

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

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

DECEMBER 31, 2007 AND 2006

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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, 2007 and 2006 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 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 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, 2007 and 2006 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.

As discussed in Note 21, certain errors resulting in an overstatement of previously reported net assets and an understatement of liabilities as of December 31, 2005, were discovered by management during the year ended December 31, 2007. Accordingly, an adjustment has been made to net assets and liabilities as of December 31, 2005 to correct these errors. Additionally, the financial statements for the year ended December 31, 2006 have been restated.

As discussed in Note 16, as of December 31, 2007, the Central Services Administration adopted the provisions of Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (as amended)*.

Moss Adams LLP

San Francisco, California
August 22, 2008

CONSOLIDATED FINANCIAL STATEMENTS

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006**

	2007	2006 (Restated)
ASSETS		
Cash and cash equivalents	\$ 52,170,764	\$ 6,058,796
Restricted cash and cash equivalents	654,561	-
Marketable securities - pooled investments	51,738,624	59,516,274
Receivables		
Loans to parishes, schools, institutions, and seminarians, net	22,325,876	21,382,494
Other, net	7,982,156	5,751,511
Prepaid expenses	1,313,521	958,882
Bond issuance costs, net	1,350,386	-
Land held for sale	2,134,951	2,134,951
Notes receivable - related parties	24,199,540	-
Beneficial interest in advances to Cathedral of Christ the Light	32,465,917	23,083,811
Property and equipment, net	11,567,775	11,154,802
	<u>\$ 207,904,071</u>	<u>\$ 130,041,521</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,439,153	\$ 1,335,254
Deferred revenue	3,227,092	3,285,498
Deposits payable	31,360,257	29,404,291
Assets held for parishes, schools and institutions	2,405,242	2,531,604
Equity of others in pooled investments	11,983,421	12,442,301
Postretirement employment benefits liability	3,105,513	2,955,601
Liability for pension benefits	340,000	-
Notes payable	1,145,656	40,084,540
Bonds payable, net of discount	111,312,939	-
	<u>167,319,273</u>	<u>92,039,089</u>
NET ASSETS		
Unrestricted		
Undesignated	22,561,226	20,774,867
Designated	3,418,116	3,007,828
Invested in plant and land held for sale	13,702,726	13,289,753
Temporarily restricted	767,766	795,020
Permanently restricted	134,964	134,964
	<u>40,584,798</u>	<u>38,002,432</u>
Total net assets	<u>\$ 207,904,071</u>	<u>\$ 130,041,521</u>
Total liabilities and net assets	<u>\$ 207,904,071</u>	<u>\$ 130,041,521</u>

