

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

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

DECEMBER 31, 2008 AND 2007

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INDEPENDENT AUDITOR'S REPORT

To the Most Reverend Salvatore Cordileone
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 ("Central Services Administration") as of December 31, 2008 and 2007 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 consolidated financial position of the Roman Catholic Diocese of Oakland, Central Services Administration as of December 31, 2008 and 2007 and the changes in their consolidated net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



San Francisco, California
June 11, 2009

CONSOLIDATED FINANCIAL STATEMENTS

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2008 and 2007**

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 21,540,663	\$ 52,170,764
Restricted cash and cash equivalents	1,154,647	654,561
Marketable securities - pooled investments	42,022,725	51,738,624
Receivables		
Loans to parishes, schools, institutions, and seminarians, net	24,880,725	22,325,876
Other, net	10,569,261	7,982,156
Fair market value of interest rate swap, net	4,151,640	-
Prepaid expenses	1,239,570	1,313,521
Bond issuance costs, net	1,214,194	1,350,386
Land held for sale	2,129,614	2,134,951
Notes receivable - related parties	72,621,392	24,199,540
Assets held in trust for others	1,844,739	-
Beneficial interest in advances to Cathedral of Christ the Light	4,924,000	32,465,917
Property and equipment, net	11,726,502	11,567,775
	<u>\$ 200,019,672</u>	<u>\$ 207,904,071</u>
Total assets		
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 3,038,892	\$ 2,439,153
Deferred revenue	3,448,162	3,227,092
Deposits payable	28,648,544	31,360,257
Agency funds	1,720,697	2,405,242
Assets held in trust for others	1,844,739	-
Equity of others in pooled investments	10,080,868	11,983,421
Postretirement employment benefits liability	3,789,417	3,105,513
Liability for pension benefits	5,224,000	340,000
Notes payable	1,512,971	1,145,656
Bonds payable, net of discount	111,569,204	111,312,939
	<u>170,877,494</u>	<u>167,319,273</u>
Total liabilities		
NET ASSETS		
Unrestricted		
Undesignated	24,464,988	36,263,952
Designated	3,249,623	3,418,116
Temporarily restricted	1,292,603	767,766
Permanently restricted	134,964	134,964
	<u>29,142,178</u>	<u>40,584,798</u>
Total net assets		
Total liabilities and net assets	<u>\$ 200,019,672</u>	<u>\$ 207,904,071</u>

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENT OF ACTIVITIES
Years Ended December 31, 2008 and 2007**

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Bishop's Annual Appeal	\$ 1,673,446	\$ -	\$ -	\$ 1,673,446	\$ 1,838,588	\$ -	\$ -	\$ 1,838,588
Parish assessments	4,881,307	-	-	4,881,307	4,705,913	-	-	4,705,913
Gifts, grants, bequests, and miscellaneous	1,157,102	1,378,796	-	2,535,898	949,703	16,604	-	966,307
Dividends and interest	2,325,284	16,878	-	2,342,162	1,804,054	24,464	-	1,828,518
Ministerial department revenue	1,189,547	-	-	1,189,547	1,538,036	-	-	1,538,036
Catholic Voice	1,007,024	-	-	1,007,024	939,371	-	-	939,371
Cemetery rent	1,238,500	-	-	1,238,500	1,238,500	-	-	1,238,500
Interest income on deposit and loan fund	1,138,346	-	-	1,138,346	1,364,421	-	-	1,364,421
Insurance revenue, net	2,838,817	-	-	2,838,817	2,280,107	-	-	2,280,107
Net assets released from purpose restrictions	621,744	(621,744)	-	-	38,787	(38,787)	-	-
Total revenues	<u>18,071,117</u>	<u>773,930</u>	<u>-</u>	<u>18,845,047</u>	<u>16,697,480</u>	<u>2,281</u>	<u>-</u>	<u>16,699,761</u>
EXPENSES								
Central Services								
Services and administration	501,591	-	-	501,591	756,353	-	-	756,353
Pastoral Life	1,852,846	-	-	1,852,846	1,793,899	-	-	1,793,899
Resources	1,968,680	-	-	1,968,680	1,862,390	-	-	1,862,390
Cannon Law	355,562	-	-	355,562	328,815	-	-	328,815
Office of the Chancellor	2,632,556	-	-	2,632,556	2,350,618	-	-	2,350,618
Office of the Bishop	639,185	-	-	639,185	348,601	-	-	348,601
Catholic Voice	981,466	-	-	981,466	907,891	-	-	907,891
Parishes, Schools/Diocesan General								
Interest expense on deposit and loan fund	1,248,418	-	-	1,248,418	1,581,700	-	-	1,581,700
School subsidies	512,522	-	-	512,522	511,952	-	-	511,952
Parish subsidies	103,027	-	-	103,027	92,533	-	-	92,533
Capital grants (subsidized entities)	112,034	-	-	112,034	310,127	-	-	310,127
Clergy retirement	1,249,019	-	-	1,249,019	845,716	-	-	845,716
Unassigned clergy	519,259	-	-	519,259	572,551	-	-	572,551
Legal expenses	1,574,023	-	-	1,574,023	703,506	-	-	703,506
Professional fees	502,795	-	-	502,795	746,507	-	-	746,507
Overhead	3,374,659	-	-	3,374,659	2,137,603	-	-	2,137,603
Total expenses	<u>18,127,642</u>	<u>-</u>	<u>-</u>	<u>18,127,642</u>	<u>15,850,762</u>	<u>-</u>	<u>-</u>	<u>15,850,762</u>
CHANGE IN NET ASSETS BEFORE OTHER INCOME (LOSSES)	<u>(56,525)</u>	<u>773,930</u>	<u>-</u>	<u>717,405</u>	<u>846,718</u>	<u>2,281</u>	<u>-</u>	<u>848,999</u>

