

LA CAUSA, INC.

Milwaukee, Wisconsin

FINANCIAL STATEMENTS
Including Independent Auditors' Report
December 31, 2010 and 2009

LA CAUSA, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
La Causa, Inc.
Milwaukee, Wisconsin

We have audited the accompanying statements of financial position of La Causa, Inc. as of December 31, 2010 and 2009, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of La Causa, Inc.'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the La Causa Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 La Causa, Inc. as of December 31, 2010 and 2009, 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.

In accordance with Government Auditing Standards, we have also issued our report dated April 13, 2011 on our consideration of La Causa, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
April 13, 2011

LA CAUSA, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

ASSETS	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 183,618	\$ -
Grants receivable	1,198,582	1,034,639
Other accounts receivable	6,754	8,799
Pledges receivable - current portion	219,202	105,800
Prepaid expenses	<u>57,509</u>	<u>68,212</u>
Total Current Assets	<u>1,665,665</u>	<u>1,217,450</u>
PROPERTY AND EQUIPMENT	<u>7,390,141</u>	<u>7,444,085</u>
OTHER ASSETS		
Pledges receivable, less current portion	2,957	72,886
Restricted cash	601,160	509,877
Other long-term assets	<u>48,968</u>	<u>62,175</u>
Total Other Assets	<u>653,085</u>	<u>644,938</u>
TOTAL ASSETS	<u>\$ 9,708,891</u>	<u>\$ 9,306,473</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 439,514	\$ 452,393
Accrued liabilities	470,248	370,110
Deferred revenue	2,202,224	1,610,514
Obligation under capital lease - current portion	67,096	89,023
Long-term debt - current portion	491,280	2,514,056
Interest rate swap liability	-	<u>68,118</u>
Total Current Liabilities	<u>3,670,362</u>	<u>5,104,214</u>
LONG-TERM LIABILITIES		
Obligation under capital lease, less current portion	70,932	138,029
Asset retirement liability	54,682	54,682
Long-term debt, less current portion	<u>4,746,296</u>	<u>3,361,857</u>
Total Long-Term Liabilities	<u>4,871,910</u>	<u>3,554,568</u>
Total Liabilities	<u>8,542,272</u>	<u>8,658,782</u>
NET ASSETS (DEFICIT)		
Unrestricted	253,768	(428,432)
Temporarily restricted	<u>912,851</u>	<u>1,076,123</u>
Total Net Assets (Deficit)	<u>1,166,619</u>	<u>647,691</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$ 9,708,891</u>	<u>\$ 9,306,473</u>

See accompanying notes to financial statements.

LA CAUSA, INC.

STATEMENTS OF CASH FLOWS Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Continuing operations		
Change in Net Assets Continuing Operations	\$ 518,928	\$ 1,219,450
Adjustments to reconcile change in net assets continuing operations to net cash flows from continuing operations		
Depreciation	512,639	362,949
Amortization	10,963	13,524
Loss on sale of property and equipment	-	13,832
Change in interest rate swaps	(68,118)	(57,086)
Changes in assets and liabilities		
Grants receivable	(163,943)	(159,406)
Other accounts receivable	2,045	13,309
Pledges receivable	(128,473)	84,554
Prepaid expenses	10,703	12,653
Other long-term assets	2,244	(20,941)
Accounts payable	(12,879)	(61,138)
Accrued liabilities	100,138	8,520
Deferred revenue	591,710	130,061
Net Cash Flows from Continuing Operations	1,375,957	1,560,281
Discontinued operations		
Change in Net Assets Discontinued Operations	-	(55,561)
Adjustments to reconcile change in net assets discontinued operations to net cash flows from discontinued operations		
Depreciation	-	478
Changes in assets and liabilities		
Grants receivable	-	146,065
Prepaid expenses	-	365
Accounts payable	-	(864,011)
Accrued liabilities	-	(302,970)
Deferred revenue	-	(231,090)
Net Cash Flows from Discontinued Operations	-	(1,306,724)
Net Cash Flows from Operating Activities	1,375,957	253,557

See accompanying notes to financial statements.