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007				2006 (Restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Bishop's Annual Appeal	\$ 1,838,588	\$ -	\$ -	\$ 1,838,588	\$ 1,847,938	\$ -	\$ -	\$ 1,847,938
Parish assessments	4,705,913	-	-	4,705,913	4,312,743	-	-	4,312,743
Gifts, grants, bequests, and miscellaneous	949,703	16,604	-	966,307	941,866	333,498	-	1,275,364
Dividends and interest	1,804,054	24,464	-	1,828,518	1,227,031	24,480	-	1,251,511
Ministerial department revenue	1,538,036	-	-	1,538,036	1,538,895	-	-	1,538,895
Catholic Voice	939,371	-	-	939,371	1,043,338	-	-	1,043,338
Cemetery rent	1,238,500	-	-	1,238,500	1,465,646	-	-	1,465,646
Interest income on deposit and loan fund	1,563,961	-	-	1,563,961	1,181,759	-	-	1,181,759
Insurance revenue, net	2,280,107	-	-	2,280,107	1,546,428	-	-	1,546,428
Net assets released from purpose restrictions	38,787	(38,787)	-	-	126,998	(126,998)	-	-
Total revenues	16,897,020	2,281	-	16,899,301	15,232,642	230,980	-	15,463,622
EXPENSES								
Central Services								
Services and administration	756,353	-	-	756,353	561,302	-	-	561,302
Pastoral Life	1,793,899	-	-	1,793,899	1,292,769	-	-	1,292,769
Resources	1,862,390	-	-	1,862,390	1,764,163	-	-	1,764,163
Cannon Law	328,815	-	-	328,815	340,055	-	-	340,055
Office of the Chancellor	2,350,618	-	-	2,350,618	2,613,382	-	-	2,613,382
Office of the Bishop	348,601	-	-	348,601	388,475	-	-	388,475
Catholic Voice	907,891	-	-	907,891	1,030,588	-	-	1,030,588
Parishes, Schools/Diocesan General								
Interest	4,655,545	-	-	4,655,545	3,377,559	-	-	3,377,559
School subsidies	511,952	-	-	511,952	500,000	-	-	500,000
Parish subsidies	92,533	-	-	92,533	153,466	-	-	153,466
Capital grants (subsidized entities)	310,127	-	-	310,127	101,931	-	-	101,931
Clergy retirement	845,716	-	-	845,716	707,865	-	-	707,865
Unassigned clergy	572,551	-	-	572,551	484,494	-	-	484,494
Legal expenses	703,506	-	-	703,506	555,000	-	-	555,000
Professional fees	746,507	-	-	746,507	375,331	-	-	375,331
Overhead	2,137,603	-	-	2,137,603	2,038,586	-	-	2,038,586
Total expenses	18,924,607	-	-	18,924,607	16,284,966	-	-	16,284,966
CHANGE IN NET ASSETS BEFORE OTHER INCOME (EXPENSE)	(2,027,587)	2,281	-	(2,025,306)	(1,052,324)	230,980	-	(821,344)
OTHER INCOME (EXPENSE)								
Gain on sale of land and property	3,634,083	-	-	3,634,083	13,599,069	-	-	13,599,069
Net realized and unrealized gains (losses) on marketable securities	1,256,124	(29,535)	-	1,226,589	2,607,221	115,937	-	2,723,158
Total other income (expense)	4,890,207	(29,535)	-	4,860,672	16,206,290	115,937	-	16,322,227
CHANGE IN NET ASSETS BEFORE ADOPTION OF FASB STATEMENT No. 158	2,862,620	(27,254)	-	2,835,366	15,153,966	346,917	-	15,500,883
EFFECT OF ADOPTION OF FASB STATEMENT No. 158	(253,000)	-	-	(253,000)	-	-	-	-
CHANGE IN NET ASSETS	2,609,620	(27,254)	-	2,582,366	15,153,966	346,917	-	15,500,883
NET ASSETS, beginning of year, as reported	37,072,448	795,020	134,964	38,002,432	24,750,294	107,758	-	24,858,052
Prior period adjustments	-	-	-	-	(2,831,812)	340,345	134,964	(2,356,503)
NET ASSETS, beginning of year, as restated	37,072,448	795,020	134,964	38,002,432	21,918,482	448,103	134,964	22,501,549
NET ASSETS, end of year	\$ 39,682,068	\$ 767,766	\$ 134,964	\$ 40,584,798	\$ 37,072,448	\$ 795,020	\$ 134,964	\$ 38,002,432

