



Report of Independent Auditors and  
Consolidated Financial Statements

**The Roman Catholic Diocese of  
Oakland, Central Services  
Administration**

December 31, 2014 and 2013

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

To the Most Reverend Michael Barber  
The Roman Catholic Bishop of Oakland

### **Report on Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of The Roman Catholic Diocese of Oakland, Central Services Administration ("Central Services Administration"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



San Francisco, California  
June 12, 2015

**CONSOLIDATED FINANCIAL STATEMENTS**

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**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
CENTRAL SERVICES ADMINISTRATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,271,003	\$ 16,017,119
Restricted cash and cash equivalents	4,822,233	1,155,370
Marketable securities - pooled investments	89,941,519	85,649,585
Receivables, net	13,572,865	12,953,183
Prepaid expenses and deposits	1,853,438	1,999,826
Bond issuance costs, net	397,040	533,232
Loans to parishes, schools, institutions, and seminarians, net	16,915,760	16,838,890
Notes receivable - related parties	73,688,995	76,586,574
Note receivable	950,000	1,355,000
Assets held in trust for others	1,642,919	1,627,907
Land held for sale	1,451,766	1,862,745
Property and equipment, net	19,744,000	9,974,080
Total assets	<u>\$ 228,251,538</u>	<u>\$ 226,553,511</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 4,834,156	\$ 3,807,130
Deferred revenue	4,384,095	4,487,323
Deposits payable	47,850,590	44,783,129
Notes payable	1,112,011	1,241,974
Agency funds	566,398	736,408
Assets held in trust for others	1,642,919	1,627,907
Equity of others in pooled investments	16,627,981	19,062,171
Post-retirement employment benefits liability	7,747,096	3,478,240
Liability for pension benefits	7,451,000	4,919,000
Bonds payable, net of discount	113,499,207	113,124,420
Total liabilities	<u>205,715,453</u>	<u>197,267,702</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	13,876,942	21,644,506
Designated	6,736,919	5,790,223
Temporarily restricted	1,188,460	1,120,346
Permanently restricted	733,764	730,734
Total net assets	<u>22,536,085</u>	<u>29,285,809</u>
Total liabilities and net assets	<u>\$ 228,251,538</u>	<u>\$ 226,553,511</u>

*See accompanying notes.*

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
CENTRAL SERVICES ADMINISTRATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
Years Ended December 31, 2014 and 2013**

	2014			2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>								
Bishop's Annual Appeal	\$ 2,347,442	\$ -	\$ -	\$ 2,347,442	\$ 2,303,231	\$ -	\$ -	\$ 2,303,231
Parish assessments	5,734,328	-	-	5,734,328	5,469,549	-	-	5,469,549
Gifts, grants and bequests	4,006,201	-	3,030	4,009,231	6,597,036	275,218	8,764	6,881,018
Dividends and interest	1,484,030	19,540	-	1,503,570	1,351,460	16,648	-	1,368,108
Ministerial department revenue	1,068,587	60,475	-	1,129,062	1,087,012	-	-	1,087,012
Catholic Voice	1,143,701	-	-	1,143,701	1,153,399	-	-	1,153,399
Cemetery rent	1,350,400	-	-	1,350,400	1,350,400	-	-	1,350,400
Interest income on deposit and loan fund	366,007	-	-	366,007	570,266	-	-	570,266
Insurance revenue, net	3,699,834	-	-	3,699,834	3,559,525	-	-	3,559,525
Other income	643,106	-	-	643,106	912,870	-	-	912,870
Net assets released from restrictions	60,787	(60,787)	-	-	78,190	(78,190)	-	-
Total revenues	<u>21,904,423</u>	<u>19,228</u>	<u>3,030</u>	<u>21,926,681</u>	<u>24,432,938</u>	<u>213,676</u>	<u>8,764</u>	<u>24,655,378</u>
<b>EXPENSES</b>								
Central Services								
Services and Administration	-	-	-	-	32,650	-	-	32,650
Pastoral Life	1,445,502	-	-	1,445,502	1,972,975	-	-	1,972,975
Resources	1,730,047	-	-	1,730,047	1,593,431	-	-	1,593,431
Canon Law	583,451	-	-	583,451	559,822	-	-	559,822
Office of the Chancellor	2,330,345	-	-	2,330,345	2,454,763	-	-	2,454,763
Communications	442,419	-	-	442,419	433,105	-	-	433,105
Office of the Bishop	871,252	-	-	871,252	998,931	-	-	998,931
Mission Advancement	1,046,121	-	-	1,046,121	1,110,914	-	-	1,110,914
Catholic Voice	1,132,003	-	-	1,132,003	1,116,207	-	-	1,116,207
Parishes, Schools/Diocesan General								
Interest expense on deposit and loan fund	907,079	-	-	907,079	823,879	-	-	823,879
School subsidies	450,000	-	-	450,000	450,000	-	-	450,000
Parish subsidies	86,513	-	-	86,513	89,780	-	-	89,780
Capital grants	293,014	-	-	293,014	57,245	-	-	57,245
Clergy retirement	5,451,610	-	-	5,451,610	2,098,862	-	-	2,098,862
Unassigned clergy	663,961	-	-	663,961	579,767	-	-	579,767
Legal expenses	676,357	-	-	676,357	1,646,568	-	-	1,646,568
Professional fees	682,109	-	-	682,109	748,494	-	-	748,494
Provision for uncollectible receivables and loans	862,373	-	-	862,373	899,422	-	-	899,422
Overhead	3,911,571	-	-	3,911,571	4,012,461	-	-	4,012,461
Contribution to Christ the Light Cathedral Corporation	-	-	-	-	5,756,497	-	-	5,756,497
Total expenses	<u>23,565,727</u>	<u>-</u>	<u>-</u>	<u>23,565,727</u>	<u>27,435,773</u>	<u>-</u>	<u>-</u>	<u>27,435,773</u>
<b>CHANGE IN NET ASSETS BEFORE OTHER INCOME (LOSSES)</b>	<u>(1,661,304)</u>	<u>19,228</u>	<u>3,030</u>	<u>(1,639,046)</u>	<u>(3,002,835)</u>	<u>213,676</u>	<u>8,764</u>	<u>(2,780,395)</u>

