

**THE  
ROMAN CATHOLIC DIOCESE OF OAKLAND,  
CENTRAL SERVICES ADMINISTRATION**

**INDEPENDENT AUDITOR'S REPORT  
AND  
CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**

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**INDEPENDENT AUDITOR'S REPORT**

To the Most Reverend Allen Vigneron  
The Roman Catholic Bishop of Oakland

We have audited the accompanying consolidated statements of financial position of the Roman Catholic Diocese of Oakland, Central Services Administration as of December 31, 2006 and 2005 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of the Central Services Administration. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the Roman Catholic Diocese of Oakland, Central Services Administration as of December 31, 2006 and 2005 and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

San Francisco, California  
December 17, 2007

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
CENTRAL SERVICES ADMINISTRATION  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,863,976	\$ 6,105,485
Marketable securities - pooled investments	59,516,274	53,570,693
Receivables		
Loans to parishes, schools, institutions, and seminarians, net	21,382,494	19,113,725
Other, net	5,751,511	1,617,653
Prepaid expenses	958,882	722,985
Land held for sale	2,134,951	3,303,837
Beneficial interest in advances to Cathedral of Christ the Light	23,083,811	7,287,333
Property and equipment, net	<u>11,154,802</u>	<u>8,991,185</u>
Total assets	<u>\$ 129,846,701</u>	<u>\$ 100,712,896</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 758,284	\$ 1,390,906
Accrued liabilities	577,730	615,866
Line of credit	40,084,540	25,048,717
Claims payable	-	9,336,649
Deferred revenue	3,285,498	1,390,074
Deposits payable	29,404,291	25,360,195
Assets held for parishes, schools and institutions	2,932,510	2,559,879
Equity of others in pooled investments	<u>12,442,301</u>	<u>10,152,558</u>
Total liabilities	<u>89,485,154</u>	<u>75,854,844</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	23,730,468	10,246,173
Designated	3,007,828	2,209,099
Invested in plant and land held for sale	13,289,753	12,295,022
Temporarily restricted	<u>333,498</u>	<u>107,758</u>
Total net assets	<u>40,361,547</u>	<u>24,858,052</u>
Total liabilities and net assets	<u>\$ 129,846,701</u>	<u>\$ 100,712,896</u>

