

CATHOLIC CHARITIES
OF THE DIOCESE OF LEXINGTON, INC.

FINANCIAL STATEMENTS
AND
AUDITORS' REPORT

JUNE 30, 2010 AND 2009

CATHOLIC CHARITIES
OF THE DIOCESE OF LEXINGTON, INC.

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Schedule of Functional Expenses - 2010	4
Schedule of Functional Expenses - 2009	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 13

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Catholic Charities of the
Diocese of Lexington, Inc.

We have audited the accompanying statements of financial position of Catholic Charities of the Diocese of Lexington, Inc., as of June 30, 2010 and 2009, and the related statements of activities and cash flows 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 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 Catholic Charities of the Diocese of Lexington, Inc., as of June 30, 2010 and 2009, 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.

Kring, Ray, Farley & Riddle, PSC

Lexington, Kentucky
October 14, 2010

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current Assets:		
Cash - operating	\$ 196,001	\$ 184,423
Cash - escrow	60,600	68,120
Cash - restricted	74,165	65,678
Accounts receivable	183	545
Interest receivable	348	525
Prepaid expenses	-	294
Total Current Assets	<u>331,297</u>	<u>319,585</u>
Property and Equipment:		
Leasehold improvements	7,290	7,290
Furniture and equipment	<u>15,198</u>	<u>12,706</u>
Total Property and Equipment	22,488	19,996
Less accumulated depreciation	<u>19,706</u>	<u>18,437</u>
Net Property and Equipment	<u>2,782</u>	<u>1,559</u>
Other Assets:		
Investments	<u>220,231</u>	<u>216,049</u>
Total Assets	<u>\$ 554,310</u>	<u>\$ 537,193</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 1,797	\$ 8,298
Payroll taxes payable	-	1,050
Accrued expenses	<u>10,312</u>	<u>12,539</u>
Total Current Liabilities	12,109	21,887
Adoption Escrow	<u>60,600</u>	<u>68,120</u>
Total Liabilities	<u>72,709</u>	<u>90,007</u>
Net Assets:		
Unrestricted:		
Operating	215,566	177,366
Board designated	120,775	120,775
Temporarily restricted	88,364	92,149
Permanently restricted	<u>56,896</u>	<u>56,896</u>
Total Net Assets	<u>481,601</u>	<u>447,186</u>
Total Liabilities and Net Assets	<u>\$ 554,310</u>	<u>\$ 537,193</u>

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

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF ACTIVITIES
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Unrestricted Net Assets:		
Revenues:		
Contributions	\$ 323,494	\$ 320,495
United Way	79,929	87,263
Special events	38,956	37,150
Fees for services	102,125	83,144
Interest income	8,033	11,502
Miscellaneous	850	357
Total Revenues	553,387	539,911
Net Assets Released from Restrictions	83,687	51,729
Total Revenues and Reclassifications	637,074	591,640
Expenses:		
Salaries	279,843	286,220
Employee benefits	43,707	44,171
Payroll taxes	20,714	20,961
Legal, accounting and other professional services	23,267	23,418
Program expenses	98,582	59,135
Professional development	573	1,166
Fundraising expenses	7,054	7,868
Office expenses and telephone	7,004	7,477
Occupancy expense	86,000	85,200
Equipment	713	2,514
Printing and publications	3,935	2,107
Advertising	13,710	13,779
Travel and meetings	10,862	7,442
Organization dues	701	2,862
Depreciation and amortization	1,269	941
Miscellaneous	940	453
Total Expenses	598,874	565,714
Increase (Decrease) in Unrestricted Net Assets	38,200	25,926
Temporarily Restricted Net Assets:		
Contributions and grants	79,902	83,310
Interest income	-	44
Net assets released from restrictions	(83,687)	(51,729)
Increase (Decrease) in Temporarily Restricted Net Assets	(3,785)	31,625
Increase (Decrease) in Net Assets	34,415	57,551
Net Assets, beginning of year	447,186	389,635
Net Assets, end of year	<u>\$ 481,601</u>	<u>\$ 447,186</u>