LA CAUSA, INC.

STATEMENTS OF CASH FLOWS (concluded) Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in cash restricted/designated for capital improvements	\$ (91,283)	\$ 375,257
Purchases of property and equipment	(458,695)	(446,657)
Proceeds from sale of property and equipment	-	38,070
Net Cash Flows from Investing Activities	(549,978)	(33,330)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on line of credit	-	(145,000)
Principal payments on long-term debt and capital leases	(794,612)	(714,958)
Receipt of capital campaign pledges	85,000	185,000
Proceeds from long-term debt	67,251	454,731
Net Cash Flows from Financing Activities	(642,361)	(220,227)
Net Change in Cash and Cash Equivalents	183,618	-
CASH AND CASH EQUIVALENTS - Beginning of Year	-	-
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 183,618	\$ -
 Supplemental cash flow disclosures:		
Cash paid for interest	\$ 321,524	\$ 340,233
 Noncash investing and financing activities:		
Equipment obtained through capital leases	\$ -	\$ 169,178
Equipment obtained through debt	\$ -	\$ 1,030,346

See accompanying notes to financial statements.

LA CAUSA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010

	Child Development / Prevention	Social Services	Education	Total Program	Supporting Services	Total
Payroll	\$ 2,160,564	\$ 1,715,080	\$ 3,147,840	\$ 7,023,484	\$ 875,060	\$ 7,898,544
Fringe benefits	383,959	240,368	464,038	1,088,365	186,800	1,275,165
Payroll taxes	202,689	156,668	286,523	645,880	69,364	715,244
Total payroll, taxes and fringes	2,747,212	2,112,116	3,898,401	8,757,729	1,131,224	9,888,953
Administrative	37,810	141,411	92,870	272,091	76,460	348,551
Fundraising	1,260	-	8,085	9,345	1,313	10,658
Supplies	102,207	36,737	252,624	391,568	76,608	468,176
Occupancy	216,853	159,683	295,193	671,729	104,834	776,563
Equipment	22,750	54,392	118,930	196,072	7,270	203,342
Financing	2,969	218	163,372	166,559	103,738	270,297
Other	3,105	(58)	9,482	12,529	(13,573)	(1,044)
Professional services	98,327	775,128	260,223	1,133,678	97,090	1,230,768
Purchased services	394,364	116,796	589,443	1,100,603	2,091	1,102,694
Total operating costs	3,626,857	3,396,423	5,688,623	12,711,903	1,587,055	14,298,958
Depreciation	94,220	1,956	321,169	417,345	95,294	512,639
Allocation of supporting services	514,864	278,664	478,610	1,272,138	(1,272,138)	-
Total Expenses	\$ 4,235,941	\$ 3,677,043	\$ 6,488,402	\$ 14,401,386	\$ 410,211	\$ 14,811,597

See accompanying notes to financial statements.

LA CAUSA, INC.

