

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

FINANCIAL STATEMENTS
AND
AUDITORS' REPORT

JUNE 30, 2009 AND 2008

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, 2009 and 2008, 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, 2009 and 2008, 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 schedules of functional expenses on pages 9 and 10 are presented for purposes of additional analysis and are 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
October XX, 2009

CATHOLIC SOCIAL SERVICE BUREAU OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash - operating	\$ 192,397	\$ 156,779
Cash - escrow	68,120	98,200
Cash - restricted	57,704	34,053
Accounts receivable (less allowance for doubtful accounts of \$575 in 2008)	545	673
Interest receivable	525	4,023
Prepaid expenses	294	-
Total Current Assets	<u>319,585</u>	<u>293,728</u>
Property and Equipment:		
Leasehold improvements	7,290	7,290
Furniture and equipment	12,706	12,084
Total Property and Equipment	19,996	19,374
Less accumulated depreciation	18,437	17,496
Net Property and Equipment	<u>1,559</u>	<u>1,878</u>
Other Assets:		
Investments	216,049	204,143
Total Assets	<u>\$ 537,193</u>	<u>\$ 499,749</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 8,298	\$ 3,574
Payroll taxes payable	1,050	-
Accrued expenses	12,539	8,340
Total Current Liabilities	21,887	11,914
Adoption Escrow	68,120	98,200
Total Liabilities	<u>90,007</u>	<u>110,114</u>
Net Assets:		
Unrestricted:		
Operating	185,340	151,440
Board designated	120,775	120,775
Temporarily restricted	84,175	60,524
Permanently restricted	56,896	56,896
Total Net Assets	<u>447,186</u>	<u>389,635</u>
Total Liabilities and Net Assets	<u>\$ 537,193</u>	<u>\$ 499,749</u>

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Unrestricted Net Assets:		
Revenues:		
Contributions	\$ 330,455	\$ 322,676
United Way	87,263	78,555
Grants	-	1,976
Special events	37,150	42,690
Fees for services	83,144	89,763
Interest income	11,502	10,234
Miscellaneous	357	231
Total Revenues	549,871	546,125
Net Assets Released from Restrictions	49,743	37,253
Transfer	-	(3,744)
Total Revenues and Reclassifications	599,614	579,634
Expenses:		
Salaries	286,220	276,180
Employee benefits	44,171	43,074
Payroll taxes	20,961	20,327
Legal, accounting and other professional services	23,418	28,537
Program expenses	59,135	39,250
Professional development	1,166	840
Fundraising expenses	7,868	6,886
Office expenses and telephone	7,477	6,208
Occupancy expense	85,200	85,200
Equipment	2,514	3,206
Printing and publications	2,107	1,683
Advertising	13,779	10,737
Travel and meetings	7,442	8,418
Organization dues	2,862	3,502
Depreciation and amortization	941	878
Miscellaneous	453	241
Total Expenses	565,714	535,167
Increase (Decrease) in Unrestricted Net Assets	33,900	44,467
Temporarily Restricted Net Assets:		
Contributions and grants	73,350	32,924
Interest income	44	1,304
Net assets released from restrictions	(49,743)	(37,253)
Transfer	-	3,744
Increase (Decrease) in Temporarily Restricted Net Assets	23,651	719
Increase (Decrease) in Net Assets	57,551	45,186
Net Assets, beginning of year	389,635	344,449
Net Assets, end of year	<u>\$ 447,186</u>	<u>\$ 389,635</u>

