



Report of Independent Auditors and
Consolidated Financial Statements

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

December 31, 2012 and 2011

MOSS ADAMS LLP

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 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, 2012 and 2011, 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 that are 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 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Francisco, California
June 13, 2013

CONSOLIDATED FINANCIAL STATEMENTS

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 10,829,826	\$ 10,457,831
Restricted cash and cash equivalents	1,155,202	1,155,000
Marketable securities - pooled investments	71,283,781	61,521,617
Receivables, net	11,907,775	11,392,696
Prepaid expenses and deposits	2,212,839	2,079,205
Bond issuance costs, net	669,424	805,617
Loans to parishes, schools, institutions, and seminarians, net	19,772,462	23,998,220
Notes receivable - related parties	74,043,818	73,281,598
Assets held in trust for others	1,610,439	1,419,652
Beneficial interest in the Cathedral of Christ the Light	5,756,497	5,756,497
Land held for sale	1,932,131	1,996,179
Property and equipment, net	10,260,673	10,379,174
Total assets	<u>\$ 211,434,867</u>	<u>\$ 204,243,286</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 3,580,459	\$ 2,799,074
Deferred revenue	4,288,871	4,069,030
Deposits payable	38,742,837	34,468,899
Notes payable	1,520,773	1,517,645
Agency funds	1,431,309	1,927,415
Assets held in trust for others	1,610,439	1,419,652
Equity of others in pooled investments	14,135,243	12,296,714
Post-retirement employment benefits liability	2,491,375	2,534,147
Liability for pension benefits	6,600,000	5,667,000
Bonds payable, net of discount	112,772,687	112,442,589
Total liabilities	<u>187,173,993</u>	<u>179,142,165</u>
NET ASSETS		
Unrestricted		
Undesignated	17,907,310	19,773,584
Designated	4,826,626	4,380,982
Temporarily restricted	804,968	811,591
Permanently restricted	721,970	134,964
Total net assets	<u>24,260,874</u>	<u>25,101,121</u>
Total liabilities and net assets	<u>\$ 211,434,867</u>	<u>\$ 204,243,286</u>

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2012 and 2011**

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Bishop's Annual Appeal	\$ 2,002,819	\$ -	\$ -	\$ 2,002,819	\$ 1,920,713	\$ -	\$ -	\$ 1,920,713
Parish assessments	5,421,363	-	-	5,421,363	5,434,072	-	-	5,434,072
Gifts, grants and bequests	488,895	3	587,006	1,075,904	657,598	447	-	658,045
Dividends and interest	1,435,456	12,946	-	1,448,402	1,211,436	20,998	-	1,232,434
Ministerial department revenue	1,101,924	-	-	1,101,924	1,152,496	-	-	1,152,496
Catholic Voice	1,190,470	-	-	1,190,470	1,125,533	-	-	1,125,533
Cemetery rent	1,350,400	-	-	1,350,400	1,350,400	-	-	1,350,400
Interest income on deposit and loan fund	1,203,538	-	-	1,203,538	1,325,234	-	-	1,325,234
Insurance revenue, net	2,070,443	-	-	2,070,443	1,827,911	-	-	1,827,911
Other income	774,114	-	-	774,114	1,102,038	-	-	1,102,038
Net assets released from purpose restrictions	45,117	(45,117)	-	-	61,607	(61,607)	-	-
Total revenues	17,084,539	(32,168)	587,006	17,639,377	17,169,038	(40,162)	-	17,128,876
EXPENSES								
Central Services								
Services and Administration	56,043	-	-	56,043	90,861	-	-	90,861
Pastoral Life	1,803,392	-	-	1,803,392	1,873,976	-	-	1,873,976
Resources	2,147,518	-	-	2,147,518	1,968,019	-	-	1,968,019
Cannon Law	510,929	-	-	510,929	448,759	-	-	448,759
Office of the Chancellor	2,485,890	-	-	2,485,890	2,240,102	-	-	2,240,102
Communications	418,101	-	-	418,101	497,974	-	-	497,974
Office of the Bishop	923,053	-	-	923,053	930,695	-	-	930,695
Catholic Voice	1,155,136	-	-	1,155,136	1,153,365	-	-	1,153,365
Parishes, Schools/Diocesan General								
Interest expense on deposit and loan fund	727,763	-	-	727,763	644,261	-	-	644,261
School subsidies	455,641	-	-	455,641	487,536	-	-	487,536
Parish subsidies	125,799	-	-	125,799	183,247	-	-	183,247
Capital grants	127,369	-	-	127,369	117,125	-	-	117,125
Clergy retirement	904,991	-	-	904,991	136,966	-	-	136,966
Unassigned clergy	531,525	-	-	531,525	463,970	-	-	463,970
Legal expenses	1,287,115	-	-	1,287,115	672,613	-	-	672,613
Professional fees	537,018	-	-	537,018	544,720	-	-	544,720
Provision for uncollectible receivables and loans	1,884,148	-	-	1,884,148	670,579	-	-	670,579
Overhead	3,219,764	-	-	3,219,764	3,195,727	-	-	3,195,727
Total expenses	19,301,195	-	-	19,301,195	16,320,495	-	-	16,320,495
CHANGE IN NET ASSETS BEFORE OTHER INCOME (LOSSES)	(2,216,656)	(32,168)	587,006	(1,661,818)	848,543	(40,162)	-	808,381

