



**Pennsylvania Avenue Event-Driven Fund**  
A Series Of The Pennsylvania Avenue Funds

Semi-Annual Report  
For the six months ended June 30, 2008

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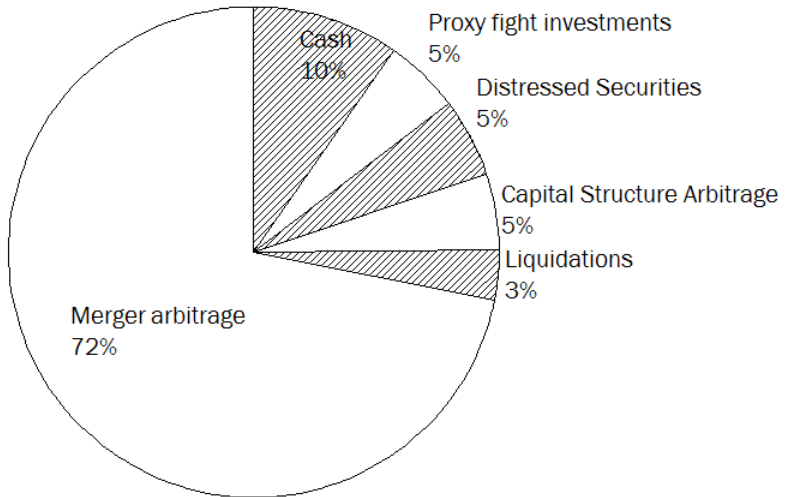
# THE PENNSYLVANIA AVENUE EVENT-DRIVEN FUND

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## PORTFOLIO ANALYSIS

June 30, 2008 (UNAUDITED)

Assets By Investment Strategy



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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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SCHEDULE OF INVESTMENTS  
June 30, 2008 (UNAUDITED)

<u>Shares</u>	<u>Value</u>
<b>COMMON STOCKS - 90.88%</b>	
<b>Business Services - 9.71%</b>	
1,500 Angelica Corp.	\$ 31,905
7,501 Computer Task Group, Inc. *	38,405
5,000 Industrial Distribution Group, Inc. *	59,850
3,976 Infousa, Inc.	17,455
4,000 Ipass, Inc. *	8,280
20,000 Motive, Inc. *	42,400
40,000 Touchstone Software Corp. *	<u>58,800</u>
	257,095
<b>Chemical &amp; Allied Products - 4.65%</b>	
167,850 Inyx, Inc. *	839
600,000 MZT Holdings, Inc. *	78,000
5,000 Tercica, Inc. *	<u>44,150</u>
	122,989
<b>Communications - 5.34%</b>	
20,000 3Com Corp. *	42,400
2,500 Clear Channel Communications, Inc. *	88,000
1,050 Warwick Valley Telephone Co.	<u>11,088</u>
	141,488
<b>Electric, Gas &amp; Sanitary Services - 9.09%</b>	
30,000 Aquila, Inc. *	113,100
1,700 Northwestern Corp.	43,214
17,720 Pinnacle Gas Resources, Inc. * +	63,792
4,999 Verasun Energy Corp. *	<u>20,647</u>
	240,753
<b>Electronic &amp; Other Electric Equipment - 15.89%</b>	
2,000 Bel Fuse, Inc. Class B +	49,420
2,000 Bel Fuse, Inc. Class B	49,420
2,000 Cherokee International Corp. *	3,540
65,000 Computer Horizons Corp. *	21,450
45,000 ESS Technology, Inc. *	73,350
2,000 Navteq Corp. *	154,000
6,000 Radyne Corp. *	68,580
28,991 Three-Five Systems, Inc. *	<u>972</u>
	420,732

\*Non income producing security during the period.

+ Pledged as collateral for securities sold short.

