

**CHILDREN SHELTER OF THE UPSTATE, INC.  
(A Not-for-Profit Organization)**

**Audited Financial Statements**

**June 30, 2012 and 2011**

**CHILDREN SHELTER OF THE UPSTATE, INC.**

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**LEE, BROOME, MACBAY AND ASSOCIATES, LLC**

Certified Public Accountants  
PO Box 5476  
Spartanburg, South Carolina 29304  
Telephone (864) 574-3620  
Fax (864) 574-3672

Members  
American Institute Of  
Certified Public Accountants

Members  
South Carolina Association  
Of Certified Public Accountants

**Independent Auditors' Report**

To the Board of Directors  
Children Shelter of the Upstate, Inc.  
Spartanburg, South Carolina

We have audited the accompanying statements of assets, liabilities and net assets – modified cash basis of Children Shelter of the Upstate, Inc. (a not-for-profit organization) as of June 30, 2012 and 2011, and the related statements of support, revenue and expenses and changes in net assets – modified cash basis, statements of functional expenses – modified cash basis and cash flows – modified cash basis for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Children Shelter of the Upstate, Inc. prepares its financial statements on the modified cash basis of accounting. This basis is a comprehensive basis of accounting other than United States generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Children Shelter of the Upstate, Inc. as of June 30, 2012 and 2011, and its support, revenue and expenses, changes in net assets, functional expenses and cash flows for the years then ended, on the basis of accounting described in Note 1.

  
Certified Public Accountants

Spartanburg, South Carolina  
September 28, 2012

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Statement of Assets, Liabilities and Net Assets – Modified Cash Basis**  
**June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 87,049	\$ 76,172
Property and Equipment		
Land and Improvements	287,536	287,536
Buildings	2,805,613	2,805,613
Furniture and Equipment	299,860	299,860
Motor Vehicles	144,302	140,691
	3,537,311	3,533,700
Less Accumulated Depreciation	1,284,677	1,168,474
Net Property and Equipment	2,252,634	2,365,226
Other Assets - Refundable Advances	197,099	207,317
Total Assets	\$ 2,536,782	\$ 2,648,715
<b>Liabilities</b>		
Line of Credit	\$	\$ 133,036
Note Payable	122,746	
Payroll Garnishment Payable		675
	122,746	133,711
<b>Net Assets</b>		
Unrestricted	2,406,602	2,472,204
Temporarily Restricted	7,434	42,800
Total Net Assets	2,414,036	2,515,004
Total Liabilities and Net Assets	\$ 2,536,782	\$ 2,648,715

See Accountants' Report and Notes to Financial Statements

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Statements of Support, Revenue and Expenses and**  
**Changes in Net Assets – Modified Cash Basis**  
**For the Year Ended June 30, 2012 and 2011**

<b>Unrestricted Net Assets</b>	<u>2012</u>	<u>2011</u>
<b>Public Support</b>		
Contributions	\$ 126,333	\$ 130,323
Donated Property and Materials	37,463	36,227
Other Grants	51,257	26,576
Spartanburg County - Operating Grant	22,500	22,500
<b>Special Events</b>		
Christmas Mailing	91,376	93,255
Newsletters	665	
Telethon	5,181	
Other Events	47,827	47,587
Auction for a Cause	19,188	4,064
Thrift Shop	39,557	43,310
United Way - Indirect	23,159	23,013
<b>Revenue</b>		
DSS - Child Per Diem Support	588,976	817,185
Equipment - Gain/(Loss)		5,400
Interest Income	2,979	5,788
Investments - Realized Gain (Loss)	(584)	2,149
Investments - Unrealized Gain (Loss)	(10,055)	33,360
Miscellaneous Income	7,459	6,918
USDA Funding Support	14,449	18,329
	<u>1,067,730</u>	<u>1,315,984</u>
Net Assets Released from Donor Restrictions	185,610	175,367
<b>Total Operating Support and Revenue</b>	<u>1,253,340</u>	<u>1,491,351</u>
<b>Expenses</b>		
Program Services	1,097,869	1,249,594
Management and General	131,752	156,463
<b>Fundraising</b>		
Christmas Mailing	10,249	8,148
All Other	34,721	49,953
Thrift Shop	44,351	48,333
	<u>1,318,942</u>	<u>1,512,491</u>
<b>Total Expenses</b>	<u>1,318,942</u>	<u>1,512,491</u>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>(65,602)</u>	<u>(21,140)</u>