STATEMENT OF FUNCTIONAL EXPENSES (concluded) Year Ended December 31, 2009

	Child Development / Prevention	Social Services	Education	Total Program	Supporting Services	Total Operating	Region 3 - Safety Services	Region 3 - Ongoing	Health and Family Initiative	Total Discontinued	Total
Payroll	\$ 2,197,747	\$ 1,526,875	\$ 2,447,948	\$ 6,172,570	\$ 968,911	\$ 7,141,481	\$ 303,007	\$ 1,552,208	\$ 42,377	\$ 1,897,592	\$ 9,039,073
Fringe benefits	362,554	220,521	342,741	925,816	240,122	1,165,938	50,966	199,161	(1,560)	248,567	1,414,505
Payroll taxes	211,077	138,877	224,925	574,879	82,313	657,192	32,353	153,174	4,448	189,975	847,167
Total payroll, taxes and fringes	2,771,378	1,886,273	3,015,614	7,673,265	1,291,346	8,964,611	386,326	1,904,543	45,265	2,336,134	11,300,745
Administrative	77,597	147,817	72,751	298,165	55,189	353,354	25,788	116,006	2,733	144,527	497,881
Fundraising	1,963	-	4,100	6,063	539	6,602	-	-	-	-	6,602
Supplies	90,100	27,528	115,770	233,398	85,975	319,373	2,498	10,982	-	13,480	332,853
Occupancy	233,103	158,844	290,173	682,120	127,006	809,126	-	20,554	-	20,554	829,680
Equipment	8,575	2,702	16,795	28,072	7,709	35,781	76	380	-	456	36,237
Financing	3,847	212	173,702	177,761	123,753	301,514	-	68	-	68	301,582
Other	170	-	1,167	1,337	37,656	38,993	367	-	-	367	39,360
Professional services	94,696	725,751	303,749	1,124,196	148,430	1,272,626	9,700	23,156	14,767	47,623	1,320,249
Purchased services	479,452	106,779	487,546	1,073,777	6,662	1,080,439	111,325	1,914,184	14,779	2,040,288	3,120,727
Total operating costs	3,760,881	3,055,906	4,481,367	11,298,154	1,884,265	13,182,419	536,080	3,989,873	77,544	4,603,497	17,785,916
Depreciation	78,416	2,356	218,682	299,454	63,495	362,949	92	386	-	478	363,427
Allocation of supporting services	556,649	291,180	467,973	1,315,802	(1,589,611)	(273,809)	44,649	224,087	5,073	273,809	-
Total Expenses	\$ 4,395,946	\$ 3,349,442	\$ 5,168,022	\$ 12,913,410	\$ 358,149	\$ 13,271,559	\$ 580,821	\$ 4,214,346	\$ 82,617	\$ 4,877,784	\$ 18,149,343

See accompanying notes to financial statements.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

La Causa, Inc. (the "Organization") is a bilingual multicultural agency committed to children, youth and families. It was organized to operate exclusively for charitable and educational purposes and to develop programs for the care of children and families as well as the social, recreational and cultural development of these families located in Milwaukee County, Wisconsin.

Principles of Presentation

The accompanying financial statements include the accounts of General Property Systems, LLC, which is currently inactive.

Cash and Cash Equivalents

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less.

Accounts Receivable

The Organization provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collection experience and a review of the current status of grants and other accounts receivable. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change. Accounts receivable are shown net of an allowance for doubtful accounts of \$54,037 and \$79,193 as of December 31, 2010 and 2009, respectively.

Pledges Receivable

Pledges made to the Organization are recorded in the year the pledge is made. Amounts that are expected to be collected after one year have been discounted at 3.25% at December 31, 2010 and 2009, and are reflected in the financial statements at their net present value. The Organization discounts pledges based on the prime rate at December 31. The Organization has elected to record bad debts relating to pledges receivable using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Property and Equipment

Property and equipment are stated at cost if purchased or fair value at date of the gift if donated. All acquisitions of property and equipment in excess of \$1,000 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 1 - Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

Donations of property, equipment, supplies and other usable items are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

The Organization has recorded a liability for the conditional asset retirement obligation related to encapsulated asbestos material in its buildings, in accordance with authoritative guidance. A liability of \$54,682 was recorded at December 31, 2010 and 2009.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Restricted Cash

Restricted cash consists of cash restricted or designated for long-term purposes. At December 31, restricted cash consisted of the following:

	<u>2010</u>	<u>2009</u>
Charter School expansion	\$ 78,656	\$ 158,877
Charter School scholarships	366,504	351,000
Crisis Nursery expansion	<u>156,000</u>	<u>-</u>
Total Restricted Cash	<u>\$ 601,160</u>	<u>\$ 509,877</u>

During 2009, the Organization received a contribution of \$351,000 that is restricted for scholarships. According to the agreement, the Organization can temporarily use the cash for operations but is required to use the entire gift for scholarships prior to the end of 2015/2016 school year. Any amount that is not spent on scholarships is required to be returned to the donor in 2016. The Organization reviewed other contributions received from the donor and has elected to restrict the cash for unused scholarships from other similar gifts. At December 31, 2010, the Organization has only used these funds for scholarships.

