

Archdiocese of Louisville

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OFFICE of the ARCHBISHOP

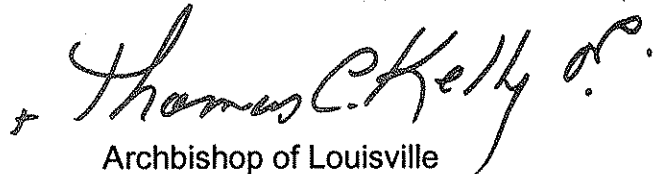
August 2003

To keep you informed about developments in the sexual abuse crisis, I am enclosing two reports: 1) an update on our implementation of the *Charter for the Protection of Children and Young People* and 2) a report from the Finance Council on the financial implications of the sexual abuse settlement. I believe that these documents will help answer many of your questions.

During the past year, I have learned a great deal about sexual abuse and its impact on people's lives and about changes that need to be made in how the Church responds to this terrible crime. As we make these changes, our priorities will be on outreach, education, and prevention. I apologize for those times when I failed to respond appropriately to victims and offenders. My pledge is to work humbly and vigorously with you to make sure our Church is accountable, compassionate, and just in dealing with the crime of childhood sexual abuse.

We must never forget that God is with us and that God will work with our failures and triumphs to build a better Church. Please keep our Church in your prayers.

Devotedly yours in Christ,


Archbishop of Louisville

Update on the Archdiocesan Response to Sex Abuse Crisis: Implementation of the Charter for the Protection of Children and Young People - August, 2003

Here is a brief update on our implementation of the *Charter for the Protection of Children and Young People*:

Outreach to Victims

The Archdiocese of Louisville issued a public invitation for victims to come forward early in 2002 and followed up with a hotline facilitated by University of Louisville's Kent School of Social Work. We continue to provide counseling and pastoral outreach to many victims/survivors.

Over the past year, Archbishop Kelly has met with several victims/survivors of clergy sexual abuse. With the mediated settlement of 243 cases, he will invite any of those individuals who wish to meet directly with him to do so.

Two members of our archdiocesan staff have been designated as Victim Assistance Coordinators: Dr. Tom Robbins, Ph.D. and Ms. Brenda Marshall, MSSW from the Family Counseling Center.

Archdiocese of Louisville Sexual Abuse Review Board

Through this August, the Review Board has met six times to help prepare the new sexual abuse policies, review cases, and discuss safe environment programming.

Revised Archdiocese of Louisville Sexual Abuse Policies/Safe Environment Programming

The archdiocesan sex abuse policies, originally developed in 1993, have been revised and updated to conform to the Charter. These policies will be posted on the archdiocesan web site and delivered to all staff and volunteers during the required safe environment training sessions that will be held this fall. Archbishop Kelly will present the policies to the public at a press conference at the end of this month.

At this press conference, we also will announce the details of a formal training program for church employees and volunteers. Workshops are being scheduled across the Archdiocese for this fall with more to be scheduled in the spring. Training will be done in collaboration with the Center for Women and Families. Other safe environment initiatives include print and web resources for parents about child abuse and prevention and the further development of age appropriate curriculum for children and youth on child abuse.

Relieving Offenders from Ministerial Duties

Eight diocesan priests were permanently removed from all public ministry following the adoption of the Charter last summer. After police or internal investigations, three diocesan priests were returned to ministry. Other diocesan priests have been removed from ministry pending the outcome of police or internal investigations.

Only the Vatican, however, can dismiss a priest from the clerical state. The *Essential Norms for Diocesan/Eparchial Policies Dealing with Allegations of Sexual Abuse of Minors* by

Priests or Deacons adopted in December 2002, specifies procedures to be followed in the case of priests or deacons accused of abusing a child. As soon as lawsuits and/or criminal actions are resolved, the Archbishop will submit a report to the Vatican on each individual. At that point the Holy See will either decide the case in Rome or send it back to us with instructions about how to proceed. Dioceses are being advised to wait until criminal and civil issues are resolved so that the Church process does not interfere with legal processes.

Accountability/Transparency

The Archdiocese has communicated promptly with parishioners who have had a priest or other minister removed because of an accusation of sexual abuse of a minor.