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENTS OF ACTIVITIES (continued)
Years Ended December 31, 2012 and 2011**

	2012			2011				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OTHER INCOME (LOSSES)								
Gain on sale of land, property and equipment	1,128	-	-	1,128	2,335,811	-	-	2,335,811
Interest income on notes to related parties	4,089,588	-	-	4,089,588	4,078,193	-	-	4,078,193
Bonds and other financing interest expense	(7,312,108)	-	-	(7,312,108)	(7,292,542)	-	-	(7,292,542)
Net realized and unrealized gains (losses) on marketable securities	4,963,418	25,545	-	4,988,963	(2,130,559)	4,562	-	(2,125,997)
Total other income (losses)	1,742,026	25,545	-	1,767,571	(3,009,097)	4,562	-	(3,004,535)
CHANGE IN NET ASSETS BEFORE IMPACT OF PENSION-RELATED CHANGES	(474,630)	(6,623)	587,006	105,753	(2,160,554)	(35,600)	-	(2,196,154)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	(946,000)	-	-	(946,000)	(2,229,000)	-	-	(2,229,000)
CHANGE IN NET ASSETS	(1,420,630)	(6,623)	587,006	(840,247)	(4,389,554)	(35,600)	-	(4,425,154)
NET ASSETS, beginning of year	24,154,566	811,591	134,964	25,101,121	28,544,120	847,191	134,964	29,526,275
NET ASSETS, end of year	<u>\$ 22,733,936</u>	<u>\$ 804,968</u>	<u>\$ 721,970</u>	<u>\$ 24,260,874</u>	<u>\$ 24,154,566</u>	<u>\$ 811,591</u>	<u>\$ 134,964</u>	<u>\$ 25,101,121</u>

