CATHOLIC SOCIAL SERVICE BUREAU
OF THE DIOCESE OF LEXINGTON, INC.

FINANCIAL STATEMENTS
AND
AUDITORS' REPORT

JUNE 30, 2008 AND 2007

CATHOLIC SOCIAL SERVICE BUREAU
OF THE DIOCESE OF LEXINGTON, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Catholic Social Service Bureau of the
Diocese of Lexington, Inc.

We have audited the accompanying statements of financial position of the Catholic Social Service Bureau of the Diocese of Lexington, Inc., as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Catholic Social Service Bureau of the Diocese of Lexington, Inc., as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kring, Ray, Farley & Riddle, PSC

Lexington, Kentucky
August 13, 2008

CATHOLIC SOCIAL SERVICE BUREAU OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS

	2008	2007
Current Assets:		
Cash - operating	$ 156,779	$ 111,491
Cash - escrow	98,200	51,085
Cash - restricted	34,053	33,334
Accounts receivable (less allowance for doubtful accounts of $575)	673	6,546
Interest receivable	4,023	3,520
Total Current Assets	293,728	205,976
Property and Equipment:		
Leasehold improvements	7,290	7,290
Furniture and equipment	12,084	12,084
Total Property and Equipment	19,374	19,374
Less accumulated depreciation	17,496	16,618
Net Property and Equipment	1,878	2,756
Other Assets:		
Investments	204,143	196,143
Total Assets	$ 499,749	$ 404,875

LIABILITIES AND NET ASSETS

	2008	2007
Current Liabilities:		
Accounts payable	$ 3,574	$ 1,806
Payroll taxes payable	-	40
Accrued expenses	8,340	7,495
Total Current Liabilities	11,914	9,341
Adoption Escrow	98,200	51,085
Total Liabilities	110,114	60,426
Net Assets:		
Unrestricted:		
Operating	151,440	114,973
Board designated	120,775	112,775
Temporarily restricted	60,524	59,805
Permanently restricted	56,896	56,896
Total Net Assets	389,635	344,449
Total Liabilities and Net Assets	$ 499,749	$ 404,875

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

CATHOLIC SOCIAL SERVICE BUREAU OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF ACTIVITIES
JUNE 30, 2008 AND 2007

	2008	2007
Unrestricted Net Assets:		
Revenues:		
Contributions	$ 322,676	$ 309,732
United Way	78,555	66,823
Grants	1,976	9,535
Special events	42,690	40,772
Fees for services	89,763	125,080
Interest income	10,234	8,677
Miscellaneous	231	557
Total Revenues	546,125	561,176
Net Assets Released from Restrictions	37,253	57,940
Transfer	(3,744)	-
Total Revenues and Reclassifications	579,634	619,116
Expenses:		
Salaries	276,180	273,073
Employee benefits	43,074	44,389
Payroll taxes	20,327	19,355
Legal, accounting and other professional services	28,537	32,436
Program expenses	39,250	50,778
Professional development	840	4,352
Office expenses and telephone	6,208	6,104
Fundraising expenses	6,886	7,853
Occupancy expense	85,200	85,200
Equipment maintenance	3,206	3,772
Printing and publications	1,683	2,245
Advertising	10,737	8,389
Travel and meetings	8,418	10,918
Organization dues	3,502	2,262
Depreciation and amortization	878	2,560
Miscellaneous	241	538
Total Expenses	535,167	554,224
Increase (Decrease) in Unrestricted Net Assets	44,467	64,892
Temporarily Restricted Net Assets:		
Contributions and grants	32,924	46,210
Interest income	1,304	1,906
Special events	-	1,872
Net assets released from restrictions	(37,253)	(57,940)
Transfer	3,744	-
Increase (Decrease) in Temporarily Restricted Net Assets	719	(7,952)
Increase (Decrease) in Net Assets	45,186	56,940
Net Assets, beginning of year	344,449	287,509
Net Assets, end of year	$ 389,635	$ 344,449