*See accompanying notes.*

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
CENTRAL SERVICES ADMINISTRATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES (continued)  
Years Ended December 31, 2014 and 2013**

	2014			2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OTHER INCOME (LOSSES)</b>								
Gain on sale of land, property, and equipment	524,576	-	-	524,576	1,479,580	-	-	1,479,580
Interest income on notes from related parties	1,478,308	-	-	1,478,308	4,542,669	-	-	4,542,669
Bonds and other financing interest expense	(7,340,419)	-	-	(7,340,419)	(7,323,375)	-	-	(7,323,375)
Net realized and unrealized gains on marketable securities	2,864,971	48,886	-	2,913,857	7,627,754	101,702	-	7,729,456
Total other income (loss)	(2,472,564)	48,886	-	(2,423,678)	6,326,628	101,702	-	6,428,330
<b>CHANGE IN NET ASSETS BEFORE IMPACT OF PENSION-RELATED CHANGES</b>	(4,133,868)	68,114	3,030	(4,062,724)	3,323,793	315,378	8,764	3,647,935
<b>PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST</b>	(2,687,000)	-	-	(2,687,000)	1,377,000	-	-	1,377,000
<b>CHANGE IN NET ASSETS</b>	(6,820,868)	68,114	3,030	(6,749,724)	4,700,793	315,378	8,764	5,024,935
<b>NET ASSETS, beginning of year</b>	27,434,729	1,120,346	730,734	29,285,809	22,733,936	804,968	721,970	24,260,874
<b>NET ASSETS, end of year</b>	<u>\$ 20,613,861</u>	<u>\$ 1,188,460</u>	<u>\$ 733,764</u>	<u>\$ 22,536,085</u>	<u>\$ 27,434,729</u>	<u>\$ 1,120,346</u>	<u>\$ 730,734</u>	<u>\$ 29,285,809</u>

*See accompanying notes.*

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
CENTRAL SERVICES ADMINISTRATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (6,749,724)	\$ 5,024,935
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized gains on investments	(2,913,857)	(7,729,456)
Change in allowance for doubtful accounts	387,714	845,400
Amortization of bond issuance costs	136,192	136,192
Beneficial interest in Christ the Light Cathedral Corporation	-	5,756,497
Depreciation	105,091	111,272
Contribution of property and equipment	(1,900,000)	-
Gain on sale of land, property, and equipment	(524,576)	(1,479,580)
Amortization of discount on bonds payable	374,787	351,733
Changes in operating assets and liabilities:		
Receivables	(1,026,355)	(1,238,958)
Prepaid expenses and deposits	146,388	213,013
Accounts payable and accrued liabilities	1,027,026	226,671
Deferred revenue	(103,228)	198,452
Post-retirement employee benefits liability	4,268,856	986,865
Liability for pension benefits	2,532,000	(1,681,000)
Net cash (used in) provided by operating activities	<u>(4,239,686)</u>	<u>1,722,036</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in restricted cash and cash equivalents	(3,666,863)	(168)
Purchases of marketable securities – pooled investments	(3,552,424)	(7,591,470)
Proceeds from sales of marketable securities – pooled investments	4,724,347	955,122
Loans made to parishes, schools, institutions, and seminarians	(2,491,483)	(967,087)
Payments received on loans made to parishes, schools, institutions, and seminarians	2,433,572	3,248,808
Loans made to related parties	(1,151,144)	(4,642,916)
Loan payments received from related parties	1,498,723	2,100,160
Loan payments received from unrelated party	405,000	-
Purchases of land, property, and equipment	(8,593,900)	(30,580)
Proceeds from sale of land, property, and equipment	1,554,444	399,868
Net cash used in investing activities	<u>(8,839,728)</u>	<u>(6,528,263)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Deposits made to deposits payable	14,238,113	15,911,735
Withdrawals from deposits payable	(11,170,652)	(9,871,443)
Proceeds from notes payable	2,335,933	2,516,083
Payments on notes payable	(2,465,896)	(2,794,882)
Change in agency funds	(170,010)	(694,901)
Change in equity of others in pooled investments	(2,434,190)	4,926,928
Net cash provided by financing activities	<u>333,298</u>	<u>9,993,520</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(12,746,116)	5,187,293
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>16,017,119</u>	<u>10,829,826</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 3,271,003</u>	<u>\$ 16,017,119</u>

See accompanying notes.



