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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ALASKA

CATHOLIC BISHOP OF NORTHERN)	Case No. 08-00110-DMD
ALASKA, an Alaska religious corporation)	
sole,)	(Chapter 11)
)	
Debtor.)	
)	
)	
)	
)	

**SECOND AMENDED AND RESTATED DISCLOSURE STATEMENT IN SUPPORT OF
DEBTOR'S SECOND AMENDED AND RESTATED PLAN OF REORGANIZATION
FOR CATHOLIC BISHOP OF NORTHERN ALASKA DATED OCTOBER 30, 2009**

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I. **INTRODUCTION**

Catholic Bishop of Northern Alaska, an Alaska religious corporation sole, the debtor and debtor-in-possession ("CBNA" or the "Debtor") in the above-captioned Chapter 11 reorganization case (the "Reorganization Case"), has prepared this Second Amended and Restated Disclosure Statement ("Disclosure Statement") in connection with soliciting acceptance of the "Debtor's Second Amended and Restated Plan of Reorganization for the Catholic Bishop of Northern Alaska" dated October 26, 2009 (the "Second Amended Plan") from CBNA's Creditors. A copy of the Second Amended Plan is attached as Exhibit "1" to this Disclosure Statement.

It is impossible to overstate the tragedy of the sexual abuse that was inflicted on literally hundreds of Native Alaskan children and teenagers by a small group of individuals, mostly Jesuit priests or, in some cases, volunteers supervised by Jesuits who purported to be doing the missionary work of the Roman Catholic Church, but instead inflicted untold pain and suffering. CBNA, the civil entity incorporated pursuant to Alaska's Religious Corporations statute for purposes of holding and administering property in trust for the benefit of the Roman Catholic religious entities and functions within the Diocese of Fairbanks (the "Fairbanks Diocese"), proposes the Second Amended Plan in order to pay just compensation to victims of sexual abuse perpetrated by individuals associated with the Fairbanks Diocese, and to restructure its financial affairs to preserve and develop the ministries and missions that are facilitated by CBNA and are so critical to the people of northern and western Alaska.

Since he became Bishop of the Fairbanks Diocese on August 22, 2002, Most Reverend Donald J. Kettler, JCL ("Bishop Kettler") has worked relentlessly to try to bring reconciliation, redemption and healing for the individuals who have been injured by sexual abuse and for the entire communities affected. Whether through listening sessions in affected communities, or healing ceremonies, liturgies or Masses, or through implementing and promoting aggressive measures to prevent verbal, physical, and sexual abuse from occurring by people ministering

within the Fairbanks Diocese, Bishop Kettler has been in the forefront of trying to help address this tragedy. The Bishop has publicly apologized in writing and in person. He has acknowledged that the Reorganization Case, at most, is a means for the Debtor to provide monetary compensation for the injury, but will not, by itself, bring about a pastoral resolution for those who have been harmed. CBNA hopes that this Second Amended Plan can help facilitate important steps on the long and sometimes painful path toward healing and reconciliation.

Below, this Disclosure Statement seeks to provide adequate information for Creditors to be able to evaluate the Second Amended Plan and decide whether to vote to accept the Second Amended Plan. In addition to describing the Second Amended Plan itself, in order to assist Creditors in voting on the Second Amended Plan, this Disclosure Statement provides information about CBNA, its Assets, property that it holds for others, its liabilities, its history, the problem of sexual abuse perpetrated by individuals associated with the Fairbanks Diocese, the steps taken by CBNA to address the injuries inflicted by such sexual abuse, and steps taken to prevent abuse from occurring now and in the future, CBNA's insurance coverage for these Claims, its current operations and business plan for the future and the events that have occurred in the Reorganization Case, including disputes with the Official Committee of Unsecured Creditors (the "Committee") regarding whether the Bankruptcy Court should require CBNA to use property held for others to pay CBNA's Creditors. This Disclosure Statement also describes the process by which Creditors will vote to accept or reject the Second Amended Plan, and the circumstances under which the Second Amended Plan may be approved by the Court, even if some creditors do not vote to accept the Second Amended Plan.

II.

INFORMATION ABOUT THIS DISCLOSURE STATEMENT AND PLAN CONFIRMATION PROCESS

A. Definitions And Plan Supremacy

All terms defined in the Second Amended Plan will have the same meanings when used in this Disclosure Statement, unless it is expressly stated that a term will have a different meaning when used in this Disclosure Statement. In addition, unless otherwise stated, terms

used in this Disclosure Statement will have the same meanings as in the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, or the Local Rules of the Bankruptcy Court. Terms defined in this Disclosure Statement which are also defined in the Second Amended Plan or the other sources described above, are solely for convenience; the Debtor does not intend to change the definitions of those terms from the Second Amended Plan or from the otherwise applicable sources. Furthermore, in the event of any inconsistency between the Second Amended Plan and this Disclosure Statement, the Second Amended Plan will control. The exhibits attached to this Disclosure Statement are incorporated into and are a part of this Disclosure Statement.

B. Limited Representations

This Disclosure Statement is submitted in accordance with Bankruptcy Code § 1125 for the purpose of soliciting acceptances of the Second Amended Plan from holders of certain Claims. This Disclosure Statement has been approved by the Bankruptcy Court as containing information of a kind, and in sufficient detail, which is adequate to enable you to make an informed judgment whether to vote to accept or to reject the Second Amended Plan.

In determining whether the Second Amended Plan should be confirmed, the Bankruptcy Court will consider whether the Second Amended Plan satisfies the requirements of the Bankruptcy Code, including whether it is feasible, and whether it is in the best interests of the holders of Claims. The Bankruptcy Court also will receive and consider a ballot report prepared by the Debtor, concerning the votes for acceptance or rejection of the Second Amended Plan by parties entitled to vote. Only holders of Allowed Claims that are impaired under the Second Amended Plan will be allowed to vote to accept or reject the Second Amended Plan.

THIS DISCLOSURE STATEMENT IS NOT THE SECOND AMENDED PLAN. THIS DISCLOSURE STATEMENT, TOGETHER WITH THE SECOND AMENDED PLAN, WHICH IS ATTACHED HERETO AS EXHIBIT "1", SHOULD BE READ COMPLETELY. FOR THE CONVENIENCE OF CREDITORS, THE SECOND AMENDED PLAN IS

SUMMARIZED IN THIS DISCLOSURE STATEMENT, BUT ALL SUMMARIES AND OTHER STATEMENTS REGARDING THE SECOND AMENDED PLAN ARE QUALIFIED IN THEIR ENTIRETY BY THE SECOND AMENDED PLAN ITSELF, WHICH IS CONTROLLING IN THE EVENT OF ANY INCONSISTENCY.

