



Reilly, Penner & Benton LLP
Certified Public Accountants & Consultants

1907 – Celebrating 100 Years of Client Service – 2007

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PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

AUDITED FINANCIAL STATEMENTS

Years Ended June 30, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Partners Advancing Values in Education, Inc.

We have audited the accompanying statements of financial position of Partners Advancing Values in Education, Inc. as of June 30, 2006 and 2005 and the related statements of activities and cash flows for the years 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.

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 Partners Advancing Values in Education, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Reilly, Penner & Benton, LLP

October 19, 2006

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Statements of Financial Position
June 30, 2006 and 2005

| ASSETS | 2006 | 2005 |
|--|--------------------------|--------------------------|
| Current Assets: | | |
| Cash and equivalents | \$ 3,171,649 | \$ 1,115,365 |
| Receivables | - | 509 |
| Investments | 1,806,520 | 4,680,497 |
| Deposits and prepaid expense | 5,782 | 3,570 |
| Promises to give | 25,000 | 10,000 |
| Current portion of loans receivable | 1,881,844 | 696,036 |
| Total current assets | 6,890,795 | 6,505,977 |
| Noncurrent Assets: | | |
| Promises to give, net of discount | 31,591 | 30,000 |
| Loans receivable, net of valuation allowance | 3,922,130 | 3,519,577 |
| Total noncurrent assets | 3,953,721 | 3,549,577 |
| Property and Equipment: | | |
| Property and equipment | 7,233 | - |
| Less: Accumulated depreciation | (339) | - |
| Property and equipment - Net book value | 6,894 | - |
| Total assets | \$ 10,851,410 | \$ 10,055,554 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable | \$ 944 | \$ 6,594 |
| Accrued compensated absences | 20,615 | 9,706 |
| Accrued payroll | 11,546 | - |
| Grants payable | 50,000 | 175,000 |
| Total liabilities | 83,105 | 191,300 |
| Net Assets: | | |
| Unrestricted net assets | 1,521,196 | 1,364,478 |
| Temporarily restricted net assets | 9,247,109 | 8,499,776 |
| Total Net Assets | 10,768,305 | 9,864,254 |
| Total Liabilities and Net Assets | \$ 10,851,410 | \$ 10,055,554 |

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

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Statements of Activities

Years ended June 30, 2006 and 2005

| | 2006 | | 2005 | | |
|--|---------------------|------------------------|----------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | Temporarily Restricted | Total |
| Revenues, Gains, and Other Support: | | | | | |
| Contributions | \$ 1,613,602 | \$ 1,375,300 | \$ 2,988,902 | \$ 3,343,145 | \$ 4,497,438 |
| Interest | 318,174 | - | 318,174 | 164,373 | 187,545 |
| Unrealized losses on valuation of loans receivable | - | (31,987) | (31,987) | (171,579) | (171,579) |
| Net Assets Released from Restrictions | 595,980 | (595,980) | - | (523,635) | - |
| Total Revenues, Gains, and Other Support | 2,527,756 | 747,333 | 3,275,089 | 2,812,304 | 4,513,404 |
| Expenses: | | | | | |
| Program Services: | | | | | |
| Scholarships | 1,372,740 | - | 1,372,740 | - | 816,597 |
| Urban School Leadership | 89,718 | - | 89,718 | - | 118,262 |
| Capital Investment (Schools) | 504,852 | - | 504,852 | - | 405,372 |
| Program Management | 337,021 | - | 337,021 | - | 263,511 |
| Facilities | 50,507 | - | 50,507 | - | 44,029 |
| Fund-raising | 16,200 | - | 16,200 | - | 16,200 |
| Total Expenses | 2,371,038 | - | 2,371,038 | - | 1,663,971 |
| Change in Net Assets | 156,718 | 747,333 | 904,051 | 2,812,304 | 2,849,433 |
| Net Assets, beginning of year | 1,364,478 | 8,499,776 | 9,864,254 | 1,327,349 | 7,014,821 |
| Net Assets, end of year | \$ 1,521,196 | \$ 9,247,109 | \$ 10,768,305 | \$ 1,364,478 | \$ 9,864,254 |