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

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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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SCHEDULE OF INVESTMENTS - CONTINUED

June 30, 2008 (UNAUDITED)

<u>Shares</u>	<u>Value</u>
<b>Finance, Insurance &amp; Real Estate - 16.17%</b>	
1,363 American Community Properties Trust *	18,741
4,302 Cowlitz Bancorp *	32,480
1,400 FX Real Estate & Entertainment, Inc.	2,660
9,000 Financial Industries Corp. *	62,871
2,500 First Intercontinental Bank *	30,000
525 First National Bancshares, Inc. *	3,465
817 Massbank Corp.	32,337
965 MFB Corp. * +	28,265
7,000 National Atlantic Holding Corp. *	42,350
2,000 SCPIE Holdings, Inc. *	55,980
700 Sobieski Bancorp, Inc. *	763
31,084 Wilshire Enterprise, Inc. *	<u>118,119</u>
	428,031
<b>Manufacturing - 5.96%</b>	
750 Corn Products International, Inc. +	36,833
500 Corn Products International, Inc.	24,555
818 Federal Mogul Corp. Class A *	13,194
3,500 Intertape Polymer Group, Inc. (Canada) *	11,480
10,000 Pyramid Breweries, Inc. *	27,100
1,000 Superior Essex, Inc. * +	<u>44,630</u>
	157,792
<b>Printing &amp; Publishing - 2.90%</b>	
6,930 CCA Industries, Inc.	57,866
10,920 Merisel, Inc. *	<u>18,892</u>
	76,758
<b>Retail Trade - 0.30%</b>	
900 Pep Boys-Manny, Moe & Jack	7,848

\*Non income producing security during the period.

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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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SCHEDULE OF INVESTMENTS - CONTINUED

June 30, 2008 (UNAUDITED)

<u>Shares</u>	<u>Value</u>	
<b>CALL OPTIONS - 0.40%</b>		
<b>Underlying Security</b>		
<b>Expiration Date/Exercise Price</b>		
<b>Shares Subject</b>		
<b>to Call</b>		
1,000	Anheuser-Busch Companies, Inc. August 2008 Call @ \$60.00	\$ 4,100
2,000	Navteq Corp. July 2008 Call @ \$75.00	4,600
1,000	Restoration Hardware, Inc. August 2008 Call @ \$2.50	<u>2,000</u>
	Total (Premiums Paid \$9,355) - 0.40%	<u>\$ 10,700</u>
<b>SHORT TERM INVESTMENTS - 2.85%</b>		
75,569	Huntington Money Market Fund IV (Cost \$75,569) 1.37% ** +	<u>75,569</u>
TOTAL INVESTMENTS (Cost \$3,186,352) - 99.95%		\$2,646,165
OTHER ASSETS LESS LIABILITIES - 0.05%		<u>1,366</u>
NET ASSETS - 100.00%		<u>\$2,647,531</u>

\*Non income producing security during the period.

\*\* Variable rate security; the coupon rate shown represents the yield at June 30, 2008.

+ Pledged as collateral for securities sold short.

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

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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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SCHEDULE OF SECURITIES SOLD SHORT

June 30, 2008 (UNAUDITED)

<u>Shares</u>		<u>Value</u>
1,000	Ansys, Inc.	\$ 47,120
2,000	Bel Fuse, Inc. Class A	55,740
500	Bunge Ltd.	53,845
2,000	Mutual First Financial, Inc.	19,620
2,200	Quest Resources Corp.	25,102
4,999	Verasun Energy Corp.	<u>20,646</u>
	Total Securities Sold Short (Proceeds - \$265,975)	<u>\$ 222,073</u>

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

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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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**SCHEDULE OF CALL OPTIONS WRITTEN**

June 30, 2008 (UNAUDITED)

**Call Options Written**

**Underlying Security**

**Expiration Date/Exercise Price**

**Shares Subject**

**to Call**

	Superior Essex, Inc.	
1,000	December 2008 Call @ \$45.00	\$ <u>450</u>
	Total (Premiums Paid \$484)	\$ <u><u>450</u></u>