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF OAKLAND,
CENTRAL SERVICES ADMINISTRATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (840,247)	\$ (4,425,154)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized (gains) losses on investments	(4,988,963)	2,125,997
Change in allowance for doubtful accounts	1,792,579	214,748
Amortization of bond issuance costs	136,193	136,192
Depreciation	121,807	132,873
Gain on sale of land, property and equipment	(1,128)	(2,335,811)
Amortization of discount on bonds payable	330,098	309,793
Changes in operating assets and liabilities:		
Receivables	(1,073,309)	27,961
Prepaid expenses and deposits	(133,634)	(231,893)
Accounts payable and accrued liabilities	781,385	18,880
Deferred revenue	219,841	266,016
Post-retirement employee benefits liability	(42,772)	(910,785)
Liability for pension benefits	933,000	2,194,000
Net cash used in operating activities	<u>(2,765,150)</u>	<u>(2,477,183)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash and cash equivalents	(202)	(190)
Purchases of marketable securities – pooled investment	(12,904,887)	(8,563,485)
Proceeds from sales of marketable securities – pooled investments	10,131,685	2,379,790
Loans made to parishes, schools, institutions, and seminarians	(1,533,446)	(2,979,904)
Payments received on loans made to parishes, schools, institutions, and seminarians	4,524,855	4,268,224
Loans made to related parties	(5,015,301)	(5,440,075)
Payments received from related parties	2,253,081	6,948,536
Purchases of land, property, and equipment	(3,306)	(56,444)
Proceeds from sale of land, property, and equipment	65,176	2,673,196
Net cash used in investing activities	<u>(2,482,346)</u>	<u>(770,352)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits made to deposits payable	9,237,062	9,432,249
Withdrawals from deposits payable	(4,963,124)	(5,534,457)
Proceeds from notes payable	3,066,151	2,528,512
Payments on notes payable	(3,063,022)	(2,313,008)
Change in agency funds	(496,106)	(107,338)
Change in equity of others in pooled investments	1,838,529	(613,841)
Net cash provided by financing activities	<u>5,619,490</u>	<u>3,392,117</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	371,995	144,582
CASH AND CASH EQUIVALENTS, beginning of year	<u>10,457,831</u>	<u>10,313,249</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 10,829,826</u>	<u>\$ 10,457,831</u>
SUPPLEMENTAL DISCLOSURES OF NON CASH INFORMATION		
Interest paid	<u>\$ 7,734,134</u>	<u>\$ 7,961,936</u>
Income taxes paid	<u>\$ 37,000</u>	<u>\$ 45,814</u>
Marketable securities – pooled investments received as loan payment from related party	<u>\$ 2,000,000</u>	<u>\$ -</u>

See accompanying notes.

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

NOTE 1 – ORGANIZATION

The Roman Catholic Bishop of Oakland, a California corporation sole (“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, and (viii) various activities, institutions, and unincorporated associations (including parishes and schools) operate as the Roman Catholic Diocese of Oakland in Alameda and Contra Costa County (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 23701(d), 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, 2012 or 2011 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.

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 statement of activities as net assets released from restriction.

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

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, 2012 and 2011, the Central Services Administration had \$721,970 and \$134,964 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, 2012 and 2011, exceeded federal depository insurance coverage. The Central Services Administration has not experienced any losses in such accounts.

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 \$1,155,202 and \$1,155,000 as of December 31, 2012 and 2011, respectively. The Central Services Administration has invested these funds in cash and cash equivalents. The balances held in restricted cash at December 31, 2012 and 2011, 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 \$14,135,243 and \$12,296,714 as of December 31, 2012 and 2011, 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 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 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**

Interest accrues on loans receivable daily in accordance with the interest rates applicable to the loans. The average annual interest rate on loans in 2012 and 2011 was 4.86% and 4.91%, 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.

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 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 fair value estimate is based on the appraisal performed by a third party specialist annually using unobservable inputs supported by little or no market activity and is therefore classified within Level 3 of the valuation hierarchy.

Beneficial interest in 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 equal to the sum of construction costs, debt service, and administrative expenses.

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 pooled investment accounts. The average annual interest rate paid on deposits in 2012 and 2011 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 disbursed to the designated institution; and bequests held and administered for Diocesan entities.

Equity of others in pooled investments – The endowment pool and fixed income pool were established for participating parishes, schools and other Diocesan institutions with long-term investment horizons, moderate growth and income requirements, and moderate risk objectives. The pools invest in stocks and bonds. The pools are 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.

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

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.

The Central Services Administration has evaluated all subsequent events through June 13, 2013, which is the date the consolidated financial statements were available for issuance.

