

LA CAUSA, INC.
Milwaukee, Wisconsin

FINANCIAL STATEMENTS
Including Independent Auditors' Report
As of and for the Years Ended December 31, 2013 and 2012

LA CAUSA, INC.

TABLE OF CONTENTS As of and for the Years Ended December 31, 2013 and 2012

Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statements of Functional Expenses	6 - 7
Notes to Financial Statements	8 - 19

INDEPENDENT AUDITORS' REPORT

Board of Directors
La Causa, Inc.
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of La Causa, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 16, 2014 on our consideration of the Organization'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 in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly Vuchow Kraus LLP

Milwaukee, Wisconsin
April 16, 2014

LA CAUSA, INC.

STATEMENTS OF FINANCIAL POSITION As of December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 961,770	\$ 630,711
Grants receivable	1,309,735	1,191,415
Other accounts receivable	25,895	3,212
Pledges receivable - current portion	15,535	12,365
Prepaid expenses	67,511	58,017
Property held for sale	-	44,900
Total Current Assets	<u>2,380,446</u>	<u>1,940,620</u>
PROPERTY AND EQUIPMENT	<u>7,554,147</u>	<u>7,420,707</u>
OTHER ASSETS		
Pledges receivable, less current portion	4,879	4,879
Restricted cash	299,110	569,658
Other long-term assets	<u>33,223</u>	<u>37,328</u>
Total Other Assets	<u>337,212</u>	<u>611,865</u>
TOTAL ASSETS	<u>\$ 10,271,805</u>	<u>\$ 9,973,192</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 395,722	\$ 396,253
Due to Milwaukee County - current portion	558,540	346,344
Due to State of Wisconsin - current portion	37,276	74,568
Accrued liabilities	599,526	503,110
Deferred revenue	1,998,878	1,602,870
Obligation under capital lease - current portion	13,003	14,257
Long-term debt - current portion	<u>380,870</u>	<u>429,425</u>
Total Current Liabilities	<u>3,983,815</u>	<u>3,366,827</u>
LONG-TERM LIABILITIES		
Obligation under capital lease, less current portion	-	13,003
Due to Milwaukee County, less current portion	678,671	865,864
Due to State of Wisconsin, less current portion	-	37,276
Asset retirement liability	81,095	81,095
Long-term debt, less current portion	<u>3,778,262</u>	<u>4,159,132</u>
Total Long-Term Liabilities	<u>4,538,028</u>	<u>5,156,370</u>
Total Liabilities	<u>8,521,843</u>	<u>8,523,197</u>
NET ASSETS		
Unrestricted	1,374,632	425,639
Temporarily restricted	<u>375,330</u>	<u>1,024,356</u>
Total Net Assets	<u>1,749,962</u>	<u>1,449,995</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,271,805</u>	<u>\$ 9,973,192</u>

See accompanying notes to financial statements.

LA CAUSA, INC.

STATEMENTS OF ACTIVITIES For the Years Ended December 31, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT						
Government grants	\$ 9,957,340	\$ -	\$ 9,957,340	\$ 8,362,749	\$ -	\$ 8,362,749
United Way	86,309	55,805	142,114	70,800	52,335	123,135
Donations	452,608	238,336	690,944	421,043	289,165	710,208
Fundraising	134,487	-	134,487	122,905	-	122,905
Net assets released from restrictions	943,167	(943,167)	-	188,947	(188,947)	-
Total Public Support	<u>11,573,911</u>	<u>(649,026)</u>	<u>10,924,885</u>	<u>9,166,444</u>	<u>152,553</u>	<u>9,318,997</u>
REVENUE						
Private pay clients	175,186	-	175,186	139,598	-	139,598
Fees for services	6,771,978	-	6,771,978	6,295,943	-	6,295,943
Miscellaneous	52,044	-	52,044	193,895	-	193,895
Gain (loss) from property and equipment	6,181	-	6,181	(32,770)	-	(32,770)
Total Revenue	<u>7,005,389</u>	<u>-</u>	<u>7,005,389</u>	<u>6,596,666</u>	<u>-</u>	<u>6,596,666</u>
Total Public Support and Revenue	<u>18,579,300</u>	<u>(649,026)</u>	<u>17,930,274</u>	<u>15,763,110</u>	<u>152,553</u>	<u>15,915,663</u>
EXPENSES						
Program	17,322,002	-	17,322,002	15,326,779	-	15,326,779
Supporting services	308,305	-	308,305	448,155	-	448,155
Total Expenses	<u>17,630,307</u>	<u>-</u>	<u>17,630,307</u>	<u>15,774,934</u>	<u>-</u>	<u>15,774,934</u>
CHANGE IN NET ASSETS	948,993	(649,026)	299,967	(11,824)	152,553	140,729
NET ASSETS - Beginning of Year	<u>425,639</u>	<u>1,024,356</u>	<u>1,449,995</u>	<u>437,463</u>	<u>871,803</u>	<u>1,309,266</u>
NET ASSETS - END OF YEAR	<u>\$ 1,374,632</u>	<u>\$ 375,330</u>	<u>\$ 1,749,962</u>	<u>\$ 425,639</u>	<u>\$ 1,024,356</u>	<u>\$ 1,449,995</u>