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

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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008 (UNAUDITED)

Assets:

Investments in Securities, at Value (Cost \$3,186,352)	\$2,646,165
Deposit with broker for securities sold short	235,834
Receivables:	
Dividends and Interest	6,969
Due From Broker	66,974
Due From Advisor	24,338
Prepaid Expenses	<u>12,187</u>
Total Assets	<u>2,992,467</u>

Liabilities:

Securities & Options Sold Short, at Value (proceeds \$266,459)	222,523
Due to custodian	4,944
Payables:	
Due To Broker	84,410
Accrued Distribution Fees	7,735
Other Accrued Expenses	<u>25,324</u>
Total Liabilities	<u>344,936</u>

Net Assets \$2,647,531

Net Assets Consist of:

Paid In Capital	\$3,368,321
Accumulated Undistributed Net Investment Income	8,296
Accumulated Realized Loss on Investments	(288,702)
Unrealized Depreciation in Value of Investments, Options and Securities Sold Short	<u>0,384</u>
Net Assets, for 246,689 Shares Outstanding	<u>\$2,647,531</u>

Net Asset Value Per Share \$ 10.73

Minimum Redemption Price Per Share (\$10.73 \* .98) (Note 2) \$ 10.52

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

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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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STATEMENTS OF OPERATIONS

June 30, 2008 (UNAUDITED)

Investment Income:

Dividends <sup>(a)</sup>	\$ 5,577
Interest	<u>24,299</u>
Total Investment Income	<u>29,876</u>

Expenses:

Advisory Fees (Note 3)	14,387
Transfer Agent Fees	7,644
Distribution Fees 12b-1 (Note 3)	3,597
Registration Fees	588
Audit Fees	12,488
Miscellaneous Fees	496
Custodial Fees	4,969
Printing and Mailing Fees	797
Insurance Fees	326
Legal Expense	<u>1,500</u>
Total Expenses	46,792
Fees Waived and Reimbursed by the Advisor (Note 3)	<u>(25,212)</u>
Net Expenses	<u>21,580</u>
Net Investment Income	<u>8,296</u>

Realized and Unrealized Gain (Loss) on Investments:

Realized Gain (Loss) on:

Investments	(239,074)
Securities Sold Short	(40,206)
Options	<u>(9,422)</u>

Realized Gain on Investments, Securities Sold Short and Options (288,702)

Net Change in Unrealized Appreciation on:

Investments	(200,585)
Securities Sold Short	24,022
Options	<u>7,428</u>

Net Change in Unrealized Appreciation on Investments,

Securities Sold	
Short and Options	<u>(169,135)</u>

Realized and Unrealized Gain (Loss) on Investments (457,837)

Net Decrease in Net Assets Resulting from Operations \$(449,541)

(a) Dividend income is net of \$147 of foreign taxes withheld.

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

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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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STATEMENTS OF CHANGES IN NET ASSETS

	(Unaudited) Six Months Ended <u>6/30/2008</u>	Year Ended <u>12/31/2007</u>
Increase (Decrease) in Net Assets From Operations:		
Net Investment Income	\$ 8,296	\$ 22,513
Realized Gain on Investments, Securities Sold Short and Options	(288,702)	149,127
Change in Unrealized Appreciation on Investments, Options and Securities Sold Short	<u>(169,135)</u>	<u>(319,827)</u>
Net Increase (Decrease) in Net Assets Resulting from Operations	<u>(449,541)</u>	<u>(148,187)</u>
Distributions to Shareholders:		
Net Investment Income	-	(22,513)
Realized Gains	-	(149,128)
Return of Capital	<u>-</u>	<u>(35,899)</u>
Total Distributions to Shareholders	<u>-</u>	<u>(207,540)</u>
Capital Share Transactions (Note 5)	<u>(406,914)</u>	<u>2,073,373</u>
Total Increase (Decrease) in Net Assets	(856,455)	1,717,646
Net Assets:		
Beginning of Period	<u>3,503,986</u>	<u>1,786,340</u>
End of Period (Including Undistributed Net Investment Income of \$8,296 and \$0, respectively)	<u>\$2,647,531</u>	<u>\$3,503,986</u>