NOTE 3 – MARKETABLE SECURITIES – POOLED INVESTMENTS

Marketable securities at December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Corporate equity securities	\$ 19,208,742	\$ 23,245,752
Mortgage pools and asset backed	4,125,260	663,359
Corporate debt securities	5,874,865	3,766,340
Municipal debt securities	952,393	649,348
U.S. government debt securities	2,467,676	4,386,983
Cash and money market funds	3,398,269	4,117,039
Mutual funds - equity	8,729,932	5,289
Mutual funds - international equity	12,885,620	7,255,097
Mutual funds - fixed income	13,641,024	17,432,410
	<u>\$ 71,283,781</u>	<u>\$ 61,521,617</u>

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

	<u>2012</u>	<u>2011</u>
Source of investment income:		
Dividends	\$ 952,349	\$ 741,583
Interest	496,053	490,851
	1,448,402	1,232,434
Net realized and unrealized gains (losses) on securities	4,988,963	(2,125,997)
Total investment income (loss)	<u>\$ 6,437,365</u>	<u>\$ (893,563)</u>

See accompanying report and consolidated financial statements.

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

NOTE 4 - RECEIVABLES

Receivables at December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Receivables, net		
Insurance and miscellaneous receivables	\$ 9,751,883	\$ 9,507,528
Assessments receivable	2,958,266	2,779,312
Bequests receivable	650,000	-
Less allowance for doubtful accounts	<u>(1,452,374)</u>	<u>(894,144)</u>
	<u>\$ 11,907,775</u>	<u>\$ 11,392,696</u>
Loans to parishes, schools, institutions, and seminarians, net		
Loans receivable	\$ 23,259,659	\$ 26,251,068
Less allowance for doubtful accounts and loan losses	<u>(3,487,197)</u>	<u>(2,252,848)</u>
	<u>\$ 19,772,462</u>	<u>\$ 23,998,220</u>
Changes in allowance for doubtful accounts and loan losses:		
Beginning balance	\$ 3,146,992	\$ 3,169,978
Accounts written off	-	(237,734)
Bad debt allowance	<u>1,792,579</u>	<u>214,748</u>
Ending balance	<u>\$ 4,939,571</u>	<u>\$ 3,146,992</u>

NOTE 5 - NOTES RECEIVABLE - RELATED PARTIES

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

	<u>2012</u>	<u>2011</u>
Catholic Cathedral Corporation of the East Bay, unsecured note for a principal sum of up to \$75,000,000; interest at 6.4%; unpaid principal and interest due October 31, 2017; includes accrued interest of \$2,113,038 and \$1,254,999, respectively	\$ 66,339,693	\$ 64,991,440
Catholic Cathedral Corporation of the East Bay, unsecured note for a principal sum of up to \$350,000; interest at variable rate, which was 4.22% at December 31, 2012 and 2011; interest only payments due quarterly; unpaid principal and interest due October 31, 2017; includes accrued interest of \$2,315 for both 2012 and 2011	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	7,484,155	8,070,188
	<u>\$ 74,043,818</u>	<u>\$ 73,281,598</u>

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NOTE 6 - LAND HELD FOR SALE

Land held for sale of \$1,932,131 and \$1,996,179 as of December 31, 2012 and 2011, 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, 2012 and 2011, there were sales amounting to \$65,176 and \$69,773, respectively, for which the carrying value of the land held was reduced and a gain on the sales recorded in the consolidated statement of activities.

NOTE 7 - PROPERTY AND EQUIPMENT

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

	<u>2012</u>	<u>2011</u>
Central Services Administration property and improvements	\$ 5,942,605	\$ 5,942,605
Furniture and equipment	280,788	277,482
Automobiles	185,899	185,899
Land improvements	<u>47,786</u>	<u>47,786</u>
	6,457,078	6,453,772
Less accumulated depreciation	<u>(3,181,161)</u>	<u>(3,059,354)</u>
	3,275,917	3,394,418
Land	<u>6,984,756</u>	<u>6,984,756</u>
	<u>\$ 10,260,673</u>	<u>\$ 10,379,174</u>

Total depreciation for the years ended December 31, 2012 and 2011, amounted to \$121,807 and \$132,873, respectively.

