

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Audited Financial Statements

Years Ended August 31, 2008 and 2007

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



Reilly, Penner & Benton LLP
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, 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 combined financial statements which were audited by us with a report dated January 7, 2008 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, 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.

Reilly, Penner & Benton LLP

January 5, 2009
Milwaukee, Wisconsin

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Statements of Financial Position
August 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets:		
Current Assets:		
Cash	\$ 378,088	\$ 43,778
Accounts receivable	775,000	818,584
Pledges receivable	1,251,236	526,820
Prepaid expenses	28,754	2,317
Other current assets	4,291	-
Total current assets	2,437,369	1,391,499
Property and Equipment:		
Furniture and fixtures	5,795	9,475
Computer equipment	184,813	191,324
Software	248,918	248,918
Total property and equipment	439,526	449,717
Less - Accumulated depreciation and amortization	(439,526)	(429,802)
Net property and equipment	-	19,915
Other Assets:		
Deposits	11,532	2,377
Long-term pledges receivable (net of discount of \$73,486 and \$- at August 31, 2008 and 2007, respectively)	676,514	-
Total other assets	688,046	2,377
Total assets	\$ 3,125,415	\$ 1,413,791
Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable	\$ 943,780	\$ 733,606
Accrued vacation	38,276	40,827
Accrued liabilities	41,863	-
Benefits payable	26,727	183
Post-service retirement benefits	5,029	5,029
Total current liabilities	1,055,675	779,645
Net Assets:		
Unrestricted	141,990	30,743
Temporarily restricted	1,927,750	603,403
Total net assets	2,069,740	634,146
Total liabilities and net assets	\$ 3,125,415	\$ 1,413,791

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, 2008
With Summarized Information for the Year Ended August 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>(Memorandum Only)</u>	
			<u>2008</u>	<u>2007</u>
			<u>Total</u>	<u>Total</u>
Revenue:				
Grants and contributions:				
Foundations	\$ 186,264	\$ 927,750	\$ 1,114,014	\$ 674,603
Government	4,168,976	-	4,168,976	4,343,876
Corporations	37	-	37	3,260
Individuals	1,383,831	1,000,000	2,383,831	1,698,486
Other income	16,362	-	16,362	6,140
In-kind contributions	603,643	-	603,643	1,279,533
Partner organizations	4,540	-	4,540	132,463
Events	11,712	-	11,712	25,772
Total revenues	<u>6,375,365</u>	<u>1,927,750</u>	<u>8,303,115</u>	<u>8,164,133</u>
Net assets released from restrictions	<u>603,403</u>	<u>(603,403)</u>	<u>-</u>	<u>-</u>
	6,978,768	1,324,347	8,303,115	8,164,133
Expenses:				
Program services	5,845,212	-	5,845,212	7,198,553
Supporting services:				
Administrative	520,331	-	520,331	494,790
Development	501,978	-	501,978	649,016
Total supporting services	<u>1,022,309</u>	<u>-</u>	<u>1,022,309</u>	<u>1,143,806</u>
Total expenses	<u>6,867,521</u>	<u>-</u>	<u>6,867,521</u>	<u>8,342,359</u>
Change in net assets	111,247	1,324,347	1,435,594	(178,226)
Net Assets, beginning of year	<u>30,743</u>	<u>603,403</u>	<u>634,146</u>	<u>812,372</u>
Net Assets, end of year	<u>\$ 141,990</u>	<u>\$ 1,927,750</u>	<u>\$ 2,069,740</u>	<u>\$ 634,146</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, 2008
With Summarized Information for the Year Ended August 31, 2007