See Accountants' Report and Notes to Financial Statements

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Statements of Support, Revenue and Expenses and**  
**Changes in Net Assets – Modified Cash Basis (Continued)**  
**For the Year Ended June 30, 2012 and 2011**

<b>Temporarily Restricted Net Assets</b>	<u>2012</u>	<u>2011</u>
<b>Public Support</b>		
Contributions	7,066	8,524
Capital Campaign	500	22,527
United Way - Program Review	93,211	91,861
VOCA Grant	49,356	44,515
Other Grants and Revenues	111	1,413
	<u>150,244</u>	<u>168,840</u>
Net Assets Released from Donor Restrictions	<u>(185,610)</u>	<u>(175,367)</u>
Increase (Decrease) in Temporarily Restricted Assets	<u>(35,366)</u>	<u>(6,527)</u>
<b>Increase (Decrease) in Net Assets</b>	<b>(100,968)</b>	<b>(27,667)</b>
<b>Net Assets at Beginning of Year</b>	<u>2,515,004</u>	<u>2,542,671</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 2,414,036</u></u>	<u><u>\$ 2,515,004</u></u>

See Accountants' Report and Notes to Financial Statements

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Statements of Functional Expenses – Modified Cash Basis**  
**For the Year Ended June 30, 2012 and 2011**

	2012					2011
	Program Services	Management and General				Total
		Thrift Shop	Christmas Mailing	All Other		
Salaries and Wages	\$ 581,246	\$ 85,060	\$ 21,265	\$ 7,088	\$ 14,178	\$ 849,549
Payroll Taxes	48,784	7,139	1,785	595	1,190	66,660
Health Insurance/Employee Benefits	69,075	9,752		813	1,625	85,820
Cultural Enrichment Center	12,545					12,545
Anchor House Expenses	50,967					50,967
Building & Equipment Maintenance	27,650					27,650
Computer/Website	1,493	1,493				2,986
Designated Funds Expenses	10,906					10,906
Faucette House Expenses	74,327					74,327
Fuel	22,040					22,040
Fundraising Expenses				1,753	17,728	33,051
Gift Card	6,753					6,753
Grant	35,366					35,366
Insurance - General	15,051	15,050				30,101
Interest Expense	7,832					7,832
Miscellaneous	1,004	1,003				2,007
Printing & Postage	1,858	38				1,896
Payroll Fees	4,832	722				5,554
Professional Fees		8,979				8,979
Recruitment/Training	7,944					7,944
Thrift Shop Rent			12,000			12,000
Thrift Shop Miscellaneous and Supplies			2,819			2,819
Thrift Shop Utilities			6,482			6,482
Security						1,640
Taxes, Dues and Licenses	3,653	192				3,845
Teen Mom Expenses	359					359
Volunteer Expenses	306					306
<b>Total Expenses Before Depreciation</b>	<b>983,991</b>	<b>129,428</b>	<b>44,351</b>	<b>10,249</b>	<b>34,721</b>	<b>1,202,740</b>
Depreciation Expense	113,878	2,324				116,202
<b>Total Expenses</b>	<b>\$ 1,097,869</b>	<b>\$ 131,752</b>	<b>\$ 44,351</b>	<b>\$ 10,249</b>	<b>\$ 34,721</b>	<b>\$ 1,318,942</b>
						<b>\$ 1,512,491</b>

