

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

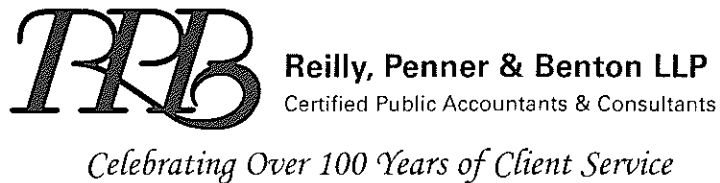
**Audited Financial Statements**

Years Ended August 31, 2009 and 2008

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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, 2009, 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 2008 combined financial statements which were audited by us with a report dated January 5, 2009 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, 2009, 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, 2010  
Milwaukee, Wisconsin

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

**Statements of Financial Position**  
August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Assets:</b>		
Current Assets:		
Cash	\$ 192,547	\$ 378,088
Accounts receivable	1,098,358	775,000
Pledges receivable	1,160,000	1,251,236
Prepaid expenses	9,511	28,754
Other current assets	4,291	4,291
Total current assets	2,464,707	2,437,369
Property and Equipment:		
Furniture and fixtures	5,795	5,795
Computer equipment	184,813	184,813
Software	248,918	248,918
Total property and equipment	439,526	439,526
Less - Accumulated depreciation and amortization	(439,526)	(439,526)
Net property and equipment	-	-
Other Assets:		
Deposits	24,199	11,532
Long-term pledges receivable (net of discount of \$37,113 and \$73,486 at August 31, 2009 and 2008, respectively)	462,887	676,514
Total other assets	487,086	688,046
<b>Total assets</b>	\$ 2,951,793	\$ 3,125,415
 <b>Liabilities and Net Assets:</b>		
Current Liabilities:		
Accounts payable	\$ 1,071,122	\$ 943,780
Accrued vacation	37,273	38,276
Accrued liabilities	14,057	41,863
Accrued payroll	37,177	26,727
Post-service retirement benefits	5,029	5,029
Total current liabilities	1,164,658	1,055,675
Net Assets:		
Unrestricted	(35,752)	141,990
Temporarily restricted	1,822,887	1,927,750
Total net assets	1,787,135	2,069,740
<b>Total liabilities and net assets</b>	\$ 2,951,793	\$ 3,125,415

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, 2009

With Summarized Information for the Year Ended August 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>(Memorandum Only)</u>	
			<u>2009</u>	<u>2008</u>
	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>
<b>Revenue:</b>				
Grants and contributions:				
Foundations	\$ 126,873	\$ 10,000	\$ 136,873	\$ 1,114,014
Government	4,894,563	-	4,894,563	4,168,976
Corporations	165,051	350,000	515,051	37
Individuals	171,788	1,000,000	1,171,788	2,383,831
Other income	13,924	-	13,924	16,362
In-kind contributions	898,685	-	898,685	603,643
Partner organizations	39,796	-	39,796	4,540
Events	-	-	-	11,712
<b>Total revenues</b>	<u>6,310,680</u>	<u>1,360,000</u>	<u>7,670,680</u>	<u>8,303,115</u>
<b>Net assets released from restrictions</b>	<u>1,464,863</u>	<u>(1,464,863)</u>	<u>-</u>	<u>-</u>
	7,775,543	(104,863)	7,670,680	8,303,115
<b>Expenses:</b>				
Program services	6,934,188	-	6,934,188	5,845,212
Supporting services:				
Administrative	534,662	-	534,662	520,331
Development	484,435	-	484,435	501,978
Total supporting services	<u>1,019,097</u>	<u>-</u>	<u>1,019,097</u>	<u>1,022,309</u>
<b>Total expenses</b>	<u>7,953,285</u>	<u>-</u>	<u>7,953,285</u>	<u>6,867,521</u>
<b>Change in net assets</b>	(177,742)	(104,863)	(282,605)	1,435,594
<b>Net Assets, beginning of year</b>	<u>141,990</u>	<u>1,927,750</u>	<u>2,069,740</u>	<u>634,146</u>
<b>Net Assets, end of year</b>	<u>\$ (35,752)</u>	<u>\$ 1,822,887</u>	<u>\$ 1,787,135</u>	<u>\$ 2,069,740</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, 2009  
With Summarized Information for the Year Ended August 31, 2008