**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,  
CENTRAL SERVICES ADMINISTRATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
Years Ended December 31, 2014 and 2013**

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	<b>2014</b>	<b>2013</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 7,896,049	\$ 7,820,291
Income taxes paid	\$ 29,025	\$ 17,927
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES</b>		
Marketable securities - pooled investments received as loan payment from related party	\$ 2,550,000	\$ -
Note receivable executed in sale of property	\$ -	\$ 1,355,000
Contribution of property and equipment	\$ 1,900,000	\$ -

*See accompanying notes.*

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

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**NOTE 1 – ORGANIZATION**

The Roman Catholic Bishop of Oakland, a California corporation sole (“RCBO”), was incorporated on May 2, 1962, and together with (i) Adventus, (ii) The Roman Catholic Welfare Corporation of Oakland, (iii) The Roman Catholic Cemeteries of the Diocese of Oakland (and its subsidiary corporations), (iv) Christ the Light Cathedral Corporation and Catholic Cathedral Corporation of the East Bay, (v) Catholic Charities of the Diocese of Oakland, (vi) Oakland Society for the Propagation of the Faith, (vii) Catholic Management Services, (viii) Catholic Foundation for the Diocese of Oakland and (ix) various activities, institutions, and unincorporated associations (including parishes and schools) operate as the Roman Catholic Diocese of Oakland in Alameda and Contra Costa counties (the “Diocese”).

The Chancery is the part of RCBO that provides administrative services and programmatic and financial support to those Diocesan entities, institutions, and associations identified above, each of which operate independently and account for their operations separately.

These consolidated financial statements include the Chancery, Adventus, and Furrer Properties, a California corporation wholly-owned by RCBO. Collectively, activities of these entities and their operations are known as the Central Services Administration. All intercompany balances and transactions have been eliminated.

**NOTE 2 – SUMMARY OF ACCOUNTING POLICIES**

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

**Tax exempt status** – Entities of the Central Services Administration, 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 23701d, respectively. Accordingly, no tax provision has been recorded for the tax-exempt entities in the consolidated financial statements. Further, these entities of the Central Services Administration are not required to file tax returns as they are listed in the Catholic Register. The Central Services Administration had no unrecognized tax benefits at either December 31, 2014 or 2013, and had no uncertain tax positions. The Diocese is required to report unrelated business income, if any.

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

**Use of estimates** – In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States, 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.

**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 (“FASB”).

*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 net assets for the purpose of self-insurance reserves. Contributions received with restrictions which are met in the same reporting period (e.g., the Bishop’s Annual Appeal) are recognized as increases in unrestricted net assets.

*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 a time restriction or completion of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restriction.

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*See accompanying report and consolidated financial statements.*

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

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*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, 2014 and 2013, the Central Services Administration had \$983,764 and \$730,734 in permanently restricted net assets, respectively.

**Fair value measurements** – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring 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.

**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 manager to be cash equivalents. The cash and cash equivalents balances held in financial institutions at December 31, 2014 and 2013, exceeded federal depository insurance coverage. The Central Services Administration has not experienced any losses in such accounts.

**Restricted cash and cash equivalents** – Monthly principal (commencing November 2014) and interest payments are required by the Master Trust and Bond Indenture entered into by the Roman Catholic Bishop of Oakland in November 2007. The principal payments are deposited in advance of annual bond redemptions and the interest payments are deposited in advance of semi-annual coupon payments made to bond purchasers by the Trustee. Such advance payments held by the Trustee are restricted and totaled \$4,822,233 and \$1,155,370 as of December 31, 2014 and 2013, respectively. The Central Services Administration has invested these funds in cash and cash equivalents. The balances held in restricted cash at December 31, 2014 and 2013 exceeded federal depository insurance coverage. The Central Services Administration has not experienced any losses in such accounts.

**Marketable securities – pooled investments** – Investments in marketable securities are reported at fair value based on quoted market prices. Marketable securities include the investments related to the equity of others in pooled investments of \$16,627,981 and \$19,062,171 as of December 31, 2014 and 2013, respectively. 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 statements 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 changes in the values of investment securities will occur in the near term and such changes could materially affect total net assets and the amounts reported in the consolidated statements of financial position.

**Receivables** – 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. 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 advices first, unless prior agreement has been reached with the institution.

**Loans to parishes, schools, institutions, and seminarians** – These loans represent credit extended to 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 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 and reserves the right to convert any loan, including interest accrued, to a contribution.

*See accompanying report and consolidated financial statements.*

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

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Interest accrues on loans receivable daily in accordance with the interest rates applicable to the loans. The average annual interest rate on loans in 2014 and 2013 was 1.78% and 2.62%, 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 collectability 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.

**Note receivable** – In 2013, the Central Services Administration sold certain real property to a third party and executed an installment promissory note receivable in the amount of \$1,355,000 in conjunction with that sale. The note will be paid in quarterly installments commencing June 30, 2014, and will be repaid in full by December 31, 2016. The note is non-interest bearing.

**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, Christ the Light Cathedral Corporation, is the remainder beneficiary. For this trust, the assets are recorded in the consolidated statements of financial position at fair value; a corresponding liability for the same amount is also recorded in the consolidated statements of financial position. The underlying composition of the assets held in trust for others is marketable securities classified within Level 1 and Level 2 of the valuation hierarchy.