The Bankruptcy Court will hold a hearing on confirmation of the Second Amended Plan on _____, 2009, commencing at _____ .m. (the "Confirmation Hearing") and continuing thereafter until conclusion of the Confirmation Hearing. The Confirmation Hearing may be adjourned from time to time without further written notice.

Information contained in this Disclosure Statement was obtained from knowledgeable personnel at CBNA or from the books and records of CBNA. Financial information developed for purposes of this Disclosure Statement was developed by personnel at CBNA working with the Debtor's Professionals. Certain materials contained in this Disclosure Statement are taken directly from other, readily accessible documents or are digests of other documents. While every effort has been made to retain the meaning of such documents, you are urged to rely upon the contents of such documents only after a thorough review of the documents themselves.

NO REPRESENTATIONS OR ASSURANCES CONCERNING THE DEBTOR, INCLUDING, WITHOUT LIMITATION, ITS OPERATIONS, THE VALUE OF ITS ASSETS, OR THE FUTURE OPERATIONS OF THE REORGANIZED DEBTOR ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT.

THIS IS A SOLICITATION BY THE DEBTOR ONLY AND IT IS NOT A SOLICITATION BY THE DEBTOR'S ATTORNEYS OR ANY OTHER PROFESSIONALS EMPLOYED BY THE DEBTOR. THE REPRESENTATIONS MADE HEREIN ARE THOSE OF THE DEBTOR AND NOT OF THE DEBTOR'S ATTORNEYS OR ANY OTHER PROFESSIONAL.

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1621

REASONABLE EFFORTS HAVE BEEN MADE TO ACCURATELY PREPARE ALL UNAUDITED FINANCIAL STATEMENTS WHICH MAY BE CONTAINED IN THIS DISCLOSURE STATEMENT FROM THE INFORMATION AVAILABLE TO THE DEBTOR. HOWEVER, AS TO ALL SUCH FINANCIAL STATEMENTS, THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED THEREIN IS WITHOUT ERROR.

APPROVAL BY THE BANKRUPTCY COURT OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE CERTIFICATION BY THE COURT THAT THIS DISCLOSURE STATEMENT IS WITHOUT INACCURACY.

C. Voting Procedures

In accordance with Bankruptcy Code § 1122(a), the Second Amended Plan classifies Claims into different Classes based on similarities and differences between the legal rights associated with the Claims and provides for how each Class of Claims will be treated. Specifically, the Second Amended Plan classifies Claims against the Debtor into the following Classes:

Class 1 – Priority Employee Unsecured Claims

Class 2 – Prepetition Date Secured Tax Claims

Class 3 – Other Secured Claims

Class 4 – Great Falls Secured Claim

Class 5 – Annuity Secured Claims

Class 6 – General Unsecured Convenience Claims

Class 7 – Jesuit Unsecured Claims

Class 8 – General Unsecured Claims

Class 9 – Other Tort and Employee Claims

Class 10 – Tort Claims and Future Tort Claims

Class 11 – Insurance and Benefit Claims

Class 12 – Continental Claims

Class 13 – Pilgrim Springs Claims

Class 14 – Penalty Claims

The Second Amended Plan's treatment of a Class will either "impair" the Claims in that Class or leave them "unimpaired." Claims are impaired if the Second Amended Plan in any way alters the legal, equitable, or contractual rights associated with the Claims or if the Second Amended Plan provides for paying less than the full amount of the Allowed Claims. Holders of Claims in Classes which are impaired under the Second Amended Plan, may vote to either accept or reject the Second Amended Plan. If you are the holder of such Claim, it is important that you vote.¹

In order to confirm the Second Amended Plan, at least one Class of Claims impaired by the Second Amended Plan must vote to accept the Second Amended Plan. In order for a Class of Claims to vote to accept the Second Amended Plan, votes representing at least two-thirds (2/3) in amount of the Claims in that Class that vote and more than one-half (1/2) in number of the Claims in that Class that vote must be cast in favor of accepting the Second Amended Plan. As more fully described below, the Debtor is seeking acceptances from holders of Allowed Claims in the following Classes (reserving the right to supplement as to any other impaired Class(es) of Claims, if any):

¹ Holders of Claims which are unimpaired, that is their rights are not altered and they will be paid or satisfied in full, are deemed to have accepted the Second Amended Plan and are not required to vote. See Bankruptcy Code § 1126(f). Similarly, holders of Claims who will receive nothing under the Second Amended Plan are deemed to reject the Second Amended Plan and also need not vote. See Bankruptcy Code § 1126(g).

<u>Class</u>	<u>Description</u>	<u>Status</u>
Class 2	Prepetition Date Secured Tax Claims	Impaired – Entitled To Vote
Class 3	Other Secured Claims	Impaired – Entitled To Vote
Class 4	Great Falls Secured Claim	Impaired – Entitled To Vote
Class 6	General Unsecured Convenience Claims	Impaired – Entitled To Vote
Class 7	Jesuit Unsecured Claims	Impaired – Entitled To Vote
Class 8	General Unsecured Claims	Impaired – Entitled To Vote
Class 9	Other Tort and Employee Claims	Impaired – Entitled To Vote
Class 10	Tort Claims and Future Tort Claims	Impaired – Entitled To Vote
Class 12	Continental Claims	Impaired- Entitled to Vote

The following Classes of Claims are not impaired under the Second Amended Plan, or are otherwise prohibited by the Bankruptcy Code from voting on the Second Amended Plan, for the reason indicated:

<u>Class</u>	<u>Description</u>	<u>Status</u>
Unclassified	Administrative Claims	Unimpaired – Deemed to Accept
Unclassified	Priority Unsecured Claims	Unimpaired – Deemed to Accept
Unclassified	Priority Tax Claims	Unimpaired – Deemed to Accept
Class 1	Priority Employee Unsecured Claims	Unimpaired – Deemed to Accept
Class 5	Annuity Secured Claims	Unimpaired – Deemed to Accept
Class 11	Insurance and Benefit Claims	Unimpaired – Deemed to Accept
Class 13	Pilgrim Springs Claims	Receive \$0.00 - Deemed to Reject
Class 14	Penalty Claims	Receive \$0.00 - Deemed to Reject

The specific treatment of each Class under the Second Amended Plan is set forth in the Second Amended Plan and is summarized in Article VII of this Disclosure Statement.