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENT OF ACTIVITIES (continued)
Years Ended December 31, 2008 and 2007**

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OTHER INCOME (LOSSES)								
Gain (loss) on sale of land, property and equipment	(219,589)	-	-	(219,589)	3,634,083	-	-	3,634,083
Interest income on notes to related parties	4,128,853	-	-	4,128,853	199,540	-	-	199,540
Bonds and other financing interest expense	(7,246,615)	-	-	(7,246,615)	(3,073,845)	-	-	(3,073,845)
Realized gain on interest rate swap	1,425,100	-	-	1,425,100	-	-	-	-
Unrealized gain on interest rate swap, net	4,151,640	-	-	4,151,640	-	-	-	-
Net realized and unrealized gains (losses) on marketable securities	<u>(9,147,321)</u>	<u>(249,093)</u>	<u>-</u>	<u>(9,396,414)</u>	<u>1,256,124</u>	<u>(29,535)</u>	<u>-</u>	<u>1,226,589</u>
Total other income (losses)	<u>(6,907,932)</u>	<u>(249,093)</u>	<u>-</u>	<u>(7,157,025)</u>	<u>2,015,902</u>	<u>(29,535)</u>	<u>-</u>	<u>1,986,367</u>
CHANGE IN NET ASSETS BEFORE IMPACT OF FASB STATEMENT No. 158	(6,964,457)	524,837	-	(6,439,620)	2,862,620	(27,254)	-	2,835,366
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	(5,003,000)	-	-	(5,003,000)	-	-	-	-
EFFECT OF ADOPTION OF FASB STATEMENT No. 158	-	-	-	-	<u>(253,000)</u>	<u>-</u>	<u>-</u>	<u>(253,000)</u>
CHANGE IN NET ASSETS	<u>(11,967,457)</u>	<u>524,837</u>	<u>-</u>	<u>(11,442,620)</u>	<u>2,609,620</u>	<u>(27,254)</u>	<u>-</u>	<u>2,582,366</u>
NET ASSETS, beginning of year	<u>39,682,068</u>	<u>767,766</u>	<u>134,964</u>	<u>40,584,798</u>	<u>37,072,448</u>	<u>795,020</u>	<u>134,964</u>	<u>38,002,432</u>
NET ASSETS, end of year	<u>\$ 27,714,611</u>	<u>\$ 1,292,603</u>	<u>\$ 134,964</u>	<u>\$ 29,142,178</u>	<u>\$ 39,682,068</u>	<u>\$ 767,766</u>	<u>\$ 134,964</u>	<u>\$ 40,584,798</u>