The Archdiocese is completing the research questionnaire for the national John Jay study on sexual abuse. We also will participate in an audit of our policies and procedures by the United States Catholic Conference of Bishops' Office of Child and Youth Protection in October. In addition, we will report annually to the Archdiocese of Louisville Sexual Abuse Review Board on the implementation of our policies and procedures.

The annual financial impact of sexual abuse will be published each year in our annual report, which is sent to every Catholic household through *The Record* and which will be included on the archdiocesan web page (www.archlou.org).

Legal/Criminal Update

The \$25.7 million class settlement approved on August 1 settled all but 10 of the lawsuits. (The Archdiocese is not involved in the decisions about how the money is to be allocated to each plaintiff.) Most of the lawsuits remaining were filed after the class was established and after any reasonable deadline for the civil statute of limitations as defined in the Kentucky revised statutes. For this reason, the Archdiocese will file for summary judgement of all remaining cases. The Archbishop will reach out to each plaintiff as soon as the cases have been resolved.

Since the beginning of these cases, the Archdiocese has cooperated with all criminal investigations. Two diocesan priests have been sentenced to prison, and one priest's trial is scheduled for the fall. Two former priests and one lay teacher also have been indicted.

Healing the Church

During the last year, the Archdiocese has established healing processes to minister to those most directly impacted by this crisis: parishioners that have lost a minister accused of sexual abuse, victims/survivors, and priests. Archdiocesan staff have established support groups and have visited more than 25 parishes and schools for listening sessions and other support services. During the next few months, we will develop strategies and opportunities for healing the broader Church.

ARCHDIOCESE OF LOUISVILLE
REPORT OF THE FINANCE COUNCIL
FINANCIAL IMPLICATIONS OF SEX ABUSE SETTLEMENT
AUGUST 19, 2003

On July 10, 2003, the Archdiocese of Louisville paid \$25.7 million to 243 plaintiffs to settle sex abuse claims. This payment has generated many questions from the Catholic community, specifically about the source of the funds and the impact of the settlement on the ongoing financial health of the Archdiocese. In this document, we will address the more frequently asked questions about the financial issues surrounding the settlement.

1. Where did the money come from for the settlement?

Funds used for the \$25.7 million payment represented the majority of monies legally available to be spent by the Archdiocese. Even though archdiocesan investments totaled \$60.7 million on June 30, 2003, \$31.1 million could not legally be spent according to civil/canon law as detailed below:

Archdiocesan Investments @ June 30, 2003
(Dollars in Millions)

Endowed	\$ 7.3
Restricted	\$ 9.8
Deposits Payable to Parishes	<u>\$14.0</u>
Investments Not Available for Settlement	\$31.1
Archbishop Designated	\$ 3.4
Unrestricted	<u>\$26.2</u>
Total Investments @ 6/30/03	<u><u>\$60.7</u></u>

Investments Not Available For Settlement

- Endowed investments represent monies given by donors or willed by estates for specific purposes. Only the interest may be spent for the donor-specified purpose. The original amount given remains invested permanently and cannot legally be spent by the Archdiocese. For example, a donor wills \$50,000 to the Archdiocese to be endowed for mission churches. This amount must legally remain permanently invested and only the interest earned on the investment can be used for mission churches.
- Restricted investments also represent monies given by donors or willed by estates for specific purposes. However, the entire amount of the restricted investment must be spent per the donor's instructions. For example, a donor leaves by will \$50,000 for mission churches. The entire \$50,000 must be spent for mission churches and cannot legally be used for any other purpose.
- Monies owed to parishes represent funds put on deposit by parishes in the Archdiocesan Deposit & Loan Fund (the Chancery "bank"). This money belongs to the parishes and cannot be spent by the Archdiocese.

Investments Available For Settlement

- Archbishop designated funds represent monies set aside by the Archbishop to fund specific expenditures. Monies for priest retirement and funds remaining after certain parishes closed (\$1.0 million) make up the majority of this fund. Although set aside as "designated," this money is not legally restricted and can be used to fund operational deficits, if necessary.
- Unrestricted funds represent all remaining investments that were available to pay the sex abuse settlement.

The sex abuse settlement payment of \$25.7 million was paid from the closed parish investments (\$1.0 million) and unrestricted investments (\$24.7 million). As stated above, investments in the Archbishop designated and the unrestricted funds were the only monies legally available for use. After making the \$25.7 million payment, remaining unrestricted investments available to fund archdiocesan programs and services dropped to \$1.5 million.