See accompanying notes to financial statements.

LA CAUSA, INC.

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 299,967	\$ 140,729
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	511,473	497,727
Amortization	5,588	5,923
(Gain) loss on property and equipment	(6,181)	32,770
Contributions restricted for capital campaign	(187,800)	(280,300)
Recovery of bad debts	(6,360)	(38,211)
Changes in assets and liabilities		
Grants receivable	(118,320)	(101,603)
Other accounts receivable	(16,323)	51,452
Pledges receivable	(6,670)	298
Prepaid expenses	(9,494)	999
Other long-term assets	(1,483)	(3,132)
Accounts payable	(531)	(17,591)
Accrued liabilities	96,416	23,443
Deferred revenue	396,008	(185,943)
Asset retirement liability	-	26,413
Due to Milwaukee County	25,003	377,009
Due to State of Wisconsin	(74,568)	111,844
Net Cash Flows from Operating Activities	<u>906,725</u>	<u>641,827</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in restricted cash	270,548	174,033
Purchases of property and equipment	(657,732)	(726,519)
Proceeds from sale of property and equipment	63,900	-
Net Cash Flows from Investing Activities	<u>(323,284)</u>	<u>(552,486)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt and capital leases	(443,682)	(428,509)
Receipt of capital campaign gifts	191,300	336,800
Net Cash Flows from Financing Activities	<u>(252,382)</u>	<u>(91,709)</u>
Net Change in Cash and Cash Equivalents	331,059	(2,368)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>630,711</u>	<u>633,079</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 961,770</u>	<u>\$ 630,711</u>
 Supplemental cash flow disclosures:		
Cash paid for interest	\$ 180,579	\$ 196,985
 Noncash investing and financing activities:		
Construction in-progress costs purchased through accounts payable	\$ 21,675	\$ 21,675
Parking lot improvement purchased through debt	\$ -	\$ 209,000

See accompanying notes to financial statements.

LA CAUSA, INC.

STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended December 31, 2013

	Child Development / Prevention	Crisis Nursery	Social Services	Education	Total Program	Supporting Services	Total
Payroll	\$ 1,075,553	\$ 279,495	\$ 3,773,449	\$ 4,056,750	\$ 9,185,247	\$ 905,213	\$ 10,090,460
Fringe benefits	189,404	48,238	532,064	548,153	1,317,859	178,147	1,496,006
Payroll taxes	<u>100,319</u>	<u>25,802</u>	<u>348,324</u>	<u>375,240</u>	<u>849,685</u>	<u>72,157</u>	<u>921,842</u>
Total payroll, taxes and fringes	1,365,276	353,535	4,653,837	4,980,143	11,352,791	1,155,517	12,508,308
Administrative	11,579	15,609	431,123	114,370	572,681	66,985	639,666
Fundraising	49	-	-	10,207	10,256	54,334	64,590
Supplies	37,470	39,602	57,141	214,182	348,395	70,027	418,422
Occupancy	154,609	28,691	252,992	360,957	797,249	106,596	903,845
Equipment	3,307	1,473	84,722	39,238	128,740	13,382	142,122
Financing	4,585	1	2,554	86,335	93,475	102,612	196,087
Other	1,572	-	(421)	9,248	10,399	8,777	19,176
Professional services	1,000	2,748	847,625	262,432	1,113,805	100,055	1,213,860
Purchased services	<u>151,340</u>	<u>-</u>	<u>189,250</u>	<u>663,366</u>	<u>1,003,956</u>	<u>8,802</u>	<u>1,012,758</u>
Total operating costs	1,730,787	441,659	6,518,823	6,740,478	15,431,747	1,687,087	17,118,834
Depreciation	75,080	11,576	5,017	404,918	496,591	14,882	511,473
Allocation of supporting services	<u>181,650</u>	<u>58,106</u>	<u>543,473</u>	<u>610,435</u>	<u>1,393,664</u>	<u>(1,393,664)</u>	<u>-</u>
Total Expenses	<u>\$ 1,987,517</u>	<u>\$ 511,341</u>	<u>\$ 7,067,313</u>	<u>\$ 7,755,831</u>	<u>\$ 17,322,002</u>	<u>\$ 308,305</u>	<u>\$ 17,630,307</u>

See accompanying notes to financial statements.

LA CAUSA, INC.

STATEMENT OF FUNCTIONAL EXPENSES (concluded) For the Year Ended December 31, 2012

	Child Development / Prevention	Crisis Nursery	Social Services	Education	Total Program	Supporting Services	Total
Payroll	\$ 1,133,453	\$ 277,523	\$ 2,697,342	\$ 3,677,120	\$ 7,785,438	\$ 798,190	\$ 8,583,628
Fringe benefits	198,058	46,185	376,520	511,345	1,132,108	190,478	1,322,586
Payroll taxes	<u>116,120</u>	<u>27,001</u>	<u>266,580</u>	<u>353,640</u>	<u>763,341</u>	<u>66,083</u>	<u>829,424</u>
Total payroll, taxes and fringes	1,447,631	350,709	3,340,442	4,542,105	9,680,887	1,054,751	10,735,638
Administrative	(20,952)	10,780	306,524	106,359	402,711	55,617	458,328
Fundraising	-	-	-	9,057	9,057	38,830	47,887
Supplies	49,814	58,078	41,357	335,574	484,823	55,008	539,831
Occupancy	161,300	22,990	205,603	366,961	756,854	116,893	873,747
Equipment	7,557	2,090	70,154	79,470	159,271	7,576	166,847
Financing	167	2	21	95,111	95,301	115,547	210,848
Other	-	-	(346)	(3,756)	(4,102)	30,606	26,504
Professional services	1,426	2,908	785,007	281,922	1,071,263	114,685	1,185,948
Purchased services	<u>247,877</u>	<u>475</u>	<u>141,129</u>	<u>631,742</u>	<u>1,021,223</u>	<u>10,406</u>	<u>1,031,629</u>
Total operating costs	1,894,820	448,032	4,889,891	6,444,545	13,677,288	1,599,919	15,277,207
Depreciation	74,121	1,427	4,104	381,035	460,687	37,040	497,727
Allocation of supporting services	<u>215,886</u>	<u>48,473</u>	<u>420,607</u>	<u>503,838</u>	<u>1,188,804</u>	<u>(1,188,804)</u>	<u>-</u>
Total Expenses	<u>\$ 2,184,827</u>	<u>\$ 497,932</u>	<u>\$ 5,314,602</u>	<u>\$ 7,329,418</u>	<u>\$ 15,326,779</u>	<u>\$ 448,155</u>	<u>\$ 15,774,934</u>

See accompanying notes to financial statements.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

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. When an account is deemed uncollectible, the account is written off against the allowance. 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 \$0 and \$6,360 as of December 31, 2013 and 2012, 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 0.25% at December 31, 2013 and 2012, and are reflected in the financial statements at their net present value. The Organization believes all amounts are fully collectible and no allowance was necessary at December 31, 2013 and 2012.

