

**PUBLIC ALLIES, INC.**  
Milwaukee, Wisconsin

**Audited Financial Statements**

Years Ended August 31, 2007 and 2006

**Table of Contents**

	<b><u>Page(s)</u></b>
Independent Auditors' Report	1
Statements of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 10



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Certified Public Accountants & Consultants

*1907 – Celebrating 100 Years of Client Service – 2007*

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### Independent Auditors' Report

To the Board of Directors  
Public Allies, Inc.  
Milwaukee, Wisconsin

We have audited the accompanying statement of financial position of Public Allies, Inc. (the "Organization") as of August 31, 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 combined financial statements which were audited by us with a report dated November 17, 2006 expressing an unqualified opinion on those 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 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 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 Public Allies, Inc. as of August 31, 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.

*Reilly, Penner & Benton LLP*

January 7, 2008

**PUBLIC ALLIES, INC.**  
Milwaukee, Wisconsin

**Statements of Financial Position**  
August 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Assets:</b>		
Current Assets:		
Cash	\$ 43,778	\$ 208,190
Accounts receivable	818,584	423,538
Pledges receivable	526,820	527,017
Prepaid expenses	2,317	5,300
Other current assets	-	4,012
Total current assets	1,391,499	1,168,057
Property and Equipment:		
Furniture and fixtures	9,475	11,763
Computer equipment	191,324	191,324
Software	248,918	248,918
Total property and equipment	449,717	452,005
Less - Accumulated depreciation and amortization	(429,802)	(373,768)
Net property and equipment	19,915	78,237
Other Assets:		
Deposits	2,377	11,652
Long-term pledges receivable (net of discount of \$32,702 and \$66,619 at August 31, 2006 and 2005, respectively)	-	462,448
Total other assets	2,377	474,100
<b>Total assets</b>	<b>\$ 1,413,791</b>	<b>\$ 1,720,394</b>
 <b>Liabilities and Net Assets:</b>		
Current Liabilities:		
Accounts payable	\$ 733,606	\$ 447,913
Accrued vacation	40,827	40,622
Line of credit	-	400,000
Benefits payable	183	1,146
Post-service retirement benefits	5,029	5,029
Deferred income	-	13,312
Total current liabilities	779,645	908,022
Net Assets:		
Unrestricted	30,743	(215,404)
Temporarily restricted	603,403	1,027,776
Total net assets	634,146	812,372
<b>Total liabilities and net assets</b>	<b>\$ 1,413,791</b>	<b>\$ 1,720,394</b>

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

**PUBLIC ALLIES, INC.**  
Milwaukee, Wisconsin

**Statement of Activities**  
Year Ended August 31, 2007  
With Summarized Information for the Year Ended August 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>(Memorandum Only)</u>	
			<u>2007</u>	<u>2006</u>
			<u>Total</u>	<u>Total</u>
<b>Revenue:</b>				
Grants and contributions:				
Foundations	\$ 533,626	\$ 140,977	\$ 674,603	\$ 860,931
Government	4,343,876	-	4,343,876	3,224,784
Corporations	3,260	-	3,260	80,315
Individuals	1,698,486	-	1,698,486	692,760
Other income	6,140	-	6,140	44,005
In-kind contributions	1,279,533	-	1,279,533	1,517,528
Partner organizations	132,463	-	132,463	151,384
Events	25,772	-	25,772	40,375
<b>Total revenues</b>	<u>8,023,156</u>	<u>140,977</u>	<u>8,164,133</u>	<u>6,612,082</u>
<b>Net assets released from restrictions</b>	<u>565,350</u>	<u>(565,350)</u>	<u>-</u>	<u>-</u>
	8,588,506	(424,373)	8,164,133	6,612,082
<b>Expenses:</b>				
Program services	7,198,553	-	7,198,553	5,971,128
Supporting services:				
Administrative	494,790	-	494,790	488,594
Development	649,016	-	649,016	442,253
Total supporting services	<u>1,143,806</u>	<u>-</u>	<u>1,143,806</u>	<u>930,847</u>
<b>Total expenses</b>	<u>8,342,359</u>	<u>-</u>	<u>8,342,359</u>	<u>6,901,975</u>
<b>Change in net assets</b>	246,147	(424,373)	(178,226)	(289,893)
<b>Net Assets, beginning of year</b>	<u>(215,404)</u>	<u>1,027,776</u>	<u>812,372</u>	<u>1,102,265</u>
<b>Net Assets, end of year</b>	<u>\$ 30,743</u>	<u>\$ 603,403</u>	<u>\$ 634,146</u>	<u>\$ 812,372</u>