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

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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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**FINANCIAL HIGHLIGHTS**

	(Unaudited)						
	Six		Years Ended December, 31				Period (a)
	Months						Ended
	Ended						December
	<u>6/30/2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>		<u>2003</u>
Net Asset Value, at Beginning of Period	<u>\$12.43</u>	<u>\$13.20</u>	<u>\$12.98</u>	<u>\$12.01</u>	<u>\$10.54</u>		<u>\$10.49</u>
Income From Investment Operations:							
Net Investment Income (Loss) *	0.03	0.15	0.10	(0.06)	(0.04)		0.00
Net Gain (Loss) on Securities (Realized and Unrealized)	<u>(1.73)</u>	<u>(0.15)</u>	<u>1.36</u>	<u>1.55</u>	<u>2.87</u>		<u>0.40</u>
Total from Investment Operations	(1.70)	0.00	1.46	1.49	2.83		0.40
Distributions:							
Net Investment Income	0.00	(0.08)	0.00	0.00	0.00		0.00
Realized Gains	0.00	(0.55)	(1.24)	(0.46)	(1.26)		(0.35)
Return of Capital	<u>0.00</u>	<u>(0.14)</u>	<u>0.00</u>	<u>(0.06)</u>	<u>(0.10)</u>		<u>0.00</u>
Total from Distributions	0.00	(0.77)	(1.24)	(0.52)	(1.36)		(0.35)
Net Asset Value, at End of Period	<u>\$ 10.73</u>	<u>\$12.43</u>	<u>\$13.20</u>	<u>\$12.98</u>	<u>\$12.01</u>		<u>\$10.54</u>
Total Return **	(13.68)%	(0.03)%	11.23%	12.43%	26.85%		3.84%
Ratios/Supplemental Data:							
Net Assets at End of Period (Thousands)	\$2,648	\$3,503	\$1,786	\$662	\$376		\$107
Before Waivers							
Ratio of Expenses to Average Net Assets Excluding Interest on Securities Sold Short	3.26%+	2.09%	2.84%	5.09%	9.08%		7.55%
Including Interest on Securities Sold Short	3.26%+	2.10%	2.84%	5.09%	9.08%		7.55%
After Waivers							
Ratio of Expenses to Average Net Assets Excluding Interest on Securities Sold Short	1.50%+	1.50%	1.50%	1.50%	1.50%		1.50%
Including Interest on Securities Sold Short	1.50%+	1.50%	1.50%	1.50%	1.50%		1.50%
Ratio of Net Investment Income (Loss) to Average Net Assets	0.58%+	0.57%	0.63%	(0.44)%	(0.55)%		0.21%
Portfolio Turnover	76.78%	249.36%	169.02%	144.46%	177.06%		31.51%

(a) For the period November 21, 2003 (effective registration date) to December 31, 2003.

\* Per share net investment income has been determined on the basis of average shares outstanding during the period.

\*\* Assumes reinvestment of dividends.