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007	2006 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,582,366	\$ 15,500,883
Adjustments to reconcile change in net assets to net cash from operating activities		
Change in allowance for doubtful accounts	(228,302)	(123,606)
Amortization of bond issuance costs	22,699	-
Depreciation	204,774	272,433
Amortization of discount on bonds payable	33,293	-
Net realized and unrealized (gains)/losses on investments	(1,226,589)	(2,723,158)
Gain on sale of land and property	(3,634,083)	(13,599,069)
Changes in operating assets and liabilities		
Receivables	(2,339,553)	(2,605,018)
Prepaid expenses	(354,639)	(235,897)
Accounts payable and accrued liabilities	1,103,899	(670,757)
Legal claims payable	-	(9,336,649)
Deferred revenue	(58,406)	1,895,424
Post-retirement employee benefits liability	149,912	123,789
Liability for pension benefits	340,000	-
Net cash from operating activities	<u>(3,404,629)</u>	<u>(11,501,625)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash and cash equivalents	(654,561)	-
Loans made to parishes, schools, institutions, and seminarians	(4,490,389)	(6,936,702)
Loans made to related parties	(24,199,540)	-
Payments received on loans made to parishes, schools, institutions, and seminarians	3,438,852	3,262,699
Proceeds from sales and maturities of investments	11,526,608	4,758,014
Purchases of investments	(2,522,369)	(8,101,615)
Purchases of land, property, and equipment	(249,965)	(2,807,094)
Proceeds from sale of land, property, and equipment	4,286,664	15,138,999
Beneficial interest in advances to Cathedral of Christ the Light	(9,382,106)	(15,796,478)
Net cash from investing activities	<u>(22,246,806)</u>	<u>(10,482,177)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	15,035,823
Payments on notes payable	(39,513,884)	-
Proceeds from bond issuance	111,279,646	-
Payment of bond issuance costs	(1,373,085)	-
Deposits made to deposits payable	8,083,449	9,268,354
Withdrawals from deposits payable	(6,127,481)	(5,224,258)
Change in assets held for parishes, schools and institutions	(126,362)	567,451
Change in equity of others in pooled investments	(458,880)	2,289,743
Net cash from financing activities	<u>71,763,403</u>	<u>21,937,113</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	46,111,968	(46,689)
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,058,796</u>	<u>6,105,485</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 52,170,764</u>	<u>\$ 6,058,796</u>
Supplemental Disclosure		
Interest Paid	<u>\$ 3,729,370</u>	<u>\$ 3,377,559</u>
NONCASH FINANCING ACTIVITIES		
Closure of parish resulting in cancellation of loan receivable	<u>\$ 445,363</u>	<u>\$ -</u>
Note payable for purchase of Furrer Properties	<u>\$ 575,000</u>	<u>\$ -</u>

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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), Adventus Corporation, and Furrer Properties, a wholly-owned for-profit corporation. Collectively, these entities are referred to as the Central Services Administration. These financial statements do not include The Roman Catholic Welfare Corporation of Oakland, the Roman Catholic Cemeteries of the Diocese of Oakland, the Cathedral of Christ the Light, the Catholic Cathedral Corporation of the East Bay, Catholic Charities of the East Bay, and the Propagation of the Faith, all of which are separately formed entities. However, certain investments and deposits held on behalf of such organizations by the Central Services Administration are included in these consolidated 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, Adventus Corporation, and Furrer Properties. All intercompany balances and transactions have been eliminated.

Accrual Basis – The consolidated 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 accounting is the procedure by which resources for various purposes are classified into net asset categories 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.

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 parish assessments, the Bishop’s Annual Appeal, investment income, and cemetery rent. Certain insurance reserves have been 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 Net Assets – Consist of cash and other assets received from donors 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, 2007 and 2006, the Central Services Administration had \$134,964 in 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, 2007 and 2006, 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.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Restricted cash and cash equivalents – Monthly interest payments are required by the Master Trust and Bond Indenture entered into by the Roman Catholic Bishop of Oakland in November 2007. The interest payments are to be deposited in advance of semi-annual coupon payments made to bond purchasers by the Trustee. Such advance interest payments held by the Trustee are restricted and totaled \$654,651 as of December 31, 2007. To date the Central Services Administration had these funds invested in cash and cash equivalents.

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 – Loans to parishes, schools, institutions, and seminarians represent credit extended to these entities. Credit is extended based upon evaluation of the borrowing entity's financial condition and other factors, and generally collateral is not required. Loans receivable typically have no stated maturity dates and are 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 average interest rate on loans in 2007 and 2006 was 5.84% and 5.79%, respectively.

Other receivables consist of various trade and miscellaneous receivables. Trade receivables include amounts billed the parishes and other Diocesan institutions for health, general liability, and workers' compensation insurance. In addition, the annual parish assessments are a component of these receivables.

Deposits Payable – 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 against these deposits. These deposits are classified as a liability and are held in the Central Services Administration pooled investment accounts. The average interest rate paid on deposits in 2007 and 2006 was 5.18% and 5.65%, respectively.

Allowance for Doubtful Accounts – The Central Services Administration provides an allowance for receivables which may not be collected in full. An evaluation of the collectibility of the amounts outstanding is conducted based on a combination of factors. When a specific organization is unable to meet its financial obligations (due to, for example, financial difficulties or fluctuation in offertory), a specific reserve is recorded. For all other organizations, the Central Services Administration recognizes reserves for bad debts based on the historical collection experience. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in an 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.