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

**PUBLIC ALLIES, INC.**  
Milwaukee, Wisconsin

**Statement of Functional Expenses**  
Year Ended August 31, 2007

With Summarized Information for the Year Ended August 31, 2006

	Supporting Services			(Memorandum Only)		
	Program Services	Administrative	Development	Total	2007	2006
				Support	Total Expenses	Total Expenses
Salaries	\$ 1,217,892	\$ 189,967	\$ 360,324	\$ 550,291	\$ 1,768,183	\$ 1,746,452
Fringe benefits - Taxes	108,131	16,848	31,992	48,840	156,971	154,437
Fringe benefits - Health & other	100,949	15,729	29,867	45,596	146,545	135,659
Fringe benefits - Retirement	24,891	3,878	7,364	11,242	36,133	39,744
Advertising	160	250	100	350	510	453
Ally expenses	2,142,385	-	-	-	2,142,385	2,447,394
Audit fees	-	16,900	-	16,900	16,900	16,500
Bank fees	-	1,404	968	2,372	2,372	3,170
Communications/development	3,107	-	10,925	10,925	14,032	9,496
Conference/meetings	36,666	12,248	3,245	15,493	52,159	39,322
Consultants	323,723	91,474	120,119	211,593	535,316	155,734
Depreciation	-	58,079	-	58,079	58,079	60,618
Equipment rental	-	-	285	285	285	1,189
Events	818	-	15,459	15,459	16,277	12,714
Insurance	3,209	22,000	705	22,705	25,914	30,117
Interest expense	-	5,108	-	5,108	5,108	12,748
Internet	9,413	1,224	1,027	2,251	11,664	12,302
Legal	-	-	-	-	-	5,106
Maintenance/repairs	4,349	15,860	1,844	17,704	22,053	32,314
Membership dues	-	2,615	400	3,015	3,015	5,159
Merchandise expenses	8,271	-	885	885	9,156	4,906
Miscellaneous	2,269	1,532	685	2,217	4,486	7,214
Office supplies	18,453	3,147	2,392	5,539	23,992	42,821
Payroll service	-	5,295	-	5,295	5,295	5,072
Postage and mailing	10,761	3,127	2,104	5,231	15,992	15,544
Printing and photocopying	39,364	4,436	4,864	9,300	48,664	51,795
Program evaluation	4,780	-	-	-	4,780	3,167
Rent	135,357	11,283	26,561	37,844	173,201	279,171
Staff development	-	-	-	-	-	7,219
Staff retreat	46,435	-	1,623	1,623	48,058	60,322
Sub-grants	2,689,464	-	-	-	2,689,464	1,308,891
Subscriptions	402	196	2,848	3,044	3,446	1,147
Team service project	1,289	-	-	-	1,289	1,048
Telecommunications	39,146	9,425	4,253	13,678	52,824	50,728
Travel - Airfare/hotel	177,703	1,524	16,628	18,152	195,855	97,533
Travel - Local	3,001	-	236	236	3,237	15,478
Utilities	10,234	998	1,313	2,311	12,545	20,559
Alumni grants	35,931	-	-	-	35,931	5,451
Loss on disposal of equipment	-	243	-	243	243	3,281
<b>Totals</b>	<b>\$ 7,198,553</b>	<b>\$ 494,790</b>	<b>\$ 649,016</b>	<b>\$ 1,143,806</b>	<b>\$ 8,342,359</b>	<b>\$ 6,901,975</b>

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

**PUBLIC ALLIES, INC.**  
Milwaukee, Wisconsin

**Statements of Cash Flows**  
Years Ended August 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Cash Flows from Operating Activities:</b>		
Decrease in net assets	\$ (178,226)	\$ (289,893)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operation activities:		
Depreciation	58,079	60,618
Loss on disposal of property and equipment	243	3,281
Changes in assets and liabilities:		
Accounts receivable	(395,046)	(229,877)
Prepaid expenses	2,983	(1,208)
Pledges receivable	462,645	504,916
Other assets	4,012	(456)
Deposits	9,275	5,513
Accounts payable	285,693	(9,803)
Accrued expenses	205	(99)
Benefits payable	(963)	(1,904)
Deferred income	(13,312)	13,312
Total adjustments	<u>413,814</u>	<u>344,293</u>
<b>Net cash provided by operating activities</b>	<u>235,588</u>	<u>54,400</u>
 <b>Cash Flows from Financing Activities:</b>		
Line of credit proceeds	30,000	420,000
Payments on line of credit	<u>(430,000)</u>	<u>(300,000)</u>
<b>Net cash provided (used) by financing activities</b>	<u>(400,000)</u>	<u>120,000</u>
 <b>Net increase (decrease) in cash</b>	 (164,412)	 174,400
 <b>Cash, Beginning of Year</b>	 <u>208,190</u>	 <u>33,790</u>
 <b>Cash, End of Year</b>	 \$ <u><u>43,778</u></u>	 \$ <u><u>208,190</u></u>
 <b>Supplemental Disclosure:</b>		
Interest paid	\$ <u><u>5,108</u></u>	\$ <u><u>12,748</u></u>

