

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

AUDITED FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Partners Advancing Values in Education, Inc. as of June 30, 2009 and 2008 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 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 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 audits provide 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, 2009 and 2008, 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

September 15, 2009
Milwaukee, Wisconsin

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Statements of Financial Position
June 30, 2009 and 2008

ASSETS	2009	2008
Current Assets:		
Cash and equivalents	\$ 2,854,514	\$ 4,976,842
Investments	3,349,963	1,368,556
Interest receivable	23,334	-
Deposits and prepaid expense	8,439	12,722
Promises to give	5,000	15,000
Grants receivable	186,000	125,000
Notes receivable	-	85,650
Current portion of loans receivable	2,713,480	2,364,052
Total current assets	9,140,730	8,947,822
Noncurrent Assets:		
Promises to give, net of discount	-	4,844
Loans receivable, net of valuation allowance	3,879,144	4,109,283
Total noncurrent assets	3,879,144	4,114,127
Property and Equipment:		
Property and equipment	17,319	15,677
Less: Accumulated depreciation	(9,623)	(6,269)
Property and equipment - Net book value	7,696	9,408
 Total assets	 \$ 13,027,570	 \$ 13,071,357
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 10,444	\$ 11,511
Accrued compensated absences	12,950	8,347
Accrued payroll	14,325	15,601
Grants payable	218,655	80,720
Total liabilities	256,374	116,179
Net Assets:		
Unrestricted net assets	2,344,963	2,311,451
Temporarily restricted net assets	10,426,233	10,643,727
Total Net Assets	12,771,196	12,955,178
Total Liabilities and Net Assets	\$ 13,027,570	\$ 13,071,357

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, 2009 and 2008

	2009		2008			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Other Support:						
Contributions	\$ 710,314	\$ 692,000	\$ 1,402,314	\$ 866,740	\$ 1,005,000	\$ 1,871,740
Interest	312,801	-	312,801	433,101	-	433,101
Unrealized gains (losses) on valuation of loans receivable	-	(64,459)	(64,459)	-	167,147	167,147
Net Assets Released from Restrictions	845,035	(845,035)	-	788,694	(788,694)	-
Total Revenues, Gains, and Other Support	1,868,150	(217,494)	1,650,656	2,088,535	383,453	2,471,988
Expenses:						
Program Services:						
Scholarships	630,000	-	630,000	719,541	-	719,541
Urban School Leadership	29,791	-	29,791	28,335	-	28,335
Capital Investment (Schools)	815,245	-	815,245	760,360	-	760,360
Program Management	272,846	-	272,846	320,146	-	320,146
Facilities	35,858	-	35,858	36,427	-	36,427
Fund-raising	50,898	-	50,898	49,162	-	49,162
Total Expenses	1,834,638	-	1,834,638	1,913,971	-	1,913,971
Change in Net Assets	33,512	(217,494)	(183,982)	174,564	383,453	558,017
Net Assets, beginning of year	2,311,451	10,643,727	12,955,178	2,136,887	10,260,274	12,397,161
Net Assets, end of year	\$ 2,344,963	\$ 10,426,233	\$ 12,771,196	\$ 2,311,451	\$ 10,643,727	\$ 12,955,178

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, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (183,982)	\$ 558,017
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	3,354	3,050
Unrealized (gains) losses on loans receivable	64,459	(167,147)
Changes in assets and liabilities:		
Interest receivable	(23,334)	-
Deposits and prepaid expense	4,283	(7,423)
Promises to give	14,844	23,513
Grants receivable	(61,000)	(125,000)
Notes receivable	85,650	(85,650)
Loans receivable	(183,748)	360,758
Accounts payable	(1,067)	(31,196)
Accrued compensated absences	4,603	(14,198)
Accrued payroll	(1,276)	(8,959)
Grants payable	137,935	29,920
	(139,279)	535,685
Net Cash (Used) Provided by Operating Activities	(139,279)	535,685
 Cash Flows from Investing Activities:		
Investment maturities	3,138,946	-
Purchase of investments	(5,120,353)	(107,258)
Acquisition of property and equipment	(1,642)	(1,280)
	(1,983,049)	(108,538)
Net Cash Used for Investing Activities	(1,983,049)	(108,538)
 Net (Decrease) Increase in Cash and Equivalents	(2,122,328)	427,147
 Cash and Equivalents, beginning of year	4,976,842	4,549,695
 Cash and Equivalents, end of year	\$ 2,854,514	\$ 4,976,842

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, 2009 and 2008

1. Organization Background and General

Partners Advancing Values in Education, Inc. ("PAVE") is a nonprofit organization, with a board composed of 16 volunteer directors, whose mission is to make excellent educational opportunities possible for low-income families in Milwaukee, Wisconsin.