Bankruptcy Code § 1129(b) provides that, if the Second Amended Plan is rejected by one or more impaired Classes of Claims, the Second Amended Plan nevertheless may be confirmed by the Bankruptcy Court, if: (i) the Bankruptcy Court determines that the Second Amended Plan does not discriminate unfairly and is fair and equitable with respect to the rejecting Class(es) of Claims; and (ii) at least one Class of Impaired Claims has voted to accept the Second Amended Plan.

A VOTE FOR ACCEPTANCE OF THE SECOND AMENDED PLAN BY THOSE HOLDERS OF CLAIMS WHO ARE ENTITLED TO VOTE IS MOST IMPORTANT. THE DEBTOR RECOMMENDS THAT THE HOLDERS OF ALLOWED CLAIMS VOTE IN FAVOR OF THE SECOND AMENDED PLAN.

Unless otherwise expressly stated, portions of this Disclosure Statement describing CBNA have not been subject to a certified audit, but have been prepared from information compiled by CBNA from records maintained in the ordinary course of its business. Every effort has been made to be as accurate as possible in the preparation of this Disclosure Statement.

III. OVERVIEW OF THE SECOND AMENDED PLAN

As discussed above, CBNA filed this Reorganization Case in order to pay just compensation to victims of sexual abuse perpetrated by individuals associated with the Fairbanks Diocese and to restructure its financial affairs to preserve and develop the ministries and missions that are facilitated by CBNA, and are so critical to the people of northern and western Alaska. CBNA has proposed the Second Amended Plan to accomplish these goals. However, the Second Amended Plan represents a major departure from prior plans proposed by CBNA in terms of funding mechanisms and in terms of the arbitration process for Settling Tort Claims. Under prior versions of the plan, the funding was primarily made up of loan proceeds secured by CBNA's Real Property and Insurance proceeds (primarily from Continental Insurance Company ("Continental")). These changes are the result of changes to the insurance landscape as a result of the Court granting Summary Judgment to Continental in *CIC v. CBNA* Adversary no. 09-90033. The changes to the Second Amended Plan are also a reaction to the deterioration of CBNA's financial health during the current recession which made a plan based on CBNA's ability to debt service less feasible.

As a result, the Second Amended Plan calls for the sale of CBNA's essential ministry property, including the Catholic Schools of Fairbanks, to the Endowment in exchange for \$7.625 million of Cash on or before the Effective Date. One of the conditions of the Endowment's purchase of CBNA's Real Property is a dismissal of any actions pending against the Endowment and a finding in the Confirmation Order that the Endowment, as a charitable trust, is properly excluded from the Estate. In order to accomplish this sale, the Second Amended Plan also provides for amendments to the Endowment Documents that must be approved by the Confirmation Order.

In addition, CBNA will immediately sell the Pilgrim Springs Property at an auction to be conducted in connection with the Confirmation Hearing. CBNA anticipates that it will be able to obtain between \$1.0 and \$3.0 million at this auction. Other valuable CBNA property, to the extent not sold prior to the Effective Date, will be transferred to the Settlement Trustee on the Effective Date, for future sale benefiting the Fund, including:

- Vacant Lot at the Catholic Schools of Fairbanks
- Oknagamut Property
- Second Tier Lot at Harding Lake
- 1965 Cessna 172F 4 seater, N5459R
- Claims against the Sisters of Saint Ann

In addition, the Second Amended Plan effects a settlement and compromise between the Estate on the one hand and the Parish Churches and the Catholic Trust of Northern Alaska ("CTNA") on the other hand, pursuant to which the Parishes agree to contribute \$500,000 to the Fund for paying Tort Claimants from their unrestricted funds on deposit with the CTNA, in order to settle any and all claims that the Estate may have to their property, including any and all avoidance actions against the CTNA. As a result of this settlement, the Parish Churches will become Participating Third Parties under the Second Amended Plan and will receive the protections of the Channeling Injunction provided under the Second Amended Plan. In addition to the foregoing, CBNA will also transfer to the Fund, proceeds from an insurance settlement

with Alaska National Insurance Company ("Alaska National") which will be the subject of a motion under rule 9019 Fed. R. Bankr. P. when CBNA and Alaska National complete documentation. All told, as a result of these efforts, CBNA's contribution to the Fund on the Effective Date would be approximately \$10,890,000 (less payment of allowed Administrative Expenses), all but \$150,000 of which will be in Cash on the Effective Date. CBNA will also assign its claims of indemnity and contribution against the Sisters of Saint Ann to the Fund.

The Second Amended Plan also gives effect to a covenant settlement under *Great Divide Insurance Co. v. Carpenter*, 79 P.3d 599 (Alaska 2003), pursuant to which CBNA will assign its claims against Breaching Insurers to the Settlement Trustee for future assignment to individual claimants by the Special Arbitrator. As a result of the covenant settlement under *Great Divide*, the arbitration procedure for Settling Tort Claims has also been modified. For one, the Tiers for classifying and determining the value of allowed Settling Tort Claims have been eliminated from the Second Amended Plan. Also, instead of an allowance/disallowance procedure, each Settling Tort Claim will be ***deemed allowed*** and each Settling Tort Claimant will receive a reasonable share of the Settlement Trust as determined by the Special Arbitrator, in light of the facts bearing on the liability and damage aspects of the Settling Tort Claim. No Settling Tort Claimant will receive less than the Minimum Settlement Amount of \$5,500. The Minimum Settlement Amount will be paid to each Settling Tort Claimant in Cash within thirty (30) days of the Effective Date.²

IV. THE DEBTOR

A. The Ministries and Activities of CBNA and the Fairbanks Diocese and their Relationship to Roman Catholic Parishes and Parish Churches in Northern and Western Alaska

CBNA is the civil entity incorporated pursuant to Alaska's Religious Corporations statute since 1952, to hold and administer property in trust for the benefit of all of the religious entities

² The Minimum Settlement Amount for Future Tort Claimants is one dollar (\$1.00).

and functions that exist within the Fairbanks Diocese (or its ecclesiastical predecessor, the Vicariate Apostolic of Alaska). The Fairbanks Diocese is the ecclesiastical entity subject to the jurisdiction of the Bishop who serves as the principal teacher, sanctifier, and governor of the Roman Catholic faith and the Catholic faithful within the territory of the Fairbanks Diocese. As reflected in the map of the Fairbanks Diocese that is attached as Exhibit "2" to this Disclosure Statement, the territory of the Fairbanks Diocese is vast. It stretches from Tok, near the Canadian border, all the way across the state to Little Diomed near the border with Russia; from Barrow on the coast of the Arctic Ocean to Chefnak south of Nelson Island, encompassing almost 410,000 square miles (an area slightly more than one and one half times the area of the state of Texas). Within its boundaries, the Fairbanks Diocese is home to 15,500 Catholics, out of a general population of 161,000. The Fairbanks Diocese is also the ecclesiastical entity through which the Bishop carries out his duties in accordance with the Code of Canon Law ("Canon Law"), which is the ecclesiastical law of the Roman Catholic Church.

