

# **La Causa, Inc.**

Financial Statements

December 31, 2020 and 2019

# La Causa, Inc.

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## Independent Auditors' Report

To the Board of Directors of  
La Causa, Inc.

### 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, 2020 and 2019, 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 audit 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, 2020 and 2019, 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 May 5, 2021 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 solely 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 the effectiveness of the Organization's 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 US, LLP*

Milwaukee, Wisconsin  
May 5, 2021

**La Causa, Inc.**Statements of Financial Position  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,511,245	\$ 3,088,604
Grants receivable	1,027,781	1,471,471
Other accounts receivable	-	43,750
Pledges receivable	39,779	91,568
Prepaid expenses	87,263	98,930
Property held for sale	169,237	-
Total current assets	<u>7,835,305</u>	<u>4,794,323</u>
<b>Property and Equipment</b>	<u>11,834,164</u>	<u>9,787,344</u>
<b>Other Assets</b>		
Restricted cash	174,533	127,033
Other long-term assets	123,021	78,574
Total other assets	<u>297,554</u>	<u>205,607</u>
Total assets	<u>\$ 19,967,023</u>	<u>\$ 14,787,274</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 211,633	\$ 505,472
Due to Milwaukee County, current portion	-	388,417
Accrued expenses	1,436,322	782,518
Deferred revenue	1,612,244	1,678,348
Long-term debt, current portion	1,594,281	2,366,385
Interest rate swap liability	-	8,109
Other liabilities	28,648	18,773
Total current liabilities	<u>4,883,128</u>	<u>5,748,022</u>
<b>Long-term Liabilities</b>		
Due to Milwaukee County, less current portion	-	33,583
Asset retirement liability	81,095	81,095
Long-term debt, less current portion, net	6,074,616	1,747,129
Total long-term liabilities	<u>6,155,711</u>	<u>1,861,807</u>
Total liabilities	<u>11,038,839</u>	<u>7,609,829</u>
<b>Net Assets</b>		
Without donor restrictions	8,713,872	6,958,844
With donor restrictions	214,312	218,601
Total net assets	<u>8,928,184</u>	<u>7,177,445</u>
Total liabilities and net assets	<u>\$ 19,967,023</u>	<u>\$ 14,787,274</u>

See notes to financial statements

**La Causa, Inc.**

## Statements of Activities

Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Public Support and Revenue</b>						
Government grants	\$ 8,328,044	\$ -	\$ 8,328,044	\$ 9,607,217	\$ -	\$ 9,607,217
United Way	32,256	32,256	64,512	36,654	36,656	73,310
Donations	434,773	67,023	501,796	468,952	77,977	546,929
Special events	43,520	-	43,520	174,071	-	174,071
Child care and program fees	1,451,344	-	1,451,344	1,583,050	-	1,583,050
Fees for services	7,355,483	-	7,355,483	7,084,590	-	7,084,590
Miscellaneous	176,810	-	176,810	155,403	-	155,403
Net assets released from restrictions	103,568	(103,568)	-	113,699	(113,699)	-
	<u>17,925,798</u>	<u>(4,289)</u>	<u>17,921,509</u>	<u>19,223,636</u>	<u>934</u>	<u>19,224,570</u>
<b>Expenses</b>						
Program	14,011,765	-	14,011,765	15,528,435	-	15,528,435
Supporting services	2,159,005	-	2,159,005	2,245,134	-	2,245,134
	<u>16,170,770</u>	<u>-</u>	<u>16,170,770</u>	<u>17,773,569</u>	<u>-</u>	<u>17,773,569</u>
Change in net assets	1,755,028	(4,289)	1,750,739	1,450,067	934	1,451,001
<b>Net Assets, Beginning</b>	<u>6,958,844</u>	<u>218,601</u>	<u>7,177,445</u>	<u>5,508,777</u>	<u>217,667</u>	<u>5,726,444</u>
<b>Net Assets, Ending</b>	<u>\$ 8,713,872</u>	<u>\$ 214,312</u>	<u>\$ 8,928,184</u>	<u>\$ 6,958,844</u>	<u>\$ 218,601</u>	<u>\$ 7,177,445</u>