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

CATHOLIC SOCIAL SERVICE BUREAU OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash Flows from Operating Activities:		
Change in net assets	$ 45,186	$ 56,940
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and amortization	878	2,560
Change in operating assets and liabilities:		
Accounts receivable	5,873	(299)
Interest receivable	(503)	(483)
Accounts payable	1,768	(3,347)
Accrued expenses and withholdings	805	(4,698)
Deferred revenue	-	(1,500)
Adoption escrow	47,115	19,885
Net Cash Provided (Used) by Operating Activities	101,122	69,058
Cash Flows from Investing Activities:		
Purchase of investments	(8,000)	(18,777)
Net Cash Provided (Used) by Investing Activities	(8,000)	(18,777)
Net Increase (Decrease) in Cash	93,122	50,281
Cash and Cash Equivalents, beginning of year	195,910	145,629
Cash and Cash Equivalents, end of year	$ 289,032	$ 195,910

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

Note A - Summary of Significant Accounting Policies:

General Description - The Catholic Social Service Bureau of the Diocese of Lexington, Inc., (Bureau) is a Kentucky non-profit organization established to serve people of all backgrounds in the fifty counties of the Catholic Diocese of Lexington, Kentucky. The agency offers assistance in the following areas: counseling, emergency assistance, pregnancy counseling and adoption assistance. The Bureau is funded by the Catholic Diocese of Lexington, United Way, contributions, and fees which are based on clients' ability to pay. The Bureau operates under the direction of a corporate member, the Bishop of the Catholic Diocese of Lexington, and a fifteen member community board.

Basis of Accounting - The financial statements of the Catholic Social Service Bureau have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred. Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from these estimates.

Basis of Presentation - The Catholic Social Service Bureau reports information regarding its financial position and activities according to three classes of net assets:

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 can be fulfilled by actions of the Catholic Social Service Bureau pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the Catholic Social Service Bureau. Generally, the donor of such assets permits the Catholic Social Service Bureau to use all or part of the income earned on the assets.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments with a maturity at the time of acquisition of three months or less.

Investments - The Catholic Social Service Bureau carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values as determined by quoted market prices at the end of their fiscal year. Money market funds are carried at cost, which approximates fair value. Unrealized gains and losses are included in the changes in net assets in the accompanying Statements of Activities.

Income Taxes - The Catholic Social Service Bureau of the Diocese of Lexington, Inc., is a part of the Catholic Diocese of Lexington which is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code.

Continued

Note A - Summary of Significant Accounting Policies (Continued):

Property and Equipment - The Catholic Social Service Bureau capitalizes purchases greater than $500 with an estimated useful life greater than one year. Property and equipment are stated at cost or, in the case of donated property, at the fair market value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. The cost of repairs and maintenance are expensed as incurred.

Grant Revenue - The Catholic Social Service Bureau receives grants to provide emergency services such as temporary housing, utilities and repairs for qualified individuals. Income from grants is recorded in the period to which the grants apply.

Concentration of Credit Risk - The Catholic Social Service Bureau provides credit, in the normal course of business, to its clients and granting agencies. Generally, no collateral or other security is required to support these receivables. Although, the Bureau is directly affected by economic conditions in the geographic area, management does not believe significant credit risk exists as of June 30, 2008 and 2007.

Note B - Board Designated Net Assets:

The Board of Directors has designated $120,775 ($112,775 as of June 30, 2007) of its operating funds as a cash reserve to be invested in an interest bearing account.

Note C - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	2008	2007
Funds restricted by Knight Foundation	$ 17	$ 1,272
Funds restricted by EFSP	3,945	4,474
Funds restricted for Emergency Services	3,097	1,857
Funds restricted for Emergency Services - VIC	1,236	2,036
Funds restricted by Pax Christi Church	838	1,000
Funds restricted by St. Peter Claver Church	1,210	1,937
Funds restricted by St. Paul's Church	5,099	6,885
Funds restricted by St. Peter's Church	4,272	6,118
Funds restricted for St. Vincent de Paul - CCK Chapter	406	1,012

Continued

Note C - Temporarily Restricted Net Assets (Continued):

	2008	2007
Funds restricted for toiletries	$ 215	$ 427
Funds restricted by Mary Queen of the Holy Rosary Church	1,727	3,949
Funds restricted by St. Vincent de Paul - MQHR Chapter	3,480	980
Funds restricted by St. Wahlburg	2,643	-
Funds restricted for the Sanctuary Fund	5,868	1,387
Lyans Trust Fund Investment	26,471	26,471
	$ 60,524	$ 59,805

Note D - Permanently Restricted Net Assets:

Permanently restricted net assets include the following:

	2008	2007
Memorial Trust Fund Investment	$ 56,896	$ 56,896

Note E - Operating Leases:

The Organization leases office space at multiple locations under a month-to-month arrangement and under a lease which expired June 2008. The leases call for monthly rental of $7,100. Total rent expense for June 30, 2008 and 2007, was $85,200 for each year, respectively.