**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 lives 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.

**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 marketable securities-pooled investments accounts. The average annual interest rate paid on deposits in 2014 and 2013 was 2%.

**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 not yet disbursed to the designated institution; and bequests held and administered for Diocesan entities.

**Equity of others in pooled investments** – The endowment pool was established for participating parishes, schools and other Diocesan institutions with long-term investment horizons, moderate growth and income requirements, and moderate risk objectives. The pool invests in stocks and bonds. The pool is operated under the total return concept, which allocates income/(loss) to each participant based upon the total return earned in invested funds, including realized and unrealized gains and losses, and taking investment management fees into account.

**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.

**Reclassifications** – Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the 2014 presentation. These reclassifications had no effect on the Central Services Administration's change in net assets as previously reported.

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*See accompanying report and consolidated financial statements.*

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**NOTE 3 – MARKETABLE SECURITIES – POOLED INVESTMENTS**

Marketable securities at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Cash and money market funds	\$ 33,503,530	\$ 4,931,643
Corporate equity securities	18,099,047	28,431,271
Corporate debt securities	10,612,335	6,933,553
Mortgage pools and asset backed	8,549,359	5,859,463
Mutual funds - equity	8,183,558	12,153,644
Mutual funds - international equity	5,261,032	9,282,967
U.S. government debt securities	4,712,406	1,210,177
Municipal debt securities	1,020,252	931,007
Mutual funds - fixed income	-	15,915,860
	<u>\$ 89,941,519</u>	<u>\$ 85,649,585</u>

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

	<u>2014</u>	<u>2013</u>
Source of investment income:		
Dividends and interest	\$ 1,503,570	\$ 1,368,108
Net realized and unrealized gains on securities	2,913,857	7,729,456
Total investment income	<u>\$ 4,417,427</u>	<u>\$ 9,097,564</u>

**NOTE 4 – RECEIVABLES**

Receivables at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Receivables, net		
Insurance and miscellaneous receivables	\$ 12,296,292	\$ 11,658,341
Assessments receivable	3,329,169	2,940,766
Less allowance for doubtful accounts	<u>(2,052,596)</u>	<u>(1,645,924)</u>
	<u>\$ 13,572,865</u>	<u>\$ 12,953,183</u>
Loans to parishes, schools, institutions, and seminarians, net		
Loans receivable	\$ 21,035,849	\$ 20,977,938
Less allowance for doubtful accounts and loan losses	<u>(4,120,089)</u>	<u>(4,139,048)</u>
	<u>\$ 16,915,760</u>	<u>\$ 16,838,890</u>
Changes in allowance for doubtful accounts and loan losses:		
Beginning balance	\$ 5,784,972	\$ 4,939,572
Bad debt allowance	<u>387,713</u>	<u>845,400</u>
Ending balance	<u>\$ 6,172,685</u>	<u>\$ 5,784,972</u>

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**NOTE 5 – NOTES RECEIVABLE – RELATED PARTIES**

Principal and interest due from related parties at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Catholic Cathedral Corporation of the East Bay, secure note for a principal sum of up to \$75,000,000; interest at 1.75% and 6.4% at December 31, 2014 and 2013, respectively; unpaid principal and interest due October 31, 2017; includes accrued interest of \$2,980,898 and \$5,234,083, respectively.	\$ 67,332,787	\$ 69,560,985
Catholic Cathedral Corporation of the East Bay, unsecured note for a principal sum of up to \$350,000; interest at variable rate, which was 0% at December 31, 2014 and 2013; interest only payments due quarterly; unpaid principal and interest due October 31, 2017; includes accrued interest of \$2,315 for both 2014 and 2013.	219,970	219,970
Roman Catholic Cemeteries of the Diocese of Oakland, unsecured note for a principal sum of up to \$10,000,000; monthly payments of \$85,128, including interest at 6.4%; due January 1, 2021.	<u>6,136,238</u>	<u>6,805,619</u>
	<u>\$ 73,688,995</u>	<u>\$ 76,586,574</u>

Subsequent to December 31, 2014, the Roman Catholic Cemeteries of the Diocese of Oakland paid its note in full as further discussed in Note 20 – Subsequent Events.

**NOTE 6 – LAND HELD FOR SALE**

Land held for sale of \$1,451,766 and \$1,862,745 as of December 31, 2014 and 2013, 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 years ended December 31, 2014 and 2013, there were sales amounting to \$692,951 and \$100,920, respectively, for which the carrying value of the land held was reduced and a gain on the sales recorded in the consolidated statements of activities.

**NOTE 7 – PROPERTY AND EQUIPMENT**

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

	<u>2014</u>	<u>2013</u>
Central Services Administration property and improvements	\$ 6,916,519	\$ 5,513,571
Furniture and equipment	287,513	287,513
Automobiles	179,650	179,650
Land improvements	<u>47,786</u>	<u>47,786</u>
	7,431,468	6,028,520
Less accumulated depreciation	<u>(2,872,713)</u>	<u>(2,838,732)</u>
	4,558,755	3,189,788
Land	<u>15,185,245</u>	<u>6,784,292</u>
	<u>\$ 19,744,000</u>	<u>\$ 9,974,080</u>

Total depreciation for the years ended December 31, 2014 and 2013, amounted to \$105,091 and \$111,272, respectively.