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 57,551	\$ 45,186
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation and amortization	941	878
Change in operating assets and liabilities:		
Accounts receivable	128	5,873
Interest receivable	3,498	(503)
Prepaid expenses	(294)	-
Accounts payable	4,724	1,768
Accrued expenses and withholdings	5,249	805
Adoption escrow	<u>(30,080)</u>	<u>47,115</u>
Net Cash Provided (Used) by Operating Activities	<u>41,717</u>	<u>101,122</u>
Cash Flows from Investing Activities:		
Purchase of fixed assets	(622)	-
Purchase of investments	<u>(11,906)</u>	<u>(8,000)</u>
Net Cash Provided (Used) by Investing Activities	<u>(12,528)</u>	<u>(8,000)</u>
Net Increase (Decrease) in Cash	29,189	93,122
Cash and Cash Equivalents, beginning of year	<u>289,032</u>	<u>195,910</u>
Cash and Cash Equivalents, end of year	<u>\$ 318,221</u>	<u>\$ 289,032</u>

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

CATHOLIC SOCIAL SERVICE BUREAU OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

CATHOLIC SOCIAL SERVICE BUREAU OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2009 and 2008.

Note B - Board Designated Net Assets:

The Board of Directors has designated \$120,775 (\$120,775 as of June 30, 2008) 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:

Funds restricted by Knight Foundation	\$ -	\$ 17
Funds restricted by EFSP	11,862	3,945
Funds restricted for Emergency Services	2,230	3,097
Funds restricted for Emergency Services - VIC	1,290	1,236
Funds restricted by Pax Christi Church	500	838
Funds restricted by St. Peter Claver Church	695	1,210
Funds restricted by St. Paul's Church	4,753	5,099
Funds restricted by St. Peter's Church	4,541	4,272
Funds restricted for St. Vincent de Paul - CCK Chapter	3,272	406

Continued

CATHOLIC SOCIAL SERVICE BUREAU OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Note C - Temporarily Restricted Net Assets (Continued):

Funds restricted for toiletries	\$ 12	\$ 215
Funds restricted by Mary Queen of the Holy Rosary Church	2,229	1,727
Funds restricted by St. Vincent de Paul - MQHR Chapter	3,250	3,480
Funds restricted by St. Wahlburg	1,261	2,643
Funds restricted for the Sanctuary Fund	2,981	5,868
Funds restricted for Disaster Relief	17,727	-
Funds restricted by St. Vincent de Paul - SEAS	1,101	-
Lyans Trust Fund Investment	<u>26,471</u>	<u>26,471</u>
	<u>\$ 84,175</u>	<u>\$ 60,524</u>

Note D - Permanently Restricted Net Assets:

Permanently restricted net assets include the following:

	<u>2009</u>	<u>2008</u>
Memorial Trust Fund Investment	<u>\$ 56,896</u>	<u>\$ 56,896</u>

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 2009. The leases call for monthly rental of \$7,100. Total rent expense for June 30, 2009 and 2008, was \$85,200 for each year, respectively.

Note F - Major Contributor:

For the year ended June 30, 2009, the Bureau received approximately 49% of its annual revenue and other support from the Catholic Diocese of Lexington (53% for the year ended June 30, 2008).

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 \$8,259 and \$8,192 for the years ended June 30, 2009 and 2008, 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 \$13,779 and \$10,737 for the years ended June 30, 2009 and 2008, respectively.

CATHOLIC SOCIAL SERVICE BUREAU OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 \$250,000 (\$100,000 as of June 30, 2008). At June 30, 2009, the Organization had no uninsured cash balances (\$157,859 as of June 30, 2008).

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 3.0 - 4.0% (4.0% in 2008) is received on the invested funds with interest accrued semi-annually. Investment earnings as of June 30, 2009, were \$10,656 (\$7,978 in 2008).

Note K - Functional Expenses:

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

Note L - Subsequent Event:

On May 14, 2009, the Board of Directors voted to change the name of the Organization to Catholic Charities of the Diocese of Lexington, Inc., pending approval by the Bishop of the Diocese of Lexington and the appropriate filings with the Secretary of State. The name change became effective as of July 2, 2009.

