

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

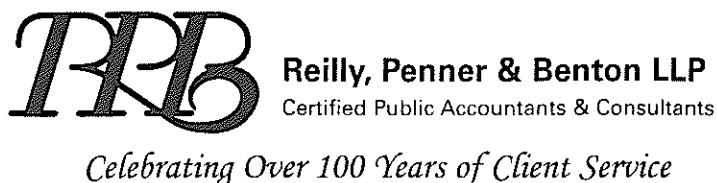
Audited Financial Statements

Years Ended August 31, 2010 and 2009

Table of Contents

	<u>Page(s)</u>
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

Richard A. Raymaker
Steven C. Barney
Steven R. Volz
Daniel R. Brophey
Thomas G. Wieland
Michael W. Van Wagenen



David A. Grotkin
Joel A. Joyce
Brian J. Mechenich
Carrie A. Gindt
Patrick G. Hoffert

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, 2010, 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 2009 combined financial statements which were audited by us with a report dated January 5, 2010 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, 2010, 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 18, 2011
Milwaukee, Wisconsin

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Statements of Financial Position
August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets:		
Current Assets:		
Cash	\$ 613,446	\$ 192,547
Accounts receivable	1,683,009	1,098,358
Pledges receivable	1,637,067	1,160,000
Prepaid expenses	250	9,511
Other current assets	43,332	4,291
Total current assets	3,977,104	2,464,707
Property and Equipment:		
Furniture and fixtures	5,795	5,795
Computer equipment	176,575	184,813
Software	79,197	248,918
Total property and equipment	261,567	439,526
Less - Accumulated depreciation and amortization	(261,567)	(439,526)
Net property and equipment	-	-
Other Assets:		
Deposits	25,141	24,199
Long-term pledges receivable (net of discount of \$37,113 at August 31, 2009)	-	462,887
Total other assets	25,141	487,086
Total assets	\$ 4,002,245	\$ 2,951,793
 Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable	\$ 1,390,650	\$ 1,071,122
Accrued vacation	47,827	37,273
Accrued liabilities	31,423	14,057
Accrued payroll	38,276	37,177
Post-service retirement benefits	5,029	5,029
Total current liabilities	1,513,205	1,164,658
Net Assets:		
Unrestricted	378,671	(35,752)
Temporarily restricted	2,110,369	1,822,887
Total net assets	2,489,040	1,787,135
Total liabilities and net assets	\$ 4,002,245	\$ 2,951,793

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, 2010

With Summarized Information for the Year Ended August 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>(Memorandum Only)</u>	
			<u>2010</u>	<u>2009</u>
	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>
Revenue:				
Grants and contributions:				
Foundations	\$ 376,315	\$ 860,369	\$ 1,236,684	\$ 136,873
Government	8,235,878	-	8,235,878	4,894,563
Corporations	58,013	-	58,013	515,051
Individuals	801,978	1,000,000	1,801,978	1,171,788
Interest income	575	-	575	-
Other income	19,501	-	19,501	13,924
In-kind contributions	1,250,693	-	1,250,693	898,685
Partner organizations	198,224	-	198,224	39,796
Total revenues	<u>10,941,177</u>	<u>1,860,369</u>	<u>12,801,546</u>	<u>7,670,680</u>
Net assets released from restrictions	<u>1,572,887</u>	<u>(1,572,887)</u>	<u>-</u>	<u>-</u>
	12,514,064	287,482	12,801,546	7,670,680
Expenses:				
Program services	10,705,343	-	10,705,343	6,934,188
Supporting services:				
Administrative	701,036	-	701,036	534,662
Development	693,262	-	693,262	484,435
Total supporting services	<u>1,394,298</u>	<u>-</u>	<u>1,394,298</u>	<u>1,019,097</u>
Total expenses	<u>12,099,641</u>	<u>-</u>	<u>12,099,641</u>	<u>7,953,285</u>
Change in net assets	414,423	287,482	701,905	(282,605)
Net Assets, beginning of year	<u>(35,752)</u>	<u>1,822,887</u>	<u>1,787,135</u>	<u>2,069,740</u>
Net Assets, end of year	<u>\$ 378,671</u>	<u>\$ 2,110,369</u>	<u>\$ 2,489,040</u>	<u>\$ 1,787,135</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, 2010