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 Cathedral. Such advances may be repaid to the Central Services Administration if the Cathedral of Christ the Light obtains donations to the extent of construction costs.

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 \$2,000.

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

Assets Held for Parishes, Schools and Institutions – The Central Services Administration holds various assets for parishes, schools, and institutions in an agency capacity. These assets represent collections taken up in the parishes and not yet remitted to the recipient beneficiaries; gifts of stock received for the benefit of Diocesan entities but not yet sold and/or the proceeds disbursed; and bequests held and administered for Diocesan entities.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Tax Exempt Status – The Diocese and 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.

The Central Services Administration acquired Furrer Properties on December 7, 2007. The entity is a California corporation and is subject to income taxes. Management estimates financial activity from the date of purchase to year end to be immaterial. Furrer Properties has a March 31 year end.

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.

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 2006 financial statements to conform to the 2007 presentation. The reclassifications had no effect on total net assets.

NOTE 3 – MARKETABLE SECURITIES

Marketable securities at fair value at December 31 are as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Corporate equity securities	\$ 27,090,110	\$ 29,882,464	\$ 28,748,653	\$ 34,693,578
Mortgage pools and asset backed	2,960,243	2,942,781	3,109,671	3,078,308
Corporate debt securities	7,649,603	7,596,853	8,498,110	8,445,487
Cash in broker/dealer accounts	2,290,276	2,290,276	4,529,244	4,529,244
U.S. government debt securities	8,837,360	8,945,161	8,597,329	8,626,704
Other	81,089	81,089	142,593	142,953
	<u>\$ 48,908,681</u>	<u>\$ 51,738,624</u>	<u>\$ 53,625,600</u>	<u>\$ 59,516,274</u>

Investment income (which includes interest earned on restricted cash and cash equivalents) for the years ended December 31 are as follows:

	2007	2006
Source of investment income		
Dividends	\$ 367,264	\$ 367,683
Interest	1,461,254	883,828
	<u>1,828,518</u>	<u>1,251,511</u>
Net realized and unrealized gain on securities	1,226,589	2,723,158
Total investment income	<u>\$ 3,055,107</u>	<u>\$ 3,974,669</u>

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 4 – RECEIVABLES

Receivables at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Panishes, schools, institutions and seminarians		
Loans receivable	\$ 24,623,001	\$ 24,016,829
Less allowance for doubtful accounts and loan losses	<u>(2,297,125)</u>	<u>(2,634,335)</u>
	<u>\$ 22,325,876</u>	<u>\$ 21,382,494</u>
Other		
Insurance and miscellaneous	\$ 6,536,941	\$ 4,448,496
Assessments receivable	1,941,708	1,690,600
Less allowance for doubtful accounts	<u>(496,493)</u>	<u>(387,585)</u>
	<u>\$ 7,982,156</u>	<u>\$ 5,751,511</u>
Changes in the allowance for doubtful accounts and loan losses:		
Beginning balance	\$ 3,021,920	\$ 3,145,526
Accounts written off	-	(10,000)
Bad debt recoveries	<u>(228,302)</u>	<u>(113,606)</u>
Ending balance	<u>\$ 2,793,618</u>	<u>\$ 3,021,920</u>

NOTE 5 – NOTES RECEIVABLE – RELATED PARTIES

As a result of the bond issuance, the Central Services Administration paid off loans from third party creditors held by two related parties. Principal and interest due from these related parties at December 31, 2007 is as follows:

Cathedral of Christ the Light, including interest of \$126,247	\$ 15,126,247
Roman Catholic Cemeteries of the Diocese of Oakland, including interest of \$73,293	<u>9,073,293</u>
	<u>\$ 24,199,540</u>

Interest and terms of the debt mirror the terms associated with the bonds payable.

NOTE 6 – LAND SALES

Land held for sale of \$2,134,951, 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, 2007, there were no sales of this land. During the year ended December 31, 2006, sales proceeds amounted to approximately \$2,359,100 with a related gain of approximately \$1,190,200.