NOTE 8 - NOTES PAYABLE

Notes payable at December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Unsecured note payable to an insurance premium financing company, monthly payments of \$309,747 including interest at 2.2%, due May 1, 2013	\$ 1,233,273	\$ -
Unsecured note payable to an insurance premium financing company, monthly payments of \$217,145 including interest at 2.96%, due May 1, 2012	-	862,983
Unsecured note payable to an insurance premium financing company, monthly payments of \$78,001 including interest at 2.96%, due May 1, 2012	-	309,662
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.	<u>287,500</u>	<u>345,000</u>
	<u>\$ 1,520,773</u>	<u>\$ 1,517,645</u>

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Maturities for the notes payable are as follows:

<u>Year ending December 31,</u>	<u>Payable</u>
2013	\$ 1,290,773
2014	57,500
2015	57,500
2016	57,500
Thereafter	57,500
	<u>\$ 1,520,773</u>

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 \$1,493,041 and \$1,162,943 as of December 31, 2012 and 2011, respectively. 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 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>
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>\$ 34,052,512</u>	<u>\$ 35,207,160</u>

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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 bondholders through Deutsche Bank National Trust Company. 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.

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, 2012, and the obligated group continues to satisfy the required investment balance.

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, 2012 and 2011, 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, 2012 and 2011, 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 believes associated insurance reserves are sufficient to cover any future claims costs.

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 8% of the compensation of all eligible lay employees in 2012 and 2011. 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, 2012 and 2011, were \$278,486 and \$267,257, respectively.

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, 2012 and 2011, the Plans had combined actuarial obligations in excess of the Plans’ assets of \$6,600,000 and \$5,667,000, respectively, which were reported as a liability of the Central Services Administration.

See accompanying report and consolidated financial statements.

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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>2012</u>	<u>2011</u>
Benefit obligations at beginning of year	\$ 16,109,000	\$ 14,826,000
Liability (gain) loss due to re-measurement at beginning of the year	1,027,000	(50,000)
Increase (decrease) due to:		
Service cost	463,000	379,000
Interest cost	723,000	738,000
Actual benefit payments	(945,000)	(1,012,000)
Administrative expenses	(32,000)	(48,000)
	<u>209,000</u>	<u>57,000</u>
Expected benefit obligations at end of year	17,345,000	14,833,000
Loss during the year due to change in assumptions	1,283,000	1,276,000
Accumulated benefit obligations at end of year	<u>\$ 18,628,000</u>	<u>\$ 16,109,000</u>
Plan assets at fair value	<u>\$ 12,028,000</u>	<u>\$ 10,442,000</u>
Unfunded status	<u>\$ (6,600,000)</u>	<u>\$ (5,667,000)</u>

The components of pension expense are as follows:

	<u>2012</u>	<u>2011</u>
Service cost	\$ 463,000	\$ 379,000
Interest cost	723,000	738,000
Return on plan assets:		
Actual return - (gain) loss	(1,814,000)	328,000
Deferred gain (loss)	1,049,000	(1,154,000)
	<u>(765,000)</u>	<u>(826,000)</u>
Amortization:		
Unrecognized prior service cost	134,000	134,000
Unrecognized net loss	181,000	17,000
	<u>315,000</u>	<u>151,000</u>
Net periodic pension expense	<u>\$ 736,000</u>	<u>\$ 442,000</u>

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

	<u>2012</u>	<u>2011</u>
Asset (gain) loss during the year:		
Expected fair value at December 31	\$ 10,979,000	\$ 11,596,000
Plan assets at fair value at December 31	12,028,000	10,442,000
Asset (gain) loss	(1,049,000)	1,154,000
Liability (gain) loss due to re-measurement at beginning of year	1,027,000	(50,000)
Liability loss during the year	1,283,000	1,276,000
Net loss during the year	<u>\$ 1,261,000</u>	<u>\$ 2,380,000</u>

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

	<u>2012</u>	<u>2011</u>
Discount rate	3.60%	4.34%
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>2012</u>	<u>2011</u>
Discount rate	4.34%	5.20%
Expected long-term return on plan assets	7.50%	7.50%
Assumed future annual benefit increases	0.00%	0.00%