+ Annualized

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

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## PENNSYLVANIA AVENUE EVENT-DRIVEN FUND

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### NOTES TO FINANCIAL STATEMENTS

June 30, 2008 (UNAUDITED)

#### **Note 1. Organization**

Pennsylvania Avenue Event-Driven Fund, a Series of The Pennsylvania Avenue Funds (the "Fund") is a non-diversified regulated investment company and was organized as a Delaware business trust on September 19, 2002. The Pennsylvania Avenue Funds ("The Trust") is permitted to offer separate portfolios and different classes of shares. The Trust currently offers two classes of shares. The Trust is authorized to issue an unlimited number of shares of beneficial interest. The Fund's investment objective is to seek capital growth by engaging in investment strategies related to corporate events, such as mergers, reorganizations, bankruptcies or proxy fights. It intends to invest in securities of companies of any size and uses derivatives both as a substitute for investing in underlying securities, as well as for hedging purposes. The investment strategies employed by the Fund contain a higher degree of risk than a balanced investment program and this may not be appropriate for investors who are risk averse. From inception through June 30, 2008, only Investor Class Shares have been offered. No transactions in Adviser Class Shares have occurred, and no assets or liabilities are allocable to Adviser Class Shares.

#### **Note 2. Summary of Significant Accounting Policies**

The following is a summary of significant accounting policies employed by the Fund in preparing its financial statements:

*Security Valuation-* Equity securities are valued by using market quotations, but may be valued on the basis of prices furnished by a pricing service when the Adviser believes such prices accurately reflect the fair market value of such securities. Securities that are traded on any stock exchange or on the NASDAQ over the counter market are generally valued by the pricing service at its last bid price except for short positions, for which the last quoted price is used. When market quotations are not readily available, when the Adviser determines that the market quotation or the price provided by the service does not accurately reflect the current market value, or when restricted or illiquid securities are being valued, such securities are valued as determined in good faith by the Board of Trustees. The Board has adopted guidelines for the good faith pricing, and has delegated the Adviser the responsibility for determining fair value prices, subject to review by the Board of Trustees.

Fixed income securities generally are valued by using market quotations, but may be valued on the basis of prices furnished by a pricing service when the Adviser believes such prices accurately reflect the fair market value of such securities. A pricing service utilized electronic data processing techniques based on yield spreads relating to securities with similar characteristics to determine prices for normal institutional-size trading units of debt securities without regard to sale or bid prices. If the Adviser decides that a price provided by the pricing service does not accurately reflect the fair market value of the securities, when the prices are not readily available from a pricing service, or when restricted or illiquid securities are being valued, securities are valued at fair value as determined in good faith by the Adviser, subject to review of the Board of Trustees. Short-term investments in fixed income securities with maturities of less than 60 days

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## PENNSYLVANIA AVENUE EVENT-DRIVEN FUND

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### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 (UNAUDITED)

when acquired, or which subsequently are within 60 days of maturity, are valued by using the amortized cost method of valuation, which the Board has determined will represent fair value, except when such a security is in default.

*Short Sales*- The Fund may sell a security it does not own in anticipation of a decline in fair value of that security. When the Fund sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale. A gain, limited to the price at which the Fund sold the security short, or loss, unlimited in size, will be recognized upon the termination of a short sale.

*Option Writing* - When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Fund on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Fund has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Fund. The Fund as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

*Share Valuation*- The price (net asset value) of the shares of the Fund is normally determined as of 4:00 p.m., Eastern time on each day the Fund is open for business and on any other day on which there is sufficient trading in the Fund's securities to materially affect the net asset value. The net asset value is calculated by taking the total value of the Fund's assets, subtracting its liabilities, and then dividing by the total number of shares outstanding rounded to the nearest cent. The offering price and redemption price per share is equal to the net asset value per share, except that shares held for less than 180 days are subject to a redemption fee of 2%. To discourage large frequent short-term trades by investors, and to compensate the Fund for costs that may be incurred by such trades, the Fund imposed the redemption fee, effective March 30, 2008. For the period March 30, 2008 through June 30, 2008 there were no redemption fees were charged on redemption of Fund shares. The Fund is normally open for business on every day except Saturdays, Sundays and the following holidays: New Year's Day, Martin Luther King Day, Presidents Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas.