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

**PUBLIC ALLIES, INC.**  
Milwaukee, Wisconsin

**Notes to Financial Statements**  
August 31, 2007 and 2006

**1. Organization**

Public Allies, Inc. (the "Organization" and/or "Public Allies") was established in 1991 to design and implement a program for diverse young leaders, ages 18-30, to strengthen their communities through professional nonprofit apprenticeships, leadership training, and team service projects. Public Allies' mission is to advance new leadership to strengthen communities, nonprofits, and civic participation. Public Allies accomplishes this through its apprenticeship program, alumni programs, and through technical assistance and training for other organizations.

**2. Summary of Significant Accounting Policies**

**A. Basis of Accounting**

The accounting and reporting policies of the Organization are in accordance with accounting principles generally accepted in the United States of America and reflect practices appropriate to nonprofit organizations. The more significant of these policies are described below. The Organization's financial statements are presented on the accrual basis of accounting.

**B. Financial Statement Presentation**

The Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. The Organization has adopted the policy of lifting restrictions on contributions received for the acquisition of property and equipment when the property and equipment is acquired.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that are to be maintained permanently by the Organization.

**C. Contributions**

Grants and contributions are recorded as revenue in the year notification is received from the donor. They are recognized as unrestricted revenue upon satisfaction or completion of the programs in compliance with donor-imposed restriction. Amounts received prior to the satisfaction or completion of the programs are presented as temporarily restricted net assets in the accompanying financial statements. Temporarily restricted contributions, whose restrictions are met in the year they are received, are presented as unrestricted contributions.

**D. Cash**

For the purposes of the financial statements, highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents.

**E. Receivables**

Receivables are recorded at contract value, less management's estimate for uncollectible amounts based on their experience relative to the total population of receivables.

**PUBLIC ALLIES, INC.**  
Milwaukee, Wisconsin

**Notes to Financial Statements**  
August 31, 2007 and 2006  
(Continued)

**2. Summary of Significant Accounting Policies (Continued)**

**F. Property and Equipment**

Property and equipment contributed to Public Allies, Inc. are recorded at estimated fair value on the date of the gift. Purchased property, equipment and software are recorded at cost and depreciated on the straight-line basis over the estimated life of the asset (three to seven years). The cost of assets sold, retired, or otherwise disposed of, and the related allowance or loss thereon is included in operations.

Depreciation expense for fiscal years 2007 and 2006 were \$58,079 and \$60,618 respectively.

**G. 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 could affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**H. Income Taxes**

The Organization is classified for federal income tax purposes as a Section 501(c)(3) organization exempt from income taxes as provided under Section 501(a) of the Internal Revenue Code and applicable regulations of the State of Wisconsin. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization is not a private foundation.

**I. Advertising Costs**

Advertising costs are expensed as incurred. For the year ended August 31, 2007 and 2006, advertising costs totaled \$510 and \$453.

**3. Promises to Give**

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.

Included in the pledges receivable are the following unconditional promises to give:

	<u>August 31, 2007</u>	<u>August 31, 2006</u>
Unconditional promises to give before unamortized discount	\$ 526,820	\$ 1,022,167
Less: Unamortized discount (discount rate 7.00% in 2006)	<u>-</u>	<u>(32,702)</u>
Net unconditional promises to give	<u>\$ 526,820</u>	<u>\$ 989,465</u>

Payments on pledges receivable are expected to be received as follows:

	<u>August 31, 2007</u>	<u>August 31, 2006</u>
Amounts due in:		
Less than one year	\$ 526,820	\$ 527,017
One to five years	<u>-</u>	<u>495,150</u>
	<u>\$ 526,820</u>	<u>\$ 1,022,167</u>

**PUBLIC ALLIES, INC.**  
Milwaukee, Wisconsin

**Notes to Financial Statements**  
August 31, 2007 and 2006  
(Continued)

**4. In-Kind Contributions**

Under the terms of its federal grant, the Organization is required to form partnerships with other organizations which provide service opportunities to the allies (participants in the Organization's community involvement program). The amount paid to the allies, for both stipends and payroll taxes by partner organizations totaled \$1,279,547 and \$1,469,861 for the years ended August 31, 2007 and 2006 respectively.