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENT OF CASH FLOWS
Years Ended December 31, 2008 and 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (11,442,620)	\$ 2,582,366
Adjustments to reconcile change in net assets to net cash from operating activities		
Change in allowance for doubtful accounts	146,609	(228,302)
Amortization of bond issuance costs	136,192	22,699
Change in fair market value of interest rate swap, net	(4,151,640)	-
Depreciation	189,459	204,774
Amortization of discount on bonds payable	256,265	33,293
Net realized and unrealized (gains)/losses on investments	9,396,414	(1,226,589)
(Gain) loss on sale of land, property and equipment	219,589	(3,634,083)
Changes in operating assets and liabilities		
Receivables	(2,788,332)	(2,339,553)
Prepaid expenses	73,950	(354,639)
Accounts payable and accrued liabilities	599,739	1,103,899
Deferred revenue	221,070	(58,406)
Post-retirement employee benefits liability	683,904	149,912
Liability for pension benefits	4,884,000	340,000
Net cash from operating activities	<u>(1,575,401)</u>	<u>(3,404,629)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash and cash equivalents	(500,086)	(654,561)
Loans made to parishes, schools, institutions, and seminarians	(5,203,264)	(4,490,389)
Loans made to related parties	(30,062,303)	(24,199,540)
Payments received on loans made to parishes, schools, institutions, and seminarians	2,703,033	3,438,852
Payments received from related parties	9,182,368	-
Proceeds from sales and maturities of investments	3,501,518	11,526,608
Purchases of investments	(3,742,032)	(2,522,369)
Purchases of land, property, and equipment	(26,234)	(249,965)
Proceeds from sale of land, property, and equipment	23,796	4,286,664
Beneficial interest in advances to Cathedral of Christ the Light	-	(9,382,106)
Net cash from investing activities	<u>(24,123,204)</u>	<u>(22,246,806)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	1,916,062	-
Payments on notes payable	(1,548,747)	(39,513,884)
Proceeds from bond issuance	-	111,279,646
Payment of bond issuance costs	-	(1,373,085)
Deposits made to deposits payable	12,736,133	8,083,449
Withdrawals from deposits payable	(15,447,846)	(6,127,481)
Change in assets held for parishes, schools and institutions	(684,545)	(126,362)
Change in equity of others in pooled investments	(1,902,553)	(458,880)
Net cash from financing activities	<u>(4,931,496)</u>	<u>71,763,403</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(30,630,101)	46,111,968
CASH AND CASH EQUIVALENTS, beginning of year	<u>52,170,764</u>	<u>6,058,796</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 21,540,663</u>	<u>\$ 52,170,764</u>

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENT OF CASH FLOWS
Years Ended December 31, 2008 and 2007**

	2008	2007
SUPPLEMENTAL DISCLOSURES OF NON CASH INFORMATION		
Interest Paid	\$ 8,266,372	\$ 3,729,370
NONCASH INVESTING ACTIVITIES		
Receipt of real property donation	\$ 560,000	\$ -
Conversion of beneficial interest in advances to Cathedral of Christ the Light to note receivable	\$ 27,541,917	\$ -
NONCASH FINANCING ACTIVITIES		
Closure of parish resulting in cancellation of loan receivable	\$ -	\$ 445,363
Note payable for purchase of Furrer Properties	\$ -	\$ 575,000

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 consolidated 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), a division of the Chancery; Adventus Corporation, a separate not-for-profit organization; and Furrer Properties, a wholly-owned for-profit corporation. Collectively, these entities are referred to as the Central Services Administration. These consolidated 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 not-for-profit entities. However, certain investments and deposits held on behalf of these organizations by the Central Services Administration are included in these consolidated financial statements as assets with corresponding liabilities.

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 consolidated 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 Central Services Administration is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. 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. The Bishop has designated certain amounts within unrestricted for the purpose of insurance reserves.

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 consolidated 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 both December 31, 2008 and 2007, 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, 2008 and 2007 exceeded federal depository insurance coverage. The Central Services Administration has not experienced any losses in such accounts.

**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 \$1,154,647 and \$654,561 as of December 31, 2008 and 2007, respectively. The Central Services Administration has invested these funds in cash and cash equivalents. The balances held in restricted cash at December 31, 2008 and 2007 exceeded federal depository insurance coverage. The Central Services Administration has not experienced any losses in such accounts.

Marketable Securities – Investments in marketable securities are reported at fair value and are based on quoted market prices. Net appreciation (depreciation) in investments, including realized gains or losses and unrealized appreciation or depreciation on those investments, as well as all dividends, interest, and other investment income, is reported in the consolidated statement of activities. Investment income is reported as an increase in unrestricted or temporarily restricted net assets, depending on donor-imposed restrictions on the use of the income.

These investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the consolidated statement of financial position.