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In 2014, the RCBO received a contribution of real property valued at \$1,900,000. The gift grant deed places restrictions on the use of the property as follows: 1) initially, for a specific order of Carmelite nuns as their convent, and/if the property is no longer used for the Carmelites, then 2) for any other communities, societies or institutions of Roman Catholic religious women, as determined in good faith by the Bishop, and if the property is no longer used for any such group, then 3) unless donor and RCBO otherwise agree, RCBO shall sell the property and share the net proceeds in proportion to (i) the purchase price paid for the property by the donor and (ii) the amount expended by RCBO for capital improvements to the property.

**NOTE 8 – NOTES PAYABLE**

Notes payable at December 31 are as follows:

	<b>2014</b>	<b>2013</b>
Unsecured note payable to an insurance premium financing company, monthly payments of \$235,955 including interest at 2.2%, due May 1, 2015.	\$ 939,511	\$ -
Unsecured note payable to an insurance premium financing company, monthly payments of \$254,155 including interest at 2.2%, due May 1, 2014.	-	1,011,974
Note payable to an individual resulting from the purchase of Furrer Properties, annual principal payments of \$57,500 plus accrued interest at 6%, due through December 31, 2017. The note is secured by the underlying property held by Furrer Properties.	172,500	230,000
	<b>\$ 1,112,011</b>	<b>\$ 1,241,974</b>

Maturities for the notes payable are as follows:

<b>Year Ending December 31,</b>	<b>Payable</b>
2015	\$ 997,011
2016	57,500
2017	57,500
	<b>\$ 1,112,011</b>

**NOTE 9 – BONDS PAYABLE**

The Central Services Administration entered into a credit facility effective November 13, 2007, for a total amount of \$114,700,000. The basic terms of the debt facility are as follows:

- General obligation taxable bonds, stated interest rate of 6.04%
- 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 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. Cumulative amortization amounted to \$2,219,561 and \$1,844,774 as of December 31, 2014 and 2013, respectively. In addition, original bond issuance costs of \$1,373,085 were incurred and are being amortized ratably over the lives of the bonds.

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The bonds carry various financial reporting requirements for the obligated group. The obligated group must also provide the bond trustee combined consolidated 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>
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>\$ 111,033,333</u>	<u>\$ 114,700,000</u>	<u>\$ 20,196,752</u>	<u>\$ 21,351,400</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 the Diocese of Oakland have granted a security interest in certain of their investment accounts to bondholders through U.S. Bank National Association. These diocesan entities are to maintain cash and investments in these pledged accounts in an aggregate amount equal to 60% of the then outstanding amount of the bonds.

The required investment balance (i.e., security) is 110% of the amount of cash and investments determined pursuant to the terms above; the required investment balance has been maintained each year since the issuance of the bonds.

A covenant waiver and amendment to the bond trust indenture was executed October 26, 2009, to allow for certain real property holdings, in lieu of adding additional cash or investments, to satisfy the required investment balance at November 1, 2009, not to exceed \$15 million of the required amount. The amendment will renew automatically each November 1, unless cancelled by either party 90 days prior to the renewal date. Such automatic renewal occurred on November 1, 2014, and the obligated group continues to satisfy the required investment balance. In 2015, the encumbrances of certain real property were removed.

**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 a captive mutual insurance company, The Ordinary Mutual (“TOM”), which is now in “run-off”. As of November 14, 2011, and by unanimous agreement of its membership, TOM no longer provides liability coverage. On November 15, 2011, the Diocese and three other Roman Catholic Dioceses and one Archdiocese, all members of TOM previously, formed a new risk retention group known as the Western Catholic Insurance Company (“WCIC”), to secure general liability and automobile insurance coverage. Sexual misconduct coverage, formerly provided by TOM, is now purchased commercially through an insurance carrier syndicate. Although actuarially unlikely, amounts may be assessed periodically by WCIC to maintain minimum capitalization and reserve requirements. At December 31, 2014 and 2013, no such assessments were outstanding and \$221,972 was invested in WCIC as the Diocese’s portion of total capitalization required by the Vermont Department of Insurance to adequately fund the new risk retention group.

The Diocese, along with various other religious organizations of the Roman Catholic Church, is a Trustor 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 to maintain minimum reserves in the trust fund. At December 31, 2014 and 2013, the RETA has not assessed any assessments nor were any assessments pending.

**NOTE 11 – 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 25 hours or more per week. Annual contributions to the plan were 5% (for cemeteries) or 8% (all others) of the compensation of all eligible lay employees in 2014 and 2013. 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, 2014 and 2013, were \$313,956 and \$290,307, respectively.