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. Depreciation is provided on a straight line basis over the estimated useful lives of the assets.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

NOTE 1 - Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

Donations of property and equipment 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 sold a property in March 2013. As of December 31, 2012, the property was reflected as property held for sale on the statements of financial position and had a fair value of \$44,900, the sale price. The Organization incurred a loss on the anticipated sale of the property in 2012 of \$32,770 that is reflected on the statements of activities.

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 \$81,095 was recorded at December 31, 2013 and 2012.

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. Besides the loss on the property held for sale in 2012, there have been no other impairment losses to date.

Restricted Cash

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

	<u>2013</u>	<u>2012</u>
Charter School expansion	\$ -	\$ 3,836
Charter School scholarships	251,794	293,693
Crisis Nursery expansion	<u>47,316</u>	<u>272,129</u>
Total Restricted Cash	<u>\$ 299,110</u>	<u>\$ 569,658</u>

During 2009, the Organization received a contribution of \$351,000 that was 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, 2013 and 2012, the Organization has only used these funds for scholarships.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

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, 2013 and 2012 was \$28,927 and \$23,339, respectively.

Deferred Revenue

Deferred grant revenue consists of cash received from government grants that is not fully earned. The revenue will be recognized in subsequent years when the expenses are incurred. If a funding source requests deferred revenue be returned, the requested amount is shown as due to the specific funding source on the statements of financial position.

In 2012, Milwaukee County requested deferred revenue of \$1,385,380, related to 2008 to 2011, to be returned. The Organization has an agreement to repay the obligation interest free over 48 months in monthly installments of \$28,862, with the final payment in the amount of \$28,866. In 2013, Milwaukee County requested deferred revenue of \$424,396, related to 2012, to be returned. The Organization has an agreement to repay the obligation interest free over 24 months in monthly installments of \$17,683, with the final payment in the amount of \$17,687. As of December 31, 2013 the total liability outstanding is \$1,237,211.

In 2012, the Wisconsin Department of Children and Families requested deferred revenue of \$111,844, related to 2011, to be returned. The Organization has an agreement to repay the obligation, beginning January 2013, interest free over 18 months in monthly installments of \$6,214, with the final payment in the amount of \$6,206. In 2013, the Wisconsin Department of Children and Families requested deferred revenue of \$69,520, related to 2012, to be returned. The Organization had an agreement to repay the obligation interest free over 5 months in monthly installments of \$13,904. This obligation was satisfied in October 2013. As of December 31, 2013 the total liability outstanding is \$37,276.

Net Assets

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.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

NOTE 1 - Summary of Significant Accounting Policies (continued)

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.

In-Kind Contributions

Donations of supplies, equipment, rent, and other usable items are recorded at their estimated fair value. During 2013 and 2012, in-kind donations amounted to \$166,742 and \$218,270, 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 2013 and 2012 are not reflected in the financial statements as 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 \$70,161 and \$53,978 for the years ended December 31, 2013 and 2012, respectively.

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.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

NOTE 1 - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

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

Long-term debt and due to government agencies are recorded at historical cost.

Property held for sale is recorded at the lesser of historical cost less depreciation or the listed sales price.

For the year ended December 31, 2013, there have been no changes in the application of valuation methods applied to similar assets and liabilities.

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

	2013		2012	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
Financial assets:				
Pledges receivable	\$ 20,414	\$ 20,414	\$ 17,244	\$ 17,244
Property held for sale	-	-	44,900	44,900
Financial liabilities:				
Variable rate debt	\$ 2,591,391	\$ 2,591,391	\$ 2,857,178	\$ 2,857,178
Fixed rate debt	\$ 1,567,741	\$ 1,367,673	\$ 1,731,379	\$ 1,468,994
Due to government agencies	\$ 1,274,487	\$ 1,223,158	\$ 1,324,052	\$ 1,237,078

The Organization's variable and fixed rate debt and due to government agencies are recorded at historical cost. Fair value for fixed rate debt and due to government agencies was estimated using an interest rate of 4.5%, a rate the Organization could refinance the debt as of December 31, 2013 and 2012. The fair value of variable rate debt is estimated based on current rates with the same remaining maturities.

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.