Receivables – Loans to parishes, schools, institutions, and seminarians represent credit extended to these related entities. Credit is extended based upon evaluation of the borrowing entity's financial condition and other factors. Collateral is not generally required. Loans are reported at face value, which approximates fair value. Loans receivable typically have no stated maturity dates and may be due either on demand by the Central Services Administration or in accordance with scheduled payments. Loans are generally not considered past due or delinquent, since the Bishop has various means available to collect on any loan extended. Interest accrues on loans receivable daily in accordance with the interest rates applicable to the loans. The average annual interest rate on loans in 2008 and 2007 was 4.80% and 5.84%, respectively.

Other receivables consist of various trade and miscellaneous receivables. Trade receivables include amounts billed to 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. These receivables are reported at face value, which approximates fair value, and are not subject to interest. Payments received from Diocesan institutions are generally applied to the balances identified by the accompanying remittance advises first, unless prior agreement has been reached with the institution.

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 annual interest rate paid on deposits in 2008 and 2007 was 4.03% and 5.18%, respectively.

Allowance for Doubtful Accounts – The Central Services Administration provides an allowance for both loans and other receivables which management believes 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 (refer to Note 5).

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

Property and Equipment – Purchased plant assets are recorded at cost and donated plant assets are recorded at approximate fair 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.

Assets Held in Trust for Others – The Central Services Administration serves as the trustee of a charitable remainder trust for which it is not the remainder beneficiary. A related entity, Cathedral of Christ the Light, is the remainder beneficiary. For this trust, the assets are recorded on the consolidated statement of financial position at fair value; a corresponding liability for the same amount is also recorded on the consolidated statement of financial position.

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.

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

Tax Exempt Status – The Diocese and other incorporated entities of the Diocese except Furrer Properties, have been granted tax-exempt status by the Internal Revenue Service except to the extent of unrelated business taxable income as defined under IRC sections 511 through 515 and the California Franchise Tax Board under Sections 501(c) (3) and 23701(d), respectively. Accordingly, no tax provision has been recorded in the consolidated financial statements. Further, the Diocese and other incorporated entities of the Diocese are not required to file tax returns as they are listed in the Catholic Register. Pursuant to FIN 48 – Accounting for Uncertainty in Income Taxes – the Diocese, and all component entities, must evaluate uncertain tax positions in accordance with SFAS No. 5, Accounting for Contingencies whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. At December 31, 2008, the Central Services Administration had no uncertain tax positions requiring accrual.

The Central Services Administration acquired Furrer Properties on December 7, 2007. Furrer Properties is a California corporation and is subject to income taxes. Through December 31, 2008, Furrer Properties has incurred tax losses.

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 or in perpetuity are reported as temporarily restricted or permanently 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 consolidated financial statements, until the conditions are substantially met.

Use of Estimates – In preparing consolidated 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 consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In September of 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for all Endowment Funds. This FSP provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations, including the Central Services Administration, that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The state of California enacted its version of the model act in September 2008 with an effective date of January 1, 2009. The Central Services Administration is in the process of assessing the impact which they do not anticipate will be significant on the Central Services Administration’s consolidated statement of position or changes in net assets.

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

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of SFAS 115* ("SFAS 159"), which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities under an instrument-by-instrument election. Subsequent measurements for the financial assets and liabilities an entity elects to fair value will be recognized in changes in net assets. SFAS 159 also establishes additional disclosure requirements. SFAS 159 is effective for fiscal years beginning after November 15, 2007. As of the effective date and as of December 31, 2008, the Central Services Administration did not have any financial assets or liabilities to which this standard would apply.

Reclassifications – Certain reclassifications have been made to the 2007 consolidated financial statements to conform to the 2008 presentation. The reclassifications had no effect on total net assets.

NOTE 3 – MARKETABLE SECURITIES

Marketable securities at December 31 are as follows:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Corporate equity securities	\$ 27,006,060	\$ 18,989,522	\$ 27,090,110	\$ 29,882,464
Mortgage pools and asset backed	1,909,175	1,747,399	2,960,243	2,942,781
Corporate debt securities	8,896,927	8,439,619	7,649,603	7,596,853
Cash in broker/dealer accounts	3,300,431	3,300,431	2,290,276	2,290,276
U.S. government debt securities	9,147,556	9,458,744	8,837,360	8,945,161
Other	87,010	87,010	81,089	81,089
	<u>\$ 50,347,159</u>	<u>\$ 42,022,725</u>	<u>\$ 48,908,681</u>	<u>\$ 51,738,624</u>