See Accountants' Report and Notes to Financial Statements

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Statements of Cash Flows – Modified Cash Basis**  
**For the Year Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Cash Flows From Operating Activities</b>		
Increase (Decrease) in Net Assets	\$ (100,968)	\$ (27,667)
Add Items Not Affecting Cash		
Depreciation	116,202	133,881
(Increase) Decrease in Assets		
Other Assets - Refundable Advances	10,218	(38,878)
Increase (Decrease) in Liabilities		
Payroll Garnishments	(675)	675
	<u>24,777</u>	<u>68,011</u>
Net Cash Provided (Used) By Operating Activities		
<b>Cash Flows From Investing Activities</b>		
Purchase of Fixed Assets - Net	(3,611)	(3,690)
	<u>(3,611)</u>	<u>(3,690)</u>
Net Cash Provided (Used) by Investing Activities		
<b>Cash Flows From Financing Activities</b>		
Proceeds from Long-Term Debt		20,000
Payments on Long-Term Debt	(10,289)	(93,018)
	<u>(10,289)</u>	<u>(73,018)</u>
Net Cash Provided (Used) by Financing Activities		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	10,877	(8,697)
<b>Beginning Cash and Cash Equivalents</b>	<u>76,172</u>	<u>84,869</u>
<b>Ending Cash and Cash Equivalents</b>	<u>\$ 87,049</u>	<u>\$ 76,172</u>
<b>Interest Paid</b>	<u>\$ 7,832</u>	<u>\$ 11,433</u>

See Accountants' Report and Notes to Financial Statements



**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Notes to Financial Statements**

**Note 1 – Summary of Significant Accounting Policies**

**a. Organization**

The Children Shelter of the Upstate, Inc., (Organization) is a not-for-profit corporation under Section 501(c) (3) of the Internal Revenue Code. The purpose of the Organization is to provide an emergency temporary shelter and care facility for children who are abused, neglected, abandoned or otherwise without appropriate shelter and care. The South Carolina Department of Social Services pays a daily per diem amount for each child assigned to the shelter. Additional support for the shelter comes from private and public grants and from private donors located in the upper Piedmont Region of South Carolina.

**b. Basis of Accounting**

The accompanying financial statements have been prepared on the modified cash basis of accounting. Under that basis, certain revenues and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. Consequently, the Organization has not recognized accounts receivable from contributors or accounts payable to vendors and their related effects on net assets in the accompanying financial statements.

**c. Basis of Presentation**

The Organization has adopted the provisions of the Financial Accounting Standards Board Accounting Standards Codification, or ASC 958-205, "Not for Profit Entities Presentation of Financial Statements." Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets and to report contributions received under the same three classes depending on the existence or nature of any donor restrictions. The three classes are unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**d. Revenue Recognition**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

At June 30, 2012 and 2011 there were no permanently restricted net assets.

**e. Donated Services, Property and Materials**

There were no donated services requiring recognition for the years ended June 30, 2012 and 2011. The Organization does receive a significant amount of donated services from volunteers, which do not meet the criteria for recognition in the financial statements. Accordingly, the value of this contributed time has not been determined.

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Notes to Financial Statements**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**e. Donated Services, Property and Materials (Continued)**

Donations of property and equipment utilized by the Shelter are capitalized and recorded as support in the accompanying financial statements at their estimated fair value at the date they are received. Such assets are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Other items of donated property and equipment not utilized directly by the Shelter are not recognized as support unless sold. At such time, the proceeds of the sale are recognized as unrestricted support.

Substantial gifts of food, clothing, supplies and materials are received from various sources on a continuing basis. In-kind gifts of food and supplies, amounting to \$37,463 and \$36,227 for the years ended June 30, 2012 and 2011, respectively, have been accounted for and recognized in these financial statements. Remaining items have not been reflected in the accompanying financial statements since no objective basis is available to measure the value of such gifts.

**f. Cash and Cash Equivalents**

The Organization considers all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents.

Additionally, unused gift cards for food and supplies are considered cash equivalents. On June 30, 2012 and June 30, 2011, the Shelter had \$1,825 and \$2,669, respectively, in unused gift cards.

**g. Income Taxes**

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c) (3) and South Carolina income tax under S.C. Code Section 65-226(3).

**h. Estimates**

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**i. Property and Equipment**

Property and equipment are stated at cost or fair market value at date of acquisition or donation. Additions and betterments are capitalized when in excess of \$500. Expenditures for repairs and maintenance are expensed in the period incurred. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

**j. Subsequent Events**

Management has evaluated subsequent events through September 28, 2012, the date the financial statements were available to be issued.