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

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	General and Administrative	Prestonsburg Office	Adoption Services	Fundraising	Pregnancy Counseling	Emergency Services	Counseling	Total
Salaries	\$ 82,606	\$ 32,777	\$ 39,752	\$ -	\$ 39,485	\$ 24,925	\$ 60,298	\$ 279,843
Employee benefits	9,059	7,119	7,596	-	7,564	5,316	7,053	43,707
Payroll taxes	6,559	2,462	2,867	-	3,069	1,783	3,974	20,714
Legal, accounting and other professional services	1,316	1,957	10,923	1,270	2,213	2,720	2,868	23,267
Program expenses	-	4,653	1,215	-	89	92,625	-	98,582
Professional development	50	-	-	-	-	-	523	573
Event expenses	-	-	-	7,054	-	-	-	7,054
Office expenses and telephone	1,112	1,911	494	609	939	1,381	558	7,004
Occupancy expense	20,767	1,200	10,850	-	10,850	16,900	25,433	86,000
Equipment expenses	407	-	30	-	30	216	30	713
Printing and publications	503	525	473	431	573	852	578	3,935
Advertising	483	42	10,150	575	1,209	42	1,209	13,710
Travel and meetings	2,946	2,462	1,442	55	1,408	1,765	784	10,862
Organization dues	124	-	150	-	-	300	127	701
Depreciation and amortization	1,269	-	-	-	-	-	-	1,269
Miscellaneous	214	-	466	198	-	62	-	940
Total Expenses	<u>\$ 127,415</u>	<u>\$ 55,108</u>	<u>\$ 86,408</u>	<u>\$ 10,192</u>	<u>\$ 67,429</u>	<u>\$ 148,887</u>	<u>\$ 103,435</u>	<u>\$ 598,874</u>
Percentage of Total Expenses	<u>21.27%</u>	<u>9.20%</u>	<u>14.43%</u>	<u>1.70%</u>	<u>11.26%</u>	<u>24.87%</u>	<u>17.27%</u>	<u>100.00%</u>

See auditors' report.

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

	General and Administrative	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	127	-	53	383	435	2,514
Printing and publications	635	383	181	120	385	261	142	2,107
Advertising	427	-	9,528	190	2,417	-	1,217	13,779
Travel and meetings	2,312	1,301	927	-	2,063	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	<u>\$ 135,789</u>	<u>\$ 46,108</u>	<u>\$ 83,623</u>	<u>\$ 10,115</u>	<u>\$ 70,457</u>	<u>\$ 105,912</u>	<u>\$ 113,710</u>	<u>\$ 565,714</u>
Percentage of Total Expenses	<u>24.00%</u>	<u>8.15%</u>	<u>14.78%</u>	<u>1.79%</u>	<u>12.45%</u>	<u>18.73%</u>	<u>20.10%</u>	<u>100.00%</u>

See auditors' report.

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 34,415	\$ 57,551
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation and amortization	1,269	941
Restricted contributions received	(36,815)	(9,960)
Change in operating assets and liabilities:		
Accounts receivable	362	128
Interest receivable	177	3,498
Prepaid expenses	294	(294)
Accounts payable	(6,501)	4,724
Accrued expenses and withholdings	(3,277)	5,249
Adoption escrow	(7,520)	(30,080)
Net Cash Provided (Used) by Operating Activities	<u>(17,596)</u>	<u>31,757</u>
Cash Flows from Financing Activities:		
Restricted gifts received	<u>36,815</u>	<u>9,960</u>
Net Cash Provided (Used) by Financing Activities	<u>36,815</u>	<u>9,960</u>
Cash Flows from Investing Activities:		
Purchase of fixed assets	(2,492)	(622)
Purchase of investments	<u>(4,182)</u>	<u>(11,906)</u>
Net Cash Provided (Used) by Investing Activities	<u>(6,674)</u>	<u>(12,528)</u>
Net Increase (Decrease) in Cash	12,545	29,189
Cash and Cash Equivalents, beginning of year	<u>318,221</u>	<u>289,032</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 330,766</u></u>	<u><u>\$ 318,221</u></u>