2. How will the sex abuse payment affect future operations of the Archdiocese?

Historically, archdiocesan programs and services were funded mainly by parish assessments, the Catholic Services Appeal and investment income. However, during the 1990's, increases in investment income and stock market gains were used to fund growth in archdiocesan programs and services. As the market grew, stock portfolio gains were cashed to provide funds to pay for new programs and services. The downturn in the economy and in the stock market eliminated these gains, while the programs and services remained.

In recent years, unrestricted investments were available to cover cash shortfalls when expenses exceeded income. However, with the sex abuse settlement payment, the safety net of unrestricted investments to cover cash shortfalls has basically been eliminated. Therefore, in order to return to financial health, the Archdiocese must operate on a balanced budget.

3. What is the plan to restore financial stability to the Archdiocese?

The return to financial health will require sacrifices from parishes, archdiocesan agencies, priests and other organizations supported by the Archdiocese. A five-year plan has been developed that incorporates changes which, when implemented, will return the Archdiocese to a balanced budget and financial stability. This plan has been approved by all of us as members of the Archdiocesan Finance Council. On our recommendation, it has also been accepted by the Archbishop. Some of the major changes include:

- Spending reductions of \$900,000 for archdiocesan agencies/Catholic Charities. These reductions are in addition to \$1.5 million cut in the spring of the fiscal year 2002/2003 in anticipation of the settlement. This results in total agency/Charities expense reductions of \$2.4 million for the fiscal year 2003/2004. The reductions include staff cuts, spending efficiencies, and reductions in certain programs and services.
- Increases in amounts that parishes must pay to support the Archdiocese (parish assessments).
- A reduction in the interest rate paid to parishes and other organizations that have money on deposit in the Archdiocesan Deposit & Loan Fund.
- The sale of the only two non-essential properties owned by the Archdiocese as well as the consolidation of Archdiocesan office facilities.
- Cancellation of multi-year grants where possible. This includes cancellation of the final \$1.7 million in installments of a grant/investment in archdiocesan owned Trinity High School for facilities expansion.
- The transfer of almost \$1.0 million in expenses to be paid from donor restricted and endowed funds. For example, expenses paid from unrestricted funds in the past for the Southern Kentucky Missions will now be paid from a fund restricted by the donor to mission promotion.
- Salary and housing reductions for all priests removed from ministry as a result of sex abuse accusations.

A copy of the detailed Five-Year Financial Plan will be available at the Archdiocese by September 1, 2003. To receive a copy, call 502-585-3291 or e-mail comm@archlou.org. The plan also will be published in *The Record*.

4. Why was the settlement not covered by insurance?

Most of the sex abuse cases dated to the 50's, 60's and 70's before archdiocesan insurance was packaged under one carrier. In many cases, the parish insurance company for the affected years was unknown and no policies dating to that time could be found. Even when insurance companies could be identified and policies located, sex abuse coverage was not included in the policy.

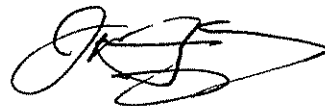
Although no insurance coverage was available to pay the settlements, insurance companies did agree to pay collectively \$3.3 million to the Archdiocese for legal expenses incurred for the just completed litigation and ongoing future sex abuse related legal defense costs.

As a group, we believe that the implementation of this plan, along with the continued support of our Catholic community, will restore the Archdiocese to financial health over the long-term. As the plan progresses, we will continue to update you either by mail or through *The Record*. We are optimistic about the future of the Archdiocese in spite of the difficult times we are currently experiencing. If you have any questions about the settlement or the plan, please feel free to contact any of us.

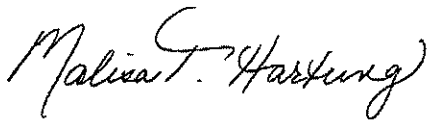
The Archdiocesan Finance Council:



Lee Davis



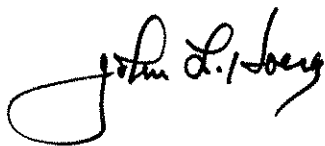
John Ford



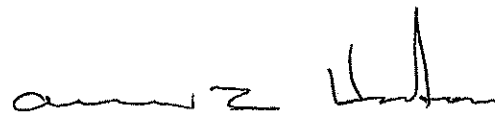
Melissa Hartung



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