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**NOTE 12 – CLERGY RETIREMENT COSTS**

Diocesan priests are covered by two Diocesan-sponsored defined benefit retirement plans (“Plans”). The Central Services Administration is required under FASB ASC 715-20-50 to present the difference between assets of the Plans and the Plans’ actuarial obligations as an asset or liability of the Central Services Administration, depending on the funding status of the Plans. At December 31, 2014 and 2013, the Plans had combined actuarial obligations in excess of the Plans’ assets of \$7,451,000 and \$4,919,000, 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>2014</u>	<u>2013</u>
Benefit obligations at beginning of year	\$ 18,865,000	\$ 18,628,000
Liability loss due to re-measurement at beginning of the year	134,000	-
Increase (decrease) due to:		
Service cost	601,000	509,000
Interest cost	874,000	652,000
Actual benefit payments	(1,060,000)	(1,020,000)
Administrative expenses	(54,000)	(121,000)
	<u>361,000</u>	<u>20,000</u>
Expected benefit obligations at end of year	19,360,000	18,648,000
Loss (gain) during the year due to change in assumptions	1,915,000	(1,843,000)
Additional liability due to plan amendment	991,000	2,060,000
Accumulated benefit obligations at end of year	<u>\$ 22,266,000</u>	<u>\$ 18,865,000</u>
Plan assets at fair value	<u>\$ 14,815,000</u>	<u>\$ 13,946,000</u>
Unfunded status	<u>\$ (7,451,000)</u>	<u>\$ (4,919,000)</u>

The components of pension expense are as follows:

	<u>2014</u>	<u>2013</u>
Service cost	\$ 601,000	\$ 509,000
Interest cost	874,000	652,000
Return on plan assets:		
Actual return - (gain)	(966,000)	(2,126,000)
Deferred (loss) gain	(9,000)	1,287,000
	<u>(975,000)</u>	<u>(839,000)</u>
Amortization:		
Unrecognized prior service cost	337,000	134,000
Unrecognized net loss	25,000	173,000
	<u>362,000</u>	<u>307,000</u>
Net periodic pension expense	<u>\$ 862,000</u>	<u>\$ 629,000</u>

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The components of net (gain) loss are as follows:

	<u>2014</u>	<u>2013</u>
Asset loss (gain) during the year:		
Expected fair value at December 31	\$ 14,824,000	\$ 12,659,000
Plan assets at fair value at December 31	<u>14,815,000</u>	<u>13,946,000</u>
Asset loss (gain)	9,000	(1,287,000)
Liability loss due to re-measurement at beginning of year	134,000	-
Liability loss (gain) during the year due to change in assumptions	<u>1,915,000</u>	<u>(1,843,000)</u>
Net loss (gain) during the year	<u>\$ 2,058,000</u>	<u>\$ (3,130,000)</u>

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

	<u>2014</u>	<u>2013</u>
Discount rate	3.65%	4.49%
Rate of compensation increase	N/A	N/A
Assumed future annual benefit increases	0.00%	0.00%

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

	<u>2014</u>	<u>2013</u>
Discount rate	4.49%	3.60%
Expected long-term return on plan assets	7.00%	7.00%
Assumed future annual benefit increases	0.00%	0.00%

Employer contributions for December 31, 2014 and 2013 were \$1,017,000 and \$933,000, respectively.

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 includes highly liquid government bonds, mortgage products, and exchange-traded equities. The fair value, categories, and levels at December 31 are as follows:

<u>Asset Category</u>	<u>Fair Value Measurement</u>	<u>2014</u>	<u>2013</u>
Corporate equity securities	Level 1	\$ 6,147,000	\$ 4,994,000
Mortgage pools and asset backed	Level 2	1,460,000	1,513,000
Corporate debt securities	Level 2	1,559,000	1,676,000
Municipal debt securities	Level 2	181,000	250,000
U.S. government debt securities	Level 2	559,000	372,000
Cash and money market funds	Level 1	1,578,000	1,877,000
Mutual funds - equity	Level 1	3,219,000	979,000
Mutual funds - international equity	Level 1	112,000	2,202,000
Mutual funds - fixed income	Level 1	-	83,000
		<u>\$ 14,815,000</u>	<u>\$ 13,946,000</u>

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<u>Asset Category</u>	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
	<u>Diocesan Approved Asset Allocation Range</u>	<u>Actual Percentage of Plan Assets</u>	<u>Diocesan Approved Asset Allocation Range</u>	<u>Actual Percentage of Plan Assets</u>
Fixed Investments	16% to 33%	25%	16% to 33%	28%
Equities	39.5% to 80.5%	50%	39.5% to 80.5%	45%
Cash	0% to 7.5%	11%	0% to 7.5%	13%
Opportunistic	5% to 20%	14%	5% to 20%	14%

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

	<u>2014</u>	<u>2013</u>
Unrecognized prior service costs	\$ 4,119,000	\$ 3,465,000
Unrecognized net loss	\$ 3,216,000	\$ 1,183,000

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>
2015	\$ 1,259,000
2016	1,367,000
2017	1,402,000
2018	1,347,000
2019	1,387,000
2020-2024	7,256,000

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 13 – 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 health, dental and vision benefits to retired diocesan priests not otherwise covered by another plan. Effective January 1, 2011, the plan was changed from a self-insured program to one whose benefits supplement coverage provided by Medicare Part A and Part B via a comprehensive Medicare Supplement Plan F insurance plan (for medical costs beyond Medicare coverage) and Medicare Part D Rx plan (for prescription drug coverage). The premiums for both supplemental components are paid fully by the Central Services Administration; retirees are responsible for only specified plan co-pays. The dental benefit is limited to \$1,500 annually. The dental and vision benefits contain inside limits.