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Notes to Financial Statements**

**Note 2 - Plant Assets**

Changes in property and equipment for the year ended June 30, 2012 are as follows:

	<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>Removals</u>	<u>June 30,</u> <u>2012</u>
Land and Improvements	\$ 287,536	\$	\$	\$ 287,536
Buildings	2,805,613			2,805,613
Furniture and Equipment	299,860			299,860
Motor Vehicles	140,691	3,611		144,302
	<u>\$ 3,533,700</u>	<u>\$ 3,611</u>	<u>\$</u>	<u>\$ 3,537,311</u>

Depreciation expense for the years ended June 30, 2012 and 2011 was \$116,202 and \$133,881 respectively. Estimated useful lives used in the calculation of depreciation by major category of plant assets are as follows:

	<u>Years</u>
Land Improvements	15 - 20
Buildings	30 - 40
Furniture and Equipment	3 - 10
Motor Vehicles	5 - 10

**Note 3 - Refundable Advances**

The board of Children Shelter of the Upstate, Inc. has established a special trust with the Spartanburg County Foundation known as the Stahley Legacy Fund. Endowment funds are devoted primarily to the assistance and support of the Organization and its operation and mission. The principal and net income of funds can be accessed for use by and assistance of the Organization with awards being made by the respective Foundation upon recommendation of the awards or advisory committee. Since these amounts resulted from an internal designation and are not donor-restricted, they are classified and reported as unrestricted net assets.

The following is a summary of activity in the fund for fiscal year ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 207,317	\$ 168,439
Withdrawals		
Additional Contributions	2,400	5,309
Investment Income (Loss)	(10,639)	35,510
	<u>199,078</u>	<u>209,258</u>
Less Administrative Fee	(1,979)	(1,941)
Ending Balance	<u>\$ 197,099</u>	<u>\$ 207,317</u>

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Notes to Financial Statements**

**Note 3 - Refundable Advances (Continued)**

The Board does not have a formal investment and spending policy for endowment assets, however their basic premise is that the endowment assets are invested in a manner that is intended to maximize long-term growth of income and principal while assuming a moderate level of investment risk. The Board may invest the endowment funds in cash and cash equivalents, U.S. Government and Agency securities, certificates of deposit, Banker's acceptance, corporate bonds, commercial paper, common stocks, and pooled investments.

The Board relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) while trying to preserve the initial capital outlay.

**Note 4 - Fair Value Measurement of Investments (Refundable Advances)**

The Organization follows FASB ASC 820-10 for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. FASB ASC 820-10 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 fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical investments that the Organization has the ability to access at the measurement date.
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the investments, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investments.

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

The following table represents the investments that are measured at fair value on a recurring basis at June 30, 2012:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment at Spartanburg				
County Foundation	\$ 197,099	\$	\$	\$ 197,099
Total Invested	<u>\$ 197,099</u>	<u>\$</u>	<u>\$</u>	<u>\$ 197,099</u>

Investment income, gains and losses are reported as support and revenues in unrestricted net assets in the statement of activities.

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Notes to Financial Statements**

**Note 5 - Conditional Grants**

Under the modified cash basis of accounting, conditional grant funds are recognized as revenues when the conditions on which they depend are substantially met and the funds are received. For the years ending June 30, 2012 and 2011, the Organization received, under these terms, the following grants:

	<b>2012</b>	<b>2011</b>
VOCA Grant - SC Department of Public Safety	\$ 49,356	\$ 44,515
Other Grants	111	1,413
	\$ 49,467	\$ 45,928

The VOCA grant is restricted for payment of administrative salaries and benefits and certain operating expenses. Miscellaneous other grants specify that the funds be used for specific needs of the Organization.

**Note 6 - DSS Support Payments Received**

The Department of Social Services pays the Organization a per diem amount for each day an assigned child is under the care of the shelter. For the years ending June 30, 2012 and 2011, \$588,976 and \$817,185 was paid to the Organization, respectively.

**Note 7 - Concentration of Credit Risk**

On June 30, 2012, the Organization has total cash deposits with financial institutions amounting to \$84,494, all of which is insured by the FDIC.