SUPPLEMENTAL INFORMATION

CATHOLIC SOCIAL SERVICE BUREAU OF THE DIOCESE OF LEXINGTON, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

	General and Administrative	Harlan Office	Prestonsburg Office	Adoption Services	Fundraising	Pregnancy Counseling	Emergency Services	Counseling	Total
Salaries	\$ 87,611	\$ -	\$ 29,660	\$ 39,840	\$ -	\$ 42,480	\$ 25,529	\$ 61,100	\$ 286,220
Employee benefits	8,932	-	6,591	7,358	-	7,317	6,884	7,089	44,171
Payroll taxes	6,752	-	2,178	2,778	-	3,017	1,922	4,314	20,961
Legal, accounting and other professional services	1,669	-	1,533	9,635	1,162	768	1,557	7,094	23,418
Program expenses	-	-	794	1,636	-	58	56,510	137	59,135
Professional development	425	-	195	-	-	-	-	546	1,166
Event expenses	-	-	-	-	7,868	-	-	-	7,868
Office expenses and telephone	1,921	-	1,992	410	775	696	855	828	7,477
Occupancy expense	20,533	-	1,200	11,200	-	11,200	11,200	29,867	85,200
Equipment expenses	1,410	-	106	128	-	53	383	435	2,514
Printing and publications	635	-	383	182	120	385	262	142	2,107
Advertising	427	-	-	9,528	190	2,417	-	1,217	13,779
Travel and meetings	2,312	-	1,301	927	-	2,062	256	583	7,442
Organization dues	1,847	-	175	-	-	-	540	300	2,862
Depreciation and amortization	941	-	-	-	-	-	-	-	941
Miscellaneous	374	-	-	3	-	3	15	58	453
Total Expenses	\$ 135,789	\$ -	\$ 46,108	\$ 83,623	\$ 10,115	\$ 70,457	\$ 105,912	\$ 113,710	\$ 565,714
Percentage of Total Expenses	24.00%	0.00%	8.15%	14.78%	1.79%	12.45%	18.73%	20.10%	100.00%

See auditors' report.

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	28.08%	0.21%	7.03%	15.08%	1.36%	11.37%	15.37%	21.50%	100.00%

See auditors' report.

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

COMMUNICATION WITH
THE BOARD OF DIRECTORS

JUNE 30, 2009

KRING, RAY, FARLEY & RIDDLE, PSC

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October XX, 2009

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

We have audited the financial statements of Catholic Social Service Bureau, Inc., for the year ended June 30, 2009, and have issued our report thereon dated October XX, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 1, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by CSSB are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2009. We noted no transactions entered into by CSSB during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of depreciable assets is based on the estimated future economic life of the assets. We evaluated the key factors and assumptions used to develop the estimate of depreciable lives in determining that they are reasonable in relation to the financial statements taken as a whole.

The Board of Directors
Catholic Social Service Bureau of the
Diocese of Lexington, Inc.
October XX, 2009
Page Two

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following misstatements detected as a result of our audit procedures and corrected by management were material to the financial statements taken as a whole:

We proposed, and management recorded, an adjustment of \$7,278 to record accounts payable as of June 30, 2009. This adjustment was necessary to record expenses incurred in the fiscal year in the period that they were incurred instead of the period they were paid (July 2009).

In addition, we proposed and management recorded, an adjustment of \$9,518 to record interest and dividends earned on investments. This adjustment was necessary to recognize the investment earnings in the period in which they were earned.

Finally, we proposed and management recorded, adjustments totaling \$5,750 to reduce fundraising income by \$750 and to record a disbursement for a fundraising expense of \$5,000 that was incurred during the fiscal year but not recorded until July. These adjustments were necessary to properly reflect the net amount earned by fundraising activities during the fiscal year.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October XX, 2009.

The Board of Directors
Catholic Social Service Bureau of the
Diocese of Lexington, Inc.
October XX, 2009
Page Three

Management Consultations with Other Independent Accountants

In some cases, Management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to CSSB's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with Management each year prior to retention as CSSB's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors of the Catholic Social Service Bureau of the Diocese of Lexington, Inc., and management of CSSB and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Kring, Ray, Farley & Riddle, PSC