Management had used cash received for the Charter School expansion of \$233,280 in 2009 to meet operational needs. Management replenished these funds and completed construction during 2010.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 1 - Summary of Significant Accounting Policies (continued)

Other Long-Term Assets

Other long-term assets include security deposits and capitalized loan fees, which are being amortized to expense over the life of the debt agreement. Accumulated amortization of capitalized loan fees as of December 31, 2010 and 2009 was \$11,567 and \$604, respectively.

Deferred Revenue

Deferred grant revenue consists of cash received from grants during the current year that are not fully earned. The revenue will be recognized in subsequent years when the expenses are incurred.

Net Assets (Deficit)

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported 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 either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Tax-Exempt Status

The Organization has received notification that it qualifies as a tax-exempt organization under Section 501 (c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes.

Revenue Recognition

Contributions, including pledges receivable, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 1 - Summary of Significant Accounting Policies (continued)

In-Kind Contributions

Donations of supplies, equipment, buildings, and other usable items are recorded at their estimated fair value. During 2010 and 2009, in-kind donations amounted to \$163,850 and \$237,214, respectively and are reflected in the financial statements.

The Organization uses the services of volunteers when and where appropriate to reduce labor costs, improve community involvement, provide training situations and encourage parental involvement. Volunteer hours utilized in 2010 and 2009 are not reflected in the financial statements as it is not possible to accurately establish a value for these hours and they generally do not require specialized skills.

Supporting Services

The Organization includes fundraising expenses within their supporting services classification on the statements of activities. Fundraising expenses totaled \$25,008 and \$36,025 for the years ended December 31, 2010 and 2009, respectively.

Derivatives

The Organization followed current authoritative guidance to account for the derivative instrument, an interest rate swap contract, that expired in 2010 and was not renewed by the Organization. The authoritative guidance requires an organization to recognize all of its derivative instruments as either assets or liabilities in the statements of financial position at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, whether the hedge is a cash flow or a fair value hedge.

The Organization used a derivative to manage risks related to interest rate movements. The interest rate swap contract was designated and qualified as a cash flow hedge which was reported at fair value. The change in fair value of the derivative was recognized as a change in net assets in the period of change. The Organization documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. It is the policy of the Organization to execute such contracts with creditworthy counter parties. The Organization's interest rate risk management strategy was to stabilize cash flow requirements by maintaining an interest rate swap contract to convert variable-rate debt to a fixed rate. The Organization does not use derivatives for trading or speculative purposes.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 1 - Summary of Significant Accounting Policies (continued)

Derivatives (continued)

The Organization's variable rate debt obligation that management hedged against interest rates, had \$2,175,000 outstanding at December 31, 2010. To minimize the effect of changes in the market, the Organization entered into an interest rate swap contract under which it paid interest at a fixed 4.36% rate. The swap contract was dated December 22, 2000 and expired December 1, 2010 and was not renewed. See Note 4 for additional interest rate swap agreement disclosures. The following represents the notional amount hedged, fair value of the interest rate swap outstanding at year end and the amount of exposure recorded in unrestricted net assets as financing expense on the statements of functional expenses for the year ended December 31:

	Notional Amount		As of December 31 Liability		Year Ended December 31 Realized and Unrealized Gain
US Bank Derivative 2010	\$	-	\$	-	\$ 68,118
US Bank Derivative 2009	\$	1,990,000	\$	68,118	\$ 57,086

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification

For comparability, certain 2009 amounts have been reclassified to conform with classifications adopted in 2010. The Board of Directors clarified their intentions regarding the designation of the building fund. In 2009 and prior years, the Organization reflected the building fund as board designated net assets. The Board passed a retrospective resolution clarifying that these funds should be undesignated. The reclassifications have no effect on reported amounts of net assets (deficit) or change in net assets.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The fair value of the Organization's interest rate swap (used for purposes other than trading) was the estimated amount that the Organization would receive, or pay, to sell, or transfer to another entity with the same credit standing, this agreement at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets, and creditworthiness of the Organization for liabilities.

Pledges receivable are recorded at their net present value based on discounted cash flows and the carrying value approximates fair value.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 1 - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

Long-term debt is recorded at historical cost.