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
CENTRAL SERVICES ADMINISTRATION  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND OTHER ADDITIONS</b>						
Bishop's Annual Appeal	\$ 1,847,938	\$ -	\$ 1,847,938	\$ 1,825,311	\$ -	\$ 1,825,311
Parish assessments	4,312,743	-	4,312,743	4,237,976	-	4,237,976
Gifts, grants, bequests, and miscellaneous	941,866	333,498	1,275,364	363,171	-	363,171
Dividends and interest on marketable securities	1,227,031	-	1,227,031	638,982	-	638,982
Ministerial department revenue	1,538,895	-	1,538,895	2,904,123	-	2,904,123
Catholic Voice	1,043,338	-	1,043,338	1,064,596	-	1,064,596
Cemetery rent	1,465,646	-	1,465,646	1,500,000	-	1,500,000
Interest income on deposit and loan fund	1,181,759	-	1,181,759	743,022	-	743,022
Insurance revenue, net	1,546,428	-	1,546,428	857,238	-	857,238
Net assets released from purpose restrictions	107,758	(107,758)	-	681,915	(681,915)	-
Total revenues and other additions	<u>15,213,402</u>	<u>225,740</u>	<u>15,439,142</u>	<u>14,816,334</u>	<u>(681,915)</u>	<u>14,134,419</u>
<b>EXPENSES AND OTHER DEDUCTIONS</b>						
Central Services						
Services and administration	561,302	-	561,302	1,145,852	-	1,145,852
Pastoral Life Division	1,273,529	-	1,273,529	1,224,202	-	1,224,202
Resources and Stewardship Division	1,764,163	-	1,764,163	1,658,238	-	1,658,238
Cannon Law	340,055	-	340,055	441,473	-	441,473
Office of the Chancellor	2,613,382	-	2,613,382	3,270,950	-	3,270,950
Office of the Bishop	388,475	-	388,475	381,277	-	381,277
Catholic Voice	1,030,588	-	1,030,588	1,036,658	-	1,036,658
Parishes, Schools/Diocesan General						
Interest payments	3,377,559	-	3,377,559	1,359,429	-	1,359,429
School subsidies	500,000	-	500,000	500,000	-	500,000
Parish subsidies	153,466	-	153,466	138,105	-	138,105
Capital grants (subsidized entities)	101,931	-	101,931	21,277	-	21,277
Clergy retirement	584,076	-	584,076	439,828	-	439,828
Unassigned clergy	484,494	-	484,494	484,394	-	484,394
Legal expenses	870,904	-	870,904	1,147,341	-	1,147,341
Overhead	2,000,261	-	2,000,261	1,888,766	-	1,888,766
Total expenses	<u>16,044,185</u>	<u>-</u>	<u>16,044,185</u>	<u>15,137,790</u>	<u>-</u>	<u>15,137,790</u>
CHANGE IN NET ASSETS BEFORE OTHER INCOME (EXPENSE)	<u>(830,783)</u>	<u>225,740</u>	<u>(605,043)</u>	<u>(321,456)</u>	<u>(681,915)</u>	<u>(1,003,371)</u>
<b>OTHER INCOME (EXPENSE)</b>						
Gain on sale of land and property	13,599,069	-	13,599,069	947,547	-	947,547
Net realized and unrealized gains (losses) on marketable securities	2,607,221	-	2,607,221	2,134,485	-	2,134,485
Nonrecurring claims costs	(97,752)	-	(97,752)	(778,989)	-	(778,989)
Total other income (expense)	<u>16,108,538</u>	<u>-</u>	<u>16,108,538</u>	<u>2,303,043</u>	<u>-</u>	<u>2,303,043</u>
CHANGE IN NET ASSETS	15,277,755	225,740	15,503,495	1,981,587	(681,915)	1,299,672
NET ASSETS, beginning of year	<u>24,750,294</u>	<u>107,758</u>	<u>24,858,052</u>	<u>22,768,707</u>	<u>789,673</u>	<u>23,558,380</u>
NET ASSETS, end of year	<u>\$ 40,028,049</u>	<u>\$ 333,498</u>	<u>\$ 40,361,547</u>	<u>\$ 24,750,294</u>	<u>\$ 107,758</u>	<u>\$ 24,858,052</u>

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
CENTRAL SERVICES ADMINISTRATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 15,503,495	\$ 1,299,672
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	272,433	215,608
Net realized and unrealized (gains)/losses on investments	(2,607,221)	(2,134,485)
Change in allowance for doubtful accounts	(123,606)	(260,733)
Gain on sale of land and property	(13,599,069)	(947,547)
Changes in operating assets and liabilities		
Receivables	(2,605,018)	(140,986)
Prepaid expenses	(235,897)	432,754
Accounts payable	(632,622)	(746,227)
Accrued liabilities	(38,135)	200,613
Claims payable	(9,336,649)	(15,663,351)
Deferred revenue	1,895,424	72,696
Net cash from operating activities	<u>(11,506,865)</u>	<u>(17,671,986)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans made to parishes, schools, institutions, and seminarians	(6,936,702)	(13,873,805)
Payments received on loans made to parishes, schools, institutions, and seminarians	3,262,699	18,132,076
Proceeds from sales and maturities of investments	4,758,014	3,723,326
Purchases of investments	(8,096,375)	(2,341,640)
Purchases of property, land and equipment	(2,807,094)	(956,753)
Beneficial interest in advances to Cathedral of Christ the Light	(15,796,478)	(7,287,333)
Proceeds from sale of property, land and equipment	15,138,999	994,491
Net cash from investing activities	<u>(10,476,937)</u>	<u>(1,609,638)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit borrowings	15,035,823	15,048,717
Deposits made to deposits payable	9,268,354	5,453,248
Withdrawals from deposits payable	(5,224,258)	(5,462,761)
Increase in assets held for parishes, schools and institutions	372,631	429,620
Change in equity of others in pooled investments	2,289,743	(331,469)
Net cash from financing activities	<u>21,742,293</u>	<u>15,137,355</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(241,509)	(4,144,269)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	6,105,485	10,249,754
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 5,863,976</u>	<u>\$ 6,105,485</u>
<b>Supplemental Disclosure</b>		
Interest Paid	<u>\$ 3,377,559</u>	<u>\$ 1,359,429</u>