Additionally, during the year ended December 31, 2007, the Central Services Administration sold property which houses the Chancery offices for total proceeds of approximately \$4,286,700, with a related gain of \$3,634,083. The Central Services Administration is leasing the property from the purchaser for a monthly rent of \$31,100. The Central Services Administration plans to relocate to offices located at the Cathedral of Christ the Light in July 2008.

During the year ended December 31, 2006, the Central Services Administration sold two pieces of property for total proceeds of approximately \$12,780,000 with a related gain of \$12,408,869.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 7 – PROPERTY AND EQUIPMENT

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

	2007	2006
Central Services Administration property and improvements	\$ 5,160,832	\$ 6,007,775
Furniture and equipment	1,525,450	1,506,976
Automobiles	183,139	153,032
Land improvements	47,786	47,786
	6,917,207	7,715,569
Less accumulated depreciation	(3,234,192)	(3,924,064)
	3,683,015	3,791,505
Land	7,884,760	7,363,297
	\$ 11,567,775	\$ 11,154,802

Total depreciation for the years ended December 31, 2007 and 2006 amounted to \$204,774 and \$272,433, respectively.

NOTE 8 – NOTES PAYABLE

Notes payable at December 31 are as follows:

	2007	2006
Various notes payable to a bank, issued pursuant to an unsecured line of credit in the amount of \$60,000,000, interest due and payable monthly at LIBOR at the time of each draw plus .35%. This line of credit was retired in November 2007 with the issuance of bonds payable.	\$ -	\$ 39,679,013
Unsecured note payable to an insurance premium financing company, monthly payments of \$136,501, including interest at 5.875%, due April 1, 2007	-	405,527
Unsecured note payable to an insurance premium financing company, monthly payments of \$144,347, including interest at 5.65%, due May 1, 2008	570,656	-
Note payable to an individual resulting from the purchase of Furrer Properties, annual principal payments of \$57,500 plus accrued interest at 6%, due December 31, 2017. The note is secured by the underlying property held by Furrer.	575,000	
	\$ 1,145,656	\$ 40,084,540

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Maturities for the notes payable are as follows:

Year ending December 31,		
2008	\$	628,156
2009		57,500
2010		57,500
2011		57,500
2012		57,500
Thereafter		<u>287,500</u>
	\$	<u>1,145,656</u>

NOTE 9 – BONDS PAYABLE

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 general obligation 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

The proceeds were used for the following: (i) refinance the outstanding balance on the existing line of credit, (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 cost of issuance of the bonds.

The bonds were issued at a discount of \$3,420,354, resulting in an effective interest rate of 6.4%. The discount is being amortized utilizing the effective interest method. In addition, original bond issuance costs of \$1,373,085 were incurred and are being amortized ratably over the lives of the bonds.

The bonds carry various financial reporting requirements for the obligated group. The obligated group must provide the bond trustee combined financial statements within 180 days of December 31 each year. For this initial year of indebtedness, however, the combined financial statements are due 240 days after the December 31, 2007 year end.

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Required sinking funds, interest, and principal payments are as follows:

<u>Year Ending December 31</u>	<u>Principal Sinking Fund Payments</u>	<u>Principal Maturities</u>	<u>Interest Sinking Fund Payments</u>	<u>Semi-Annual Interest Payments</u>
2007	\$ -	\$ -	\$ 646,602	\$ -
2008	-	-	7,204,995	6,696,951
2009	-	-	6,927,880	6,927,880
2010	-	-	6,927,880	6,927,880
2011	-	-	6,927,880	6,927,880
2012	-	-	6,927,880	6,927,880
2013	-	-	6,927,880	6,927,880
2014	3,666,667	-	6,927,880	6,927,880
2015	22,000,000	22,000,000	6,706,413	6,927,880
2016	22,000,000	22,000,000	5,377,613	5,599,080
2017	22,000,000	22,000,000	4,048,813	4,270,280
2018	22,783,333	22,000,000	2,720,013	2,941,480
2019	22,250,000	26,700,000	1,343,900	1,612,680
	<u>\$ 114,700,000</u>	<u>\$ 114,700,000</u>	<u>\$ 69,615,630</u>	<u>\$ 69,615,630</u>

NOTE 10 – 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 and auto liability coverage, including limited coverage for sexual misconduct. 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, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, incurred losses and reserves were less than total premiums paid.

