

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Audited Financial Statements

Years Ended August 31, 2015 and 2014

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Public Allies, Inc. (Organization), which comprise the statement of financial position as of August 31, 2015, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Public Allies, Inc.'s 2014 financial statements, and our report dated January 8, 2015 expressed an unmodified opinion on those audited statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

January 22, 2016
Milwaukee, Wisconsin

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Statements of Financial Position
August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Current Assets:		
Cash	\$ 557,067	\$ 239,840
Accounts receivable	234,617	147,799
Government grants receivable	369,210	473,519
Pledges receivable	1,001,250	1,002,500
Prepaid expenses	7,462	14,568
Total current assets	2,169,606	1,878,226
Property and Equipment:		
Furniture and fixtures	32,866	27,350
Computer equipment	176,575	176,575
Software	79,197	79,197
Total property and equipment	288,638	283,122
Less - Accumulated depreciation and amortization	(272,054)	(267,819)
Net property and equipment	16,584	15,303
Other Assets:		
Deposits	15,131	7,000
Total assets	\$ 2,201,321	\$ 1,900,529
 Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable	\$ 351,722	\$ 502,954
Accrued vacation	60,422	37,369
Accrued liabilities	142,959	6,715
Line of credit	500,000	300,000
Accrued payroll	48,689	41,986
Post-service retirement benefits	5,029	5,029
Deferred rent	234,782	172,224
Deferred income	18,734	147,210
Total current liabilities	1,362,337	1,213,487
Net Assets:		
Unrestricted	(371,410)	(543,993)
Temporarily restricted	1,210,394	1,231,035
Total net assets	838,984	687,042
Total liabilities and net assets	\$ 2,201,321	\$ 1,900,529

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, 2015
With Summarized Information for the Year Ended August 31, 2014

	<u>2015</u>			<u>Memorandum Only 2014</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Revenue:				
Grants and contributions:				
Major gifts	\$ 392,105	\$ 1,157,895	\$ 1,550,000	\$ 1,100,000
Project grants	130,000	25,000	155,000	472,745
Grassroots giving	32,016	-	32,016	10,373
Donor's circle	114,310	-	114,310	112,106
Sponsorships	8,750	1,250	10,000	11,978
Government	7,718,424	-	7,718,424	7,765,151
Interest income	87	-	87	-
Other income	47,502	-	47,502	95,804
In-kind contributions	628,685	-	628,685	524,814
Partner organizations	2,347,533	-	2,347,533	1,696,311
Events	8,700	-	8,700	20,395
Total revenues	<u>11,428,112</u>	<u>1,184,145</u>	<u>12,612,257</u>	<u>11,809,677</u>
Net assets released from restrictions	<u>1,204,786</u>	<u>(1,204,786)</u>	<u>-</u>	<u>-</u>
	12,632,898	(20,641)	12,612,257	11,809,677
Expenses:				
Program services	11,255,686	-	11,255,686	11,090,368
Supporting services:				
Administrative	853,393	-	853,393	645,275
Development	351,236	-	351,236	351,250
Total supporting services	<u>1,204,629</u>	<u>-</u>	<u>1,204,629</u>	<u>996,525</u>
Total expenses	<u>12,460,315</u>	<u>-</u>	<u>12,460,315</u>	<u>12,086,893</u>
Change in net assets	172,583	(20,641)	151,942	(277,216)
Net assets, beginning of year	<u>(543,993)</u>	<u>1,231,035</u>	<u>687,042</u>	<u>964,258</u>
Net assets (deficit), end of year	<u>\$ (371,410)</u>	<u>\$ 1,210,394</u>	<u>\$ 838,984</u>	<u>\$ 687,042</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, 2015