For the year ended December 31, 2010, there have been no changes in the application of valuation methods applied to similar assets and liabilities.

See Note 4 for additional fair value disclosures.

Subsequent Events

The Organization has evaluated subsequent events through April 13, 2011 which is the date that the financial statements were available to be issued.

NOTE 2 - Business Plan

The positive results in 2010 and 2009 exceeded the projected results by \$448,965 and \$948,851 respectively. As indicated in the accompanying financial statements, the Organization shows net assets of \$1,166,619 as of December 31, 2010. The Organization's total net deficit was eliminated during the year ended December 31, 2009 and the unrestricted net asset deficit was eliminated in 2010. However, as of year ended December 31, 2010 the Organization's current liabilities exceed its current assets by \$2,004,697.

The Organization renewed contracts with Milwaukee County Fee for Service and Milwaukee Public Schools through 2011. During 2010, the fund raising efforts of the Organization generated donations (private funding support) of \$779,426 and an additional \$60,138 from other sources.

The Organization has used advances from funding sources to pay for operating expenses in 2010. This has been an historical issue for the Organization, especially since no reliable cash flow had been previously established. To address this issue, the Organization utilizes prudent cash flow and liquidity management and prepares and analyzes weekly projections. In addition, the Organization has a \$750,000 line of credit with Associated Bank in the event that cash needs exceed current cash on hand and provided that it is demonstrated that the draw can be repaid within one to three working days of receipt of the anticipated, delayed funds. In 2010, the Organization ended the practice of borrowing restricted funds for operations and has established other cash reserves to meet operational needs. Also, in order to address the long standing issue of insufficient cash that is available for operations, a decision was made in November 2009 to set a reserve of \$10,000 a month in a separate account in order to begin to eliminate this concern. Subsequently, in March 2011, the amount reserved was increased to \$27,000 a month. This was possible because the Organization restructured an existing loan which reduced the monthly payment. The Organization now feels that it has a program in place to resolve this problem and allow the cash reserve to grow and eventually provide the Organization with reliable cash resources.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 2 - Business Plan (continued)

The Organization continues to focus on enhancing the appropriate existing internal controls and systems to continue to achieve positive fiscal results to insure the viability of the Organization and also enhance its efforts to provide quality service to its clients. The Organization focused on creating a new five year business plan to 2014, which successful implementation will permit further debt reduction and increasing cash reserves. The positive results and commitment to its business plan will permit the Organization to meet its contractual obligations and increase the quality and quantity of services provided to the children and families it serves.

The Organization remains committed to:

- focus all of its efforts in the prevention and education programs
- reduce its debt to normal operational parameters;
- create a cash reserve; and
- maintain the confidence of its financial, funding, and community partners by continuing to deliver the excellent services provided to the children and families the Organization serves.

NOTE 3 - Discontinued Operations

During 2009, the Organization terminated the contract with the State of Wisconsin (the "State") to operate the Region 3 - On-going, Region 3 - Safety Services and Health and Family Initiative programs. The Organization coordinated with the State to transfer the program, including clients, staff, and records to another organization. The termination of the contract resulted in the Organization returning \$93,789 to the State. At December 31, 2010 and 2009 there were no assets or liabilities relating to the termination of the contract.

Activities relating to the discontinued operations for the years ended December 31 consisted of the following:

	<u>2010</u>	<u>2009</u>
Revenue from discontinued operations	\$ -	\$ 4,822,223
Expenses from discontinued operations	-	4,877,784
Total	<u>\$ -</u>	<u>\$ (55,561)</u>

NOTE 4 - Fair Value of Financial Instruments

According to the current authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible, the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 4 - Fair Value of Financial Instruments (continued)

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

The interest rate swap valuation was based on unobservable inputs including expected cash flow, maturity date, notional amount, interest rates and risk of non-performance through the duration of the agreement and was considered a level 3 item. See Note 1 for additional interest rate swap agreement disclosures.