Employer contributions for December 31, 2012 and 2011, were \$749,000 and \$477,000, 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 include 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>2012</u>	<u>2011</u>
Corporate equity securities	Level 1	\$ 6,437,000	\$ 7,351,000
Mortgage pools and asset backed	Level 2	1,000,000	1,111,000
Corporate debt securities	Level 2	1,090,000	1,108,000
Municipal debt securities	Level 2	160,000	171,000
U.S. government debt securities	Level 1	1,948,000	134,000
Cash and money market funds	Level 1	1,198,000	427,000
Mutual funds - equity	Level 1	44,000	-
Mutual funds - international equity	Level 1	66,000	-
Mutual funds - fixed income	Level 1	85,000	140,000
		<u>\$ 12,028,000</u>	<u>\$ 10,442,000</u>

<u>Asset Category</u>	<u>Diocesan Approved Asset Allocation Range</u>	<u>Actual Percentage of Plan Assets at December 31, 2012</u>	<u>Actual Percentage of Plan Assets at December 31, 2011</u>
Fixed Investments	30% to 50%	36%	26%
Equities	30% to 70%	54%	70%
Cash	0% to 10%	10%	4%

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

	2012	2011
Unrecognized prior service costs	\$ 1,539,000	\$ 1,673,000
Unrecognized net loss	\$ 4,486,000	\$ 3,406,000

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

Year ending December 31	Annual Pension Benefits
2013	\$ 1,145,000
2014	1,100,000
2015	1,109,000
2016	1,161,000
2017	1,165,000
2018-2022	5,792,000

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. It assesses each parish and Diocesan institution their allocable share of the liability and benefits. The following table (based on projected actuarial data) sets forth the plan's funded status and amounts recognized for the entire plan as of December 31:

	2012	2011
Actuarial present value of benefit obligations		
Accumulated benefit obligation	\$ 2,491,375	\$ 2,534,147
Plan assets at fair value	-	-
Projected benefit obligation in excess of plan assets	\$ 2,491,375	\$ 2,534,147

The discount rate used to determine benefit obligations is 7% for both the years ended December 31, 2012 and 2011. Additionally, 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 cost trends going forward were assumed to be a level 5% annual increase. Vision costs trends were assumed to be a level 2% annual increase. Benefits expected to be paid by year are expected to be met in full by assessments to parishes and Diocesan institutions.

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NOTE 14 - DESIGNATED NET ASSETS

Unrestricted net assets have been designated for the following purposes:

	<u>2012</u>	<u>2011</u>
Property self-insurance deductible reserves	\$ 1,587,963	\$ 1,443,705
Uninsured liability self-insurance reserves	2,545,766	2,244,380
Clergy uninsured medical expenses reserves	<u>692,897</u>	<u>692,897</u>
	<u>\$ 4,826,626</u>	<u>\$ 4,380,982</u>

NOTE 15 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Assistance to homeless women and children	\$ 130,625	\$ 163,625
Assistance to needy students at Catholic institutions of higher learning	311,009	311,007
Seminarian fund	<u>363,334</u>	<u>336,959</u>
	<u>\$ 804,968</u>	<u>\$ 811,591</u>
Assets released from restrictions during the year		
Assistance to homeless women and children	\$ 33,000	\$ 45,000
Seminarian fund	12,117	10,261
Other	<u>-</u>	<u>6,346</u>
	<u>\$ 45,117</u>	<u>\$ 61,607</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.

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>2012</u>	<u>2011</u>
Program services		
Parishes and schools	\$ 2,873,088	\$ 2,033,105
Office of the Chancellor	2,485,890	2,240,102
Communications	418,101	497,974
Pastoral Life	1,803,392	1,873,976
Services & Administration	56,043	90,861
Resources	641,206	683,779
Canon Law	510,929	448,759
Office of the Bishop	923,053	930,695
Catholic Voice	<u>1,155,136</u>	<u>1,153,365</u>
	<u>10,866,838</u>	<u>9,952,616</u>
Supporting services		
Management and general	7,831,006	5,977,926
Development	<u>603,351</u>	<u>389,953</u>
	<u>8,434,357</u>	<u>6,367,879</u>
	<u>\$ 19,301,195</u>	<u>\$ 16,320,495</u>

See accompanying report and consolidated financial statements.