With Summarized Information for the Year Ended August 31, 2014

	2015					Memorandum Only 2014	
	Program Services	Supporting Services			Total Support	Total Expenses	Total Expenses
		Administrative	Development				
Salaries	\$ 1,645,950	\$ 415,583	\$ 197,223	\$ 612,806	\$ 2,258,756	\$ 2,045,874	
Fringe benefits - Taxes	117,612	27,913	17,290	45,203	162,815	158,777	
Fringe benefits - Health & other	154,372	36,637	22,694	59,331	213,703	261,151	
Fringe benefits - Retirement	46,609	11,062	6,852	17,914	64,523	67,689	
Advertising	240	1,713	245	1,958	2,198	1,542	
Ally expenses	3,943,963	-	-	-	3,943,963	3,027,079	
Audit fees	-	17,000	-	17,000	17,000	18,000	
Bank fees	-	11,131	1,406	12,537	12,537	4,011	
Communications/development	377	93	25,264	25,357	25,734	22,911	
Conference/meetings	39,992	20,773	181	20,954	60,946	67,423	
Consultants	40,204	116,683	2,482	119,165	159,369	208,309	
Depreciation	-	4,236	-	4,236	4,236	3,907	
Events	121	-	-	-	121	2,269	
Insurance	-	18,558	-	18,558	18,558	13,464	
Interest expense	-	11,754	-	11,754	11,754	4,595	
Maintenance/repairs	3,505	15,755	1,139	16,894	20,399	36,309	
Membership dues	4,275	14,464	8,718	23,182	27,457	17,476	
Merchandise expenses	5,891	-	1,658	1,658	7,549	12,496	
Miscellaneous	877	1,255	413	1,668	2,545	29,373	
Office supplies	8,645	1,726	1,127	2,853	11,498	18,454	
Payroll service	-	13,282	-	13,282	13,282	10,508	
Postage and mailing	380	1,139	647	1,786	2,166	2,088	
Printing and photocopying	14,881	5,112	1,994	7,106	21,987	23,133	
Program evaluation	41,667	-	-	-	41,667	-	
Rent	271,548	34,350	41,524	75,874	347,422	319,466	
National meetings/trainings	96,043	2,850	-	2,850	98,893	83,083	
Sub-grants	4,685,000	-	-	-	4,685,000	5,388,865	
Subscriptions	1,353	520	75	595	1,948	2,054	
Team service project	3,104	-	-	-	3,104	4,202	
Telecommunications	51,799	8,851	4,979	13,830	65,629	59,369	
Travel - Airfare/hotel	18,893	59,089	11,528	70,617	89,510	103,073	
Travel - Local	45	-	-	-	45	-	
Utilities	34,841	1,864	3,797	5,661	40,502	28,896	
Alumni relations	23,499	-	-	-	23,499	41,047	
Totals	<u>\$ 11,255,686</u>	<u>\$ 853,393</u>	<u>\$ 351,236</u>	<u>\$ 1,204,629</u>	<u>\$ 12,460,315</u>	<u>\$ 12,086,893</u>	

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 151,942	\$ (277,216)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	4,236	3,907
Changes in assets and liabilities:		
Accounts receivable	(86,818)	(127,592)
Government grants receivable	104,309	(326,020)
Prepaid expenses	7,106	(802)
Pledges receivable	1,250	(2,500)
Deposits	(8,131)	2,744
Accounts payable	(151,233)	387,232
Accrued expenses	23,053	(3,084)
Accrued liabilities	136,244	1,027
Benefits payable	6,703	(1,497)
Deferred rent	62,558	52,820
Deferred income	(128,476)	(33,108)
Total adjustments	<u>(29,199)</u>	<u>(46,873)</u>
Net cash provided (used) by operating activities	<u>122,743</u>	<u>(324,089)</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(5,516)</u>	-
Net cash used by investing activities	<u>(5,516)</u>	-
Cash Flows from Financing Activities:		
Line of credit proceeds	200,000	500,000
Payments on line of credit	<u>-</u>	<u>(200,000)</u>
Net cash provided by financing activities	<u>200,000</u>	<u>300,000</u>
Net increase (decrease) in cash	317,227	(24,089)
Cash, Beginning of Year	<u>239,840</u>	<u>263,929</u>
Cash, End of Year	\$ <u><u>557,067</u></u>	\$ <u><u>239,840</u></u>
Supplemental Disclosure:		
Interest paid	\$ <u><u>11,754</u></u>	\$ <u><u>4,595</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, 2015 and 2014

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, 2015 or 2014.

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
August 31, 2015 and 2014
(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 is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation expense was \$4,236 and \$3,907 for the years ended August 31, 2015 and 2014, 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 exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Organization has implemented accounting for uncertainty in income taxes in accordance with accounting principles generally accepted in the United States of America. This standard describes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognizing, interest, penalties and disclosure required. Management of the Organization evaluates the uncertain tax positions taken, if any, and consults with outside counsel as deemed necessary. The Organization recognizes interest and penalties, if any, related to unrecognized tax liabilities in income tax expense.

Generally, for United States Federal income taxes, the Organization is only subject to examination for the current year's tax return and the preceding three years' returns. Generally, for Wisconsin income taxes, the Organization is only subject to examinations for current year's tax return and the preceding four years' returns.