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
CENTRAL SERVICES ADMINISTRATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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**Note 1 – Organization**

The Roman Catholic Bishop of Oakland, a California Corporation Sole, was incorporated on May 2, 1962 and it together with diocesan schools, charities, cemeteries, property management and the cathedral operate as the Roman Catholic Diocese of Oakland (the “Diocese”).

The Chancery is the component of the Diocese that provides administrative services and financial support to the Diocesan parishes, schools and other Catholic organizations located within the Diocese’s geographic area. These financial statements include the assets, liabilities, net assets and financial activities of the Chancery of the Diocese of Oakland, the Catholic Voice (the Diocesan newspaper) and Adventus Corporation. Collectively these entities are referred to as the Central Services Administration. These financial statements do not include The Roman Catholic Welfare Corporation, Catholic Cemeteries of the Diocese of Oakland, the Cathedral of Christ the Light, the Roman Catholic Cathedral Corporation of the East Bay, Catholic Charities of the East Bay, Propagation of the Faith, and the priest and lay retirement plans. However, certain investments and deposits held on behalf of such organizations by the Central Services Administration are included in the financial statements.

**Note 2 – Summary of Accounting Policies**

The accounting policies of the Central Services Administration conform to generally accepted accounting principles applicable to not-for-profit organizations. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

**Principles of Consolidation** – The consolidated financial statements include the accounts of the Chancery, Catholic Voice, and Adventus Corporation. All intercompany balances and transactions have been eliminated.

**Accrual Basis** – The financial statements of the Central Services Administration have been prepared on the accrual basis of accounting.

**Net Assets** – The accounts of the Central Services Administration are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into net asset categories that are in accordance with specific activities or objectives. For financial statement purposes all financial transactions are reported by the following net asset categories as prescribed for not-for-profit organizations by the Financial Accounting Standards Board.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
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**Note 2 – Summary of Accounting Policies (continued)**

*Unrestricted Net Assets* – Consist of resources of the Central Services Administration that have not been restricted by a donor. The major sources of revenue are the parish assessments, the Bishop's Annual Appeal, investment income and cemetery rent. Certain insurance reserves have been board designated.

*Temporarily Restricted Net Assets* – Consist of cash and other assets received with donor stipulations that limit the use of donated assets. Donor restrictions are stipulated by either a time restriction or a purpose restriction. Upon expiration of time restriction or completion of a purpose restriction temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

*Permanently Restricted* – Unconditional promises to give by a donor that specifies that the assets donated be invested to provide a permanent source of income. If the donor does not restrict the allowed use of the income, the organization may determine the income's availability to the organization's operations. At December 31, 2006 and 2005, the Central Services Administration had no permanently restricted net assets.