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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, 2012 and 2011.

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 \$1,529,260 and \$1,390,275 for the years ended December 31, 2012 and 2011, 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 statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

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 that are 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.

Assets held in trust for others – The fair value estimate is based on the appraisal performed by a third party specialist annually using unobservable inputs supported by little or no market activity and were therefore classified within Level 3 of the valuation hierarchy. The fair market value is based upon the average of the sale comparison approach and the income approach. Inputs used to determine fair value include gross income multiplier, price per unit, and overall rate. Significant increases (decreases) in any of those inputs in isolation would result in a significantly higher (lower) fair value measurement. Generally, a change in the assumption used for the gross income multiplier is accompanied by a directionally similar change in the assumption used for price per unit and a directionally similar change in the assumption used for the overall rate.

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 statement 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 statement 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, 2012 and 2011, respectively:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2012:				
Assets				
Marketable securities - pooled investments				
Corporate equity securities	\$ 19,208,742	\$ 19,208,742	\$ -	\$ -
Mortgage pools and asset backed securities	4,125,260	-	4,125,260	-
Corporate debt securities	5,874,865	-	5,874,865	-
Municipal debt securities	952,393	-	952,393	-
U.S. government debt securities	2,467,676	2,467,676	-	-
Cash and money market funds	3,398,269	3,398,269	-	-
Mutual funds - equity	8,729,932	8,729,932	-	-
Mutual funds - international equity	12,885,620	12,885,620	-	-
Mutual funds - fixed income	13,641,024	13,641,024	-	-
Assets held in trust for others	1,610,439	-	-	1,610,439
Total assets at fair value	\$ 72,894,220	\$ 60,331,263	\$ 10,952,518	\$ 1,610,439
Liabilities				
Assets held in trust for others	\$ 1,610,439	\$ -	\$ -	\$ 1,610,439
Equity of others in pooled investments	14,135,243	5,616,291	8,518,952	-
Bonds payable, net of discount	100,084,256	-	100,084,256	-
Total liabilities at fair value	\$ 115,829,938	\$ 5,616,291	\$ 108,603,208	\$ 1,610,439
As of December 31, 2011:				
Assets				
Marketable securities -				
Corporate equity securities	\$ 23,245,752	\$ 23,245,752	\$ -	\$ -
Mortgage pools and asset backed securities	663,359	-	663,359	-
Corporate debt securities	3,766,340	-	3,766,340	-
Municipal debt securities	649,348	-	649,348	-
U.S. government debt securities	4,386,983	4,386,983	-	-
Cash and money market funds	4,117,039	4,117,039	-	-
Mutual funds - equity	5,289	5,289	-	-
Mutual funds - international equity	7,255,097	7,255,097	-	-
Mutual funds - fixed income	17,432,410	17,432,410	-	-
Assets held in trust for others	1,419,652	-	-	1,419,652
Total assets at fair value	\$ 62,941,269	\$ 56,442,570	\$ 5,079,047	\$ 1,419,652
Liabilities				
Assets held in trust for others	\$ 1,419,652	\$ -	\$ -	\$ 1,419,652
Equity of others in pooled investments	12,296,714	6,066,033	6,230,681	-
Bonds payable, net of discount	111,304,880	-	111,304,880	-
Total liabilities at fair value	\$ 125,021,246	\$ 6,066,033	\$ 117,535,561	\$ 1,419,652

See accompanying report and consolidated financial statements.

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

The following table reconciles the beginning and ending balances of assets held in trust for others recognized in the accompanying consolidated financial statements using significant unobservable (level 3) inputs:

Balance, January 1, 2011	\$ 1,160,759
Total valuation adjustment Included in change in net assets before other income (losses)	<u>258,893</u>
Balance, December 31, 2011	1,419,652
Total valuation adjustment Included in change in net assets before other income (losses)	<u>190,787</u>
Balance, December 31, 2012	<u><u>\$ 1,610,439</u></u>

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