See notes to financial statements

## La Causa, Inc.

Statements of Cash Flows  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 1,750,739	\$ 1,451,001
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	632,186	611,822
Amortization	12,764	11,619
Gain from sale of property and equipment	(16,566)	-
Change in interest rate swap	(8,109)	41,535
Changes in assets and liabilities:		
Grants receivable	443,690	(338,012)
Other accounts receivable	43,750	3,474
Pledges receivable	51,789	2,006
Prepaid expenses	11,667	28,559
Other long-term assets	(44,447)	3,995
Accounts payable	(293,839)	44,764
Accrued expenses	(12,520)	96,545
Deferred revenue	(66,104)	255,740
Due to Milwaukee County	(422,000)	(142,451)
Other liabilities	9,875	(33,617)
Net cash flows from operating activities	<u>2,092,875</u>	<u>2,036,980</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(692,159)	(534,625)
Proceeds from sale of property and equipment	16,566	-
Net cash flows from investing activities	<u>(675,593)</u>	<u>(534,625)</u>
<b>Cash Flows From Financing Activities</b>		
Principal payments on debt	(347,948)	(742,630)
Debt issuance costs	(38,093)	-
Proceeds from issuance of debt	2,438,900	-
Net cash flows from financing activities	<u>2,052,859</u>	<u>(742,630)</u>
Net change in cash, cash equivalents and restricted cash	3,470,141	759,725
<b>Cash, Cash Equivalents and Restricted Cash, Beginning</b>	<u>3,215,637</u>	<u>2,455,912</u>
<b>Cash, Cash Equivalents and Restricted Cash, Ending</b>	<u>\$ 6,685,778</u>	<u>\$ 3,215,637</u>
<b>Supplemental Cash Flow Disclosures</b>		
Cash paid for interest	\$ 145,608	\$ 213,344
<b>Noncash Investing and Financing Activities</b>		
Proceeds from issuance of debt used to extinguish existing debt	\$ 3,877,919	\$ -
Purchases of property and equipment financed with accrued expenses	\$ 666,324	\$ -
Purchases of property and equipment financed with long-term debt	\$ 1,489,760	\$ -
<b>Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Statements of Financial Position</b>		
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 6,511,245	\$ 3,088,604
Restricted cash	174,533	127,033
Total cash, cash equivalents and restricted cash	<u>\$ 6,685,778</u>	<u>\$ 3,215,637</u>

See notes to financial statements

**La Causa, Inc.**Statement of Functional Expenses  
Year Ended December 31, 2020

	<b>Child Development / Prevention</b>	<b>Crisis Nursery</b>	<b>Social Services</b>	<b>Education</b>	<b>Total Program</b>	<b>Information Technology</b>	<b>Supporting Services</b>	<b>Total</b>
Payroll	\$ 783,703	\$ 272,799	\$ 4,204,283	\$ 3,380,379	\$ 8,641,164	\$ 191,661	\$ 1,183,534	\$ 10,016,359
Fringe benefits	138,762	46,612	671,503	548,154	1,405,031	25,947	263,617	1,694,595
Payroll taxes	53,613	20,427	302,142	255,094	631,276	14,177	80,102	725,555
Total payroll, taxes and fringes	976,078	339,838	5,177,928	4,183,627	10,677,471	231,785	1,527,253	12,436,509
Telephone, training and travel	20,109	10,221	249,079	125,321	404,730	4,798	51,183	460,711
Supplies	68,844	65,294	22,288	226,753	383,179	2,697	120,188	506,064
Occupancy	95,130	37,517	178,414	308,699	619,760	-	136,698	756,458
Equipment	12,170	1,981	16,142	223,979	254,272	2,421	9,430	266,123
Financing	20	75	38,953	2,699	41,747	-	116,716	158,463
Other	-	-	15,033	1,487	16,520	-	1,660	18,180
Professional services	48,863	-	176,455	160,756	386,074	3,568	170,445	560,087
Purchased services	78,788	174	34,156	248,636	361,754	-	14,235	375,989
Depreciation	39,069	30,663	283,907	278,214	631,853	-	333	632,186
Allocation of information technology expenses	5,417	2,583	49,865	176,540	234,405	(245,269)	10,864	-
Total expenses	<u>\$ 1,344,488</u>	<u>\$ 488,346</u>	<u>\$ 6,242,220</u>	<u>\$ 5,936,711</u>	<u>\$ 14,011,765</u>	<u>\$ -</u>	<u>\$ 2,159,005</u>	<u>\$ 16,170,770</u>

