

CATHOLIC CHARITIES
OF THE DIOCESE OF LEXINGTON, INC.

FINANCIAL STATEMENTS
AND
AUDITORS' REPORT

JUNE 30, 2011 AND 2010

CATHOLIC CHARITIES
OF THE DIOCESE OF LEXINGTON, INC.

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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. (a nonprofit organization), as of June 30, 2011 and 2010, 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, 2011 and 2010, 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
November 10, 2011

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Current Assets:		
Cash:		
Operating	\$ 213,822	\$ 196,001
Escrow	45,375	60,600
Restricted	43,361	74,165
Accounts receivable	301	183
Interest receivable	358	348
Grants receivable	15,165	-
Total Current Assets	<u>318,382</u>	<u>331,297</u>
Property and Equipment:		
Leasehold improvements	7,290	7,290
Furniture and equipment	20,695	15,198
Total Property and Equipment	<u>27,985</u>	<u>22,488</u>
Less accumulated depreciation	<u>21,215</u>	<u>19,706</u>
Net Property and Equipment	<u>6,770</u>	<u>2,782</u>
Other Assets:		
Investments	<u>226,523</u>	<u>220,231</u>
Total Assets	<u>\$ 551,675</u>	<u>\$ 554,310</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 20,235	\$ 1,797
Payroll withholdings payable	31	4
Accrued expenses	<u>10,911</u>	<u>10,308</u>
Total Current Liabilities	<u>31,177</u>	<u>12,109</u>
Adoption Escrow	<u>45,375</u>	<u>60,600</u>
Total Liabilities	<u>76,552</u>	<u>72,709</u>
Net Assets:		
Unrestricted:		
Operating	236,424	215,566
Board designated	120,775	120,775
Temporarily restricted	61,028	88,364
Permanently restricted	<u>56,896</u>	<u>56,896</u>
Total Net Assets	<u>475,123</u>	<u>481,601</u>
Total Liabilities and Net Assets	<u>\$ 551,675</u>	<u>\$ 554,310</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Unrestricted Net Assets:		
Revenues:		
Contributions and grants	\$ 401,823	\$ 323,494
United Way	79,047	79,929
Special events	64,095	38,956
Fees for services	76,986	102,125
Interest income	8,361	8,033
Miscellaneous	110	850
Total Revenues	630,422	553,387
Net Assets Released from Restrictions		
	67,107	83,687
Total Revenues and Reclassifications	697,529	637,074
Expenses:		
Salaries	294,028	279,843
Employee benefits	46,979	43,707
Payroll taxes	21,622	20,714
Legal, accounting and other professional services	28,393	23,267
Program expenses	87,039	98,582
Professional development	3,406	573
Fundraising expenses	21,687	7,054
Office expenses and telephone	10,245	7,004
Occupancy expense	85,300	86,000
Equipment	9,312	713
Printing and publications	4,572	3,935
Advertising	48,795	13,710
Travel and meetings	10,386	10,862
Organization dues	2,350	701
Depreciation and amortization	1,509	1,269
Miscellaneous	1,048	940
Total Expenses	676,671	598,874
Increase (Decrease) in Unrestricted Net Assets	20,858	38,200
Temporarily Restricted Net Assets:		
Contributions and grants	39,771	79,902
Net assets released from restrictions		
	(67,107)	(83,687)
Increase (Decrease) in Temporarily Restricted Net Assets	(27,336)	(3,785)
Increase (Decrease) in Net Assets	(6,478)	34,415
Net Assets, beginning of year	481,601	447,186
Net Assets, end of year	<u>\$ 475,123</u>	<u>\$ 481,601</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, 2011

	General and Administrative	Prestonsburg Office	Adoption Services	Fundraising	Pregnancy Counseling	Emergency Services	Counseling	Total
Salaries	\$ 69,575	\$ 32,976	\$ 43,276	\$ -	\$ 60,713	\$ 30,979	\$ 56,509	\$ 294,028
Employee benefits	8,787	7,659	7,620	-	8,900	6,838	7,175	46,979
Payroll taxes	5,786	2,536	2,961	-	4,257	2,291	3,791	21,622
Legal, accounting and other professional services	3,339	2,077	8,992	1,828	4,007	4,172	3,978	28,393
Program expenses	3,584	15	2,471	-	33,065	47,904	-	87,039
Professional development	131	394	-	55	2,133	25	668	3,406
Event expenses	-	-	-	21,687	-	-	-	21,687
Office expenses and telephone	1,381	1,926	462	536	4,439	1,186	315	10,245
Occupancy expense	19,134	1,100	9,799	-	16,797	12,802	25,668	85,300
Equipment expenses	577	1,923	(316)	30	2,499	3,955	644	9,312
Printing and publications	336	428	467	260	2,147	467	467	4,572
Advertising	141	444	14,894	604	31,507	233	972	48,795
Travel and meetings	1,718	1,956	1,328	236	2,553	2,283	312	10,386
Organization dues	1,086	132	122	-	418	371	221	2,350
Depreciation and amortization	1,509	-	-	-	-	-	-	1,509
Miscellaneous	121	399	-	-	84	336	108	1,048
Total Expenses	\$ 117,205	\$ 53,965	\$ 92,076	\$ 25,236	\$ 173,519	\$ 113,842	\$ 100,828	\$ 676,671
Percentage of Total Expenses	17.32%	7.98%	13.61%	3.73%	25.64%	16.82%	14.90%	100.00%