**Cash Equivalents** – The Central Services Administration considers all highly liquid debt instruments purchased with a maturity of three months or less and not held by an investment custodian or broker/dealer to be cash equivalents. Substantially all of the cash equivalent balances held in financial institutions at December 31, 2006 and 2005, exceeded federal depository insurance coverage. The Central Services Administration has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

**Marketable Securities** – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investment income or loss (including realized and unrealized gains and losses, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

**Receivables** – Receivables consist of loan receivables and assessment receivables with parishes, schools, and other institutions, accounts receivable and other non-trade receivables. Credit is extended based upon the evaluation of the organization's financial condition and other factors, and generally, collateral is not required. Loans receivable have no stated maturity dates and are generally due either on demand by the Central Services Administration or in accordance with scheduled payments. Interest accrues on loans receivable daily in accordance with the interest rates applicable to the loans.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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**Note 2 – Summary of Accounting Policies (continued)**

**Allowance for Doubtful Accounts** – The Central Services Administration provides an allowance for receivables it believes it may not collect in full. It evaluates the collectibility of its accounts based on a combination of factors. In circumstances where it is aware of a specific organization's inability to meet its financial obligations (i.e., financial difficulties or fluctuation in offertory), it records a specific reserve. For all other organizations, the Central Services Administration recognizes reserves for bad debts based on its historical collection experience. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in a major organization's ability to meet its financial obligations), the Central Services Administration's estimates of the recoverability of amounts due may change in the near term.

**Property and Equipment** – Purchased plant assets are recorded at cost and donated plant assets are recorded at approximate market value at the time of receipt. Depreciation expense is recorded on the straight-line basis for all plant assets over the estimated useful life ranging from five to fifty years. The Central Services Administration's policy is to capitalize plant assets that have a cost or donated value in excess of \$1,000.

**Deposits and Loans** – The Central Services Administration provides a means for the various parishes and institutions located within the Diocese to maintain deposits with the Central Services Administration and to borrow either against these deposits or to make outright loans. Parish/institution deposits are classified as a liability and are held in the Central Services Administration pooled investment accounts; loans are classified as a receivable. The average interest rate paid on deposits in 2006 and 2005 was 5.65% and 3.73%, respectively. The average interest rate on loans in 2006 and 2005 was 5.79% and 3.65%, respectively.

**Tax Exempt Status** – The Diocese and all other entities of the Diocese, including the Central Services Administration, have been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board under Sections 501(c) (3) and 23701(d), respectively. Accordingly, no tax provision has been recorded in the financial statements.

**Contributions** – Contributions are considered to be available for unrestricted use unless they are specifically restricted by the donor. Contributions received designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted contribution revenue. The Central Services Administration recognizes all unconditional contributions and promises to give in the period notified. Unconditional promises to give expected to be collected in future years are recorded at the discounted present value of their estimated future cash flows using the risk free rate applicable to the years in which the promises are received. Conditional promises to give or intentions to give are not recorded in the financial statements, until the conditions are substantially met.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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**Note 2 – Summary of Accounting Policies (continued)**

**Deferred Revenue** – Deferred revenue consists of amounts received and/or billed in advance for health and package insurance premiums from parishes and schools.

**Beneficial Interest in Advances to Cathedral of Christ the Light** – The Central Services Administration has made advances to the Cathedral of Christ the Light, a not-for-profit corporation established to collect donations for the construction of the Diocesan Cathedral. Such advances may be repaid to the Diocese if the Cathedral of Christ the Light obtains donations to the extent of construction costs. If not, the Central Services Administration will convert the advances to contribution.

**Use of Estimates** – In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** – Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation. The reclassifications had no effect on total net assets.

**Note 3 – Investments**

Investments at fair value at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Corporate equity securities	\$ 34,693,578	\$ 28,922,343
Mortgage pools and asset backed	3,078,308	2,840,332
Corporate debt securities	8,445,487	2,846,801
Cash in broker/dealer accounts	4,529,244	2,988,242
U.S. government debt securities	8,626,704	14,461,601
Other	142,953	1,511,374
	<u>\$ 59,516,274</u>	<u>\$ 53,570,693</u>

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
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**Note 3 – Investments (Continued)**

Investment income for the year ended December 31 is as follows:

	<u>2006</u>	<u>2005</u>
Source of investment income		
Dividends	\$ 367,683	\$ 68,500
Interest	859,348	570,482
	<u>1,227,031</u>	<u>638,982</u>
Net realized and unrealized gain on securities	<u>2,607,221</u>	<u>2,134,485</u>
Total investment income	<u>\$ 3,834,252</u>	<u>\$ 2,773,467</u>