There are many other Roman Catholic ecclesiastical entities that operate within the Fairbanks Diocese. Under Canon Law, such entities are referred to as "juridic persons." The most prominent of these ecclesiastical entities are Parishes, but other juridic persons include the various religious orders that minister within the Fairbanks Diocese's territory.

Under Canon law, Parishes are defined as established stable communities of the Christian faithful whose pastoral care is entrusted by the diocesan bishop to its proper pastor. Although appointed by the diocesan bishop, a pastor does not receive his power from the diocesan bishop, but rather from his office as pastor, nor is a pastor of a parish the representative or delegate of the diocesan bishop. Instead, the power of a pastor stems from his office. CIC, c. 131, 519. The pastor, not the Bishop, is the steward of all of the property of the parishes to which he is appointed. CIC, c. 532. Although in many parts of the United States parishes are separately incorporated, in Alaska parish communities function for civil law purposes as unincorporated associations typically known as "___ Catholic Church." In this Disclosure Statement, the civil

law unincorporated associations are referred to as "Parish Churches" and the ecclesiastical juridic persons are referred to as "Parishes."

Including the five Parishes in the Fairbanks and North Pole metropolitan area, only nine (9) of the forty-six (46) Parishes in the Fairbanks Diocese are located on the road system. The rest of the Parishes are located in rural villages that are only accessible by airplane year round. In the summer, many of these villages are accessible by boat, and in winter by snow machine. Approximately eight (8) Parishes are located in the Interior Region in primarily Athabaskan villages situated on or near the Koyukuk, Kuskokwim, Tanana and Yukon Rivers. There are five (5) Parishes and two (2) mission churches in the Northern Region, including the urban areas of Nome and Barrow. These churches serve largely Inupiat Eskimo and Caucasian populations. There are also approximately twenty-four (24) Parishes serving Yup'ik Eskimo villages and the Yukon Kuskokwim Region. The locations of the Parishes within the Fairbanks Diocese are reflected on the Exhibit "2" map.

It is well documented that the rural Alaska villages where most of the Parishes are located suffer from staggering poverty and social problems³ when compared to national averages. In spite of these challenges, the Parishes located in so-called "Bush Alaska" are truly remarkable "communities of the Christian faithful." Due to the severe shortage of priests in the Fairbanks Diocese (there are only 18 active priests including the Bishop⁴), only five (5) of the Fairbanks Diocese's forty-six (46) Parishes have the benefit of a full-time, assigned priest as pastor. For Canon Law purposes, Bishop Kettler has appointed the Vicar General for the Parishes without a resident pastor, alternatively he has appointed the Coordinator for Office of

³ See, "A Summary of Recent Findings Regarding Substance Abuse in Alaska," <http://www.hss.state.ak.us/dph/PDF/substance%20abuse/ExecSmries.pdf>; See "Alaska Behavioral Health Score Card Drill Down, December 2008," <http://www.hss.state.ak.us/pdh/healthplanning/scorecard/assets/indicators.pdf>; See "Alaska Family Violence Prevention Project" http://www.hss.state.ak.us/dph/ipems/injury_prevention/akfvpp/bkgnd.htm

⁴ That is roughly one priest for every 24,000 square miles-an area slightly smaller than West Virginia.

Rural Ministries for the Yukon Kuskokwim Region as Parish administrator for the twenty-four (24) Parishes in the Yukon Kuskokwim Region.⁵ Typically these Parishes only see a priest once every several weeks. The ministry of these mission Parishes is carried on by trained lay staff members, local volunteer Eucharistic and Catechistic ministers, or one of the more than twenty (20) ordained Native Yup'ik Eskimo deacons, whose ministry is supported by priests and religious brothers or sisters. More often than not, a priest is unavailable to offer the traditional Sunday Mass; instead trained lay leaders or ordained Native deacons from the villages preside over Celebrations of the Word, with Holy Communion, using hosts that were consecrated at the last Mass that was celebrated. This has become a very important part of the spiritual life of many of the Alaskan communities. It is their way of continuing to learn the meaning of the Word and remembering that Jesus continues to live on, in and through all of us.

Whether through major events such as baptisms, weddings, or funerals or through weekly Celebrations of the Liturgy of the Word along with Holy Communion, these Parishes play a distinctive role in the continued vitality of village life, offering communities both spiritual succor and common ground where all are welcome. Parish Churches' facilities are often gathering spots in the communities where they are located and important parts of the communities in which they exist. In addition to volunteer Native Deacons and lay ministers, almost all of these Parish Churches have at least one lay paid administrator who typically works several hours per week keeping up the property, keeping the books, keeping sacramental records and coordinating religious services. The only geographic area within the Fairbanks Diocese that has more than one Parish is Fairbanks.

Only eight (8) of the forty-six (46) Parishes and missions are self-supporting, meaning that they raise enough from plate collections and donations from parishioners to sustain their own operations. The eight self-supporting Parishes are:

- a. St. Patrick Church, Barrow

⁵ Canon Law authorizes appointment of administrators to serve as a temporary substitute for a pastor.

- b. Immaculate Conception Church, Bethel
- c. Our Lady of Sorrows, Delta Junction
- d. Sacred Heart Cathedral, Fairbanks
- e. Immaculate Conception Church, Fairbanks
- f. St. Mark's University Parish, Fairbanks
- g. St. Nicholas Church, North Pole
- h. St. Raphael Church, Fairbanks.

The other Parish Churches fund their Parishes' operations through a combination of plate collections and subsidies from CBNA. As a result of the poverty and social challenges of the communities within its territory, as well as the inability of most of the Parishes in its territory to sustain themselves financially, the Fairbanks Diocese is considered the only fully missionary Catholic diocese in the United States, falling under the "Congregation for the Evangelization of Peoples," the Church's international missionary wing formerly known as the Sacred Congregation for the Propagation of the Faith.