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

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Statements of Cash Flows
Years ended June 30, 2006 and 2005

| | 2006 | 2005 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Change in Net Assets | \$ 904,051 | \$ 2,849,433 |
| Adjustments to Reconcile Change in Net Assets to Net Cash | | |
| Provided by (Used for) Operating Activities: | | |
| Depreciation | 339 | - |
| Unrealized losses on loans receivable | 31,987 | 171,579 |
| Changes in assets and liabilities: | | |
| Receivables | 509 | (509) |
| Deposits and prepaid expense | (2,212) | 765 |
| Promises to give | (16,591) | 60,000 |
| Loans receivable | (1,620,348) | (1,563,550) |
| Accounts payable | (5,650) | (2,454) |
| Accrued compensated absences | 10,909 | 3,826 |
| Accrued payroll | 11,546 | - |
| Grants payable | (125,000) | (238,000) |
| | (810,460) | 1,281,090 |
| Net Cash Provided (Used) by Operating Activities | (810,460) | 1,281,090 |
| Cash Flows from Investing Activities: | | |
| Sale of investments | 2,873,977 | - |
| Purchase of investments | - | (1,357,221) |
| Acquisition of property and equipment | (7,233) | - |
| | 2,866,744 | (1,357,221) |
| Net Cash Provided (Used) by Investing Activities | 2,866,744 | (1,357,221) |
| Net Increase(Decrease) in Cash and Equivalents | 2,056,284 | (76,131) |
| Cash and Equivalents, beginning of year | 1,115,365 | 1,191,496 |
| | 1,115,365 | 1,115,365 |
| Cash and Equivalents, end of year | \$ 3,171,649 | \$ 1,115,365 |
| | 3,171,649 | 1,115,365 |

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

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
Years Ended June 30, 2006 and 2005

1. Organization Background and General

Partners Advancing Values in Education, Inc. ("PAVE") is a nonprofit organization, with a board composed of 18 volunteer directors, whose mission is to make excellent educational opportunities possible for low-income families in Milwaukee, Wisconsin. PAVE is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

PAVE has three main areas of interest. First, PAVE is a public charity that offers scholarships to low-income families who enroll their children in private elementary and secondary schools, principally in the City of Milwaukee, Wisconsin. Scholarships are intended to cover a portion of the annual cost of tuition, up to \$1,000 for elementary and \$3,000 for secondary schools. Contributions are solicited throughout the year from foundations, corporations, and individuals to fund scholarships that are distributed in one-half payments in October and February. In fiscal years 2006 and 2005, PAVE generally followed the State of Wisconsin eligibility guidelines for the Milwaukee Parental Choice Program (Choice); i.e. in determining initial eligibility for PAVE scholarships, students in grades kindergarten through 12 must be residents of the City of Milwaukee, and their total family income cannot exceed 1.75 times the federal poverty level. PAVE scholarship recipients may retain their scholarships if their family income subsequently exceeds 1.75 times the federal poverty level, provided it does not exceed 2.2 times that level. All scholarship recipients have previously been determined to be ineligible for participation in the Choice program because of certain limitations applicable to them under state law. In fiscal year 2007, the PAVE scholarship program will be revised because of changes in legislation that removed many of the limitations for participation in the Choice program. PAVE scholarships will continue to support low-income students not covered by the Choice program. PAVE does not discriminate as to a student's race, religion, or academic background.

Second, PAVE is certified as a Community Development Financial Institution ("CDFI") by the U.S. Department of Treasury in order to provide credit enhancements and access to capital (including various development resources, challenge grants, and loans) for schools that plan to expand excellent educational opportunities available to low-income families in Milwaukee. PAVE is also directly involved in the business, project, and program developments that have the potential to become new models for successful urban schools.