See notes to financial statements

**La Causa, Inc.**Statement of Functional Expenses  
Year Ended December 31, 2019

	<b>Child Development / Prevention</b>	<b>Crisis Nursery</b>	<b>Social Services</b>	<b>Education</b>	<b>Total Program</b>	<b>Information Technology</b>	<b>Supporting Services</b>	<b>Total</b>
Payroll	\$ 757,018	\$ 265,430	\$ 4,219,686	\$ 3,794,478	\$ 9,036,612	\$ 189,126	\$ 1,094,843	\$ 10,320,581
Fringe benefits	132,984	54,312	597,429	582,164	1,366,889	36,764	251,673	1,655,326
Payroll taxes	59,219	20,712	328,242	296,211	704,384	14,321	76,744	795,449
Total payroll, taxes and fringes	949,221	340,454	5,145,357	4,672,853	11,107,885	240,211	1,423,260	12,771,356
Telephone, training and travel	18,065	9,534	445,047	76,268	548,914	5,005	56,098	610,017
Supplies	26,276	30,633	53,320	281,944	392,173	3,014	240,358	635,545
Occupancy	69,986	40,915	187,252	443,911	742,064	-	116,749	858,813
Equipment	11,019	2,209	31,826	159,513	204,567	2,172	12,203	218,942
Financing	-	20	106,800	41	106,861	-	161,540	268,401
Other	-	187	8,526	14,277	22,990	-	15,718	38,708
Professional services	663	-	398,218	197,289	596,170	1,685	176,441	774,296
Purchased services	117,473	323	88,709	766,398	972,903	-	12,766	985,669
Depreciation	34,862	32,277	278,864	245,652	591,655	-	20,167	611,822
Allocation of information technology expenses	5,218	2,595	60,779	173,661	242,253	(252,087)	9,834	-
Total expenses	<u>\$ 1,232,783</u>	<u>\$ 459,147</u>	<u>\$ 6,804,698</u>	<u>\$ 7,031,807</u>	<u>\$ 15,528,435</u>	<u>\$ -</u>	<u>\$ 2,245,134</u>	<u>\$ 17,773,569</u>

See notes to financial statements

# La Causa, Inc.

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Notes to Financial Statements  
December 31, 2020 and 2019

## 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.

In 2016, the Organization initiated the formation of La Causa Foundation, Inc. (the Foundation), which is organized and operated exclusively for charitable, education and scientific purposes within the meaning of those terms as used in sections 501(c)(3) of the Internal Revenue Code of 1986. The sole purpose of the Foundation is to operate for the exclusive benefit of the Organization. The Organization is the sole member of the Foundation. There was no activity relating to the Foundation from 2016 through 2020.

### Cash and Cash Equivalents

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

### Grants Receivable

Grants receivable represents the outstanding balance of government and other grants due to the Organization based upon costs incurred, services completed and review of agreements. Management determines the need for an allowance for doubtful accounts based on historical collection experience and a review of current receivable balances. No allowance for doubtful accounts is considered necessary as of December 31, 2020 and 2019.

### Other Accounts Receivable

The Organization assesses collectibility of amounts due prior to the recognition of revenues. Other accounts receivable are recorded at net realizable value when the amounts are due in accordance with contracts with customers. Accounts are written off through bad debt expense when the Organization has exhausted all collection efforts and determines accounts are impaired based on changes in credit worthiness. No amounts were written-off in 2020 and 2019.

### Pledges Receivable

Pledges made to the Organization are recorded in the year the pledge is made. The pledges receivable balance at December 31, 2020 and 2019 is expected to be collected within the next year. The Organization believes all amounts are fully collectible and no allowance is necessary at December 31, 2020 and 2019.