*Security Transaction Timing*- Security transactions are recorded on the dates transactions are entered into (the trade dates). Dividend income and distributions to shareholders are recognized on the ex-dividend date. Interest income is recognized on an accrual basis. The Fund uses the identified cost basis in computing gain or loss on sale of investment

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## PENNSYLVANIA AVENUE EVENT-DRIVEN FUND

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### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 (UNAUDITED)

securities. Discounts and premiums on securities purchased are amortized over the life of the respective securities. Withholding taxes on foreign dividends are provided for in accordance with the Fund's understanding of the applicable country's tax rules and rates.

#### **Note 3. Investment Management Agreement**

The Fund has an agreement with Pennsylvania Avenue Advisers LLC ("the Advisor"), with whom certain officers and trustees of the Fund are affiliated, to furnish investment advisory services to the Fund. Under the terms of the advisory agreement, the Fund will pay the Advisor a monthly fee based on the Fund's average daily net assets at the annual rate of 1.00% of the Fund's first \$10,000,000 of net assets and 0.90% of the net assets exceeding \$10,000,000. A total fee of \$14,387 accrued to the Advisor during the six months ended June 30, 2008.

Under the terms of the agreement if the aggregate expenses of the Fund are equal to or greater than 1.50% and 1.75% of the Fund's net assets for the Investor Class and the Adviser Class, respectively, the Adviser will reimburse the Fund for these expenses. During the period, the Adviser reimbursed the Fund and paid expenses on behalf of the Fund totaling \$25,212.

The Fund has adopted a Plan of Distribution pursuant to Rule 12b-1. Under the Investor Class Plan, up to 0.25% of average daily net assets attributable to Investor Class Shares can be used to pay for distribution expenses. Under this plan, \$3,597 was accrued during the period. No expenses related to the Adviser Class plan of distribution, which permits the use of up to 0.50% of average daily net assets attributable to Adviser Class Shares, accrued during the year as no assets were allocated to that class.

#### **Note 4. Related Party Transactions**

Thomas Kirchner is a control person of the Adviser. Thomas Kirchner also serves as a trustee and officer of the Trust. Thomas Kirchner receives benefits from the Adviser resulting from management fees paid to the Adviser by the Fund.

#### **Note 5. Capital Share Transactions**

The Fund is authorized to issue an unlimited number of shares no par value of separate series. The total paid-in capital as of June 30, 2008 was \$3,368,321. Transactions in capital were as follows:

	<u>For the six months</u>		<u>For the year</u>	
	<u>ended 6/30/08</u>		<u>ended 12/31/07</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Shares sold	22,323	\$252,190	285,772	\$3,943,051
Shares reinvested	-	-	10,933	135,900
Shares redeemed	<u>(57,578)</u>	<u>(659,104)</u>	<u>(150,097)</u>	<u>(2,005,578)</u>
Increase (Decrease)	<u>(35,255)</u>	<u>\$(406,914)</u>	<u>146,608</u>	<u>\$2,073,373</u>

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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 (UNAUDITED)

**Note 6. Investment Transactions**

For the six months ended June 30, 2008, purchases and sales of investment securities excluding options, transactions on securities sold short and short-term investments, aggregated \$1,968,880 and \$2,337,664, respectively. Purchases and sales of securities sold short aggregated \$1,968,880 and \$2,440,165, respectively. Purchases and sales of options aggregated \$9,355 and \$17,874, respectively.

**Note 7. Options**

As of June 30, 2008 the Fund had purchased call options valued at \$10,700.