For the year ended August 31, 2006, the Organization received an in-kind donation of office space for its Urban Underground site of \$47,667.

**5. Line of Credit**

The Organization has a line of credit in the maximum amount of \$450,000 from Bank One, which bears interest at the prime rate. The line expires on March 31, 2008. The balances as of August 31, 2007 and 2006 on the line of credit were \$- and \$400,000, respectively. The line is secured by a personal guarantee of a board member.

Total interest expense was \$5,108 and \$12,748 in 2007 and 2006, respectively.

**6. Operating Leases**

The Organization leases office space under noncancelable operating leases in a variety of locations and with various terms.

Future minimum lease payments are as follows:

	<u>National Office</u>	<u>Chicago</u>	<u>New York</u>	<u>Total</u>
2008	\$ 34,297	\$ 11,046	\$ 14,400	\$ 59,743

Rent expense totaled \$173,201 and \$279,171 for the years ended August 31, 2007 and 2006, respectively.

The Organization also leases various pieces of office equipment. Expenses under these leases totaled \$26,687 and \$38,394 for the years ended August 31, 2007 and 2006, respectively. Future minimum lease payments for these leases are as follows:

<u>Year</u>	<u>Total</u>
2008	\$ 26,687
2009	15,568
Total	\$ <u>42,255</u>

**PUBLIC ALLIES, INC.**  
Milwaukee, Wisconsin

**Notes to Financial Statements**  
August 31, 2007 and 2006  
(Continued)

**7. Temporarily Restricted Net Assets**

The following is a summary of net assets which were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors:

Purpose Restriction Accomplished:

	Year Ended August 31, 2007
Contributions restrictions met	\$ 38,333
Pledges receivable collected	527,017
Net Assets Released from Restrictions	\$ 565,350

Temporarily restricted net assets consisted of the following amounts restricted by time or purpose:

	August 31, 2007	August 31, 2006
Contributions restricted for future years	\$ 77,083	\$ 38,311
Pledges receivable	526,320	989,465
Total	\$ 603,403	\$ 1,027,776

**8. Concentration of Credit Risk**

Public Allies places its cash with financial institutions insured by the Federal Deposit Insurance Corporation for which the coverage is up to \$100,000 at each institution. At various times during the year, Public Allies may have balances that exceed this coverage.

Approximately 53% and 49% of Public Allies, Inc.'s support and revenues were provided by government grants and contracts in the years ended August 31, 2007 and 2006, respectively.

Approximately 20% and 11% of Public Allies, Inc.'s support and revenues were provided by a board member for the years ended August 31, 2007 and 2006, respectively. Approximately 71% and 74% of Public Allies, Inc.'s pledges receivable were pledged by this board member for the years ended August 31, 2007 and 2006, respectively.

**9. Retirement Plan**

The Organization sponsors a profit-sharing plan for its employees. The Organization makes matching contributions one-for-one up to 5% during the year. The Organization's contributions to this plan for the years ended August 31, 2007 and 2006 were \$36,133 and \$39,744, respectively.

**10. Related Party Transactions**

The Organization received \$2,000,000 and \$375,000 in pledge payments from a board member for the years ended August 31, 2007 and 2006, respectively. During 2007, the board member increased their original pledge by \$1,625,000. Outstanding pledge amounts from this same board member were \$375,000 and \$750,000 at August 31, 2007 and 2006, respectively.

**PUBLIC ALLIES, INC.**  
Milwaukee, Wisconsin

**Notes to Financial Statements**  
August 31, 2007 and 2006  
(Continued)

**11. Prior Year Summarized Information**

The financial information shown for 2006 in the accompanying financial statements is included to provide a basis of comparison with 2007 and presents summarized totals only.

**12. Subsequent Events**

On September 1, 2007, the Milwaukee and Cincinnati offices became affiliates of the national organization. All financial and bookkeeping functions will be independent and their activities will not be reflected in the national organization's financial statements except the subgranting of AmeriCorps funds from the national organization to the new affiliate partner.