**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 \$5,000 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.

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 net assets without donor restrictions 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 contributions with donor restrictions. 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 or as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions 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 \$81,095 was recorded at December 31, 2020 and 2019.

**Property Held for Sale**

Property held for sale is reported at the lower of the respective carrying value or fair value less cost to sell. These assets are generally marketed for sale immediately. Property held for sale is not depreciated. During 2020, the Organization began marketing one of their locations for sale. The property meets the requirements to be classified as held for sale at December 31, 2020. As a result, \$169,237 was transferred from property and equipment to property held for sale during 2020.

**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 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. There have been no impairment losses in 2020 and 2019.

**Restricted Cash**

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

	<u>2020</u>	<u>2019</u>
Charter School	\$ 103,032	\$ 55,532
Crisis Nursery	71,501	71,501
Total restricted cash	<u>\$ 174,533</u>	<u>\$ 127,033</u>

### **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 or other conditions are met. 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.

Milwaukee County has requested deferred revenue to be returned. The Organization and Milwaukee County have agreed to monthly installment repayment plans, at zero percent interest, on any requests made. As of December 31, 2020 and 2019, the total liability outstanding from all requests from Milwaukee County was \$0 and \$422,000, respectively.

In March 2021, Milwaukee County requested deferred revenue to be returned relating to programs funded during 2019. The Organization and Milwaukee County have agreed to a one-time payment of \$59,715 and monthly installment repayment plan of twenty-four monthly installments of \$12,500 beginning May 2021, at zero percent interest. As of December 31, 2020, \$359,715 was included in deferred revenue on the statements of financial position, which is due to Milwaukee County according to the agreement.

### **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:

*Net Assets Without Donor Restrictions.* Net assets that are not subject to donor-imposed stipulations.

*Net Assets With Donor Restrictions.* Net assets subject to donor-imposed stipulations that either expire by passage of time, can be fulfilled and removed by actions of the Organization pursuant to those stipulations or that they be maintained in perpetuity by the Organization.

### **Board Designated Net Assets**

The Organization's Board of Directors has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. There are no Board designated net assets at December 31, 2020 and 2019.

### **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.

### **Contributions and Grants**

Unconditional contributions or grants are recognized when cash, securities, other assets or promises to give are received. Conditional contributions or grants, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been met. Most of the Organization's federal, state and other grants or contracts are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. As of December 31, 2020 and 2019, there was approximately \$4,100,000 and \$4,200,000, respectively, of conditional grant revenue, which includes \$1,612,244 and \$1,678,348, respectively, that had been received in advance and is included within deferred revenue on the statements of financial position. These amounts will either be earned by the Organization or repaid to funding sources.

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire during the year in which the contributions are recognized.

### **In-Kind Contributions**

Donations of supplies, equipment, rent and other usable items are recorded at their estimated fair value. During 2020 and 2019, in-kind donations amounted to \$244,404 and \$259,213, respectively, and are included within donations on the statements of activities.

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 2020 and 2019 are not reflected in the financial statements as they generally do not require specialized skills.

### **Contracts with Customers**

A portion of the Organization's revenues arise from the sale of goods and services under contracts with customers. Revenue under contracts with customers is recognized when the customer obtains control of the good or service and is recognized to depict the transfer of promised goods or services in an amount that reflects the consideration which the Organization expects to be entitled in exchange for those goods or services.

A performance obligation is a distinct good, service or a bundle of goods and services promised in a contract. The Organization identifies performance obligations at the inception of a contract and allocates the transaction price to individual performance obligations to appropriately depict the Organization's performance in transferring control of the promised goods or services to the customer. Contracts with customers do not include a significant financing component.

*Child Care and Program Fees:* The most significant contracts with customers relate to child care services and after school programs provided by the Organization. These activities are included within child care and program fees on the statements of activities. For both programs there are agreements between the parents and the Organization determining the service to be provided and fee. Payments from parents in the form of cash or government voucher subsidies are received monthly. The services are provided over time as children are cared for and after school programs are conducted each day. Revenue is recognized as the services are provided.