The estimated carrying and fair values of the Organization's financial instruments are as follows:

	2010		2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Pledges receivable	\$ 222,159	\$ 222,159	\$ 178,686	\$ 178,686
Financial liabilities:				
Variable rate debt	\$ 3,128,002	\$ 3,128,002	\$ 3,356,488	\$ 3,356,488
Fixed rate debt	\$ 2,109,575	\$ 2,109,575	\$ 2,519,425	\$ 2,519,425
Interest rate swap liability	\$ -	\$ -	\$ 68,118	\$ 68,118

The Organization's variable and fixed rate debt is recorded at historical cost, which approximates fair value. Fair value for fixed rate debt was estimated using an interest rate of 5.31% and 6.25%, a rate the Organization could refinance the debt as of December 31, 2010 and 2009, respectively. The fair value of variable rate debt is estimated based on current rates with the same remaining maturities.

The table below presents the balances of liabilities measured at fair value on a recurring basis by level within the hierarchy.

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Interest rate swap liability	\$ -	\$ -	\$ -	\$ -

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
Interest rate swap liability	\$ 68,118	\$ -	\$ -	\$ 68,118

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 4 - Fair Value of Financial Instruments (continued)

The changes in Level 3 liabilities measured at fair value on a recurring basis are summarized as follows:

	<u>Interest Rate Swap Liability</u>
Balance, December 31, 2008	\$ 125,204
Net gains (realized and unrealized) included in change in net assets	<u>(57,086)</u>
Balance, December 31, 2009	68,118
Net gains (realized and unrealized) included in change in net assets	<u>(68,118)</u>
Balance, December 31, 2010	<u>\$ -</u>

There are no unrealized gains or losses included in change in net assets relating to interest rate swap liability at December 31, 2010. Unrealized net gains included in change in net assets are reported in the statements of functional expenses as financing expense.

NOTE 5 - Pledges Receivable

Pledges receivable as of December 31 consist of the following:

	2010	2009
Less than one year	\$ 219,202	\$ 105,800
One to five years	<u>5,000</u>	<u>75,000</u>
Total Pledge Receivables	224,202	180,800
Less: Discount to present value	<u>(2,043)</u>	<u>(2,114)</u>
Net Pledge Receivables	<u>\$ 222,159</u>	<u>\$ 178,686</u>

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 - Property and Equipment

The major categories of property and equipment at December 31 are summarized as follows:

	Depreciable Lives	2010	2009
Land	N/A	\$ 197,934	\$ 197,934
Buildings and improvements	5-40 yrs.	9,137,275	8,778,886
Vehicles	3-5 yrs.	216,566	268,624
Equipment	3-7 yrs.	1,073,616	973,439
Capital leases	3-5 yrs.	1,581,483	1,581,483
Construction in progress	N/A	1,000	1,000
Property not in use	39 yrs.	<u>32,040</u>	<u>30,389</u>
Total Property and Equipment		12,239,914	11,831,755
Less: Accumulated depreciation		<u>4,849,773</u>	<u>4,387,670</u>
Net Property and Equipment		<u>\$ 7,390,141</u>	<u>\$ 7,444,085</u>

The Organization owns three properties that are not currently used in operations. The properties are usable if management determines it necessary, and are still being depreciated over 39 years.

Subsequent to December 31, 2010, the Organization has actively marketed for sale two properties. The properties have a net book value of \$43,205. The listing price exceeds the carrying value and the Organization does not anticipate incurring any losses on the sale.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 7 - Long-Term Debt

Long-term debt consists of the following at December 31:

	2010	2009
<p>On December 1, 2000, the Redevelopment Authority of the City of Milwaukee issued \$4,940,000 in variable rate demand revenue bonds. The proceeds of the bonds were used to finance the construction of a new operating facility. The bonds are secured by a letter of credit issued by U.S. Bank in accordance with the reimbursement agreement between the Organization and the bank. The bond is serviced by Associated Bank. In conjunction with the reimbursement agreement, the Organization has agreed to a number of financial, transactional and conditional debt covenants.</p> <p>The bonds are secured with a first mortgage on the land and building constructed with the proceeds. The interest rate is variable (.56% at December 31, 2010) and is paid monthly. Principal payments are due annually on December 1 of each year for the next ten (10) years, with final payment due December 1, 2020.</p>	\$ 2,175,000	\$ 2,360,000
<p>Note payable, banks, interest rates of 5.31%, principal and interest are payable in monthly installments of \$14,591 beginning January 1, 2011, a final payment equal to all unpaid principal and accrued interest on December 15, 2017, collateralized by real estate at 809 West Greenfield Avenue, 522 - 524 West Walker Street, 1427 South 8th Street, 1412 South 8th Street, 1414 South 8th Street, 1313 South 8th Street, 1662 South 3rd Street, 234 - 236 West Mitchell Street, 804 West Greenfield Avenue, 735 - 739 West Greenfield Avenue, 228 West Mitchell Street, 832 West Greenfield Avenue, and 1655 South 2nd Street, Milwaukee, Wisconsin. In the event the Organization pays the outstanding balance before December 2017, the Bank may enforce a prepayment penalty. The note payable was refinanced in 2010 and the above terms reflect the current agreement.</p>	1,807,975	1,972,716

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 7 - Long-Term Debt (continued)

	<u>2010</u>	<u>2009</u>
<p>Various vehicle loans payable for the purchase of three (3) automobiles and bus transports with interest rates ranging from 1.9% to 6.5%, interest. Principal and interest are payable in various monthly installments with the original maturities no longer than 60 months. The longest vehicle loan payable matures in 2014. All notes are collateralized by the vehicles.</p>	\$ 43,268	\$ 70,659
<p>Note payable, interest rate of 7.12%, principal and interest are payable in monthly installments of \$503 beginning December 14, 2007, a final payment equal to all unpaid principal and accrued interest on November 14, 2012, collateralized by real estate at 1630 South 3rd Street, Milwaukee, Wisconsin.</p>	66,299	67,501
<p>Note payable, nonprofit agency, 5.75% interest rate at December 31, 2010. On the fifth (2014) and tenth (2019) year anniversary of the note, the interest rate will change to the lesser of a) the greater of the sum of the yield to maturity of a U.S. Treasury obligation with an equal remaining maturity date plus 1.75% or 5%, or b) other interest rates as determined by the lender in its sole discretion being offered to new borrowers on loans of similar size, duration and risk. Principal and interest are payable in 180 monthly installments of \$8,304 beginning June 2009, a final payment equal to all unpaid principal and accrued interest on May 2024, collateralized by real estate at 136 W. Greenfield Avenue, Milwaukee, Wisconsin.</p>	953,002	996,488
<p>Note payable, nonprofit agency, 6.50% interest rate. Principal and interest are payable in 35 monthly installments of \$3,831 beginning December 2009, a final payment equal to all unpaid principal and accrued interest in October 2012, collateralized by real estate at 1655-1683 S. 2nd Street, Milwaukee, Wisconsin. At December 31, 2010, \$3,018 additional principal was available to draw for building repairs.</p>	79,702	51,657
<p>Note payable, nonprofit agency, 3.00% interest rate. Principal and interest are payable in 36 monthly installments of \$20,994 beginning January 2010, a final payment equal to all unpaid principal and accrued interest in June 2011.</p>	<u>112,330</u>	<u>356,892</u>
Totals	5,237,576	5,875,913
Less: Current portion	<u>(491,280)</u>	<u>(2,514,056)</u>
Long-Term Portion	<u>\$ 4,746,296</u>	<u>\$ 3,361,857</u>

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 7 - Long-Term Debt (continued)

The Series 2006 variable bonds can be called on a weekly basis by the bondholder. The Organization has a remarketing agreement with the underwriter that provides for a "best efforts" remarketing of the Series 2006 bonds. The Organization anticipates that any bonds put back would be resold; however, there can be no guarantee that these bonds can or will be remarketed. The Series 2006 bonds are secured by a letter of credit in the amount of \$2,207,178, which expires January 2012. Principal requirements on long-term debt for years ending after December 31, 2010 are as follows:

2011	\$ 491,280
2012	444,147
2013	352,938
2014	366,010
2015	373,103
2016 and thereafter	<u>3,210,098</u>
Total	<u>\$ 5,237,576</u>

The Organization is subject to certain restrictions and covenants related to their debt. As of December 31, 2010, the Organization was in compliance with or obtained waivers for all of the established covenants.