I. Advertising Costs

Advertising costs are expensed as incurred. For the years ended August 31, 2015 and 2014, advertising costs totaled \$2,198 and \$1,542, respectively.

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. All pledges receivable at August 31, 2015 will be received during the 2015 fiscal year so no pledge discount is necessary. All pledges receivable at August 31, 2014 were also to be collected within one year, so no pledge discount was necessary.

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
August 31, 2015 and 2014
(Continued)

4. In-Kind Contributions

The Organization forms 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 \$628,685 and \$454,595 for the years ended August 31, 2015 and 2014, respectively.

For the years ended August 31, 2015 and 2014, the Organization received in-kind donations of equipment, materials, and services totaling \$0 and \$70,219, respectively.

5. Borrowings

The Organization has a line of credit in the maximum amount of \$700,000, which bears interest at the prime rate. The line expires on May 1, 2016. The balance as of August 31, 2015 and 2014 on the line of credit was \$500,000 and \$300,000, 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.

The Organization also has a standby letter of credit with the same lender in the amount of \$46,375. This standby letter of credit reduces the available amount of draws on the line of credit to \$633,625. The letter of credit was established in the favor of one of the Organization's office space lessors. The lessor is allowed to draw on the letter of credit pursuant to the terms of their lease with the Organization.

Total interest expense was \$11,754 and \$4,595 in 2015 and 2014, 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:

	National Office	New York	Chicago	Washington D.C.	Total
2016	\$ 96,136	\$ 133,055	\$ 55,002	\$ 68,187	\$ 352,380
2017	99,003	137,986	56,201	93,064	386,254
2018	101,992	155,803	57,400	95,624	410,819
2019	105,042	160,144	63,837	98,253	427,276
2020	108,214	164,614	65,145	100,955	438,928
Thereafter	168,818	402,655	279,586	577,343	1,428,402
Total	<u>\$ 679,205</u>	<u>\$ 1,154,257</u>	<u>\$ 577,171</u>	<u>\$ 1,033,426</u>	<u>\$ 3,444,059</u>

Rent expense totaled \$347,422 and \$319,466 for the years ended August 31, 2015 and 2014, respectively.

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
August 31, 2015 and 2014
(Continued)

6. Operating Leases (Continued)

The Organization also leases various pieces of office equipment. Expenses under these leases totaled \$12,139 and \$9,448 for the years ended August 31, 2015 and 2014, respectively. Future minimum lease payments for these leases are as follows:

<u>Year</u>	<u>Total</u>
2016	\$ 12,098
2017	6,527
2018	1,184
Total	<u>\$ 19,809</u>

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, 2015</u>
Pledges receivable collected	\$ 1,000,000
Conditions of contributions satisfied	204,786
Net Assets Released from Restrictions	<u>\$ 1,204,786</u>

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

	<u>August 31, 2015</u>	<u>August 31, 2014</u>
Contributions restricted for future years	\$ 109,000	\$ 95,714
Contributions restricted by purpose	100,144	132,821
Pledges receivable	<u>1,001,250</u>	<u>1,002,500</u>
Total	<u>\$ 1,210,394</u>	<u>\$ 1,231,035</u>

PUBLIC ALLIES, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
August 31, 2015 and 2014
(Continued)

8. Concentration of Credit Risk

The Company maintains its cash balances at a Milwaukee area financial institution. The Company's deposits at the financial institution are insured by the Federal Deposit Insurance Corporation up to the prescribed limits.

Approximately 61% and 66% of Public Allies, Inc.'s support and revenues were provided by government grants and contracts in both of the years ended August 31, 2015 and 2014, respectively.

Approximately 10% and 8% of Public Allies, Inc.'s support and revenues were provided by a board member for the years ended August 31, 2015 and 2014, respectively. Approximately 100% of Public Allies, Inc.'s pledges receivable were pledged by this board member for the years ended August 31, 2015 and 2014.

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, 2015 and 2014 were \$64,240 and \$63,983, respectively.

10. Related Party Transactions

The Organization received \$1,250,000 and \$1,000,000 in contribution and pledge payments from a board member for the years ended August 31, 2015 and 2014, respectively. Outstanding pledge amounts from this same board member were \$1,000,000 and \$1,000,000 at August 31, 2015 and 2014, respectively.

11. Prior-Year Summarized Information

The financial information shown for 2014 in the accompanying financial statements is included to provide a basis of comparison with 2015 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 22, 2016). There were no subsequent events that required recognition or disclosure.