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. The following table (based on projected actuarial data) sets forth the plan's funded status and amounts recognized for the entire plan as of December 31:

	<u>2014</u>	<u>2013</u>
Actuarial present value of benefit obligations		
Accumulated benefit obligation	\$ 7,747,096	\$ 3,478,240
Projected benefit obligation in excess of plan assets	\$ 7,747,096	\$ 3,478,240

*See accompanying report and consolidated financial statements.*

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The discount rate used to determine benefit obligations was 3.93% and 4.49% for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, medical and prescription drug premium cost trends were graded from a 7% annual increase down to a 5% annual increase over the next four years and at a level 5% annual increase thereafter. Dental and vision benefits costs are assumed to increase at 4% per year, while administrative costs are assumed to increase by 3% per year. At December 31, 2013, medical and prescription drug premium costs trends were graded from a 7.5% annual increase down to a 5% annual increase over the next five years and at a level 5% annual increase thereafter. Dental and vision costs trends going forward were assumed to be a level 5% annual increase. Benefits expected to be paid by year are expected to be met in full by assessments to parishes and Diocesan institutions.

**NOTE 14 - DESIGNATED NET ASSETS**

Unrestricted net assets have been designated for the following purposes:

	<u>2014</u>	<u>2013</u>
Property self-insurance deductible reserves	\$ 1,648,013	\$ 1,704,908
Uninsured liability self-insurance reserves	4,838,906	3,392,418
Clergy uninsured medical expenses reserves	-	692,897
Seminarian formation	250,000	-
	<u>\$ 6,736,919</u>	<u>\$ 5,790,223</u>

**NOTE 15 - TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2014</u>	<u>2013</u>
Assistance to homeless women and children	\$ 97,975	\$ 97,975
Assistance to needy students at Catholic institutions of higher learning	311,009	311,009
Seminarian fund	453,742	431,885
SPRED	245,778	235,595
Assistance to needy students attending Catholic high schools	79,956	43,882
	<u>\$ 1,188,460</u>	<u>\$ 1,120,346</u>
Assets released from restrictions during the year		
Assistance to homeless women and children	\$ -	\$ 32,650
Seminarian fund	10,495	5,918
SPRED	50,292	39,622
	<u>\$ 60,787</u>	<u>\$ 78,190</u>

Income from the Central Services Administration's permanently restricted net assets is restricted for the seminarian fund and financial assistance for Catholic high school education.

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**NOTE 16 – FUNCTIONAL CLASSIFICATION**

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

	<u>2014</u>	<u>2013</u>
Program services		
Parishes and schools	\$ 7,852,177	\$ 4,099,533
Office of the Chancellor	2,330,345	2,454,763
Communications	442,419	433,105
Pastoral Life	1,445,502	1,972,975
Services & Administration	-	32,650
Resources	642,112	650,866
Canon Law	583,451	559,822
Office of the Bishop	871,252	998,931
Catholic Voice	1,132,003	1,116,207
Contribution to Christ the Light Cathedral Corporation	-	5,756,497
	<u>15,299,261</u>	<u>18,075,349</u>
Supporting services		
Management and general	7,220,345	8,249,510
Development	1,046,121	1,110,914
	<u>8,266,466</u>	<u>9,360,424</u>
	<u>\$ 23,565,727</u>	<u>\$ 27,435,773</u>

**NOTE 17 – 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 \$1,350,400 in such payments for each of the years ended December 31, 2014 and 2013.

The Central Services Administration pays the Catholic Cathedral Corporation of the East Bay use fees (i.e., rent) for the use of its office and residential space at the Cathedral Center. Such use fees were \$1,737,736 and \$1,609,627 for the years ended December 31, 2014 and 2013, respectively.

**NOTE 18 – LITIGATION**

The Diocese is involved in various lawsuits relating to general liability matters, which include claims of alleged sexual misconduct. The Diocese has established protocols, consistent with the norms of the U.S. Conference of Catholic Bishops, which provide safeguards and policies to prevent future claims of sexual misconduct.

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

**NOTE 19 – FAIR VALUE MEASUREMENTS**

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 statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

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*Marketable securities - pooled investments* – Investments in securities with a maturity date greater than 90 days at the date of purchase and other securities for which there is more than an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal are classified as marketable securities. The Central Services Administration generally measures fair value using prices obtained from pricing services. Pricing methodologies and inputs to valuation models used by the pricing services depend on the security type (i.e., asset class). Where possible, fair values are generated using market inputs including quoted prices and other market information. For fixed income securities not actively traded, the pricing services use alternative methods to determine fair value for the securities, including: quotes for similar fixed-income securities, matrix pricing, discounted cash flow using benchmark curves, or other factors to determine fair value. A review is performed on the security prices received from our pricing services, which includes discussion and analysis of the inputs used by the pricing services to value our securities. The underlying securities held in the various portfolios of the Roman Catholic Bishop of Oakland do not require any redemption notice and are not restricted in terms of redemption frequency.

*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 consolidated statements of financial position, approximates fair value.

*Bonds payable, net of discount* – The bonds payable are stated at the carrying amount using a long-term, fixed rate to calculate the obligation. Fair value is estimated using future cash flows discounted at a rate of interest currently offered for debt with similar remaining maturities.