### **Expense Allocation**

The financial statements report certain categories of expenses that are attributable to program or supporting functions of the Organization. Expenses that are allocated include salaries and benefits, depreciation and occupancy costs. Salaries and benefits are allocated based on estimated time and effort. Depreciation and occupancy costs are allocated based on the number of full-time equivalent employees working at the building incurring the costs.

The Organization accumulates information technology costs within its own department and allocates these expenditures back to the relevant individual programs. Information technology is allocated based on number of users assigned per department.

**Derivatives**

The Organization follows current authoritative guidance to account for the derivative instrument, an interest rate swap contract. 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. See Note 2 and Note 6 for additional interest rate swap agreement disclosures. During the year ending December 31, 2020, the interest rate swap was terminated upon the related debt agreement being paid off.

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 counterparties. 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.

**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.

**Liquidity and Availability**

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general operating expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a line of credit with availability of \$750,000, as discussed in Note 7.

The Organization's financial assets available within one year of the statements of financial position date for general expenditure such as operating expenses, scheduled principal payments on debt and capitalized costs not financed with debt are as follows at December 31:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 6,511,245	\$ 3,088,604
Grants receivable	1,027,781	1,471,471
Other accounts receivable	-	43,750
Pledges receivable	<u>39,779</u>	<u>91,568</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,578,805</u>	<u>\$ 4,695,393</u>

**Recent Accounting Pronouncements**

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU No. 2020-07). ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2020-07 will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU No. 2016-02) that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. Organizations that have not yet adopted will be required to apply the standard for annual periods beginning after December 15, 2021 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-02 will have on its financial statements.

**2. Fair Value Accounting**

The Organization follows current authoritative accounting guidance for fair value measurements of financial assets and liabilities. 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 inputs 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.

During 2020, the interest rate swap was terminated resulting in there being no financial instruments that are accounted for at fair value on a recurring basis as of December 31, 2020.

The following table sets forth by level within the fair value hierarchy the Organization's financial instrument that was accounted for at fair value on a recurring basis as of December 31, 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial Liability</b>				
Interest rate swap, liability	\$ 8,109	\$ -	\$ 8,109	\$ -

The interest rate swap valuation was based on the 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 2 item. See Note 1 and Note 6 for additional interest rate swap agreement disclosures.

## La Causa, Inc.

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### 3. Property and Equipment

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

	<b>Depreciable Lives</b>	<b>2020</b>	<b>2019</b>
Land	N/A	\$ 1,132,680	\$ 653,680
Buildings and improvements	5-40 years	14,538,891	14,532,530
Vehicles	3-5 years	60,199	54,939
Equipment	3-7 years	2,838,438	2,787,986
Construction in progress	N/A	1,896,030	-
Total property and equipment		20,466,238	18,029,135
Less accumulated depreciation		8,632,074	8,241,791
Net property and equipment		<u>\$ 11,834,164</u>	<u>\$ 9,787,344</u>

Construction in progress consists of the progress to date as of year end relating the purchase and renovation of a new administrative building, with an expected completion date of June 2021. See Note 11 for further information.

### 4. Long-Term Debt

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

	<b>2020</b>	<b>2019</b>
Note payable, bank, interest rate of LIBOR plus 2.00%, principal was payable in monthly installments of \$21,390, interest was payable monthly, collateralized by real estate at 735 West Greenfield Avenue, 228-238 West Mitchell Street, 1655 South Second Street, 804 West Greenfield Avenue, 809 West Greenfield Avenue, 1427 South 8th Street, 1313-1315 South 8th Street, and 1319 South 8th Street Milwaukee, Wisconsin. Interest on a portion of the debt has been fixed via the interest rate swap. This note was settled during 2020.	\$ -	\$ 2,124,260
Note payable, bank, interest rate of daily LIBOR plus 2.50%, principal and interest was payable in monthly installments of \$15,514, collateralized by real estate at 5235 North Ironwood Road Glendale, Wisconsin and 1643 South 2nd Street Milwaukee, Wisconsin. This note was settled during 2020.	-	1,827,899
Note payable, bank, interest rate of daily LIBOR plus 2.50%, principal was payable in monthly installments of \$9,945, interest was payable monthly. The note was collateralized by real estate at 5235 North Ironwood Road Glendale, Wisconsin and 1643 South 2nd Street Milwaukee, Wisconsin. This note was settled during 2020.	-	171,676