With Summarized Information for the Year Ended August 31, 2009

	Program Services	Supporting Services			(Memorandum Only)	
		Administrative	Development	Total Support	2010	2009
					Total Expenses	Total Expenses
Salaries	\$ 1,407,803	\$ 352,469	\$ 403,566	\$ 756,035	\$ 2,163,838	\$ 1,792,723
Fringe benefits - Taxes	126,079	31,597	36,180	67,777	193,856	150,217
Fringe benefits - Health & other	125,415	31,430	35,989	67,419	192,834	136,543
Fringe benefits - Retirement	30,752	9,365	10,194	19,559	50,311	42,970
Advertising	415	-	10,642	10,642	11,057	27,423
Ally expenses	2,648,355	-	-	-	2,648,355	1,327,867
Audit fees	-	19,700	-	19,700	19,700	19,200
Bank fees	-	1,202	1,864	3,066	3,066	2,542
Communications/development	4,340	2,275	6,802	9,077	13,417	9,374
Conference/meetings	23,188	13,772	3,668	17,440	40,628	16,284
Consultants	75,645	162,018	6,050	168,068	243,713	130,882
Equipment rental	-	80	-	80	80	-
Events	2,887	-	89,709	89,709	92,596	7,331
Insurance	-	6,708	-	6,708	6,708	21,288
Interest expense	-	3,993	-	3,993	3,993	3,739
Internet	693	-	23	23	716	9,432
Maintenance/repairs	16,432	15,121	1,281	16,402	32,834	27,671
Membership dues	14,155	908	5,141	6,049	20,204	17,132
Merchandise expenses	6,404	-	493	493	6,897	4,145
Miscellaneous	789	900	80	980	1,769	1,188
Office supplies	13,329	1,748	1,680	3,428	16,757	12,706
Payroll service	-	5,588	-	5,588	5,588	4,171
Postage and mailing	1,727	4,409	448	4,857	6,584	7,032
Printing and photocopying	27,646	5,124	10,790	15,914	43,560	38,725
Rent	133,192	17,029	38,349	55,378	188,570	176,391
Staff retreat	100,677	96	-	96	100,773	13,381
Sub-grants	5,809,784	-	-	-	5,809,784	3,772,383
Subscriptions	142	502	150	652	794	429
Team service project	2,220	-	-	-	2,220	1,783
Telecommunications	33,826	10,196	6,827	17,023	50,849	45,661
Travel - Airfare/hotel	79,324	3,853	20,040	23,893	103,217	117,261
Travel - Local	9,707	153	684	837	10,544	2,886
Utilities	10,249	800	2,612	3,412	13,661	9,922
Alumni grants	168	-	-	-	168	2,603
Totals	\$ 10,705,343	\$ 701,036	\$ 693,262	\$ 1,394,298	\$ 12,099,641	\$ 7,953,285

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 701,905	\$ (282,605)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(584,651)	(323,358)
Prepaid expenses	9,261	19,243
Pledges receivable	(14,180)	304,863
Other assets	(39,041)	-
Deposits	(942)	(12,667)
Accounts payable	319,528	127,342
Accrued expenses	10,554	(1,003)
Accrued liabilities	17,366	(27,806)
Benefits payable	1,099	10,450
Total adjustments	<u>(281,006)</u>	<u>97,064</u>
Net cash provided (used) by operating activities	420,899	(185,541)
Cash Flows from Financing Activities:		
Line of credit proceeds	660,000	450,000
Payments on line of credit	<u>(660,000)</u>	<u>(450,000)</u>
Net cash provided by financing activities	-	-
Net increase (decrease) in cash	420,899	(185,541)
Cash, Beginning of Year	<u>192,547</u>	<u>378,088</u>
Cash, End of Year	<u>\$ 613,446</u>	<u>\$ 192,547</u>
Supplemental Disclosure:		
Interest paid	<u>\$ 3,993</u>	<u>\$ 3,739</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, 2010 and 2009

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. The Organization has not accrued an allowance for doubtful accounts as of August 31, 2010 or 2009.

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
August 31, 2010 and 2009
(Continued)

2. Summary of Significant Accounting Policies (Continued)

F. Property and Equipment

The Organization capitalizes all expenditures in excess of \$5,000 for property and equipment at cost. Contributed property and equipment is recorded at estimated fair value on the date of the gift. Property and equipment is 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.

All property and equipment is fully depreciated. No depreciation expense was recognized in fiscal years 2010 or 2009.

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 tax-exempt under Internal Revenue Code Section 501(c)(3). Under generally accepted accounting principles, management is required to evaluate any uncertain tax positions taken, if any, and provide additional disclosures. At this time, the Organization does not believe it has taken any uncertain tax positions that may have a material effect on its financial statements or note disclosures.

I. Advertising Costs

Advertising costs are expensed as incurred. For the year ended August 31, 2010 and 2009, advertising costs totaled \$11,057 and \$27,423.

