,395		694,395	553,991		553,991
Management and General Development Expenses	87,546		87,546	101,067		101,067
	51,139		51,139	77,241		77,241
Total Expenses	833,080	0	833,080	732,299	0	732,299
Increase (Decrease) in Net Assets	(43,252)	40,000	(3,252)	108,999	(26,370)	82,629
Net Assets, Beginning of Year	100,479	25,000	125,479	(8,520)	51,370	42,850
Net Assets, End of Year	\$ 57,227	\$ 65,000	\$ 122,227	\$ 100,479	\$ 25,000	\$ 125,479

See Independent Auditor's Report.
The accompanying notes are an integral part of these financial statements.

LEAP LEARNING SYSTEMS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ (3,252)	\$ 82,629
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	3,839	4,550
Realized Gain on Investments	(157)	0
(Increase) Decrease in Accounts Receivable	(48,687)	24,953
Decrease in Prepaid Expenses	0	2,243
(Decrease) in Accounts Payable and Accrued Expenses	(800)	(4,677)
Net Cash Provided by (Used in) Operating Activities	<u>(49,057)</u>	<u>109,698</u>
Cash Flows from Investing Activities:		
Transfer (Purchase) of Money Market Funds	25,475	(25,125)
Proceeds from Sale of Securities	4,807	0
Net Cash Provided by (Used in) Investing Activities	<u>30,282</u>	<u>(25,125)</u>
Cash Flows from Financing Activities:		
Increase (Decrease) Bank Line of Credit	<u>2,928</u>	<u>(34,741)</u>
Net Cash Provided by (Used in) Financing Activities	<u>2,928</u>	<u>(34,741)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(15,847)	49,832
Cash and Cash Equivalents, Beginning of Year	<u>85,812</u>	<u>35,980</u>
Cash and Cash Equivalents, End of Year	<u>\$ 69,965</u>	<u>\$ 85,812</u>
Interest Paid	<u>\$ 6,247</u>	<u>\$ 4,946</u>

See Independent Auditor's Report.
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LEAP LEARNING SYSTEMS
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006			2005				
	Program	Management and General	Development	Total	Program	Management and General	Development	Total
Auto and Travel	\$ 17,528	\$ 7,512	\$	\$ 25,040	\$ 12,497	\$ 5,356	\$	\$ 17,853
Interest	4,373	1,874		6,247	3,197	1,370		4,567
Consultants	87,013			87,013	89,337			89,337
Bad Debt	5,000			5,000				0
Depreciation Expense	2,687	1,152		3,839	3,185	1,365		4,550
Development Costs			17,368	17,368			19,753	19,753
Employee Benefits	46,381	4,815	2,300	53,496	17,647	8,824	2,941	29,412
Gifts and Promotion	3,380	1,448		4,828	1,927	826		2,753
Insurance	5,832	2,499		8,331	6,864	2,942		9,806
Meals and Entertainment	3,940	1,688		5,628	5,291	2,268		7,559
Office Supplies and Expenses	18,960	8,126		27,086	17,947	7,691		25,638
Postage	4,483	1,921		6,404	2,020	865		2,885
Professional Fees	4,852	2,080		6,932	6,465	2,770		9,235
Program Costs	80,951			80,951	65,530			65,530
Rent and Utilities	20,525	8,796		29,321	19,674	8,431		28,105
Salaries and Taxes	372,148	38,631	18,457	429,236	284,424	50,651	54,547	389,622
Spring Benefit			13,014	13,014				0
Telephone	5,828	2,498		8,326	7,983	3,421		11,404
Training and Conferences	10,514	4,506		15,020	10,003	4,287		14,290
Total	\$ 694,395	\$ 87,546	\$ 51,139	\$ 833,080	\$ 553,991	\$ 101,067	\$ 77,241	\$ 732,299

See Independent Auditor's Report.
The accompanying notes are an integral part of these financial statements.

LEAP LEARNING SYSTEMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

1. Organization and Nature of Activities

Leap Learning Systems was incorporated on December 31, 1993, to promote language skills in inner city neighborhoods.

Program Descriptions

Leap Pre-literacy and Language Curriculum - is a 42-week daily guide for teachers offering theme-based learning through activities and books. The Leap Curriculum focuses learning in the preschool classroom on language and cognitive development. Lessons are literature based and elicit language from children in a developmental sequence.

VIP (Vocabulary Improvement Project) - complements the Leap Pre-literacy and Language Curriculum, training teachers to effectively teach literacy and communication development in the early childhood classroom. The VIP is unique in that it provides resources and training for parents as well as teachers, building the vital foundation for children's academic success.

Parents are Teachers - provides reading activities for parents and teachers of young children. Teaches parents and educators every day tactics to fuel their child's inquisitiveness, and promotes active reading between parent and child.

Language for Scholars - improves the communication skills of elementary and high school students so that they are understood, accepted and responded to positively by teachers and employers. Participants learn how to use language and words effectively, while also learning business communication skills, body language and conversational skills.

Lending Library - provides children and their families with unlimited access to 2,000 books. The lending library is available to all preschool classrooms.

Language and Literacy Enrichment Teaching (LET) - is a professional development program that provides preschool teachers with practice strategies for preparing their preschool students for kindergarten.

LEAP LEARNING SYSTEMS
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2006 AND 2005

2. Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "*Financial Statements of Not-for-Profit Organizations*." Under SFAS No. 117, Leap Learning Systems is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investment which are readily convertible into cash within ninety (90) days of purchase.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LEAP LEARNING SYSTEMS
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2006 AND 2005

Property and Equipment

Property and equipment are carried at cost. Depreciation is provided principally by the straight-line method, by annual charges to operations over the estimated useful lives of the depreciable assets.

Income Taxes

Leap Learning Systems is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and similar provisions of state tax law. Therefore, the Organization has made no provision for income taxes in the accompanying financial statements.

Lease

Leap Learning Systems obtained office space in Chicago in October 2002. It also shares some office space with Gottfred/Lybolt Speech Associates at minimum cost. Future minimum rental payments are as follows:

<u>Year Ended</u>	<u>Amount</u>
12/31/07	\$24,453

Bank Line of Credit

Leap Learning Systems obtained a \$90,000 line of credit to assist cash flow needs from Burling Bank in October 2002. The loan matures October 7, 2007, bears interest at 8.25% and is secured by the Foundation's equipment and accounts receivable. The balance outstanding as of December 31, 2006 was \$47,982. (\$45,054 at December 31, 2005.)

Related Party Transactions and In-kind Donations

In-kind donations of \$116,436 (\$122,206 in 2005) for office space, staff and equipment use from Gottfred/Lybolt Speech Associates are recognized in the financial statements. Offsetting expenses in an equal amount are also recognized in various salary, program and equipment expense accounts.