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	<u>2020</u>	<u>2019</u>
Note payable, bank, interest rate of 3.25%, until June 2025 at which time the rate will be based on the Two Year LIBOR plus 1.90% with a minimum rate of 3.25%, principal is payable in monthly installments of \$12,906, interest is payable monthly, a final payment equal to all unpaid principal and accrued interest is due on June 1, 2027, collateralized by real estate at 413 W. Scott Street, 804 West Greenfield Avenue, 809 West Greenfield Avenue, and 1655 South 2nd Street, Milwaukee, Wisconsin and 5235-5237 North Ironwood Road, Glendale, Wisconsin.	\$ 3,775,887	\$ -
Note payable, bank, interest rate of 3.25%, principal is payable in monthly installments of \$8,333 beginning January 2021, interest is payable monthly, a final payment equal to all unpaid principal and accrued interest is due on December 1, 2023. The note is collateralized by the same real estate that is collateral on the note payable that matures on June 2027.	300,000	-
Construction note payable, maximum amount of \$4,912,000 to be borrowed, bank, interest rate of one-month LIBOR plus 1.90% (2.05% at December 31, 2020), interest only payments until May 2022, principal and interest is payable in monthly installments of \$16,373 beginning June 2022, a final payment equal to all unpaid principal and accrued interest is due on November 1, 2027, collateralized by real estate at 413 W. Scott Street, 804 West Greenfield Avenue, 809 West Greenfield Avenue, and 1655 South 2nd Street, Milwaukee, Wisconsin and 5235-5237 North Ironwood Road, Glendale, Wisconsin.	1,189,760	-
Paycheck Protection Program funds, bank, interest rate of 1%, principal is payable in monthly installments of \$275,447, interest is payable monthly, a final payment equal to all unpaid principal and accrued interest is due on April 1, 2022. See further information below regarding note payable.	<u>2,438,900</u>	<u>-</u>
Total	7,704,547	4,123,835
Less current portion	<u>1,594,281</u>	<u>2,366,385</u>
Total long-term portion	6,110,266	1,757,450
Debt issuance costs, net of accumulated amortization	<u>(35,650)</u>	<u>(10,321)</u>
Long-term portion, net	<u>\$ 6,074,616</u>	<u>\$ 1,747,129</u>

## La Causa, Inc.

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Principal requirements on long-term debt for years ending after December 31, 2020 are as follows:

Years ending December 31:	
2021	\$ 1,594,281
2022	1,485,360
2023	451,357
2024	351,357
2025	351,357
2026 and thereafter	<u>3,470,835</u>
Total	<u>\$ 7,704,547</u>

On April 13, 2020, the Organization received loan proceeds in the amount of \$2,438,900 under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA and are forgivable after a "covered period" (twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion is payable over 2 years if issued before, or 5 years if issued after, June 5, 2020 at an interest rate of 1% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period. The Organization may request to repay the loan over five years and the request is subject to the approval of the lender. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

The Organization believes that a portion of the loan will meet the PPP's loan forgiveness requirements, and therefore, plans to apply for forgiveness during May 2021. When legal release is received, the Organization will record the amount forgiven as forgiveness income within its statements of activities. If any portion of the Organization's PPP loan is not forgiven, the Organization will be required to repay that portion, plus interest, in nine monthly installments with the repayment term beginning at the time that the SBA remits the amount forgiven to the Organization's lender.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

The Organization is subject to certain restrictions and covenants related to their debt. As of December 31, 2020, 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 and line of credit was \$145,608 and \$213,344 for the years ended December 31, 2020 and 2019, respectively, and is included in financing on the statements of functional expenses.