B. Other Ministries and Activities of CBNA

There are only two Catholic schools in the Fairbanks Diocese which share a campus in the City of Fairbanks just three (3) miles from CBNA's Chancery Offices. Immaculate Conception Elementary and Monroe Junior/Senior High, also known as the Catholic Schools of Fairbanks ("CSF"), have been a vibrant part of the social fabric of the Fairbanks community since 1946, counting many prominent Alaskans among its alumni. Although it receives a substantial subsidy from CBNA, the majority of funding for CSF comes from tuition and fundraising efforts of the Monroe Foundation, Inc., a separate non-profit corporation renowned for its annual three day HIPOW auction fundraiser. The Board of Directors for the Monroe Foundation also provides guidance to CSF administration.

The Fairbanks Diocese is also home to the oldest Catholic radio station in the country ("KNOM"). Located in Nome on the western edge of the Seward Peninsula more than 600 miles away from CBNA's main offices, KNOM went on the air in July 1971, after years of planning,

fund-raising and work. The educationally oriented, public-service station has garnered dozens of awards for its news and programming. It has full-time listeners throughout Alaska's Seward Peninsula, around Norton Sound, the Yukon-Kuskokwim Delta, and deep into the Russian Far East. It can be heard easily from the Aleutian Islands to the Arctic coast. KNOM's programming sounds similar to many commercial stations with popular music, talk, and news, but in place of the commercials, KNOM inserts 30 and 60-second inspirational and educational spots. KNOM also plays a number of special programs, including the live broadcast of Sunday Mass from St. Joseph Church in Nome, the nightly "Family Rosary," and an inspirational spot which preaches the following week's Gospel, as well as a number of programs from other religious broadcasters. It is wholly financed through listener and donor support from mailing of the "*Static*" newspaper to thousands of donors in the lower 48 states. KNOM is staffed with a combination of paid employees and full-time volunteers who receive a small stipend.

Until the filing of the Reorganization Case, CBNA had not reported the Assets, liabilities or operations of CBNA, KNOM and CSF on a consolidated basis. Furthermore, there is no centralized accounting system for these three entities.

The Fairbanks Diocese also conducts several other important ministries, including:

- The Alaska Native Ministry which includes the Kateri Tekakwitha Center located in Galena, Alaska which serves eight (8) Athabaskan Indian villages in the interior of Alaska and provides educational programs in the surrounding villages to educate individuals to become more proficient in administering their local Parishes in the absence of priests, brothers and sisters;
- The Native Ministry Training Program based in the Yup'ik Eskimo village of St. Mary's, which offers the very effective training of native Eskimo adults members and local leaders of the Church in the twenty-four (24) Yup'ik Parishes within the geographic territory of the Fairbanks Diocese;

- The Children and Family Center provides faith-based enrichment and education activities for families and children. This office includes the Diocesan Child Protection Officer;
- The Office of Worship supports and guides the sacramental, liturgical and spiritual life of the Fairbanks Diocese and Parishes;
- Stephen Ministry Outreach offers one-on-one care for people with special needs by well-trained Stephen ministers. This ministry includes Catholic chaplaincy to the Fairbanks community hospital and nursing homes;
- The Urban Native Ministry serves as a liaison between the Fairbanks Diocese and the native people living in the Fairbanks urban area;
- The Diocesan Engineering Office provides services for the actual construction and/or maintenance of Parish Churches and facilities at a major savings in construction and maintenance costs;
- Deacon Programs which consist of:
 - The Rural Deacon Program, formerly known as the Native Deacon Program, which was founded in 1970 as the first program in the United States to train native men for the permanent diaconate. Presently, the program has twenty (20) active deacons who minister as the leaders of prayer in eleven (11) of the twenty-four (24) villages that comprise the Yukon-Kuskokwim Region of the Fairbanks Diocese.
 - The Urban Deacon Program has historically functioned as a training program for deacons in urban areas of the Fairbanks Diocese and is currently being revamped.
- The Office of Religious Education through which the Fairbanks Diocese promotes the ministry of catechesis in the Fairbanks Diocese. Catechesis is the word that describes the essential ministry of the Roman Catholic Church through which the teachings of Christ have been passed on throughout the ages.

C. The Sexual Abuse Crisis and the Fairbanks Diocese's Response

The Committee alleges that CBNA only provides a sanitized version of the problem of sexual abuse in the Fairbanks Diocese. Unfortunately, the Committee's version of events often is filled with hyperbole and rumor. But let there be no doubt, a handful of individuals,⁶ mostly Jesuit priests or volunteers, engaged in criminal sexual acts in varying degrees including exposing themselves, genital touching and fondling over and under clothing, oral sex, child rape including vaginal penetration and sodomy, with more than two-hundred fifty (250) mostly native Athabaskan, Yup'ik Eskimo, or Inupiat Eskimo children and teenagers over a period of more than three decades. These individuals' conduct was despicable, and contrary to every teaching of the Roman Catholic Church. The harm that these individuals caused their victims, their victims' families, and their victims' communities is tragic. These individuals who perpetrated these horrible crimes also betrayed and injured the Church.

Approximately 290 Proofs of Claim were filed asserting injuries from sexual abuse. 97% of the Claims occurred more than twenty (20) years before the commencement of this Reorganization Case, and more than half of the abuse occurred more than thirty-five (35) years ago or more. There are no allegations of childhood sexual abuse since Bishop Kettler became Bishop.

CBNA has reason to believe that the following individuals have at least one credible allegation of abuse against them:

⁶ More than 400 priests and 1000 religious women and lay volunteers have served in the Fairbanks Diocese.

Anton Smario (Lay volunteer)
Br. Ignatius Jakes
Joseph Lundowski (Lay volunteer)
Fr. George Endal, SJ
Fr. Francis Nawn, SJ
Fr. James Jacobson, SJ
Fr. Jules Convert, SJ
Fr. Francis Fallert, SJ

Fr. Segundo Llorente, SJ
Fr. Norman Donohue, SJ
Deacon Pat Beans Sr.
Fr. Henry Hargreaves, SJ
Fr. James Poole, SJ
Fr. Richard McCaffrey, SJ
Fr. Rene Astruc, SJ

Others may have also engaged in the conduct that they have been accused of, but CBNA has not been able to evaluate the credibility of the Claims.