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

	2008	2007
Source of investment income		
Dividends	\$ 441,330	\$ 367,264
Interest	1,900,831	1,461,254
	<u>2,342,161</u>	<u>1,828,518</u>
Net realized and unrealized gain (loss) on securities	<u>(9,396,414)</u>	<u>1,226,589</u>
Total investment income (loss)	<u>\$ (7,054,253)</u>	<u>\$ 3,055,107</u>

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NOTE 4 – RECEIVABLES

Receivables at December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Parishes, schools, institutions, and seminarians		
Loans receivable	\$ 27,123,231	\$ 24,623,001
Less allowance for doubtful accounts and loan losses	(2,242,506)	(2,297,125)
	<u>\$ 24,880,725</u>	<u>\$ 22,325,876</u>
Other		
Insurance and miscellaneous	\$ 6,099,994	\$ 6,536,941
Assessments receivable	2,409,391	1,941,708
Bequest receivable	2,757,596	-
Less allowance for doubtful accounts	(697,720)	(496,493)
	<u>\$ 10,569,261</u>	<u>\$ 7,982,156</u>
Changes in the allowance for doubtful accounts and loan losses:		
Beginning balance	\$ 2,793,618	\$ 3,021,920
Accounts written off	(5,647)	-
Bad debt allowance (recoveries)	152,255	(228,302)
Ending balance	<u>\$ 2,940,226</u>	<u>\$ 2,793,618</u>

NOTE 5 – NOTES RECEIVABLE – RELATED PARTIES

As part of the Diocese's credit facility restructuring and bond issuance in November 2007, 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, is as follows:

	<u>2008</u>	<u>2007</u>
Catholic Cathedral Corporation of the East Bay, including accrued interest of \$673,734 and \$126,247, respectively	\$ 61,522,941	\$ 15,126,247
Roman Catholic Cemeteries of the Diocese of Oakland, including interest of \$17,923 and \$73,293	<u>11,098,451</u>	<u>9,073,293</u>
	<u>\$ 72,621,392</u>	<u>\$ 24,199,540</u>

During 2008, the management of the Central Services Administration, Cathedral of Christ the Light, and Catholic Cathedral Corporation of the East Bay determined a substantial portion of the investment in the Cathedral by Central Services Administration would be converted from beneficial interest in advances to Cathedral of Christ the Light to a note receivable from the Catholic Cathedral Corporation of the East Bay. As a result, on January 1, 2008, \$27,541,917 was converted from beneficial interest in advances to Cathedral of Christ the Light to the note receivable from Catholic Cathedral Corporation of the East Bay. Additional amounts were advanced to Catholic Cathedral Corporation of the East Bay pursuant to the note throughout 2008. A promissory note between the Roman Catholic Bishop of Oakland and Catholic Cathedral Corporation of the East Bay was executed to evidence this conversion and delineate terms of the debt agreement. The promissory note is for a principal sum of up to \$75,000,000. Interest is at a stated rate of 6.4% per annum and is to be paid quarterly. The full amount of the unpaid principal and interest of the note is to be paid October 31, 2017.

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The Roman Catholic Bishop of Oakland has two debt agreements with the Roman Catholic Cemeteries of Oakland. The first promissory note is for a principal sum of up to \$10,000,000. Monthly payments of \$85,128, including interest at 6.4% per annum, are required and the unpaid principal and interest are due January 1, 2021. The second debt agreement between these parties is a \$1,500,000 revolving line of credit. Interest is at a stated rate of 6.4% per annum and is to be paid quarterly. The outstanding principal and interest are payable upon demand.

NOTE 6 – LAND SALES

Land held for sale of \$2,129,614 and \$2,134,951, as of December 31, 2008 and 2007, respectively, consists of certain land subject to a purchase and sales agreement with an unrelated development company. Sales proceeds from such land sales are recorded when the development company finalizes a sale of a parcel and remits payment to the Central Services Administration. During the year ended December 31, 2008, one parcel of land was sold; in 2007, there were no sales of this land.

Additionally, during the year ended December 31, 2007, the Central Services Administration sold property which housed the Chancery offices for total proceeds of approximately \$4,286,700, with a related gain of \$3,634,083.

NOTE 7 – PROPERTY AND EQUIPMENT

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

	2008	2007
Central Services Administration property and improvements	\$ 6,019,605	\$ 5,459,605
Furniture and equipment	265,257	1,525,450
Automobiles	183,140	183,139
Land improvements	47,786	47,786
	6,515,788	7,215,980
Less accumulated depreciation	(2,674,046)	(3,532,965)
	3,841,742	3,683,015
Land	7,884,760	7,884,760
	\$ 11,726,502	\$ 11,567,775

Total depreciation for the years ended December 31, 2008 and 2007 amounted to \$189,459 and \$204,774, respectively.