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, and are not expected to be material.

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NOTE 11 – DESIGNATED NET ASSETS

Unrestricted net assets have been designated for the following purposes:

	<u>2007</u>	<u>2006</u>
General package insurance deductible reserves	\$ 1,525,219	\$ 1,453,434
Uninsured liability self-insurance reserves	1,200,000	900,000
Clergy uninsured medical expenses reserves	692,897	628,056
Other	-	26,338
	<u>\$ 3,418,116</u>	<u>\$ 3,007,828</u>

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2007</u>	<u>2006 (Restated)</u>
Assistance to homeless women and children	\$ 308,625	\$ 317,021
Seminarian Fund	444,261	461,522
Other	14,880	16,477
	<u>\$ 767,766</u>	<u>\$ 795,020</u>
Assets released from restrictions during the year		
Poor parish assistance	\$ -	\$ 107,758
Assistance to homeless women and children	25,000	-
Seminarian Fund	12,190	19,240
Other	1,597	-
	<u>\$ 38,787</u>	<u>\$ 126,998</u>

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NOTE 13 – FUNCTIONAL CLASSIFICATION

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

	2007	2006
Program services		
Parishes and schools	\$ 6,901,424	\$ 5,325,315
Office of the Chancellor	2,350,618	2,613,382
Pastoral life	1,793,899	1,292,769
Services	756,353	561,302
Resources	656,718	653,132
Canon Law	328,815	340,055
Office of the Bishop	348,601	388,475
Publications - Catholic Voice	907,891	1,030,588
	14,044,319	12,205,018
Supporting services		
Management and general	4,520,762	3,669,492
Development	359,526	410,456
	4,880,288	4,079,948
	\$ 18,924,607	\$ 16,284,966

NOTE 14 – TRANSACTIONS WITH OTHER DIOCESAN ORGANIZATIONS

The Central Services Administration receives payments from the Roman Catholic Cemeteries of the Diocese of Oakland for use of Diocesan land. The Central Services Administration received \$1,238,500 and \$1,465,646 in such payments for the years ended December 31, 2007 and 2006, 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, 2007 and 2006, such amounts totaled \$32,465,917 and \$23,083,811, respectively.

NOTE 15 – 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. Annual contributions to the plan were 8% of the compensation of all eligible lay employees in 2007 and 2006. Benefits vest incrementally after three years of service and are fully vested after seven years of service. Total contributions for the Central Services Administration’s employees for the years ended December 31, 2007 and 2006 were \$223,778 and \$254,598, respectively.

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NOTE 16 – CLERGY RETIREMENT COSTS

Diocesan priests are covered by two Diocesan-sponsored defined benefit retirement plans (“Plans”). As of December 31, 2007, the Central Services Administration adopted the provisions of Statement of Financial Accounting Standard No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans (as amended)* (SFAS 158). SFAS 158 requires the difference between assets of the Plans and the Plans’ actuarial obligations be reported as an asset or liability of the Central Services Administration, depending on the funding status of the Plans. At December 31, 2007, the Plans had combined actuarial obligations in excess of the Plans’ assets of \$340,000 which were reported as a liability of the Central Services Administration.

The Bishop of the Diocese of Oakland is the administrator of the pension trust. The Central Services Administration is ultimately responsible for the payment of the plan benefits to the participants. The Central Services Administration assesses each parish and Diocesan institution their allocable share of the liability and benefits. The following table (based on projected actuarial data) sets forth the Plans’ funded status and amounts recognized for the entire plans as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Actuarial present value of benefit obligations		
Accumulated benefit obligation	<u>\$ 11,820,000</u>	<u>\$ 12,515,000</u>
Projected benefit obligation for service rendered to date	<u>\$ 13,904,000</u>	<u>\$ 14,494,000</u>
Plan assets at fair value	<u>\$ 13,564,000</u>	<u>\$ 14,161,000</u>
Plan assets (less than) in excess of projected benefit obligation	<u>\$ (340,000)</u>	<u>\$ (333,000)</u>
Service cost-benefits earned during the period	<u>\$ 376,000</u>	<u>Not available</u>
Interest cost on projected benefit obligation	<u>\$ 813,000</u>	<u>Not available</u>
Expected return on plan assets	<u>\$ 1,029,000</u>	<u>Not available</u>