Victims started coming forward in large numbers beginning in the fall of 2002. In response, Bishop Kettler has led the Fairbanks Diocese in:

- Apologizing for the wrongs committed;
- Appointing a Child Protection Review Board;
- Implementing a comprehensive policy called Faithful Healing - Preventing and Responding To Ministry Related Child Sex Abuse;
- Requiring all priests, deacons, religious, and lay employees and volunteers to receive education and training regarding recognizing and preventing childhood sexual abuse;
- Requiring criminal background checks for all priests, deacons, religious, and lay employees and volunteers ministering in the Fairbanks Diocese;
- Appointing a victim assistance coordinator;
- Advertising to encourage victims to come forward;
- Traveling throughout the Fairbanks Diocese to engage in listening sessions in affected communities;
- Conducting Healing Masses and liturgies that incorporate Native elements;
- Making himself available to personally meet with victims; and

- Requesting that special prayers be added to the intercessions portion of the Mass asking for healing of past wrongs and to strengthen the resolve to prevent future abuse.

The Bishop's forthrightness and aggressive policies to combat the problem of childhood sexual abuse has earned praise both from village communities and from the auditors checking on the extent of the Fairbanks Diocese's implementation of sexual abuse prevention measures. Bishop Kettler and CBNA desire that this Second Amended Plan will enable CBNA to pay just compensation for the victims of abuse and facilitate the future hard work toward healing and reconciliation for everyone involved.

The current amendment to the Second Amended Plan further reinforces CBNA's commitment to reconciliation and healing by continuing CBNA's commitment to assist the healing process and take additional actions including:

(a) CBNA will disclose to the Bankruptcy Court the identity of all those known individuals who have admitted, been proven, or been credibly accused of sexual abuse during their period of service as a priest, religious, lay employee or volunteer in Alaska.

(b) For a period of five (5) years after the Effective Date, the Reorganized Debtor will post on the home page of its website, a prominent link to a list of those individuals disclosed in Paragraph (a) above.

(c) Within one (1) year after the Effective Date, Bishop Kettler will go to every Parish in which any individuals were abused and where those persons identified in Paragraph (a) above served. The Bishop will read a statement of apology from the pulpit. The Bishop will assure survivors and parishioners that no one will go to hell as a result of coming forward regarding the abuse they suffered. He will further assure them that they did not commit any sin in coming forward. The Bishop's visits to the rural Parishes will, to the extent feasible, be

publicized by the following means: (i) posted on the church bulletin board; (ii) posted by the parish administrator or the parish contact in the post office, the washeteria, the community center and the store of each village to the extent allowed by each of such place; (iii) announced by VHF radio by the parish contact person as requested by the Bishop; and (iv) announced on KNOM two (2) weeks in advance. At least thirty (30) days in advance of the Bishop's visit to a Parish, the Bishop will send a letter to all known abuse survivors in that Parish inviting them to attend his visit. For those Parishes that had students attending Holy Cross Boarding School, the Nulato Catholic Mission School (a/k/a Our Lady of the Snows), and St. Mary's High School (a/k/a St. Mary's Catholic Mission), the Bishop will include, in addition to the statement to be read as described above, an acknowledgement and apology for the abuses which occurred in those schools and also for the cultural disregard/disrespect resulting from the forced assimilation of Native people. Consistent with the Bishop's current practice, the Bishop will continue his "listening" sessions and healing ceremonies during the Parish visits.

(d) A general letter of apology will be displayed on the Fairbanks Diocese's website for a period of five (5) years from the Effective Date. In addition, this letter of apology will be published in parish bulletins (where parish bulletins are used) once a month for three (3) months after the Effective Date. The letter of apology will be read by the Bishop on a public service announcement to be played on KNOM at least once a month for three (3) months after the Effective Date.

(e) CBNA agrees that it will continue to comply in all respects with the following: (i) the Charter for the Protection of Children and Young People initially adopted by the USCCB in 2002, and revised in 2005, and as it may be amended from time to time; (ii) the Diocese of Fairbanks' Faithful Healing,

Preventing and Responding To Ministry-Related Child Sexual Abuse policy adopted on August 1, 2003, as revised subsequently and as it may be amended from time to time; and (iii) the Diocese of Fairbanks' Policy on Abuse of Vulnerable Adults adopted November 16, 2005, as it may be amended from time to time.

(f) No later than sixty (60) days after allowance of any Tort Claim, Bishop Kettler will send individual letters of apology to such Tort Claimant and, if requested by such Tort Claimant, to his or her immediate family.

D. The Financial Structure and Operations of CBNA

The financial operations of CBNA are unlike most other dioceses and archdioceses in the United States. Most dioceses conduct certain ministries but primarily provide oversight and assistance to parishes and matters of the Roman Catholic faith within their territory. This work often includes the need to assist a few of the poorer parishes. Generally speaking, these operations are funded out of chancery taxes assessed against plate collections of the parishes within their territory, from fees for services or other support which is given to such dioceses and archdioceses by the parishes and other institutions within their respective geographic territories.

CBNA, on the other hand, must subsidize the operation to thirty-eight (38) out of the forty-six (46) Parishes within the Fairbanks Diocese's territory. Accordingly, one of CBNA's primary activities is raising money to subsidize the practice of the Roman Catholic faith in the thirty-eight (38) non-self sustaining parishes, to provide services supporting the operations of these financially non-self sustaining parishes, and to provide services to all people regardless of their faith. For purposes of clarity in the discussions and exhibits that follow- CBNA operates on a fiscal year that begins July 1 and ends on June 30.

1. Sources of Income

As reflected in the historical analysis attached to this Disclosure Statement as Exhibit "3", CBNA's primary operation has five (5) primary sources of income: (a) Individual Donations

solicited by the Alaskan Shepherd (averaging 53.19% of annual income since 2000); (b) Endowment Income (averaging 8.86% of annual income since 2000); (c) Bequests (averaging 13.31% of annual income since 2000); (d) Grants (averaging 14.31% of annual income since 2000); and (e) Fees for Services and Parish Assessments⁷ (averaging 6.91 % of annual income since 2000).

a. The Alaskan Shepherd

CBNA raises most of the funds necessary to operate the Fairbanks Diocese and fund Parish subsidies through the work of its Alaskan Shepherd office. The work of the Alaskan Shepherd office is two fold. First, it publishes the "The Alaskan Shepherd" newsletter. The newsletter, which is published ten (10) times each year, is meant to keep friends and benefactors of the Fairbanks Diocese informed about and interested in its people and its apostolic works, with articles that are historically accurate, interesting, and edifying. Second, the Alaskan Shepherd program seeks prayer and raises financial resources which help the Fairbanks Diocese carry out its mission and ministry. The Alaskan Shepherd newsletter and solicitations go to a mailing list of more than 45,000 donors around the world.