Interest charged to expense incurred on the long-term debt, line of credit and capital leases was \$321,524 and \$340,233 for the years ended December 31, 2010 and 2009, respectively, and are included in financing on the statements of functional expenses.

NOTE 8 - Capital Lease

The Organization has capital lease agreements for the use of a telephone system and office equipment. The lease agreements expire on various dates. The capitalized cost of the leases at December 31, 2010 and 2009 was \$1,581,483. Amortization expense on capital leases is included with depreciation expense. Accumulated amortization was \$1,416,754 and \$1,353,559 as of December 31, 2010 and 2009, respectively.

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2010:

2011	\$ 74,643
2012	47,780
2013	16,320
2014	<u>13,600</u>
Total Future Minimum Lease Payments	152,343
Less: Amount representing interest	<u>(14,315)</u>
Present Value of Future Minimum Lease Payments	138,028
Less: Current portion	<u>(67,096)</u>
Long-Term Capital Lease Obligation	<u>\$ 70,932</u>

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 9 - Operating Leases

The Organization has operating lease agreements for the rental of office property and a vehicle. Rent expense on the operating leases was \$161,741 and \$150,054 for the years ended December 31, 2010 and 2009, respectively. The Organization also received approximately \$70,000 and \$147,154 of donated rent during the years ended December 31, 2010 and 2009, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2010:

2011	\$ 169,307
2012	<u>158,773</u>
Total	<u>\$ 328,080</u>

NOTE 10 - Line of Credit

During 2010, the Organization renewed its line of credit for \$750,000 with Associated Bank. Interest is payable at prime plus 1.5% (4.75% at December 31, 2010) and expires on August 15, 2011. At December 31, 2010 and 2009 the line did not have an outstanding balance. The line of credit is collateralized by properties located at 735-739, 804, 809 and 832 West Greenfield Avenue, 1313, 1412, 1414 and 1427 South 8th Street, 1655 South 2nd Street, 1662 South 3rd Street, 228 West Mitchell Street, 522-524 West Walker Street, 234-236 West Mitchell Street, Milwaukee, Wisconsin 53204.

The Organization is subject to certain restrictions and covenants related to the line of credit. As of December 31, 2010, the Organization obtained waivers for the established covenants.

NOTE 11 - Pension Plans

The Organization provides retirement benefits for all eligible employees who have enrolled in a 403(b) retirement savings plan. The Organization can contribute up to 5% of regular salary to the retirement plan. The Organization has not contributed to the plan in 2010 or 2009.

NOTE 12 - Net Assets

Temporarily restricted net assets at December 31 are composed of:

	<u>2010</u>	<u>2009</u>
Capital campaign - Charter School	\$ 78,656	\$ 392,157
Time restricted	275,691	227,448
Scholarships	366,504	411,018
Capital campaign - Crisis Nursery	156,000	-
Other purpose restricted	<u>36,000</u>	<u>45,500</u>
Totals	<u>\$ 912,851</u>	<u>\$ 1,076,123</u>

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 13 - Concentrations

The Organization received approximately \$8,300,000 and \$8,000,000 of its operating revenue from federal and state grants during 2010 and 2009, which is 54% and 55%, respectively, of total public support and revenue. The receivables from these agencies amounted to \$1,145,050 and \$985,877 at December 31, 2010 and 2009, respectively.

The Organization maintains cash balances in an institution which exceeds the federally insured limit of \$250,000 for interest bearing accounts. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

NOTE 14 - Commitments and Contingencies

Financial Awards From Grantors

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision, except as described below, has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

NOTE 15 - Litigation

The Organization is party to various legal actions that are incidental to its activities. The outcome of legal actions directly involving the Organization cannot be predicted with certainty. Management believes that the outcome of any of the ongoing proceedings, or all of them combined, will not have a material adverse effect on its financial position or activities.