Note F - Major Contributor:

For the year ended June 30, 2008, the Bureau received approximately 53% of its annual revenue and other support from the Catholic Diocese of Lexington (53% for the year ended June 30, 2007).

Note G - Tax Deferred Annuity Plan:

The Organization maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers employees of the Organization with three years of service. The Organization contributes 3.25% of gross salaries for qualified employees who contribute at least 3% of gross salaries to the plan. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Plan expenses were $8,192 and $7,396 for the years ended June 30, 2008 and 2007, respectively.

Note H - Advertising:

The Bureau uses advertising to promote its counseling and adoption services. The costs for advertising are expensed as incurred. Advertising costs were $10,737 and $8,389 for the years ended June 30, 2008 and 2007, respectively.

Note I - Concentrations of Credit Risk Arising From Cash Deposits in Excess of Insured Limits:

The Organization maintains cash balances at three financial institutions located in Central and Eastern Kentucky. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. At June 30, 2008, the Organization's uninsured cash balances totaled $157,859 ($31,504 as of June 30, 2007).

Note J - Investments:

The Catholic Social Service Bureau invests designated and restricted funds in a master investment trust managed by the Catholic Diocese of Lexington. The master trust is comprised of investments in money market funds, U.S. Government Securities, Corporate Stocks and Bonds and is maintained in accordance with the investment policy stipulated by the Finance Council of the Diocese. Interest of 4.0% (4.0% in 2007) is received on the invested funds with interest accrued semi-annually. Investment earnings as of June 30, 2008, were $7,978 ($7,092 in 2007).

Note K - Functional Expenses:

The costs of providing various programs and activities have been allocated among the programs and supporting services benefited.

SUPPLEMENTAL INFORMATION

CATHOLIC SOCIAL SERVICE BUREAU OF THE DIOCESE OF LEXINGTON, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	General and Administrative	Harlan Office	Prestonsburg Office	Adoption Services	Fundraising	Pregnancy Counseling	Emergency Services	Counseling	Total
Salaries	$ 87,827	$ 317	$ 23,931	$ 39,503	$ -	$ 37,513	$ 25,541	$ 61,548	$ 276,180
Employee benefits	8,650	-	6,592	7,014	-	7,065	6,100	7,653	43,074
Payroll taxes	6,604	-	1,724	2,930	-	2,728	1,883	4,458	20,327
Legal, accounting and other professional services	6,424	612	612	9,423	225	1,283	1,303	8,655	28,537
Program expenses	-	-	231	1,765	-	658	35,844	752	39,250
Professional development	462	-	75	-	-	-	-	303	840
Event expenses	-	-	-	-	6,886	-	-	-	6,886
Office expenses and telephone	2,556	19	1,688	293	29	643	654	326	6,208
Occupancy expense	27,223	-	1,200	9,333	-	9,333	9,333	28,778	85,200
Equipment maintenance	2,125	-	39	-	-	60	285	697	3,206
Printing and publications	1,219	47	206	25	-	30	-	156	1,683
Advertising	398	150	46	8,726	-	472	-	945	10,737
Travel and meetings	3,497	-	1,232	1,490	140	1,079	438	542	8,418
Organization dues	3,092	-	60	200	-	-	-	150	3,502
Depreciation and amortization	-	-	-	-	-	-	878	-	878
Miscellaneous	130	-	-	-	-	-	-	111	241
Total Expenses	$ 150,207	$ 1,145	$ 37,636	$ 80,702	$ 7,280	$ 60,864	$ 82,259	$ 115,074	$ 535,167
Percentage of Total Expenses	28.07%	0.21%	7.03%	15.08%	1.36%	11.37%	15.38%	21.50%	100.00%

See auditors' report.