Transactions in call and put options purchased during the six months ended June 30, 2008 were as follows:

	<u>Number of Contracts</u>	<u>Premiums Paid</u>
Options outstanding at December 31, 2006	80	\$ 26,812
Options purchased	40	9,355
Options exercised	(60)	(15,758)
Options expired	-	-
Options terminated in closing sell transaction	(20)	(11,054)
Options outstanding at June 30, 2008	<u>40</u>	<u>\$ 9,355</u>

Transactions in call and put options written during the year ended June 30, 2008 were as follows:

	<u>Number of Contracts</u>	<u>Premiums Paid</u>
Options outstanding at December 31, 2006	-	\$ -
Options written	25	1,180
Options exercised	-	-
Options expired	(15)	(696)
Options terminated in closing purchase transaction	-	-
Options outstanding at June 30, 2008	<u>10</u>	<u>\$ 484</u>

**Note 8. Tax Matters**

For Federal income tax purposes, the cost of investments owned at June 30, 2008 was \$3,186,344 including options and short-term investments. The proceeds on securities sold short were \$265,975 for income tax purposes.

At June 30, 2008, the composition of unrealized appreciation (the excess of value over tax cost) and depreciation (the excess of tax cost over value) including positions in securities sold short and options written was as follows:

<u>Appreciation</u>	<u>Depreciation</u>	<u>Net Appreciation(Depreciation)</u>
\$135,669	(\$631,915)	(\$496,246)

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## PENNSYLVANIA AVENUE EVENT-DRIVEN FUND

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### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 (UNAUDITED)

As of June 30, 2008 the components of distributable earnings on a tax basis were as follows:

Undistributed long-term capital gain	\$ 0
Unrealized appreciation	\$(496,246)

#### **Note 9. New Accounting Pronouncements**

The Fund adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 - Accounting for Uncertainty in Income Taxes on January 1, 2007. FASB Interpretation No. 48 requires the tax effects of certain tax positions to be recognized. These tax positions must meet a "more likely than not" standard that based on their technical merits, have a more than fifty percent likelihood of being sustained upon examination. At adoption, the financial statements must be adjusted to reflect only those tax positions that are more likely than not of being sustained. Management of the Fund does not believe that any adjustments were necessary to the financial statements at adoption.

In September 2006, FASB issued Statement on Financial Accounting Standards (SFAS) No. 157 "Fair Value Measurements." This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosure about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. In accordance with SFAS No. 157, fair value is defined as the price that would be received by the Fund upon selling an asset or paid by the Fund to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of a principal market for the asset or liability, the assumption is that the transaction occurs on the most advantageous market for the asset or liability. SFAS No. 157 established a three-tier fair value hierarchy that prioritizes the assumptions, also known as "inputs", to valuation techniques used by market participants to measure fair value. The term "inputs" refers broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. The three-tier hierarchy of inputs is summarized in three levels with the highest priority given to Level 1 and the lowest priority given to Level 3: Level 1 – quoted prices in active markets for identical securities, Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.) and Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The

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**PENNSYLVANIA AVENUE EVENT-DRIVEN FUND**

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 (UNAUDITED)

following is a summary of the inputs used as of June 30, 2008 in valuing the Fund's assets carried at fair value:

Valuation Inputs:	Investments In Securities	Other Financial Instruments
Level 1 – Quoted Prices	\$2,640,039	\$ -
Level 2 – Significant Other Observable Inputs	-	-
Level 3 – Significant Unobservable Inputs	<u>6,126</u>	<u>-</u>
Total	\$2,646,165	\$ -

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## PENNSYLVANIA AVENUE EVENT-DRIVEN FUND

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### EXPENSE ILLUSTRATION

June 30, 2008 (UNAUDITED)

#### Expense Example

As a shareholder of the Pennsylvania Avenue Event-Driven Fund, you incur ongoing costs which typically consist of management fees and other Fund expenses. This Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period, January 1, 2008 through June 30, 2008.

#### Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

#### Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in this Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

	Beginning Account Value	Ending Account Value	Expenses Paid During the Period *
	July 1, 2007	December 31, 2007	July 1, 2007 to December 31, 2007
Actual	\$1,000.00	\$863.23	\$6.95
Hypothetical (5% Annual Return before expenses)	\$1,000.00	\$1,017.40	\$7.52

\* Expenses are equal to the Fund's annualized expense ratio of 1.50%, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period).