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 an interest rate of 5 percent.

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

	<u>August 31, 2010</u>	<u>August 31, 2009</u>
Unconditional promises to give before unamortized discount	\$ 1,637,067	\$ 1,660,000
Less: Unamortized discount (discount rate 5.00% in 2009)	-	(37,113)
Net unconditional promises to give	\$ <u>1,637,067</u>	\$ <u>1,622,887</u>

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

	<u>August 31, 2010</u>	<u>August 31, 2009</u>
Amounts due in:		
Less than one year	\$ 1,637,067	\$ 1,160,000
One to five years	-	500,000
	\$ <u>1,637,067</u>	\$ <u>1,660,000</u>

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
August 31, 2010 and 2009
(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 amounts paid to the allies, for both stipends and payroll taxes by partner organizations, and amounts paid for other expenses benefiting allies totaled \$1,227,619 and \$896,270 for the years ended August 31, 2010 and 2009 respectively.

For the years ended August 31, 2010 and 2009, the Organization received in-kind donations of equipment, materials, and services totaling \$23,074 and \$2,415, respectively.

5. Line of Credit

The Organization has a line of credit in the maximum amount of \$525,000, which bears interest at the prime rate. The line expires on March 31, 2011. The balances as of August 31, 2010 and 2009 on the line of credit were \$0 and \$0, respectively. The line of credit agreement gives the creditor the right of offset against any deposits, securities and other property, and bank debt of the Organization which are held by or owed to the creditor.

Total interest expense was \$3,993 and \$3,739 in 2010 and 2009, 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>New York</u>	<u>Chicago</u>	<u>Washington D.C.</u>	<u>Total</u>
2011	\$ 74,289	\$ 86,216	\$ 53,871	\$ 23,000	\$ 237,376
2012	84,234	51,442	55,487	-	191,163
2013	86,760	-	62,417	-	149,177
2014	89,359	-	64,289	-	153,648
2015	92,042	-	66,218	-	158,260
Thereafter	292,788	-	316,778	-	609,566
Total	<u>\$ 719,472</u>	<u>\$ 137,658</u>	<u>\$ 619,060</u>	<u>\$ 23,000</u>	<u>\$ 1,499,190</u>

Rent expense totaled \$188,570 and \$176,391 for the years ended August 31, 2010 and 2009, respectfully.

The Organization also leases various pieces of office equipment. Expenses under these leases totaled \$28,082 and \$28,082 for the years ended August 31, 2010 and 2009, respectively. Future minimum lease payments for these leases are as follows:

<u>Year</u>	<u>Total</u>
2011	\$ 19,188
2012	9,998
Total	<u>\$ 29,186</u>

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
August 31, 2010 and 2009
(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:

	<u>Year Ended</u> <u>August 31, 2010</u>
Pledges receivable collected	\$ 1,372,887
Conditions of contributions satisfied	200,000
Net Assets Released from Restrictions	<u>\$ 1,572,887</u>

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

	<u>August 31, 2010</u>	<u>August 31, 2009</u>
Contributions restricted for future years	\$ 473,302	\$ 200,000
Pledges receivable	<u>1,637,067</u>	<u>1,622,887</u>
Total	<u>\$ 2,110,369</u>	<u>\$ 1,822,887</u>

8. Concentration of Credit Risk

Public Allies places its cash with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). At various times during the year, Public Allies may have balances that exceed the insured limits.

Approximately 64% of Public Allies, Inc.'s support and revenues were provided by government grants and contracts in both of the years ended August 31, 2010 and 2009, respectively.

Approximately 14% and 15% of Public Allies, Inc.'s support and revenues were provided by a board member for the years ended August 31, 2010 and 2009, respectively. Approximately 61% and 60% of Public Allies, Inc.'s pledges receivable were pledged by this board member for the years ended August 31, 2010 and 2009, 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, 2010 and 2009 were \$49,463 and \$40,472, respectively.

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
August 31, 2010 and 2009
(Continued)

10. Related Party Transactions

The Organization received \$1,729,104 and \$1,150,000 in contribution and pledge payments from a board member for the years ended August 31, 2010 and 2009, respectively. Outstanding pledge amounts from this same board member were \$1,000,000 and \$1,000,000 at August 31, 2010 and 2009, respectively.

11. Prior Year Summarized Information

The financial information shown for 2009 in the accompanying financial statements is included to provide a basis of comparison with 2010 and presents summarized totals only.

12. Subsequent Events

Management has evaluated subsequent events for possible recognition or disclosure through the date the financial statements were available to be distributed (January 18, 2011). There were no subsequent events that required recognition or disclosure.