The following are weighted-average assumptions used to determine benefit obligations at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Discount rate	6.33%	5.80%
Rate of compensation increase	N/A	N/A
Assumed future annual benefit increases	2.00%	2.00%

The following are weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Discount rate	5.80%	N/A
Expected long-term return on plan assets	7.50%	N/A
Assumed future annual benefit increases	2.00%	N/A

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The Diocese's expected long-term return on plan assets assumption is based on a periodic review and modeling of the Plans' asset allocation and liability structure over a long-term period. Expectation of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (1) historical real returns, net of inflation for the asset classes covered by the investment policy and (2) projection of inflation over the long-term period during which benefits are payable to plan participants.

The Central Services Administration's Pension Plans net pension expenses, pension benefits paid, and employer contributions for the years ended December 31, 2007 and 2006 are as follows:

	<u>Year ended December 31, 2007</u>	<u>Year ended December 31, 2006</u>
Net periodic pension cost	\$ 183,000	N/A
Pension benefits paid	\$ 963,000	\$ 957,000
Pension contributions	\$ 96,000	\$ 282,000

Other amounts included in unrestricted net assets, and subject to future amortization, consist of:

	<u>Year ended December 31, 2007</u>	<u>Year ended December 31, 2006</u>
Prior service cost	\$ (310,000)	N/A
Net gain	\$ 57,000	N/A

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Year ending December 31</u>	<u>Annual Pension Benefits</u>
2008	\$ 985,000
2009	965,000
2010	979,000
2011	1,000,000
2012	963,000
2013-2017	5,074,000

Although the Central Services Administration is currently exempt from the filing and funding requirements of ERISA, it has been the Central Services Administration's practice to make contributions sufficient to fund the benefits provided by the Plans' on an actuarially sound basis.

NOTE 17 – CLERGY POST-EMPLOYMENT BENEFITS

In addition to the priests' pension plans, the Central Services Administration sponsors a post-retirement healthcare plan that provides post-retirement medical, drug and vision benefits to retired diocesan priests not otherwise covered by another plan. The benefits are limited to an annual maximum of \$10,000 per priest, plus the amounts in excess of uninsured drugs and vision coverage. The plan liabilities were \$3,105,513 and \$2,955,601 at December 31, 2007 and 2006, respectively. The plan does not pay benefits that duplicate Medicare coverage and it assumes those covered have full coverage, even without participation in Medicare Part B. (Refer to Note 21)

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The Bishop of the Diocese of Oakland is the administrator of the plan. The Central Services Administration is ultimately responsible for the payment of the plan benefits to the participants. It assesses each parish and Diocesan institution their allocable share of the liability and benefits. The following table (based on projected actuarial data) sets forth the plan's funded status and amounts recognized for the entire plan's as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Actuarial present value of benefit obligations		
Accumulated benefit obligation	<u>\$ 2,995,601</u>	<u>\$ 3,105,513</u>
Plan assets at fair value	<u>\$ -</u>	<u>\$ -</u>
Plan assets (less than) in excess of projected benefit obligation	<u>\$ (2,995,601)</u>	<u>\$ (3,105,513)</u>

The discount rate used to determine benefit obligations is 7% for both the years ended December 31, 2007 and 2006. The discount rates used to determine net periodic benefit costs are 5.80% and 5.25%, respectively, for the years ended December 31, 2007 and 2006. Benefits expected to be paid by year are expected to be met in full by assessments to parishes and Diocesan institutions.

NOTE 18 – LITIGATION

The Diocese is involved in various lawsuits relating to claims of alleged sexual misconduct and other matters. Of the remaining misconduct cases, the majority are past the statute of limitations and lower courts have upheld the Diocese's position. While the matters are being appealed, management believes it will prevail. The Diocese has established protocols consistent with the norms of the U.S. Conference of Catholic Bishops, which provide safeguards and policies surrounding any future allegations.