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

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Note A - Summary of Significant Accounting Policies:

General Description - Catholic Charities of the Diocese of Lexington, Inc. (Catholic Charities), 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. Catholic Charities is funded by the Catholic Diocese of Lexington, United Way, contributions, and fees which are based on clients' ability to pay. Catholic Charities 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 Catholic Charities 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.

Financial Statement Presentation - Catholic Charities 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 Catholic Charities 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 Catholic Charities. Generally, the donor of such assets permits Catholic Charities to use all or part of the income earned on the assets.

State of Cash Flows - For purposes of this statement, short-term investments are classified as investments.

Escrow and Restricted Cash - Catholic Charities currently services prospective parents who wish to adopt children and less fortunate individuals in need of emergency relief (payment of rent, utilities, toiletries, etc.). Included in Cash - escrow is cash required to be kept in a separate bank account relating to Adoption Services. Also, included in Cash - restricted is cash required to be kept in a separate bank account relating to Emergency Services.

Donated Services - Volunteers have donated significant amounts of time for the Organization's fundraising activities. No amount has been included in the accompanying financial statements for these services as the value could not be determined.

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Investments - Catholic Charities 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 - Catholic Charities 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.

Property and Equipment - Catholic Charities 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 - Catholic Charities 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.

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

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Concentration of Credit Risk - Catholic Charities 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, Catholic Charities is directly affected by economic conditions in the geographic area, management does not believe significant credit risk exists as of June 30, 2010 and 2009.

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Note B - Fair Value of Financial Instruments:

For financial statement reporting purposes, fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

A fair value hierarchy has been established for financial reporting purposes which requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels within its hierarchy that may be used to measure fair value:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Inputs: Significant other 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.

Level 3 Inputs: Significant unobservable inputs that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes input from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair values of Catholic Charities' investments are based on quoted market values. Catholic Charities did not hold financial instruments for trading purposes at June 30, 2010 and 2009.

The fair value of Catholic Charities other financial instruments are based on estimates. These estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature, involve matters of judgment, and, therefore, cannot be determined with precision. Estimated fair values are significantly affected by the assumptions used.

The carrying amounts of cash and cash equivalents, accounts receivable, prepaid expenses, other assets, accounts payable, accrued expenses, and other liabilities as reported in the accompanying Statements of Financial Position approximate their fair values due to their short-term maturity, to being readily converted to a known amount, or other observable inputs. As such, these instruments are measured using Level 1 inputs.

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Note C - Investments:

Catholic Charities 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. Guaranteed interest of 2.0 - 3.0% (3.0 - 4.0% in 2009) is received on the invested funds with interest accrued semi-annually. Total investment earnings as of June 30, 2010, were \$6,504 (\$10,656 in 2009).

The current spending policy is to allow designated and restricted funds to grow at a guaranteed rate of return until accumulated earnings are designated by the Board for a particular purpose.

A reconciliation of investments from July 1, 2009, to June 30, 2010, is as follows:

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total Investments
	Operating	Board Designated			
Investments, beginning of year	\$ 11,907	\$ 120,775	\$ 26,471	\$ 56,896	\$ 216,049
Increase (decrease) in investments due to:					
Investment income received, net of fees	-	3,931	926	1,825	6,682
Investment appreciation (depreciation) (realized and unrealized)	-	-	-	-	-
Contributions	-	-	-	-	-
Withdrawals	-	-	(2,500)	-	(2,500)
Transfers	6,682	(3,931)	(926)	(1,825)	-
Investments, end of year	<u>\$ 18,589</u>	<u>\$ 120,775</u>	<u>\$ 23,971</u>	<u>\$ 56,896</u>	<u>\$ 220,231</u>