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NOTE 8 – NOTES PAYABLE

Notes payable at December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Unsecured note payable to an insurance premium financing company, monthly payments of \$169,641, including interest at 3.14%, due May 1, 2009	\$ 841,027	\$ -
Unsecured note payable to an insurance premium financing company, monthly payments of \$31,208, including interest at 3.66%, due May 1, 2009	154,444	-
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%, are due through December 31, 2017. The note is secured by the underlying property held by Furrer Properties.	<u>517,500</u>	<u>575,000</u>
	<u>\$ 1,512,971</u>	<u>\$ 1,145,656</u>

Maturities for the notes payable are as follows:

Year ending December 31,	
2009	\$ 1,052,971
2010	57,500
2011	57,500
2012	57,500
2013	57,500
Thereafter	<u>230,000</u>
	<u>\$ 1,512,971</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 the cost of issuance of the bonds.

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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 also provide the bond trustee combined financial statements within 180 days of December 31 each year.

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>
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>\$ 61,764,032</u>	<u>\$ 62,918,680</u>

In addition to the required payments outlined above, the bond indenture carries collateral requirements. The Roman Catholic Bishop of Oakland and the Roman Catholic Cemeteries of Oakland have granted a security interest in certain of their investment accounts to Deutsche Bank. These diocesan entities are to maintain cash and investments in these pledged accounts in an aggregate amount equal to the percentage of the then outstanding amount of the bonds set forth below:

<u>Dates</u>	<u>Required Balance as a Percentage of Outstanding Bonds</u>
Issuance to November 1, 2008	35%
November 1, 2008 to November 1, 2009	40%
November 1, 2009 and thereafter	60%

The required investment balance (i.e., security) is 110% of the amount of cash and investments determined pursuant to the terms above.

NOTE 10 – INTEREST RATE SWAP

As a strategy for maintaining acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Central Services Administration entered into an interest rate swap agreement for its Series 2007 General Obligation Bonds (CUSIP N873109N). The intention of the swap is to effectively change the Central Services Administration's fixed interest rate on these bonds to a lower variable rate.

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The swap agreement was entered into effective July 1, 2008 with Deutsche Bank (DBAG) for a notional amount equal to the outstanding principal amount of the Series 2007 bonds, is scheduled to end on November 1, 2019, and required no initial net cash receipt or payment by the Central Services Administration. DBAG retains the right to cancel the swap on an annual basis, commencing November 1, 2009. The agreement provides for the Central Services Administration to receive interest from DBAG at a fixed rate of 6.04% and to pay interest to DBAG at the USD-LIBOR-BBA three-month rate (approximately 1.425% at December 31, 2008) plus 0.69% on the outstanding bond indebtedness. Under the agreement, the Central Services Administration is to pay the variable rate interest on a quarterly basis each February 1, May 1, August 1, and November 1 and receive fixed rate interest payments from DBAG on May 1 and November 1 each year the swap is in effect.

As of December 31, 2008, the fair value of the interest rate swap was \$4,151,640 and has been reflected as an asset on the consolidated statement of financial position.

NOTE 11 – 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, 2008 and 2007, 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, 2008 and 2007, the RETA has not assessed any assessments nor were any assessments pending.

The Diocese, along with certain other Roman Catholic Dioceses and Archdioceses in the western United States, had been a member of a captive insurance association, The Catholic Insurance Association (CIA), for workers' compensation coverage. 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 management does not expect these claims to be material.

NOTE 12 – DESIGNATED NET ASSETS

Unrestricted net assets have been designated for the following purposes:

	2008	2007
General package insurance deductible reserves	\$ 1,356,726	\$ 1,525,219
Uninsured liability self-insurance reserves	1,200,000	1,200,000
Clergy uninsured medical expenses reserves	692,897	692,897
	<u>\$ 3,249,623</u>	<u>\$ 3,418,116</u>

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NOTE 13 – TEMPORARILY RESTRICTED NET ASSETS

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

	2008	2007
Assistance to homeless women and children	\$ 258,625	\$ 308,625
Seminarian fund	195,997	444,261
Seminarian education	837,981	-
Other	-	14,880
	\$ 1,292,603	\$ 767,766
 Assets released from restrictions during the year		
Assistance to homeless women and children	\$ 50,000	\$ 25,000
Seminarian fund	16,047	12,190
Seminarian education	540,817	-
Other	14,880	1,597
	\$ 621,744	\$ 38,787

Income from the Central Services Administration's permanently restricted net assets is restricted for the seminarian fund.