**Note 4 – Receivables**

Receivables at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Parishes, schools, institutions and seminarians		
Loans receivable	\$ 24,016,829	\$ 20,342,826
Less allowance for doubtful accounts and loan losses	<u>(2,634,335)</u>	<u>(1,229,101)</u>
	<u>\$ 21,382,494</u>	<u>\$ 19,113,725</u>
Other		
Insurance and miscellaneous	\$ 4,448,496	\$ 1,886,140
Assessments receivable	1,690,600	1,647,938
Less allowance for doubtful accounts	<u>(387,585)</u>	<u>(1,916,425)</u>
	<u>\$ 5,751,511</u>	<u>\$ 1,617,653</u>

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
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DECEMBER 31, 2006 AND 2005**

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**Note 4 – Receivables (Continued)**

	<u>2006</u>	<u>2005</u>
Changes in the allowance for doubtful accounts and loan losses:		
Beginning balance	\$ 3,145,526	\$ 3,406,259
Accounts written off	(10,000)	-
Bad debt recoveries	<u>(113,606)</u>	<u>(260,733)</u>
Ending balance	<u>\$ 3,021,920</u>	<u>\$ 3,145,526</u>

**Note 5 – Land Sales**

Land held for sale of \$2,134,951 and \$3,303,837 in 2006 and 2005, respectively, consists of certain land subject to a purchase and sales agreement with an unrelated development company. Sales proceeds from such land are accounted for on a cost recovery basis. During the year ended December 31, 2006, sales proceeds amounted to \$2,359,091 with a related gain of \$1,190,205. There were no sales of this property during the year ended December 31, 2005. Future sales proceeds are anticipated over the next three years.

Additionally during the year ended December 31, 2006, the Central Services Administration sold two pieces of property for total proceeds of \$12,779,908 with a related gain of \$12,408,864. During the year ended December 31, 2005, the Central Services Administration sold land for total proceeds of \$994,491 with a related gain of approximately \$947,000.

**Note 6 – Property and Equipment**

Land, buildings and equipment at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Central Services Administration property and improvements	\$ 6,007,775	\$ 4,246,858
Furniture and equipment	1,506,976	1,496,426
Automobiles	153,032	153,032
Land improvements	<u>47,786</u>	<u>47,786</u>
	7,715,569	5,944,102
Less accumulated depreciation	<u>(3,924,064)</u>	<u>(3,652,059)</u>
	3,791,505	2,292,043
Land	<u>7,363,297</u>	<u>6,699,142</u>
	<u>\$ 11,154,802</u>	<u>\$ 8,991,185</u>

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
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**Note 6 – Property and Equipment (Continued)**

Total depreciation for the years ended December 31, 2006 and 2005 amounted to \$272,433 and \$215,608, respectively.

**Note 7 – Line of Credit**

The Central Services Administration has an unsecured line of credit in the amount of \$60,000,000 as of December 31, 2006 and 2005. At December 31, 2006 and 2005 the Central Services Administration had related borrowings of \$40,084,540 and \$25,048,717. The line of credit is due in September 2008. Interest is due and payable monthly at the LIBOR at the time of each draw rate plus .35% (5.12% and 4.76% average rate for the years ended December 31, 2006 and 2005, respectively).

Subsequent to year end, the Central Services Administration refinanced the line of credit (see Note 17).

**Note 8 – Self-Insured Risk Retention Groups**

The Diocese, along with certain other Roman Catholic Dioceses and Archdioceses in the western United States, is a member of and participates in a captive mutual insurance company, The Ordinary Mutual (“TOM”). Premiums paid to TOM are for general liability insurance, including limited coverage for alleged sexual misconduct cases and auto liability coverage. To withdraw from TOM, an 18-month notice of intent is required and during that period the withdrawing member’s premiums will be adjusted to cover the claims projected through the withdrawal date. Under certain circumstances, amounts may be assessed by TOM in order to maintain minimum capitalization and reserve requirements. At December 31, 2006 and 2005, no such assessments were outstanding.