	Program Services	Supporting Services			(Memorandum Only)	
		Administrative	Development	Total Support	2009	2008
					Total Expenses	Total Expenses
Salaries	\$ 1,182,190	\$ 303,480	\$ 307,053	\$ 610,533	\$ 1,792,723	\$ 1,478,637
Fringe benefits - Taxes	99,075	25,409	25,733	51,142	150,217	121,548
Fringe benefits - Health & other	90,056	23,096	23,391	46,487	136,543	112,240
Fringe benefits - Retirement	28,341	7,268	7,361	14,629	42,970	35,395
Advertising	2,958	7,919	16,546	24,465	27,423	20,370
Ally expenses	1,327,867	-	-	-	1,327,867	825,977
Audit fees	-	19,200	-	19,200	19,200	17,500
Bank fees	-	1,857	685	2,542	2,542	2,022
Communications/development	4,377	2,277	2,720	4,997	9,374	23,511
Conference/meetings	6,925	7,742	1,617	9,359	16,284	101,291
Consultants	78,773	43,330	8,779	52,109	130,882	203,737
Depreciation	-	-	-	-	-	19,915
Events	-	-	7,331	7,331	7,331	747
Insurance	-	21,288	-	21,288	21,288	23,835
Interest expense	-	3,739	-	3,739	3,739	567
Internet	4,859	2,529	2,044	4,573	9,432	7,913
Maintenance/repairs	6,562	18,289	2,820	21,109	27,671	53,629
Membership dues	11,825	1,012	4,295	5,307	17,132	28,664
Merchandise expenses	3,867	-	278	278	4,145	7,349
Miscellaneous	471	717	-	717	1,188	9,989
Office supplies	7,813	2,348	2,545	4,893	12,706	9,216
Payroll service	-	4,171	-	4,171	4,171	4,608
Postage and mailing	2,130	4,519	383	4,902	7,032	7,302
Printing and photocopying	24,475	6,441	7,809	14,250	38,725	42,502
Program evaluation	-	-	-	-	-	14,663
Rent	125,363	14,283	36,745	51,028	176,391	101,221
Staff retreat	13,381	-	-	-	13,381	2,645
Sub-grants	3,772,383	-	-	-	3,772,383	3,448,893
Subscriptions	-	357	72	429	429	680
Team service project	1,783	-	-	-	1,783	219
Telecommunications	29,618	10,276	5,767	16,043	45,661	39,583
Travel - Airfare/hotel	98,153	1,842	17,266	19,108	117,261	96,277
Travel - Local	2,738	118	30	148	2,886	82
Utilities	5,602	1,155	3,165	4,320	9,922	4,433
Alumni grants	2,603	-	-	-	2,603	361
<b>Totals</b>	<b>\$ 6,934,188</b>	<b>\$ 534,662</b>	<b>\$ 484,435</b>	<b>\$ 1,019,097</b>	<b>\$ 7,953,285</b>	<b>\$ 6,867,521</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Cash Flows from Operating Activities:</b>		
Increase (decrease) in net assets	\$ (282,605)	\$ 1,435,594
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	-	19,915
Changes in assets and liabilities:		
Accounts receivable	(323,358)	43,584
Prepaid expenses	19,243	(26,437)
Pledges receivable	304,863	(1,400,930)
Other assets	-	(4,291)
Deposits	(12,667)	(9,155)
Accounts payable	127,342	210,174
Accrued expenses	(1,003)	(2,551)
Accrued liabilities	(27,806)	41,863
Benefits payable	10,450	26,544
Total adjustments	<u>97,064</u>	<u>(1,101,284)</u>
<b>Net cash provided (used) by operating activities</b>	<u>(185,541)</u>	<u>334,310</u>
<b>Cash Flows from Financing Activities:</b>		
Line of credit proceeds	450,000	-
Payments on line of credit	<u>(450,000)</u>	<u>-</u>
<b>Net cash provided by financing activities</b>	<u>-</u>	<u>-</u>
<b>Net increase (decrease) in cash</b>	(185,541)	334,310
<b>Cash, Beginning of Year</b>	<u>378,088</u>	<u>43,778</u>
<b>Cash, End of Year</b>	<u>\$ 192,547</u>	<u>\$ 378,088</u>
<b>Supplemental Disclosure:</b>		
Interest paid	<u>\$ 3,739</u>	<u>\$ 567</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, 2009 and 2008

**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, 2009 and 2008  
(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.