NOTE 14 – FUNCTIONAL CLASSIFICATION

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

	2008	2007
Program services		
Parishes and schools	\$ 3,744,279	\$ 3,914,579
Office of the Chancellor	2,632,556	2,350,618
Pastoral life	1,852,846	1,793,899
Services	501,591	756,353
Resources	666,726	651,921
Canon Law	355,562	328,815
Office of the Bishop	639,185	348,601
Publications - Catholic Voice	981,465	907,891
	11,374,210	11,052,677
Supporting services		
Management and general	6,383,793	4,438,559
Development	369,639	359,526
	6,753,432	4,798,085
	\$ 18,127,642	\$ 15,850,762

NOTE 15 – 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 in such payments for each of the years ended December 31, 2008 and 2007.

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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, 2008 and 2007, such amounts totaled \$4,924,000 and \$32,465,917, respectively. (Refer to Note 5)

NOTE 16 – 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 2008 and 2007. 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, 2008 and 2007 were \$251,153 and \$244,590, respectively.

NOTE 17 – CLERGY RETIREMENT COSTS

Diocesan priests are covered by two Diocesan-sponsored defined benefit retirement plans (Plans). On January 1, 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, 2008 and 2007, the Plans had combined actuarial obligations in excess of the Plans' assets of \$5,224,000 and \$340,000, respectively, 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:

	<u>2008</u>	<u>2007</u>
Actuarial Present Value of Benefit Obligations		
Accumulated benefit obligation	<u>\$ 12,004,000</u>	<u>\$ 11,820,000</u>
Projected benefit obligation for service rendered to date	<u>\$ 14,273,000</u>	<u>\$ 13,904,000</u>
Plan assets at fair value	<u>\$ 9,049,000</u>	<u>\$ 13,564,000</u>
Plan assets (less than) in excess of projected benefit obligation	<u>\$ (5,224,000)</u>	<u>\$ (340,000)</u>
Service cost-benefits earned during the period	<u>\$ 400,000</u>	<u>\$ 376,000</u>
Interest cost on projected benefit obligation	<u>\$ 843,000</u>	<u>\$ 813,000</u>
Expected return on plan assets	<u>\$ (3,629,000)</u>	<u>\$ 1,029,000</u>

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

	<u>2008</u>	<u>2007</u>
Discount rate	6.22%	6.33%
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:

	<u>2008</u>	<u>2007</u>
Discount rate	6.33%	5.80%
Expected long-term return on plan assets	7.50%	7.50%
Assumed future annual benefit increases	2.00%	2.00%

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 Roman Catholic Bishop of Oakland's investment committee has established an asset allocation for investments for the Plans. The asset allocation for the Plans as of December 31, 2008, and the target allocation, by asset category is as follows:

<u>Asset Category</u>	<u>Diocesan Approved Asset Allocation Range</u>	<u>Policy Benchmark Asset Allocation</u>	<u>Actual Percentage of Plan Assets at December 31, 2008</u>
Fixed Investments	40% to 60%	40.0%	42.9%
Equities	40% to 60%	60.0%	53.1%
Cash	0% to 10%	0.0%	4.0%

The Plans' net pension expenses, pension benefits paid, and employer contributions for the years ended December 31:

	<u>2008</u>	<u>2007</u>
Net periodic pension cost	\$ 277,000	\$ 183,000
Pension benefits paid	\$ 927,000	\$ 963,000
Pension contributions	\$ 143,000	\$ 96,000

Other amounts included in unrestricted net assets, and subject to future amortization, as of December 31 consist of:

	<u>2008</u>	<u>2007</u>
Prior service cost (credit)	\$ 287,000	\$ 310,000
Net (gain) loss	\$ 4,716,000	\$ (57,000)

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

Year ending December 31	Annual Pension Benefits
2008	\$ 965,000
2009	975,000
2010	991,000
2011	951,000
2012	955,000
2013-2017	4,087,000

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 18 – 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 \$3,789,417 and \$3,105,513 at December 31, 2008 and 2007, 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.