The Diocese, along with various other religious organizations of the Roman Catholic Church, is a Trustor of and participates in a multi-employer health plan, Religious Trust Agreement (“RETA”). Premiums paid to RETA are for medical coverage. Under certain circumstances, amounts may be assessed by RETA in order to maintain minimum reserves in the trust fund. At December 31, 2006 and 2005, no such assessments were outstanding.

The Diocese, along with certain other Roman Catholic Dioceses and Archdioceses in the western United States, is also a member of and participates in a captive insurance association, The Catholic Insurance Association (CIA), for workers’ compensation coverage. In the event claims and administrative expenses of CIA exceed its premiums, the accumulated capitalization of CIA would be reduced. At December 31, 2006 and 2005, incurred losses and reserves were less than total premiums paid.

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**Note 8 – Self-Insured Risk Retention Groups (continued)**

Effective January 1, 2006, the Diocese obtained workers' compensation coverage through a commercial carrier. Claims incurred before this date are still being processed through CIA.

**Note 9 – Designated Net Assets**

Unrestricted net assets have been designated for the following purposes:

	<u>2006</u>	<u>2005</u>
General package insurance deductible reserves	\$ 1,453,434	\$ 1,029,737
Uninsured liability self insurance reserves	900,000	600,000
Clergy uninsured medical expenses reserves	628,056	546,806
Other	26,338	32,556
	<u>\$ 3,007,828</u>	<u>\$ 2,209,099</u>

**Note 10 – Temporarily Restricted Net Assets**

Temporarily restricted net assets are held for the following purposes at December 31:

	<u>2006</u>	<u>2005</u>
Poor parish assistance	\$ -	\$ 107,758
Other	16,477	-
Assistance to homeless women and children	317,021	-
	<u>\$ 333,498</u>	<u>\$ 107,758</u>
Assets released from restrictions during the year		
Poor parish assistance	\$ 107,758	138,106
Bishop Begin Villa	-	153,486
Whitney Trust - adult education	-	163,629
Bruke Estate - propagation of faith overseas	-	226,694
	<u>\$ 107,758</u>	<u>\$ 681,915</u>

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**Note 11 – Functional Classification**

The expenses of the Central Services Administration are classified on a functional basis among its program and supporting services as follows:

	2006	2005
Program services		
Parishes and schools	\$ 5,201,526	\$ 2,943,033
Office of the Chancellor	2,613,382	2,710,904
Pastoral life	1,273,529	1,224,202
Services	561,302	1,145,717
Resources and Stewardship	653,132	598,099
Cannon Law	340,055	441,608
Office of the Bishop	388,475	381,277
Publications - Catholic Voice	1,030,588	1,036,658
	12,061,989	10,481,498
Supporting services		
Management and general	3,571,740	4,264,432
Development	410,456	391,860
	3,982,196	4,656,292
	\$ 16,044,185	\$ 15,137,790

**Note 12 – Transactions with other Diocesan Organizations**

The Central Services Administration receives payments from Cemeteries of Oakland for use of Diocesan land. The Central Services Administration received \$1,465,646 and \$1,500,000 in such payments for the years ended December 31, 2006 and 2005, respectively.

The Central Services Administration has made certain advances to the Cathedral of Christ the Light (the “Cathedral”) to assist in the financing of the construction of the Cathedral and has classified them as beneficial interest in advances to the Cathedral. At December 31, 2006 and 2005, such amounts totaled \$23,083,811 and \$7,287,333, respectively.

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**Note 13 – Lay Employees’ Pension Plan**

The Diocese has a non-contributory money purchase pension plan (defined contribution) for all lay employees in the Diocese (including parishes, schools, and cemeteries) who have completed six months of continuous employment at 20 hours or more per week. Requirements for eligibility are met after six months of employment. Annual contributions to the plan were 8% of the compensation of all eligible lay employees in 2006 and 2005. Benefits vest incrementally after three years of service and are fully vested after seven years of service. Pension expense for the Central Services Administration for the years ended December 31, 2006 and 2005 was \$254,598 and \$243,147, respectively.