Third, PAVE promotes excellence in elementary and secondary educational programs through a leadership program whose mission is to "create a compelling model for developing and supporting highly skilled leaders dedicated to building great community-based K-12 schools for urban families." One program, The PAVE Scholars, has been approved by the State of Wisconsin as the first alternative licensing program for urban school principals. Another program, The Johnsonville Fellows, is an association of outstanding urban school leaders who participate in educational activities and meetings where information is shared which enhances their leadership and administrative skills.

2. Summary of Significant Accounting Policies

Basis of Accounting

PAVE's financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
Years Ended June 30, 2006 and 2005

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, **Financial Statements of Not-for-Profit Organizations**. Under SFAS No. 117, PAVE is required to report information regarding its financial position and activities according to three classes of net assets, defined as follows:

Unrestricted net assets - Net assets that are 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 PAVE and/or the passage of time

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of PAVE

Cash and Equivalents

For purposes of the Statement of Cash Flows, PAVE considers all highly liquid investments with an initial maturity of three months or less to be cash and equivalents.

Donated Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop PAVE's programs, principally in soliciting contributions and the administration of the scholarship program. However, since no objective basis exists for the recording and assigning of values to these services, they are not reflected in the accompanying financial statements. Legal services donated by a member of PAVE's Board of Directors have been recorded in the accompanying financial statements.

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 affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Grants Payable

Grants payable represents grants pledged and not paid as of June 30. Grants that are expected to be paid later than one year from the Statement of Financial Position date are recorded at an amount which approximates the present value of the future estimated cash flows.

Income Tax Status

PAVE is exempt from federal and state income taxes on related exempt function income under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization other than a private foundation. PAVE does not consider any of its support and revenues to be unrelated business income and, accordingly, no provision for income taxes has been provided in the accompanying financial statements.

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
Years Ended June 30, 2006 and 2005

2. Summary of Significant Accounting Policies (Continued)

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Property and Equipment

Acquisitions of property and equipment and expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets at a cost of greater than \$1,000 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful life of the underlying asset.

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

3. Promises to Give

Unconditional promises to give amounted to \$56,591 and \$40,000 on June 30, 2006 and 2005, respectively. Unconditional promises to give are expected to be collected as follows:

| | 2006 | 2005 |
|-----------------------|------------------|------------------|
| Gross Amounts Due in: | | |
| Less than One Year | \$ 25,000 | \$ 10,000 |
| One to Two Years | 15,000 | 30,000 |
| Two to Three Years | 15,000 | - |
| Three to Four Years | 5,000 | - |
| Less: Discount | (3,409) | - |
| Total | <u>\$ 56,591</u> | <u>\$ 40,000</u> |

4. Loans Receivable

The Bradley Foundation committed \$20 million over five years, as matched by funds raised by PAVE, to support the CDFI program. The Bradley Foundation's grant agreement provides that all or any portion of the amount granted be returned in the event the funds are not expended or committed for the CDFI program. The terms of this grant have now been fulfilled.

Since the inception of the CDFI loan program, PAVE has participated in nineteen loans to schools which were made for the purpose of expanding or improving the school's facilities. Of those loans, fifteen are currently being repaid; three have been paid in full, and one has been approved, but not disbursed.

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
Years Ended June 30, 2006 and 2005

4. Loans Receivable (Continued)

All but two of the loans bear interest at the rate of 3%. The loans dated April 29, 2005 and December 30, 2005 bear interest at the rates of 3.67% and 3.18%, respectively, since PAVE adjusted its rate to one-half that of the lead lending institution. Most loans require monthly principal and interest payments. Many of the loans require a final balloon payment of principal and interest at maturity. The PAVE loans are generally made in conjunction with a participating bank. PAVE's loans have been adjusted to fair value based on the present value of estimated future cash flows using a discount rate equal to the difference between the participating bank's rate of interest on their portion of the loan and PAVE'S rate of interest on its loan.