**Note 8 - Special Events**

The Organization sponsors various fund raising events each year including a Christmas Mailing, Heroes for Kids, Table Top and other various events. All events involve related expenses, allocated salary and benefits of the Chief Executive Officer and others. Excepting the Capital Campaign, all net revenues for the year ending June 30, 2012 were unrestricted and used for general operating purposes. A summary of the events is as follows:

	<b>2012</b>	
	<b>Christmas Mailing</b>	<b>Other Events</b>
Special Event Revenue	\$ 91,376	\$ 72,861
Fund Raising Expenses	(10,249)	(34,721)
Net Revenues	\$ 81,127	\$ 38,140

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Notes to Financial Statements**

**Note 8 - Special Events (Continued)**

	<b>2011</b>	
	<b>Christmas Mailing</b>	<b>Other Events</b>
Special Event Revenue	\$ 93,255	\$ 51,651
Fund Raising Expenses	(8,148)	(49,953)
Net Revenues	\$ 85,107	\$ 1,698

**Note 9 - Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<b>2012</b>	<b>2011</b>
Specific Activities and Supplies	\$ 7,434	\$ 42,800

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

	<b>2012</b>	<b>2011</b>
Specific Activities and Supplies	\$ 135,754	\$ 109,239
Administrative Costs	49,356	44,515
Debt Reduction	500	21,613
Total Restrictions Released	\$ 185,610	\$ 175,367

**Note 10 - Functional Allocation of Expenses**

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses – modified cash basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Note 11 - Employee Benefits**

The Organization has adopted a qualified Section 125 Cafeteria Plan for all eligible employees' health insurance coverage.

The Organization sponsors a 403(b) retirement plan which is only available to certain tax-exempt organizations. Under the plan, employee participation is completely voluntary and is funded solely by employee salary-reduction contributions. The Organization makes no contributions and acts only as a sponsor. A 403(b) plan is not a qualified retirement plan but participating employees receive a deferral on their contributions and are taxed only when they receive distributions from the plan.

**Note 12 - Operating Leases**

The Organization leased facilities for its retail shop on a month to month basis. Monthly rents are \$1,000.

**CHILDREN SHELTER OF THE UPSTATE, INC.**  
**Notes to Financial Statements**

**Note 13 - Thrift Shop**

The Organization operates a thrift shop whereby donated items of clothing and furnishings were sold to the general public. Net proceeds from this operation are recorded as unrestricted support. Activity from the thrift store is as follows:

	2012	2011
Gross Receipts	\$ 39,557	\$ 43,310
Operating Expenses	(44,351)	(48,333)
Net Income (Loss)	\$ (4,794)	\$ (5,023)

**Note 14 - Line of Credit**

On July 17, 2006, the Shelter entered into a \$300,000 line of credit agreement with a bank. Interest accrued at a variable rate of 75% of the Wall Street prime rate and was payable monthly on the outstanding principal balance with the outstanding principal balance due December 28, 2012. This loan was secured by real property located in Spartanburg, South Carolina. The outstanding balance due on this note at June 30, 2011 was \$133,036. On March 28, 2012, the Shelter closed the line of credit agreement into a fixed rate note with the same bank. See note 15 regarding notes payable.

On March 28, 2012, the Shelter entered into a \$45,000 line of credit agreement with a bank. Interest accrues at a variable rate of 70% of the Wall Street prime rate and is payable monthly on the outstanding principal balance with the outstanding principal balance due June 28, 2013. This loan is cross collateralized with the current note payable and is secured by real property located in Spartanburg, South Carolina. The Shelter had no outstanding balance due on this note at June 30, 2012.

**Note 15 - Notes Payable**

On March 28, 2012, the Shelter entered into a fixed rate note with a bank which paid off their line of credit. The note bears interest at a fixed rate of 4.25%, and is payable in 59 monthly installments of \$2,417.75 with the entire unpaid balance due February 14, 2017. This loan is secured by real property located in Spartanburg, South Carolina. The outstanding balance due on this note at June 30, 2012 was \$122,746.

Future maturities of long-term debt after June 30, 2012 are as follows:

2013	\$ 24,279
2014	25,331
2015	26,429
2016	27,575
2017	19,132
Total	\$ 122,746

**Note 16 - Income Taxes**

The Organization's federal Return of Organization Exempt from Income Tax (Form 990) for June 30, 2009, June 30, 2010, and June 30, 2011 are subject to examination by the IRS, generally for three years after they were filed.