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Nonrecurring fair value measurements relate to the fair value of receivables, deposits payable, and notes payable for which the carrying value approximates the fair value. The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014 and 2013, respectively:

	<b>Fair Value Measurements Using</b>		
	<b>Fair Value</b>	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
<b>As of December 31, 2014:</b>			
Assets			
Marketable securities - pooled investments			
Corporate equity securities	\$ 18,099,047	\$ 18,099,047	\$ -
Mortgage pools and asset backed securities	8,549,359	-	8,549,359
Corporate debt securities	10,612,335	-	10,612,335
Municipal debt securities	1,020,252	-	1,020,252
U.S. government debt securities	4,712,406	-	4,712,406
Cash and money market funds	33,503,530	33,503,530	-
Mutual funds - equity	8,183,558	8,183,558	-
Mutual funds - international equity	5,261,032	5,261,032	-
Assets held in trust for others			
Corporate equity securities	561,101	561,101	-
Mortgage pools and asset backed securities	198,425	-	198,425
Corporate debt securities	246,305	-	246,305
Municipal debt securities	23,679	-	23,679
U.S. government debt securities	109,372	-	109,372
Cash and money market funds	80,975	80,975	-
Mutual funds - equity	259,410	259,410	-
Mutual funds - international equity	163,652	163,652	-
Total assets at fair value	<u>\$ 91,584,438</u>	<u>\$ 66,112,305</u>	<u>\$ 25,472,133</u>
Liabilities			
Assets held in trust for others			
Corporate equity securities	\$ 561,101	\$ 561,101	\$ -
Mortgage pools and asset backed securities	198,425	-	198,425
Corporate debt securities	246,305	-	246,305
Municipal debt securities	23,679	-	23,679
U.S. government debt securities	109,372	-	109,372
Cash and money market funds	80,975	80,975	-
Mutual funds - equity	259,410	259,410	-
Mutual funds - international equity	163,652	163,652	-
Equity of others in pooled investments	16,627,981	-	16,627,981
Bonds payable, net of discount	101,986,554	-	101,986,554
Total liabilities at fair value	<u>\$ 120,257,454</u>	<u>\$ 1,065,138</u>	<u>\$ 119,192,316</u>

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	<u>Fair Value Measurements Using</u>		
	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
<b>As of December 31, 2013:</b>			
Assets			
Marketable securities - pooled investments			
Corporate equity securities	\$ 28,431,271	\$ 28,431,271	\$ -
Mortgage pools and asset backed securities	5,859,463	-	5,859,463
Corporate debt securities	6,933,553	-	6,933,553
Municipal debt securities	931,007	-	931,007
U.S. government debt securities	1,210,177	-	1,210,177
Cash and money market funds	4,931,643	4,931,643	-
Mutual funds - equity	12,153,644	12,153,644	-
Mutual funds - international equity	9,282,967	9,282,967	-
Mutual funds - fixed income	15,915,860	15,915,860	-
Assets held in trust for others			
Corporate equity securities	507,630	507,630	-
Mortgage pools and asset backed securities	118,739	-	118,739
Corporate debt securities	140,505	-	140,505
Municipal debt securities	18,866	-	18,866
U.S. government debt securities	24,524	-	24,524
Cash and money market funds	80,351	80,351	-
Mutual funds - equity	249,009	249,009	-
Mutual funds - international equity	165,756	165,756	-
Mutual funds - fixed income	322,527	322,527	-
Total assets at fair value	<u>\$ 87,277,492</u>	<u>\$ 72,040,658</u>	<u>\$ 15,236,834</u>
Liabilities			
Assets held in trust for others			
Corporate equity securities	\$ 507,630	\$ 507,630	\$ -
Mortgage pools and asset backed securities	118,739	-	118,739
Corporate debt securities	140,505	-	140,505
Municipal debt securities	18,866	-	18,866
U.S. government debt securities	24,524	-	24,524
Cash and money market funds	80,351	80,351	-
Mutual funds - equity	249,009	249,009	-
Mutual funds - international equity	165,756	165,756	-
Mutual funds - fixed income	322,527	322,527	-
Equity of others in pooled investments	19,062,171	-	19,062,171
Bonds payable, net of discount	101,051,064	-	101,051,064
Total liabilities at fair value	<u>\$ 121,741,142</u>	<u>\$ 1,325,273</u>	<u>\$ 120,415,869</u>

There were no Level 3 investments for the years ended December 31, 2014 or 2013.

Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

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**NOTE 20 – SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the consolidated statement of financial position date, but before consolidated financial statements are issued. The Central Services Administration recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Central Services Administration's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position, but arose after the consolidated statement of financial position date and before consolidated financial statements are issued.

In February 2015, the note receivable from Roman Catholic Cemeteries of the Diocese of Oakland ("RCC") was paid in full through the liquidation of investments executed as part of the debt reduction and restructure plan of the Diocese of Oakland. RCC liquidated approximately \$20,000,000 in investments, paid off its note to RCBO, and loaned the balance of \$13,761,264 to RCBO. The loan is represented by an unsecured note with an interest rate of 2.5% per annum, interest payable semi-annually, and no scheduled maturity date.

The Central Services Administration has evaluated all subsequent events through June 12, 2015, which is the date the consolidated financial statements were available for issuance.