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	\$ 127,415	\$ 55,108	\$ 86,408	\$ 10,192	\$ 67,429	\$ 148,887	\$ 103,435	\$ 598,874
Percentage of Total Expenses	21.27%	9.20%	14.43%	1.70%	11.26%	24.87%	17.27%	100.00%

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

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (6,478)	\$ 34,415
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation and amortization	1,509	1,269
Change in operating assets and liabilities:		
Accounts receivable	(118)	362
Interest receivable	(10)	177
Grants receivable	(15,165)	-
Prepaid expenses	-	294
Accounts payable	18,438	(6,501)
Accrued expenses and withholdings	630	(3,277)
Adoption escrow	(15,225)	(7,520)
	<u>(16,419)</u>	<u>19,219</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Investing Activities:		
Purchase of fixed assets	(5,497)	(2,492)
Purchase of investments	(6,292)	(4,182)
	<u>(11,789)</u>	<u>(6,674)</u>
Net Cash Provided (Used) by Investing Activities		
Net Increase (Decrease) in Cash	(28,208)	12,545
Cash and Cash Equivalents, beginning of year	<u>330,766</u>	<u>318,221</u>
Cash and Cash Equivalents, end of year	<u>\$ 302,558</u>	<u>\$ 330,766</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, 2011 AND 2010

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.

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

Cash - Escrow and Restricted - 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 maintained in a separate bank account relating to Adoption Services. Also, included in Cash - Restricted is cash required to be maintained in a separate bank account relating to Emergency Services.

Donated Goods and 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. In addition, the Organization received donated goods and services for fundraising events of \$9,500 which were recorded for the year ended June 30, 2011.

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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 Statements 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, 2011 and 2010.

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.

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Note B - Fair Value of Financial Instruments (Continued):

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, 2011 and 2010.

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, grants 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.

Note C - Investments:

Catholic Charities invests board 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% is received on the invested funds with interest accrued semi-annually. Total investment earnings as of June 30, 2011, were \$6,544 (\$6,504 in 2010).

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Note C - Investments (Continued):

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 as of June 30, 2011 and 2010, is as follows:

<u>2011</u>					
	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Investments</u>
	<u>Operating</u>	<u>Board Designated</u>			
Investments, beginning of year	\$ 18,589	\$ 120,775	\$ 23,971	\$ 56,896	\$ 220,231
Increase (decrease) in investments due to:					
Investment income received, net of fees	-	4,064	590	1,880	6,534
Investment appreciation (depreciation) (realized and unrealized)	-	-	-	-	-
Contributions	-	-	-	-	-
Withdrawals	-	-	-	-	-
Transfers	2,228	(4,064)	(590)	(1,880)	(242)
Investments, end of year	<u>\$ 20,817</u>	<u>\$ 120,775</u>	<u>\$ 23,971</u>	<u>\$ 56,896</u>	<u>\$ 226,523</u>
<u>2010</u>					
	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Investments</u>
	<u>Operating</u>	<u>Board Designated</u>			
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, 2011 AND 2010

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	\$ 24,881	\$ -	\$ -
Board Designated:			
Cash and cash equivalents	<u>120,775</u>	<u>-</u>	<u>-</u>
Total Unrestricted	<u>145,656</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>\$ 226,523</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, 2010) 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>2011</u>	<u>2010</u>
Funds restricted by EFSP	\$ -	\$ 10,085
Funds restricted for Emergency Services	13,440	22,431
Funds restricted for Emergency Services - VIC	4,569	1,514
Funds restricted by Pax Christi Church	388	13
Funds restricted by St. Peter Claver Church	518	117
Funds restricted by St. Paul's Church	2,717	3,186
Funds restricted by St. Peter's Church	3,732	3,987
Funds restricted for St. Vincent de Paul - CCK Chapter	3,072	3,072
Funds restricted by Mary Queen of the Holy Rosary Church	7,613	1,716
Funds restricted by St. Vincent de Paul - MQHR Chapter	2,273	2,418
Funds restricted for the Sanctuary Fund	2,397	1,892