	Program Services	Supporting Services			(Memorandum Only)	
		Administrative	Development	Total Support	2008	2007
					Total Expenses	Total Expenses
Salaries	\$ 904,527	\$ 267,090	\$ 307,020	\$ 574,110	\$ 1,478,637	\$ 1,768,183
Fringe benefits - Taxes	74,277	22,059	25,212	47,271	121,548	156,971
Fringe benefits - Health & other	68,589	20,370	23,281	43,651	112,240	146,545
Fringe benefits - Retirement	15,520	13,937	5,938	19,875	35,395	36,133
Advertising	850	50	-	50	900	510
Ally expenses	845,880	-	-	-	845,880	2,142,385
Audit fees	-	17,500	-	17,500	17,500	16,900
Bank fees	-	1,323	699	2,022	2,022	2,372
Communications/development	3,456	-	20,055	20,055	23,511	14,032
Conference/meetings	85,852	10,376	5,063	15,439	101,291	52,159
Consultants	91,002	54,455	58,280	112,735	203,737	535,316
Depreciation	-	19,915	-	19,915	19,915	58,079
Equipment rental	-	-	-	-	-	285
Events	445	-	302	302	747	16,277
Insurance	-	23,835	-	23,835	23,835	25,914
Interest expense	-	567	-	567	567	5,108
Internet	4,905	1,753	1,255	3,008	7,913	11,664
Maintenance/repairs	30,798	15,438	7,393	22,831	53,629	22,053
Membership dues	23,619	3,930	1,115	5,045	28,664	3,015
Merchandise expenses	7,349	-	-	-	7,349	9,156
Miscellaneous	8,882	1,107	-	1,107	9,989	4,486
Office supplies	4,643	3,035	1,105	4,140	8,783	23,992
Payroll service	-	4,608	-	4,608	4,608	5,295
Postage and mailing	2,416	3,513	1,373	4,886	7,302	15,992
Printing and photocopying	28,303	7,431	6,768	14,199	42,502	48,664
Program evaluation	14,663	-	-	-	14,663	4,780
Rent	76,077	11,463	13,681	25,144	101,221	173,201
Staff retreat	2,482	81	82	163	2,645	48,058
Sub-grants	3,448,893	-	-	-	3,448,893	2,689,464
Subscriptions	200	289	191	480	680	3,446
Team service project	219	-	-	-	219	1,289
Telecommunications	24,208	12,062	3,313	15,375	39,583	52,824
Travel - Airfare/hotel	74,008	3,362	18,907	22,269	96,277	195,855
Travel - Local	317	(235)	-	(235)	82	3,237
Utilities	2,471	1,017	945	1,962	4,433	12,545
Alumni grants	361	-	-	-	361	35,931
Loss on disposal of equipment	-	-	-	-	-	243
Totals	\$ 5,845,212	\$ 520,331	\$ 501,978	\$ 1,022,309	\$ 6,867,521	\$ 8,342,359

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 1,435,594	\$ (178,226)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operation activities:		
Depreciation	19,915	58,079
Loss on disposal of property and equipment	-	243
Changes in assets and liabilities:		
Accounts receivable	43,584	(395,046)
Prepaid expenses	(26,437)	2,983
Pledges receivable	(1,400,930)	462,645
Other assets	(4,291)	4,012
Deposits	(9,155)	9,275
Accounts payable	210,174	285,693
Accrued expenses	(2,551)	205
Accrued liabilities	41,863	-
Benefits payable	26,544	(963)
Deferred income	-	(13,312)
Total adjustments	<u>(1,101,284)</u>	<u>413,814</u>
Net cash provided by operating activities	<u>334,310</u>	<u>235,588</u>
Cash Flows from Financing Activities:		
Line of credit proceeds	-	30,000
Payments on line of credit	-	(430,000)
Net cash provided (used) by financing activities	<u>-</u>	<u>(400,000)</u>
Net increase (decrease) in cash	334,310	(164,412)
Cash, Beginning of Year	<u>43,778</u>	<u>208,190</u>
Cash, End of Year	<u>\$ 378,088</u>	<u>\$ 43,778</u>
Supplemental Disclosure:		
Interest paid	<u>\$ 567</u>	<u>\$ 5,108</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, 2008 and 2007

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, 2008 and 2007
(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 2008 and 2007 were \$19,915 and \$58,079 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, 2008 and 2007, advertising costs totaled \$900 and \$510.