Reclassification

For comparability, certain 2012 amounts have been reclassified to conform with classifications adopted in 2013. The reclassifications have no effect on reported amounts of net assets or change in net assets.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

NOTE 2 - Fair Value Accounting

The Organization follows current authoritative accounting guidance for fair value measurements of financial assets. Current authoritative accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Organization does not have any financial instruments that are reported at fair value on a recurring basis on the statements of financial position.

In 2013, no assets were measured at fair value on a nonrecurring basis.

The following table presents an asset that is measured at fair value on a nonrecurring basis at December 31:

	2012			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Property held for sale	<u>\$ 44,900</u>	<u>\$ -</u>	<u>\$ 44,900</u>	<u>\$ -</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Property held for sale - This asset is measured at fair value using the March 2013 sale price. It is classified as Level 2.

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

NOTE 3 - Pledges Receivable

Pledges receivable as of December 31 consist of the following:

	2013	2012
Less than one year	\$ 15,535	\$ 12,365
One to five years	5,000	5,000
Total Pledge Receivables	20,535	17,365
Less: Discount to present value	(121)	(121)
Net Pledge Receivables	\$ 20,414	\$ 17,244

NOTE 4 - Property and Equipment

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

	Depreciable Lives	2013	2012
Land	N/A	\$ 190,580	\$ 190,580
Buildings and improvements	5-40 yrs.	10,119,954	9,204,024
Vehicles	3-5 yrs.	54,939	147,455
Equipment	3-7 yrs.	1,396,668	1,256,664
Capital leases	3-5 yrs.	464,200	464,200
Construction in progress	N/A	-	393,039
Total Property and Equipment		12,226,341	11,655,962
Less: Accumulated depreciation		4,672,194	4,235,255
Net Property and Equipment		\$ 7,554,147	\$ 7,420,707

NOTE 5 - Long-Term Debt

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

	2013	2012
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 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.		

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE 5 - Long-Term Debt (continued)

	2013	2012
<p>The bonds are secured with a letter of credit, which is collateralized with a first mortgage on the land and building constructed with the proceeds. The interest rate is variable (.18% at December 31, 2013) and interest is paid monthly. Principal payments are due annually on December 1 of each year for eight (8) years, with final payment due December 1, 2020.</p>	\$ 1,585,000	\$ 1,790,000
<p>Note payable, bank, interest rate 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 is due 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.</p>	1,551,380	1,641,482
<p>Various vehicle loans payable for the purchase of two (2) automobiles and bus transports with interest rates ranging from 1.9% to 6.9%. 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 2016. All notes are collateralized by the vehicles.</p>	16,361	26,705
<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 was due on November 14, 2012. In September 2012, the note was refinanced, with interest rate of Libor plus 3.5%, principal and interest payable in monthly installments of \$267. The note was paid in full in November 2013. Collateralized by real estate at 1630 South 3rd Street, Milwaukee, Wisconsin.</p>	-	63,192

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 2013 and 2012

NOTE 5 - Long-Term Debt (continued)

	<u>2013</u>	<u>2012</u>
<p>Note payable, nonprofit agency, 5.75% interest rate. On the fifth (2014) and tenth (2019) year anniversary of the note, the interest rate will change to the lesser of i) 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 ii) 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, with a final payment equal to all unpaid principal and accrued interest due in May 2024, collateralized by real estate at 136 W. Greenfield Avenue, Milwaukee, Wisconsin.</p>	\$ 806,527	\$ 858,178
<p>Note payable, nonprofit agency, 4.50% interest rate. On the fifth (2017) and tenth (2022) year anniversary of the note, the interest rate will change to the greater of the i) sum of the yield to maturity of a U.S. Treasury obligation with an equal remaining maturity date plus 2% or ii) 5%. Principal and interest are payable in 180 monthly installments of \$1,599 beginning February 1, 2013, with a final payment equal to all unpaid principal and accrued interest due in January 2028, collateralized by real estate and an assignment of rents at 809 West Greenfield Avenue, 522 - 524 West Walker Street, 1412 South 8th Street, 1414 South 8th Street, 804 West Greenfield Avenue, and 735 - 739 West Greenfield Avenue, Milwaukee, Wisconsin.</p>	<u>199,864</u>	<u>209,000</u>
Totals	4,159,132	4,588,557
Less: Current portion	<u>380,870</u>	<u>429,425</u>
Long-Term Portion	<u>\$ 3,778,262</u>	<u>\$ 4,159,132</u>