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Note E - Temporarily Restricted Net Assets (Continued):

	<u>2011</u>	<u>2010</u>
Funds restricted for Disaster Relief	\$ 300	\$ 13,711
Funds restricted by St. Vincent de Paul - SEAS	1,038	251
Lyans Trust Fund Investment	<u>18,971</u>	<u>23,971</u>
	<u>\$ 61,028</u>	<u>\$ 88,364</u>

Note F - Permanently Restricted Net Assets:

Permanently restricted net assets include the following:

	<u>2011</u>	<u>2010</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 2011. The leases call for monthly rental of \$7,108 (\$7,166 in 2010). Total rent expense for June 30, 2011 and 2010, was \$85,300 and \$86,000, respectively.

Note H - Related Party Transactions:

For the year ended June 30, 2011, Catholic Charities received approximately 47% of its annual revenue and other support from the Catholic Diocese of Lexington (47% for the year ended June 30, 2010). For the year ended June 30, 2011, Catholic Charities received \$84,000 and \$231,000 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, 2010).

Note I - Retirement Plan:

Catholic Charities participates in a multi-employer pension plan with the Catholic Diocese of Covington and other unrelated employers. The plan covers all eligible lay employees who elect to participate. Benefits are based on participants' years of service and annual compensation, as defined in the plan. Eligibility requirements allow all employees who have reached age 21 and work 15 or more hours per week and 5 or more months per year to participate in the plan. Participant contributions are required. Pension costs for the year ended June 30, 2011, amounted to \$6,676. The employees of Catholic Charities represent only a small portion of the total participants in the plan, and as a result disclosures pertaining to the obligations and funded status of the entire plan would not be meaningful, and accordingly, are not included.

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Note I - Retirement Plan (Continued):

The Organization previously maintained a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covered employees of the Organization with three years of service. The Organization contributed 3.25% of gross salaries for qualified employees who contributed at least 3% of gross salaries to the plan. Employees could make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Contributions to the plan were \$7,228 for the year ended June 30, 2010.

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 \$48,795 and \$13,710 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, 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 November 10, 2011, which is the date the financial statements were available to be issued.

CATHOLIC CHARITIES OF THE DIOCESE
OF LEXINGTON, INC.
LEXINGTON, KY

COMMUNICATION WITH
THE BOARD OF DIRECTORS

JUNE 30, 2011

KRING, RAY, FARLEY & RIDDLE, PSC

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November 10, 2011

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

We have audited the financial statements of Catholic Charities of the Diocese of Lexington, Inc. (Catholic Charities), for the year ended June 30, 2011, and have issued our report thereon dated November 10, 2011. 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 19, 2011. 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 Catholic Charities 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, 2011. We noted no transactions entered into by Catholic Charities during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 is:

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.

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, adjustments totaling \$11,859 to recognize a receivable for expenses to be reimbursed for the Opportunities for Life program. This adjustment was necessary to record contributions from other Dioceses to offset expenses incurred through June 30, 2011.

In addition, we proposed and management recorded, an adjustment of \$5,497 to reclassify the purchase of furniture and equipment. The adjustment was necessary to recognize the purchase of furniture and equipment as assets to be depreciated instead of an operating expense.

We also proposed, and management recorded, adjustments totaling \$15,299 to record accounts payable for Opportunities for Life expenses. This adjustment was necessary to record program expenses in the period in which they were incurred.

In addition, we proposed, and management recorded, adjustments totaling \$6,302 to recognize earnings on investments. This adjustment was necessary to recognize revenue earned through June 30, 2011, in the proper accounting period.

Finally, we proposed, and management recorded, an adjustment of \$5,000 to recognize a payable to the Mother of Good Counsel Parish for funds to be distributed from the Lyans Trust investment account. This adjustment was necessary to recognize an expense in the current fiscal year for the transfer of funds approved by the Board of Directors at their June 2011 meeting.

We also proposed, and management recorded, other adjustments that generally were for routine year end adjustments for isolated errors and reclassifications. In our judgment, none of these adjustments, either individually or in the aggregate, indicate matters that could have a significant effect on the financial reporting process of Catholic Charities.

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 November 10, 2011.

The Board of Directors
Catholic Charities of the
Diocese of Lexington, Inc.
November 10, 2011
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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 the Catholic Charities' 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 the Catholic Charities' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of the Board of Directors of Catholic Charities of the Diocese of Lexington, Inc., and management of Catholic Charities 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
Lexington, Kentucky