PAVE loans receivable consist of the following as of June 30, 2006 and 2005 respectively:

| | 2006 | 2005 |
|--|--------------|--------------|
| \$200,000 loan dated 3/27/04, due 6/30/06 | \$ 199,534 | \$ 199,534 |
| \$175,000 loan dated 3/25/03, refinanced in July 2006 and extended to 6/23/09 | 149,687 | 155,333 |
| \$750,000 loan dated 9/16/03, due 9/16/06 | 435,426 | 529,933 |
| \$625,000 loan dated 8/27/03, due 2/3/07 | 13,939 | 293,352 |
| \$250,000 loan dated 4/29/03, due 10/29/09 | 243,852 | 247,164 |
| \$500,000 loan dated 6/17/03, due 9/17/06 | 494,021 | 498,852 |
| \$27,500 loan dated 2/10/05, due 8/25/06 | 6,692 | 24,577 |
| \$560,000 loan dated 9/1/04, due 9/1/09 | 506,991 | 537,606 |
| \$1,000,000 loan dated 3/31/04, due 4/1/09 | 881,796 | 937,306 |
| \$1,000,000 loan dated 4/29/05, due 4/29/10 | 935,348 | 995,767 |
| \$100,000 loan dated 9/3/04, due 10/1/10 | 81,806 | 100,000 |
| \$500,000 loan dated 12/19/03, due 12/13/09 | 353,678 | - |
| \$500,000 loan dated 7/12/05, due 8/1/06 | 500,000 | - |
| \$750,000 loan dated 12/30/05, due 1/9/09 | 361,256 | - |
| \$1,000,000 loan dated 10/15/05, due 10/15/10 | 975,748 | - |
| Total loans receivable | 6,139,774 | 4,519,424 |
| Less: Current Portion | (1,881,844) | (696,036) |
| Less: Valuation Adjustment | (335,800) | (303,811) |
| Long-Term Portion | \$ 3,922,130 | \$ 3,519,577 |

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
Years Ended June 30, 2006 and 2005

5. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2005 and 2004, respectively:

| | 2006 | 2005 |
|------------------------------|---------------------|---------------------|
| CDFI Loan Fund | \$ 8,605,837 | \$ 7,730,012 |
| Capital Investment Fund | 489,288 | 527,002 |
| Urban School Leadership Fund | 151,984 | 242,762 |
| | <u>\$ 9,247,109</u> | <u>\$ 8,499,776</u> |

The primary goal of the Capital Investment Fund is to increase the supply and quality of opportunities for low-income families in religious and independent schools in Milwaukee. As a CDFI, PAVE works with banks and other financial institutions to provide low-cost capital to Choice and Charter schools that plan to expand and serve more low-income families.

The Fund for Urban School Leadership Consortium provides scholarships for urban school leaders enrolled in the PAVE Scholars program and supports the Johnsonville Fellows and the development of graduate programs in educational leadership.

6. Operating Lease Obligations

PAVE entered into a new lease for office space during the current year. The lease commences on July 1, 2006 and expires on October 31, 2011. Rental expense, paid under the prior lease, amounted to \$44,253 and \$40,091, for the years ended June 30, 2006 and 2005, respectively.

The future minimum required lease payments through the lease term ending on October 31, 2011 are as follows:

| Years ending June 30: | |
|-----------------------|-------------------|
| 2007 | \$ 19,408 |
| 2008 | 31,332 |
| 2009 | 33,522 |
| 2010 | 34,062 |
| 2011 | 34,610 |
| 2012 | <u>11,628</u> |
| Total | <u>\$ 164,562</u> |

7. Related Parties

Certain members of PAVE's Board of Directors are employed by various service companies with which PAVE does business. In management's opinion, all transactions with related parties were made on an arm's length basis.

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
Years Ended June 30, 2006 and 2005

8. Concentrations

Concentrations Arising from Contributions

Four and three donors respectively, accounted for 66% and 76% of total contributions received during the years ended June 30, 2006 and 2005.

Concentrations Arising From Cash Deposits in Excess of Insured Limits

Financial instruments that potentially subject PAVE to concentrations of credit risk consist principally of cash and equivalents. PAVE maintains its cash balances in several Milwaukee area financial institutions. Amounts on deposit at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Pave's cash deposits may exceed the federally insured limits from time to time throughout the year.