The Series 2000 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 2000 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 2000 bonds are secured by a letter of credit in the amount of \$2,014,367, which expires January 2015. Principal requirements on long-term debt for years ending after December 31, 2013 are as follows:

2014	\$ 380,870
2015	388,758
2016	404,185
2017	1,562,458
2018	321,261
2019 and thereafter	<u>1,101,600</u>
Total	<u>\$ 4,159,132</u>

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 2013 and 2012

NOTE 5 - Long-Term Debt (continued)

The Organization is subject to certain restrictions and covenants related to their debt. As of December 31, 2013, 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 \$180,579 and \$196,985 for the years ended December 31, 2013 and 2012, respectively, and is included in financing on the statements of functional expenses.

NOTE 6 - 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, 2013 and 2012 was \$464,200. Amortization expense on capital leases is included with depreciation expense. Accumulated amortization was \$395,724 and \$371,555 as of December 31, 2013 and 2012, 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, 2013:

2014	\$	13,589
Less: Amount representing interest		<u>(586)</u>
Present Value of Future Minimum Lease Payments		13,003
Less: Current portion		<u>13,003</u>
Long-Term Capital Lease Obligation	\$	<u>-</u>

NOTE 7 - Operating Leases

The Organization has operating lease agreements for the rental of office property and vehicles. Rent expense on the operating leases was \$191,506 and \$187,426 for the years ended December 31, 2013 and 2012, respectively. The Organization also received approximately \$70,000 of donated rent during the years ended December 31, 2013 and 2012, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2013:

2014	\$	184,945
2015		5,157
2016		<u>619</u>
Total	\$	<u>190,721</u>

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

NOTE 8 - Line of Credit

The Organization has a line of credit for \$650,000 with Associated Bank. Interest is payable at prime plus 1.5% (3.75% at December 31, 2013) and the line expires on August 13, 2014. At December 31, 2013 and 2012 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, 1643-1687 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, 2013, the Organization was in compliance with the established covenants, or obtained necessary waivers.

NOTE 9 - Pension Plans

The Organization provides retirement benefits for all eligible employees who have enrolled in a 403(b) retirement savings plan. In 2013 and 2012, the Organization contributed a 25% match or up to 6% of regular salary to those employees participating in the retirement plan totaling \$30,997 and \$0, respectively. The Organization has not contributed a discretionary contribution to the plan in 2013 or 2012.

NOTE 10 - Net Assets

Temporarily restricted net assets at December 31 are composed of:

	<u>2013</u>	<u>2012</u>
Capital campaign - Charter School	\$ -	\$ 3,836
Time restricted	76,220	66,079
Charter School scholarships	251,794	293,693
Capital campaign - Crisis Nursery	<u>47,316</u>	<u>660,748</u>
Totals	<u>\$ 375,330</u>	<u>\$ 1,024,356</u>

NOTE 11 - Concentrations

The majority of the government grants and fees for services revenue on the statements of activities are from federal, state, and local government contracts in 2013 and 2012. The receivables from government contracts amounted to \$1,269,114 and \$1,139,080 at December 31, 2013 and 2012, respectively.

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

LA CAUSA, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2013 and 2012

NOTE 12 - 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 has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

NOTE 13 - Subsequent Events

The Organization has evaluated subsequent events through April 16, 2014, which is the date that the financial statements were issued.

The Organization experienced a pipe burst at one of its locations in January 2014. As a result, there has been major work to repair water damage. There has been asbestos and lead remediation and new dry wall, ceilings and flooring installed. The cost to repair was estimated at \$145,000. The Organization has sufficient property and liability insurance in place to cover the repairs.

The new Crisis Nursery and Respite Center opened in October 2013. The old facility will be razed in 2014. Costs to raze the facility approximate \$23,000. These costs were covered as part of the capital campaign.