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Note C - Investments (Continued):

Investments are presented in the financial statements in the aggregate at fair market value and are comprised of the following:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Unrestricted:			
Operating:			
Cash and cash equivalents	\$ 18,589	\$ -	\$ -
Board Designated:			
Cash and cash equivalents	<u>120,775</u>	<u>-</u>	<u>-</u>
Total Unrestricted	<u>139,364</u>	<u>-</u>	<u>-</u>
Temporarily Restricted:			
Cash and cash equivalents	<u>23,971</u>	<u>-</u>	<u>-</u>
Permanently Restricted:			
Cash and cash equivalents	<u>56,896</u>	<u>-</u>	<u>-</u>
	<u>\$ 220,231</u>	<u>\$ -</u>	<u>\$ -</u>

Note D - Board Designated Net Assets:

The Board of Directors has designated \$120,775 (\$120,775 as of June 30, 2009) of its operating funds as a cash reserve to be invested in an interest bearing account.

Note E - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Funds restricted by EFSP	\$ 10,085	\$ 11,862
Funds restricted for Emergency Services	22,431	2,230
Funds restricted for Emergency Services - VIC	1,514	1,290
Funds restricted by Pax Christi Church	13	500
Funds restricted by St. Peter Claver Church	117	695
Funds restricted by St. Paul's Church	3,186	4,753
Funds restricted by St. Peter's Church	3,987	4,541
Funds restricted for St. Vincent de Paul - CCK Chapter	3,072	3,272
Funds restricted for toiletries	-	12
Funds restricted by Mary Queen of the Holy Rosary Church	1,716	2,229
Funds restricted by St. Vincent de Paul - MQHR Chapter	2,418	3,250
Funds restricted by St. Wahlburg	-	1,261
Funds restricted for the Sanctuary Fund	1,892	2,981

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Note E - Temporarily Restricted Net Assets (Continued):

	<u>2010</u>	<u>2009</u>
Funds restricted for Disaster Relief	\$ 13,711	\$ 25,701
Funds restricted by St. Vincent de Paul - SEAS	251	1,101
Lyans Trust Fund Investment	<u>23,971</u>	<u>26,471</u>
	<u>\$ 88,364</u>	<u>\$ 92,149</u>

Note F - Permanently Restricted Net Assets:

Permanently restricted net assets include the following:

	<u>2010</u>	<u>2009</u>
Memorial Trust Fund Investment	<u>\$ 56,896</u>	<u>\$ 56,896</u>

Note G - Operating Leases:

The Organization leases office space at multiple locations under a month-to-month arrangement and under a lease which expired June 2010. The leases call for monthly rental of \$7,166 (\$7,100 in 2009). Total rent expense for June 30, 2010 and 2009, was \$86,000 and \$85,200, respectively.

Note H - Related Party Transactions:

For the year ended June 30, 2010, Catholic Charities received approximately 47% of its annual revenue and other support from the Catholic Diocese of Lexington (49% for the year ended June 30, 2009). For the year ended June 30, 2010, Catholic Charities received \$84,000 and \$216,000 from the Catholic Diocese of Lexington for rent related to its operations and an unrestricted contribution, respectively (\$84,000 and \$216,000, respectively, for the year ended June 30, 2009).

Note I - 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 \$7,228 and \$8,259 for the years ended June 30, 2010 and 2009, respectively.

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Note J - Advertising:

Catholic Charities uses advertising to promote its counseling and adoption services. The costs for advertising are expensed as incurred. Advertising costs were \$13,710 and \$13,779 for the years ended June 30, 2010 and 2009, respectively.

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

Catholic Charities 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. At June 30, 2010 and 2009, the Organization had no uninsured cash balances.

Note L - Functional Expenses:

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

Note M - Date of Management's Review:

Subsequent events have been evaluated through October 14, 2010, which is the date the financial statements were available to be issued.