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## PENNSYLVANIA AVENUE EVENT-DRIVEN FUND

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### ADDITIONAL INFORMATION

June 30, 2008 (UNAUDITED)

### TRUSTEES AND OFFICERS

The following table provides information regarding each Trustee who is not an “interested person” of the Trust, as defined in the Investment Company Act of 1940. Each Trustee has an indefinite term.

Name, Address and Age	Position & Length of Time Served with the Trust	Principal Occupations During Past 5 Years and Current Directorships
Richard Holly, CFA 3601 Connecticut Ave NW Washington, DC 20008 Age: 42	Trustee since 2003.	Principal, Tatum LLC (since 2007); Assistant Ready Mix Controller (2006-2007) and Senior Financial Analyst Lafarge North America (2003-2006); Consultant, Accountemps (2002 - 2003); Controller, Engelhard-Clal (1998-2002).
Sherry Russell 9111 Wire Avenue Silver Spring, MD 20901 Age: 36	Trustee since 2006.	Independent Financial Consultant (2005-Present); Senior Loan Officer, Nationwide Home Mortgage (2003-2004); President, Naxos Technology Inc. (2001-2002);

The following table provides information regarding each Trustee who is an “interested person” of the Trust, as defined in the Investment Company Act of 1940, and each officer of the Trust. Each Trustee and Officer of the Trust has an indefinite term.

Name, Address, and Age	Position and Length of Time Served with the Trust	Principal Occupations During Past 5 Years and Current Directorships
Thomas Kirchner, CFA* 260 Water Street #3C Brooklyn, NY 11201-1290 Age: 39	President since 2002.	Financial Engineer, Fannie Mae (1999 - 2004); Bond Trader and Financial Engineer, Banque Nationale de Paris S.A.(1996-1999).

\*Thomas Kirchner, as an affiliated person of Pennsylvania Avenue Advisers LLC, the Fund's investment adviser, is an "interested person" of the Trust within the meaning of Section 2(a) (19) of the 1940 Act.

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## PENNSYLVANIA AVENUE EVENT-DRIVEN FUND

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### ADDITIONAL INFORMATION (CONTINUED)

June 30, 2008 (UNAUDITED)

The Fund's Statement of Additional Information ("SAI") includes additional information about the trustees and is available, without charge, upon request. You may call toll-free (888) 642-6393 to request a copy of the SAI or to make shareholder inquiries.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities and information regarding how the Fund voted proxies during the most recent 12-month period ended June 30 are available without charge upon request by (1) calling the Fund at (888) 642-6393 and (2) from Fund documents filed with the Securities and Exchange Commission ("SEC") on the SEC's website at [www.sec.gov](http://www.sec.gov).

The Fund files a complete schedule of investments with the SEC for the first and third quarter of each fiscal year on Form N-Q. The Fund's first and third fiscal quarters end on March 31 and September 30. The Form N-Q filing must be made within 60 days of the end of the quarter. The Fund's Forms N-Q are available on the SEC's website at <http://sec.gov>, or they may be reviewed and copied at the SEC's Public Reference Room in Washington, DC (call 1-800-732-0330 for information on the operation of the Public Reference Room). You may also obtain copies by calling the Fund at (888) 642-6393.





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**Board of Trustees**

Thomas Kirchner  
Richard Holly  
Sherry Russell

**Investment Adviser**

Pennsylvania Avenue Advisers, LLC  
P.O. Box 9543  
Washington, DC 20016

**Dividend Paying Agent,  
Shareholders' Servicing Agent,  
Transfer Agent**

Mutual Shareholder Services, LLC

**Custodian**

Huntington Bank

**Independent Registered Public Accounting Firm**

Sanville & Company

This report is provided for the general information of the shareholders of the Pennsylvania Avenue Funds. This report is not intended for distribution to prospective investors in the Fund, unless preceded or accompanied by an effective Prospectus.

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