### 5. Operating Leases

The Organization has operating lease agreements for the rental of office property and vehicles. Rent expense on the operating leases was \$6,600 for the years ended December 31, 2020 and 2019. The Organization also received approximately \$85,000 of donated rent during the years ended December 31, 2020 and 2019. The future minimum lease payments under operating leases as of December 31, 2020 are \$1,650 during the year ended December 31, 2021.

**6. Derivative Financial Instruments and Hedging Activities**

The Organization entered into an interest rate swap contract in 2015 as part of a variable interest loan agreement with a bank on the Organization's term note. The swap ended during 2020 when the associated debt was paid off. The differential between the fixed and variable rates is accrued and paid or refunded as interest rates change and is recorded as a component of interest expense for the loan. The notional amount of the swap agreement declines according to the scheduled principal payments. The fair value of the interest rate swap is reflected as an asset or liability on the statements of financial position. See Note 1 and Note 2 for additional disclosures. The following represents the notional amount hedged, fair value of the interest rate swap outstanding at year end and the amount of exposure or benefit recorded in net assets without donor restrictions as supporting services in the statements of activities.

	<u>Notional Amount</u>	<u>As of December 31 Liability</u>	<u>Year Ended December 31 Benefit (Loss)</u>
2020 Interest rate swap	\$ -	\$ -	\$ 8,109
2019 Interest rate swap	\$ 2,019,261	\$ (8,109)	\$ (41,535)

**7. Line of Credit**

The Organization had a line of credit for \$750,000 with PNC Bank which ended during 2020 and was not renewed. Interest was payable at daily LIBOR plus 2.00%. At December 31, 2019, the line did not have an outstanding balance.

The Organization obtained a line of credit for \$750,000 with Town Bank in 2020. Interest is payable at one-month LIBOR plus 1.65% (1.80% at December 31, 2020) and the line expires July 2, 2022. At December 31, 2020, the line did not have an outstanding balance. The line of credit is collateralized by the same real estate that is collateral on the note payable that matures on June 1, 2027 (see Note 4).

**8. Retirement Plans****Pension Plans**

The Organization provides retirement benefits for all eligible employees who have enrolled in a 403(b) retirement savings plan. In 2020 and 2019, the Organization contributed a 25% match or up to 6% of regular salary to those employees participating in the retirement plan totaling \$53,904 and \$56,965, respectively. The Organization did not contribute a discretionary contribution to the plan in 2020 or 2019.

**Deferred Compensation**

The Organization entered into a deferred compensation plan during 2018, which covers certain employees for payments to be made upon death, disability, retirement and other contractual provisions. The Organization has recorded a liability of \$95,816 and \$61,194 as of December 31, 2020 and 2019, respectively, related to this plan. The amount represents the present value of the payments due to the participants and estimated other plan costs. Amounts owed in fulfillment of certain contract requirements are presented as accrued expenses on the statements of financial position. Deferred compensation expense and other contractual expenses related to the plans were \$34,622 and \$35,037 in 2020 and 2019, respectively, and are included in supporting services on the statements of activities.

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### 9. Net Assets

Net assets with donor restrictions at December 31 are composed of:

	<u>2020</u>	<u>2019</u>
Time restricted	\$ 39,779	\$ 91,568
Charter School - scholarships and programs	103,032	55,532
Crisis Nursery - capital campaign	<u>71,501</u>	<u>71,501</u>
Total	<u>\$ 214,312</u>	<u>\$ 218,601</u>

### 10. 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 2020 and 2019. The receivables from government contracts amounted to \$1,027,781 and \$1,471,471 at December 31, 2020 and 2019, 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.

### 11. Commitments and Contingencies

#### *Commitments*

During 2020, the Organization contracted for the renovation of a new facility for administrative services. The entire construction contract for the assistance with the due diligence, design and construction for is approximately \$4,912,000. As of December 31, 2020, the Organization has an outstanding commitment of \$3,722,240. Construction began in August 2020 with completion expected in June 2021. The Organization has a note payable agreement in place with a bank to finance the construction payments.

#### *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.

### 12. 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.

### 13. Subsequent Events

The Organization has evaluated subsequent events through May 5, 2021, which is the date that the financial statements were issued.