Outside legal counsel is unable to predict the outcome of the cases. In the opinion of management, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial statements of the Central Services Administration.

NOTE 19 – GUARANTEE

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. The Diocese and the Roman Catholic Cemeteries of the Diocese of Oakland had guaranteed the loan, which was secured by the property on which the Cathedral is being constructed. With the issuance of the bonds, the Central Services Administration paid off the Cathedral's bank loan and became the creditor.

NOTE 20 – PURCHASE OF FURRER PROPERTIES

On December 7, 2007, the Roman Catholic Diocese of Oakland purchased all the outstanding stock of Furrer Properties ("Furrer"). Furrer owns the land on which a mortuary is located. The Roman Catholic Cemeteries of the Diocese of Oakland leases the property.

The total purchase price was \$825,000, of which \$250,000 was paid in cash and the balance is subject to a note payable. The purchase price exceeded the net book value of Furrer by \$680,710. The fair market value of the underlying property purchased (specifically land and buildings) exceeded this amount. Therefore, on consolidation, the value of the underlying property held by Furrer was increased to the extent of the excess of the purchase price over book value.

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NOTE 21 – PRIOR PERIOD ADJUSTMENTS

During the year ended December 31, 2007, management conducted a review of assets held for others and discovered an amount donated in the late 1980s had been improperly classified. The original amount, \$134,964, was donated to the Central Services Administration as a permanently restricted donation; the net income generated is to be used for a restricted purpose associated with seminarian costs. Through December 31, 2005, the fund had accumulated income of \$340,345 which was reclassified to temporarily restricted net assets from liabilities. Management has restated net assets as of December 31, 2005 and has restated the consolidated statement of activities for the year ended December 31, 2006 to reflect the activity from the fund during 2006.

In addition to the above, the Central Services Administration had not accounted for its liability for a portion of the health benefits promised to retired priests in accordance with SFAS 106. Management has restated net assets as of December 31, 2005 for the liability as of that date of \$2,831,812 and has restated the consolidated statement of activities for the year ended December 31, 2006 to reflect the activity during 2006.

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The following summarizes the impact of these restatements:

Total assets at December 31, 2006, as reported	\$ 129,846,701
Reclassification of liability netted against cash	<u>194,820</u>
Total assets at December 31, 2006, as restated	<u>\$ 130,041,521</u>
Total liabilities at December 31, 2006, as reported	\$ 89,485,154
Reclassification of liability netted against cash	194,820
Prior period adjustment - Reclassification of liability to net assets	
Prior period adjustment (2005) - Permanently restricted net assets	(134,964)
Prior period adjustment (2005) - Temporarily restricted net assets	(340,345)
Restatement (2006) - Temporarily restricted net assets - Additional income	(140,417)
Restatement (2006) - Temporarily restricted net assets - Additional expenses	19,240
Prior period adjustment - SFAS 106 liability	
Prior period adjustment (2005) - Unrestricted net assets	2,831,812
Restatement (2006) - Unrestricted net assets	<u>123,789</u>
Total liabilities at December 31, 2006, as restated	<u>\$ 92,039,089</u>
Change in net assets for the year ended December 31, 2006, as reported	\$ 15,503,495
Additional temporarily restricted income associated with permanently restricted fund	140,417
Additional expenses associated with permanently restricted fund	(19,240)
Change in postretirement employee benefit liability	<u>(123,789)</u>
Change in net assets for the year ended December 31, 2006, as restated	<u>\$ 15,500,883</u>
Net assets, December 31, 2005, as reported	\$ 24,858,052
Reclassification of permanently restricted donation - permanently restricted net assets	134,964
Reclassification of temporarily restricted accumulated income - temporarily restricted net assets	340,345
Record SFAS 106 liability - unrestricted net assets	<u>(2,831,812)</u>
Net assets, December 31, 2005, as restated	<u>\$ 22,501,549</u>

As a result of the prior period adjustments and the reclassification of the liability netted against cash, the statement of cash flows for the year ended December 31, 2006 was restated for immaterial adjustments.