**Note 14 – Clergy Retirement Costs**

Diocesan priests are covered by Diocesan-sponsored non-qualifying retirement plans. At January 1, 2006 (latest valuation date), the present value of future benefits for both Diocesan-sponsored retirement plans was approximately \$10,898,000. Projected benefit obligations are approximately \$13,714,000 and plan assets approximate \$13,487,000. Total contributions to the plans during 2006 amounted to \$344,000. Contributions made by the Central Services Administration to the plans for priests employed by the Central Services Administration were \$77,925 and \$17,400 for years ended December 31, 2006 and 2005, respectively. Neither the plans’ assets nor pension obligations are included in these financial statements.

Effective December 31, 2007, the Central Services Administration will be required to adopt Statement of Financial Accounting Standard No. 158 (“SFAS 158”), *Employers’ Accounting for Defined Benefit Pension and other Postretirement Plans*. SFAS 158 requires the plan sponsor to record on its financial statements the net over or under funding of the plan as an asset or liability. Further, SFAS 158 will require that the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net period benefit cost of the period be shown as a component of unrestricted net assets. The impact of the adoption of SFAS 158 cannot be estimated at this time.

The Central Services Administration paid \$352,993 and \$298,578 for medical expenses and \$153,157 and \$117,925 for housing related expenses of retired clergy during 2006 and 2005, respectively.

**Note 15 – Litigation**

The Diocese is involved in lawsuits relating to claims of alleged sexual misconduct. Uncertainties exist surrounding the financial impact they will have on the Diocese. The Diocese is vigorously defending these matters and will continue to do so in a manner

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**Note 15 – Litigation (continued)**

consistent with the norms established by the U.S. Conference of Catholic Bishops and with all due respect to victims of childhood sexual abuse. The cost of defense could be significant. These claims and their defense will, however, activate available insurance coverage. If the claims are not resolved within policy limits, potential losses to the Diocese could be material. Given the uncertainty of the final outcome of these lawsuits, a reasonable estimate of their potential cost cannot be determined and, consequently, no reserve has been accrued.

In 2004, sexual misconduct litigation pending against the Diocese of Oakland and the Roman Catholic Bishop of Oakland was settled. Net of insurance proceeds, the Diocese of Oakland has contributed \$25 million to that settlement. A partial payment of the total settlement due plaintiffs and attorneys was made in 2005 in the amount of \$15,663,351. In 2006, the balance of the settlement, \$9,336,649, was paid.

**Note 16 – Guarantee (Refer to Note 17)**

During 2003, the Cathedral of Christ the Light acquired a credit facility with a maximum borrowing amount of \$15,000,000 and had an outstanding balance of \$15,000,000 as of December 31, 2006 and 2005. The Diocese and the Catholic Cemeteries Corporation of the Diocese of Oakland have guaranteed the loan, which is secured by the property on which the Cathedral is being constructed.

**Note 17 – Subsequent Event**

The Central Services Administration entered into a new credit facility effective November 13, 2007 for a total amount of \$114.7 million. The basic terms of the debt facility are as follows:

- Private placement offering of taxable bonds with a stated interest rate of 6.04%
- Lender – Deutsche Bank
- Obligated group
  - The Roman Catholic Bishop of Oakland, Central Services Administration
  - The Roman Catholic Welfare Corporation of Oakland
  - The Roman Catholic Cemeteries of the Diocese of Oakland
  - Adventus Corporation
- Use of proceeds – (i) refinance the outstanding balance on the existing line of credit with Bank of America, (ii) provide funds for the construction of the Cathedral of Christ the Light and finance additional capital and other projects of the Roman Catholic Diocese of Oakland, and (iii) pay costs of issuance of the bonds.