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 plans as of December 31:

	2008	2007
Actuarial Present Value of Benefit Obligations		
Accumulated benefit obligation	\$ 3,789,417	\$ 3,105,513
Plan assets at fair value	\$ -	\$ -
Plan assets (less than) in excess of projected benefit obligation	\$ (3,789,417)	\$ (3,105,513)

The discount rate used to determine benefit obligations is 7% for both the years ended December 31, 2008 and 2007. Benefits expected to be paid by year are expected to be met in full by assessments to parishes and Diocesan institutions.

NOTE 19 – 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. Despite the fact 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 consolidated financial statements of the Central Services Administration.

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NOTE 20 – FAIR VALUE OF ASSETS AND LIABILITIES

Effective January 1, 2008, the Central Services Administration adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 has been applied prospectively as of the beginning of the year.

SFAS 157 defines fair value as the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: 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 for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments – Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include highly liquid government bonds, mortgage products and exchange traded equities. Level 2 investments include certain collateralized mortgage and debt obligations and certain municipal securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Interest rate swap agreement – The fair value for the swap has been estimated by management based on both observable and unobservable inputs obtained from the counterparty to the swap. As a result, the fair value has been classified within Level 3 of the valuation hierarchy. Of the amounts classified as Level 3, \$4,151,640 is represented by the fair value of the interest rate swap as of December 31, 2008.

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The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statement of financial position measured at fair value on a recurring basis and the level within SFAS 157 fair value hierarchy in which the fair value measurements fall at December 31, 2008:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate equity securities	\$ 18,989,522	\$ 17,093,849	\$ 1,895,673	\$ -
Mortgage pools and asset backed	1,747,399	-	1,747,399	-
Corporate debt securities	8,439,619	-	8,439,619	-
Cash in broker/dealer accounts	3,300,431	3,300,431	-	-
U.S. government debt securities	9,458,744	-	9,458,744	-
Other	87,010	-	72,010	15,000
Subtotal	42,022,725	20,394,280	21,613,445	15,000
Interest rate swap	4,151,640	-	-	4,151,640
Total	\$ 46,174,365	\$ 20,394,280	\$ 21,613,445	\$ 4,166,640

The reconciliation of Level 3 assets, including the interest rate swap, consists of the following components:

Balance, January 1, 2008	\$ 15,000	
Realized gain - Interest rate swap	1,425,100	Included in other income(losses) - Statement of Activities
Unrealized gain - Interest rate swap	4,151,640	Included in other income(losses) - Statement of Activities
Settlement - Interest rate swap	<u>(1,425,100)</u>	
Balance, December 31, 2008	<u>\$ 4,166,640</u>	

The following methods and assumptions were used by the Central Services Administration in estimating the fair value of its other financial instruments:

- Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.
- Restricted cash and cash equivalents: The carrying amount reported in the balance sheet for restricted cash and cash equivalents approximates its fair value.
- Receivables – Loans to parishes, schools, institutions, and seminarians, net: The carrying amount of these loans, net of the allowance for doubtful accounts and loan losses, approximates its fair value.
- Notes receivable – related parties: The carrying amount reported in the balance sheet for notes receivable – related parties approximates its fair value.
- Deposits payable: The carrying amount reported in the balance sheet for deposits payable approximates its fair value.
- Equity of others in pooled investments: The carrying amount of this liability, which represents the equity of others in investments reported at fair value in the statement of financial position, approximates fair value.

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- Notes payable: The carrying amount of notes payable, a substantial portion of which is short-term in nature, approximates its fair value.
- Bonds payable, net of discount: The carrying amount of bonds payable – long-term, fixed-rate obligations – approximates its fair value.

The following table presents estimated fair value of the Central Services Administration's financial instruments in accordance with SFAS No. 107 not previously disclosed at December 31, 2008 and 2007:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 21,540,663	\$ 21,540,663	\$ 52,170,764	\$ 52,170,764
Restricted cash and cash equivalents	1,154,647	1,154,647	654,561	654,561
Receivables - Loans to parishes, schools, institutions, and seminarians, net	24,880,725	24,880,725	22,325,876	22,325,876
Fair market value of interest rate swap, net	4,151,640	4,151,640	-	-
Notes receivable - related parties	72,621,392	72,621,392	24,199,540	24,199,540
Deposits payable	(28,648,544)	(28,648,544)	(31,360,257)	(31,360,257)
Equity of others in pooled investments	(10,080,868)	(10,080,868)	(11,983,421)	(11,983,421)
Notes payable	(1,512,971)	(1,512,971)	(1,145,656)	(1,145,656)
Bonds payable, net of discount	(111,569,204)	(111,569,204)	(111,312,939)	(111,312,939)