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, 2008</u>	<u>August 31, 2007</u>
Unconditional promises to give before unamortized discount	\$ 2,001,236	\$ 526,820
Less: Unamortized discount (discount rate 5.00% in 2008)	(73,486)	-
Net unconditional promises to give	<u>\$ 1,927,750</u>	<u>\$ 526,820</u>

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

	<u>August 31, 2008</u>	<u>August 31, 2007</u>
Amounts due in:		
Less than one year	\$ 1,251,236	\$ 526,820
One to five years	750,000	-
	<u>\$ 2,001,236</u>	<u>\$ 526,820</u>

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
August 31, 2008 and 2007
(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 \$595,783 and \$1,279,533 for the years ended August 31, 2008 and 2007 respectively.

For the year ended August 31, 2008, the Organization received an in-kind donations of equipment and materials totaling \$7,860.

5. Line of Credit

The Organization has a line of credit in the maximum amount of \$450,000, which bears interest at the prime rate. The line expires on March 31, 2009. The balances as of August 31, 2008 and 2007 on the line of credit were \$- and \$-, respectively. The line is secured by a personal guarantee of a board member.

Total interest expense was \$567 and \$5,108 in 2008 and 2007, 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</u> <u>Office</u>	<u>Chicago</u>	<u>Total</u>
2009	\$ 66,030	\$ 11,900	\$ 77,930
2010	71,582	-	71,582
2011	74,430	-	74,430
2012	84,394	-	84,394
2013	86,925	-	86,925
Thereafter	475,090	-	475,090
Total	<u>\$ 858,451</u>	<u>\$ 11,900</u>	<u>\$ 870,351</u>

Rent expense totaled \$101,221 and \$173,201 for the years ended August 31, 2008 and 2007, respectfully.

The Organization also leases various pieces of office equipment. Expenses under these leases totaled \$26,687 and \$26,687 for the years ended August 31, 2008 and 2007, respectively. Future minimum lease payments for these leases are as follows:

<u>Year</u>	<u>Total</u>
2009	\$ <u>15,568</u>
Total	\$ <u>15,568</u>

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
August 31, 2008 and 2007
(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, 2008</u>
Contributions restrictions met	\$ 77,083
Pledges receivable collected	<u>526,320</u>
Net Assets Released from Restrictions	<u>\$ 603,403</u>

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

	<u>August 31, 2008</u>	<u>August 31, 2007</u>
Contributions restricted for future years	\$ -	\$ 77,083
Pledges receivable	<u>1,927,750</u>	<u>526,320</u>
Total	<u>\$ 1,927,750</u>	<u>\$ 603,403</u>

8. Concentration of Credit Risk

Public Allies places its cash with one financial institution insured by the Federal Deposit Insurance Corporation for which the coverage is up to \$250,000 at each institution. At various times during the year, Public Allies may have balances that exceed this coverage.

Approximately 50% and 53% of Public Allies, Inc.'s support and revenues were provided by government grants and contracts in the years ended August 31, 2008 and 2007, respectively.

Approximately 28% and 20% of Public Allies, Inc.'s support and revenues were provided by a board member for the years ended August 31, 2008 and 2007, respectively. Approximately 52% and 71% of Public Allies, Inc.'s pledges receivable were pledged by this board member for the years ended August 31, 2008 and 2007, 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, 2008 and 2007 were \$35,395 and \$36,133, respectively.

PUBLIC ALLIES, INC.

Milwaukee, Wisconsin

Notes to Financial Statements

August 31, 2008 and 2007

(Continued)

10. Related Party Transactions

The Organization received \$1,713,426 and \$2,000,000 in contribution and pledge payments from a board member for the years ended August 31, 2008 and 2007, respectively. Outstanding pledge amounts from this same board member were \$1,000,000 and \$375,000 at August 31, 2008 and 2007, respectively.

11. Prior Year Summarized Information

The financial information shown for 2007 in the accompanying financial statements is included to provide a basis of comparison with 2008 and presents summarized totals only.

12. Subsequent Events

The Organization entered into an agreement to sublease office space for its New York branch on October 29, 2008. Consent to this sublease was granted by the owner of the property on November 19, 2008. Terms of the agreement call for Public Allies to make monthly rent payments through March 2012. Minimum lease payments for this agreement are as follows:

2009	\$	61,631
2010		83,885
2011		86,216
2012		<u>51,442</u>
Total	\$	<u>283,174</u>