The importance of the Alaskan Shepherd operation to the Fairbanks Diocese and the other Catholic entities and agencies within its territory cannot be overemphasized. One of the most important components of the Alaskan Shepherd's operations is maintaining credibility with its donors around the world that their money goes to the missionary work and specific projects and programs designated (restricted) by the donor. It is one thing to consistently put money in a collection basket that passes through the pew at church each week and an entirely different thing to mail a \$5, \$10, \$25 or \$100 check halfway around the world on a regular basis.

Yet thousands of individuals from the lower 48 states and around the world do. Many donors' contributions are accompanied by a prayer request. Additionally, there are many people

⁷ The Fairbanks/North Pole area Parishes pay a substantial assessment to subsidize CSF's operation which is part of CBNA.

who write-in, expressing a deep interest in the missionary nature of CBNA, but who are too poor to make a contribution. Instead of funds, they send a contribution in the form of a note containing a heartfelt prayer. Further, many individuals write in describing personal difficulties and sufferings, and ask that the diocese pray for them and their loved ones. These prayer requests are all brought to the special Mass often led by Bishop Kettler each Thursday morning, specifically mentioning these requests during that portion of the liturgy that is called the "prayers of the faithful." The Alaskan Shepherd also receives hundreds, if not thousands, of Mass intentions. These requests are treated with the utmost care and reverence by the Alaskan Shepherd's staff who ensure that they are distributed to priests according to the donors' wishes.

In order to maintain credibility with its donors, and so that CBNA can manage its cash flow and operations within the law governing the use of charitable gifts, the Alaskan Shepherd office operates a sophisticated and highly accurate donor and donation tracking system. This operation allows CBNA to ensure that donation patterns are tracked and donors' intents are meticulously followed. The viability of CBNA's continued operations and its ability to make a meaningful contribution (in addition to insurance proceeds) toward funding a plan of reorganization, depends on its ability to maintain donor confidence throughout the reorganization process.

b. The Endowment

The Endowment was established in approximately 1980 by Bishop Robert Louis Whelan. The Endowment was further refined and organized by Bishop Michael Joseph Kaniecki in formal documents in approximately 1996. The Endowment is actually a "collection of endowments created by CBNA to provide for the future of the Fairbanks Diocese by ensuring the fiscal security of the Church, the parishes within the territory of the Fairbanks Diocese, schools, agencies and programs." The Endowment documents (the "Endowment Documents") provide that:

[T]he DONATE Fund⁸ will:

- Enable individuals, families, and others to support future needs of the Fairbanks Diocese, its parishes, schools, agencies and programs.
- Provide individuals, families, and others the opportunity to establish a memorial honoring a friend or loved one.
- Provide individuals, families, and others greater flexibility and focus in achieving their personal giving objectives.

The Endowment Documents also describe certain established Endowment funds to which a donor can donate. The Endowment Documents also allow for a donor to create an Endowment to "meet specific personal giving objectives" which will then be administered by CBNA. If additional Endowment funds are established, an Endowment Operating Agreement is executed by the donor or person establishing the Endowment, as well as a Participation Agreement (collectively, "Related Documents"). The largest Endowment fund is the Mission Support Endowment (which was formerly known as the "Alaskan Shepherd Endowment"). From its inception in the early '80's until the early '90's, monies received with express restrictive intent were placed in the Mission Support Endowment. Beginning in the early 1990's, Bishop Kaniecki announced a policy whereby unless a bequest expressly indicated otherwise, all bequest donations would be deposited into the Mission Support Endowment, the corpus preserved and income used in connection with mission support. This policy was widely and regularly published in the Alaskan Shepherd newsletter. This policy enabled the Mission Support Endowment to significantly accumulate in value.

Under the Endowment and Related Documents, the Endowment funds are managed under the "total return" concept of Endowment management "to the extent feasible." That means that funds will be invested within specific risk levels to achieve maximum total return (earnings) without regard to the distinction between capital appreciation (realized and unrealized) and yield (interest, dividends, etc.). Further, the Endowment Documents limit earnings withdrawals to 5.5% of the principal value of the fund averaged over the preceding three (3) years. Also,

⁸ The DONATE Fund is the name given to the Endowment.

"spending distributions will be limited to the accumulated net yield and capital appreciation (realized and unrealized)." This type of fund management required the fund administrator to determine earnings based on the concept of "historical dollar value." As defined in the Uniform Management of Institutional Funds Act ("UMIFA"), a charity could prudently spend amounts above historic dollar value of all contributions to the fund, valued at the time of contribution. Amounts below historic dollar value cannot be spent. As a result, if the value of Endowment investments falls below an historical dollar value due to shifts in the market, no income could be distributed until market gains increase the value of Endowment investments above the historic levels, even if it meant that the programs that the Endowment was intended to support suffered tremendously. The effect of this principle can be seen in the historical financial data for CBNA where Endowment income fell to \$0.00 for the fiscal years ending on June 30, 2002, 2003, and 2004. This result was caused by the devaluation in the market value of Endowment investments after the September 11, 2001 terrorist attacks. CBNA presently is experiencing a similar problem because of the severe market downturn in the fall of 2008. By keeping the historical dollar value based management, the Endowment will generate no income for many years.

In mid-2002, when the lower earnings from the Endowment did not continue to support the CBNA mission, Fr. Richard Case, after consultation with the Diocesan Finance Council, urged a change in the policy regarding bequests so that, absent specific donor intent to the contrary, bequests would be used to support current operations and would not be placed in the Endowment. This policy was again widely advertised in the Alaskan Shepherd newsletter before it was implemented in order to give donors the opportunity to change their wills. Thereafter, if a bequest was received from someone who died after the policy change went into effect, the funds went to general operations unless the bequest documents specifically provided otherwise. The effect of this policy change can be seen in the historical financials where bequest income grew from \$179 on June 30, 2002, to as much as \$1,915,090 in the year ending June 30, 2005, averaging \$981,928 per year.