PAVE has three main areas of interest. First, PAVE is a public charity that offers scholarships to low-income families who live in the City of Milwaukee and enroll their children in private elementary and secondary schools. Scholarships are intended to cover a portion of the annual cost of tuition. Contributions are solicited throughout the year from foundations, corporations, and individuals to fund scholarships. In fiscal years 2009 and 2008, PAVE generally followed the eligibility guidelines for the Milwaukee Parental Choice Program (Choice). 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. 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 high quality educational opportunities available to low-income families in Milwaukee. PAVE is also directly involved with schools in business administration, project, and program developments that have the potential to become new models for successful urban schools. PAVE is currently focused in the area on extended learning initiatives, primarily in summer, and provides schools with funding for summer programs. These programs are designed to reduce the achievement gap for low-income students and provide access to enrichment activities that these students would otherwise be unable to experience.

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." The program, Johnsonville Fellows, is an association of outstanding urban school leaders who participate in educational activities and meetings where information is shared with the goal of enhancing 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.

Basis of Presentation

Net assets are classified into one of three classes based on the existence or absence of donor imposed restrictions. The following is a description of each class.

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

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Continued)

2. Summary of Significant Accounting Policies (Continued)

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.

Fair Value of Financial Instruments

PAVE has adopted Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles in the United States of America and expands disclosures about fair value measurements. The statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The statement emphasizes that fair value is a market-based measurement and not an entity-specific measurement. Adoption of this standard has not had a material impact on the PAVE's financial statements. SFAS No. 157 establishes a hierarchy that prioritizes the inputs for measuring fair value. Those inputs are summarized as follows:

Level 1 – Quoted prices in active markets, e.g. NYSE, NASDAQ, etc. for securities identical to those to be valued. If a Level 1 input is available, it must be used.

Level 2 – Inputs other than quoted prices that are observable for securities, either directly or indirectly. Examples include matrix pricing utilizing yield curves, prepayment speeds, credit risks, etc.; quoted prices for similar assets in active markets; and inputs derived from observable market data by correlation or other means.

Level 3 – Unobservable inputs, which contain assumptions by the party valuing those assets. For level 3 inputs, there is no market data or correlations with market assumptions. Examples would include limited partnership interests, closely held stock, etc.

SFAS No. 107, Disclosure about Fair Value of Financial Instruments, requires disclosure of an estimate of fair value of certain financial instruments. The following methods and assumptions were used by PAVE in estimating the fair value of its financial instruments:

Cash and cash equivalents - The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments.

Investments – PAVE has adopted FASB issued SFAS No. 124, Accounting For Certain Investments Held by Not-For-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair value and all investments in debt securities are valued at their fair value in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets.

Interest receivable – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those financial instruments.

Loans receivable – The carrying amount reported in the statement of financial position are estimated by discounting loans that were made at below-market-rate interest rates 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.

PARTNERS ADVANCING VALUES IN EDUCATION, INC.

Milwaukee, Wisconsin

Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Continued)

2. Summary of Significant Accounting Policies (Continued)

Notes Receivable

Notes receivable consists of a promissory note bearing annual interest of 3%, payable in a lump sum of principal and interest on December 5, 2008.

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 and donated equipment 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, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements. 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.

In accordance with the accounting principles generally accepted in the United States of America, PAVE has deferred the implementation of Financial Accounting Standards Board Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes. The interpretation requires additional disclosures on uncertain tax positions that may have been taken by PAVE. PAVE's Management evaluates the uncertain tax positions taken, if any, and consults with outside counsel as deemed necessary; management doesn't believe there are any uncertain tax positions. PAVE does not anticipate that the eventual implementation of FIN No. 48 will have a material effect on its financial statements or note disclosures.