Depreciation expense for fiscal years 2009 and 2008 were \$- and \$19,915 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 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, 2009 and 2008, advertising costs totaled \$27,423 and \$20,370.

**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, 2009</u>	<u>August 31, 2008</u>
Unconditional promises to give before unamortized discount	\$ 1,660,000	\$ 2,001,236
Less: Unamortized discount (discount rate 5.00% in 2009 and 2008)	<u>(37,113)</u>	<u>(73,486)</u>
Net unconditional promises to give	<u>\$ 1,622,887</u>	<u>\$ 1,927,750</u>

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

	<u>August 31, 2009</u>	<u>August 31, 2008</u>
Amounts due in:		
Less than one year	\$ 1,160,000	\$ 1,251,236
One to five years	500,000	750,000
	<u>\$ 1,660,000</u>	<u>\$ 2,001,236</u>

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

**Notes to Financial Statements**  
August 31, 2009 and 2008  
(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 \$896,270 and \$595,783 for the years ended August 31, 2009 and 2008 respectively.

For the years ended August 31, 2009 and 2008, the Organization received in-kind donations of equipment, materials, and services totaling \$2,415 and \$7,860, respectively.

**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, 2010. The balances as of August 31, 2009 and 2008 on the line of credit were \$- and \$-, 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 \$3,739 and \$567 in 2009 and 2008, 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>Total</u>
2010	\$	71,582	\$ 83,885	\$ 14,000	\$ 169,467
2011		74,430	86,216	-	160,646
2012		84,394	51,442	-	135,836
2013		86,925	-	-	86,925
2014		89,529	-	-	89,529
Thereafter		385,561	-	-	385,561
Total	\$	<u>792,421</u>	<u>221,543</u>	<u>\$ 14,000</u>	<u>\$ 1,027,964</u>

Rent expense totaled \$176,391 and \$101,221 for the years ended August 31, 2009 and 2008, respectively.

The Organization also leases various pieces of office equipment. Expenses under these leases totaled \$28,082 and \$26,687 for the years ended August 31, 2009 and 2008, respectively. Future minimum lease payments for these leases are as follows:

<u>Year</u>		<u>Total</u>
2010	\$	19,476
2011		19,188
2012		<u>9,998</u>
Total	\$	<u>48,662</u>

**PUBLIC ALLIES, INC.**

Milwaukee, Wisconsin

**Notes to Financial Statements**

August 31, 2009 and 2008

(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, 2009</u>
Pledges receivable collected	\$ 1,464,863
Net Assets Released from Restrictions	\$ <u>1,464,863</u>

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

	<u>August 31, 2009</u>	<u>August 31, 2008</u>
Contributions restricted for future years	\$ 200,000	\$ -
Pledges receivable	<u>1,622,887</u>	<u>1,927,750</u>
Total	<u>\$ 1,822,887</u>	<u>\$ 1,927,750</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 64% and 50% of Public Allies, Inc.'s support and revenues were provided by government grants and contracts in the years ended August 31, 2009 and 2008, respectively.

Approximately 15% and 28% of Public Allies, Inc.'s support and revenues were provided by a board member for the years ended August 31, 2009 and 2008, respectively. Approximately 60% and 52% of Public Allies, Inc.'s pledges receivable were pledged by this board member for the years ended August 31, 2009 and 2008, 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, 2009 and 2008 were \$40,472 and \$35,395, respectively.

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

**Notes to Financial Statements**  
August 31, 2009 and 2008  
(Continued)

**10. Related Party Transactions**

The Organization received \$1,150,000 and \$1,713,426 in contribution and pledge payments from a board member for the years ended August 31, 2009 and 2008, respectively. Outstanding pledge amounts from this same board member were \$1,000,000 and \$1,000,000 at August 31, 2009 and 2008, respectively.

**11. Prior Year Summarized Information**

The financial information shown for 2008 in the accompanying financial statements is included to provide a basis of comparison with 2009 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 5, 2010). There were no subsequent events that required recognition or disclosure.