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.

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Continued)

2. Summary of Significant Accounting Policies (Continued)

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. Investments

Investments consisting of repurchase agreements and certificates of deposit are reported at fair value using Level 1 inputs described in SFAS 157. Interest earned on these investments are included in the accompanying statements of activities and amounted to \$52,372 and \$43,157 during the years ended June 30, 2009 and 2008, respectively.

4. Promises to Give

Unconditional promises to give amounted to \$5,000 and \$19,844 on June 30, 2009 and 2008, respectively. Unconditional promises to give are expected to be collected as follows:

	2009	2008
Gross Amounts Due in:		
Less than One Year	\$ 5,000	\$ 15,000
One to Four Years	-	5,000
Less: Discount	-	(156)
Total	<u>\$ 5,000</u>	<u>\$ 19,844</u>

PARTNERS ADVANCING VALUES IN EDUCATION, INC.
Milwaukee, Wisconsin

Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Continued)

5. Loans Receivable

PAVE is certified as a Community Development Financial Institution ("CDFI") by the U.S. Department of Treasury in order to provide access to capital for schools in the City of Milwaukee. Loans under this program are made through banks that enter into a participation loan agreement with PAVE for a portion of the loan at a lower interest rate, normally half of the bank's rate.

Since the inception of the CDFI loan program, PAVE has participated in various loans to schools in the City of Milwaukee which were made for the purpose of expanding or improving the schools' facilities. Repayment schedules and interest rates on the loans are varied with many of the loans requiring a final balloon payment at maturity.

Loans receivable are reported at fair value using Level 3 inputs described in SFAS 157. PAVE has discounted its loans, which are made at below-market-rate interest rates, equal to the difference between the participating banks' rate of interest on their portion of the loan and PAVE'S rate of interest on its loan. Total loans outstanding amounted to \$6,592,623 and \$6,473,335, on June 30, 2009 and 2008, respectively.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2009 and 2008, respectively:

	2009	2008
CDFI Loan Fund	\$ 9,638,725	\$ 9,726,325
Capital Investment Fund	671,523	771,625
Urban School Leadership Fund	115,985	145,777
	<u>\$ 10,426,233</u>	<u>\$ 10,643,727</u>

7. Operating Lease Obligations

PAVE leases its current office space under a lease commencing on July 1, 2006 and expiring on October 31, 2011. Rental expense amounted to \$30,852 for the years ended June 30, 2009 and 2008, respectively.

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

Years ending June 30:	
2010	\$ 34,062
2011	34,610
2012	11,628
Total	<u>\$ 80,300</u>

8. 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, 2009 and 2008
(Continued)

9. Concentrations

Concentrations Arising from Contributions

Three donors accounted for 54% and 45% of total contributions received during the years ended June 30, 2009 and 2008.

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 \$250,000. PAVE's cash deposits may exceed the federally insured limits from time to time throughout the year.

Concentrations Arising From Loans Receivable

Loans receivable consist of loans to private schools in the City of Milwaukee funded primarily through the State of Wisconsin Milwaukee Parental Choice Program ("Choice Program"). These loans subject PAVE to concentrations of credit risk because of the dependency of these schools on Choice Program funding for repayment of the loans outstanding. A future change in legislation related to the Choice Program could reduce revenues to these schools and put repayment of these loans at risk. As of June 30, 2009 and 2008, respectively, these loans represented 82% and 80% of loans receivable.

10. Employee Benefit Plans

403 (b) Plan

PAVE contributes to a 403(b) plan for its employees at the rate of 3% of their total salary. Total expense for the years ended June 30, 2009 and 2008 amounted to \$8,900 and \$9,894, respectively.

Section 125 Plan

PAVE also sponsors a Section 125 plan for eligible employees. The plan allows employees to make voluntary contributions to their medical reimbursement account and/or dependent care reimbursement account using pretax salary dollars.

11. Subsequent Events

Management of the Organization has evaluated all subsequent events through September 15, 2009, for possible inclusion as a disclosure on the financial statements. The Organization has no subsequent events that require disclosure in the financial statements.