CBNA has maintained comprehensive accounting records of the various Endowment funds that demonstrate how CBNA has honored donors' intent by recording all corpus funds and segregating out the earnings for the purpose of the Endowment. The Alaskan Shepherd office, with its extensive donation intake and tracking capabilities has always administered the solicitation and intake of donations to the Endowment, and CBNA has similarly managed the funds in a manner consistent with the Endowment purposes and the donors' intent. CBNA has always respected this intent by not using the corpus and by using the income for Endowment designated purposes. The Endowment funds were not reflected as "unrestricted" on financials and were segregated as a separate fund in accordance with the nature of the Endowment.

Based upon applicable Alaska and Federal Bankruptcy law, the Endowment, the Endowment Documents and Related Documents meet the definition of a charitable trust and must be respected. See e.g., *Roberts v. State Dept. of Revenue*, 162 P.3d 1214 (Alaska 2007); *Botelho v. Griffin*, 25 P.3d 689, 693 (Alaska 2001); and *Alaska State Employees Ass'n v. Alaska Pub. Employees Ass'n*, 825 P.2d 451, 459 (Alaska 1991). Therefore, the principal and income from the Endowment are exempt from the Claims of CBNA's Creditors, and neither the property nor the value of the Endowment corpus are included in the Second Amended Plan. See 11 U.S.C. § 541(d); *In re Parkview Hospital*, 211 B.R. 619 (Bankr. N.D. Ohio 1997); and *In re Roman Catholic Archbishop of Portland in Oregon*, 345 B.R. 686 (Bankr. D. Ore. 2006).

The Committee, however, disagrees with this proposition and has filed an adversary proceeding that seeks a declaration that the Endowment corpus and income are part of the Estate and may be invaded to pay Claims pursuant to 11 U.S.C. § 541. The Committee has not yet publicly articulated any factual or legal theory that would make the Endowment part of the Estate. As is discussed below regarding the Endowment is not included in the liquidation analysis or CBNA's analysis of the best interest of creditors test.

In order to facilitate implementation of the Second Amended Plan, the Second Amended Plan provides for two significant amendments to the Endowment Documents. First, the Second

Amended Plan provides for modifying the Endowment spending policy that has been based on the historical dollar value concept and implements the prudence standard articulated in the recently promulgated Uniform Prudent Management of Institutional Funds Act ("UPMIFA").⁹ Second, and more importantly, the Second Amended Plan modifies the Endowment Documents in order to permit investment in investment and mission real property, as well as modifications to the permitted asset allocations. The Endowment Documents will be amended to add the following provision to the Investment Guidelines:

Real estate: real estate includes developed or undeveloped land and buildings that are suitable for use as investment, mission, or school property.

1. Investment property shall have appropriate income, capital appreciation, marketability and administrative costs characteristics.
2. Mission and School Property must have stable value and the property's use must be necessary for the long term mission of the Catholic Church in Northern Alaska.

(g) The asset allocations will be amended as follows:

	<u>Maximum</u>	<u>Minimum</u>	<u>Target</u>
Total Return Based Pooled Fund:			
Real Estate	70%	0%	40%
Equities	70%	25%	45%
Fixed Income	50%	5%	10%
Cash	20%	0%	5%

After approval of this amendment, the Endowment will be permitted to acquire the real property. Under the Second Amended Plan, CBNA will sell the following real property to the Endowment which will then become part of the corpus of the Endowment:

Chancery	\$1,100,000
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⁹ UPMIFA has been enacted by 48 of the 50 states, and was introduced in the Alaska State Senate as SB 134 in 2009. It is presently pending before the Senate Education Committee.

Warehouse	\$225,000
Kobuk Center	\$1,100,000
Catholic Schools of Fairbanks	\$3,500,000
KNOM Buildings	\$430,000
Fairbanks Counseling & Adoption Building	\$600,000
Betty St Convent	\$195,000
Hanger	\$300,000
Kateri Tekakwitha Center	<u>\$175,000</u>
	\$7,625,000

This investment in real estate will represent an allocation of 52% of the historic dollar value of the Endowment and approximately 56% of the value of the Endowment as of September 30, 2009. Such an investment profile is well within the range permitted by the proposed investment policy revision.

The UPMIFA amendment will greatly stabilize CBNA's ability to operate on a going forward basis. Instead of using historic dollar value as a limitation discussed above, UPMIFA applies a more carefully articulated prudence standard to the process of making decisions about expenditures from an endowment fund designed to encourage institutions to establish a spending policy that will be responsive to short-term fluctuations in the value of the fund, and allowing an institution to maintain appropriate levels of expenditures in times of economic downturn or economic strength. In some years, accumulation rather than spending will be prudent, and in other years an institution may appropriately make expenditures even if a fund has not generated investment return that year. Although the UPMIFA does not require that a specific amount be set aside as "principal," UPMIFA assumes that the charity will act to preserve "principal" (i.e., to maintain the purchasing power of the amounts contributed to the fund) while spending "income" (i.e. making a distribution each year that represents a reasonable spending rate, given investment performance and general economic conditions). Thus, it requires the institution to monitor principal in an accounting sense, identifying the original value of the fund (the historic dollar value of the corpus) and the increases in value necessary to maintain the purchasing power of the fund.

Accordingly, the Endowment Documents will be amended to provide that at least twice annually, on or about March 31 and October 31, the Diocesan Bishop, in consultation with the Diocesan Finance Office and after consulting with the Diocesan Finance Council, may determine such spending distributions from one or more of the Endowments as is prudent for the uses, benefits, purposes and perpetual duration for which an Endowment was established. In determining the spending distributions, the Diocesan Bishop is to act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. The relevant factors to be considered by the Diocesan Bishop in setting the spending distributions for a particular period will be determined by the Diocesan Bishop in consultation with the Diocesan Finance Office and the Diocesan Finance Council.

These factors include:

(1) the need to preserve the Endowment into perpetuity monitoring principal in an accounting sense, identifying the original value of the fund (the historic dollar value) and the increases in value necessary to maintain the purchasing power of the fund;

(2) the purposes of CBNA and the Fairbanks Diocese and the Endowment fund;

(3) donor intent;

(4) general economic conditions;

(5) the possible effect of inflation or deflation on the fund and the beneficiaries;

(6) the expected total return from income and the appreciation of investments;

(7) other resources of CBNA; and

(8) the investment policy of the Endowment.

The Bishop's authority with respect to spending distributions shall be limited to no more than an amount equal to 6.25% of the fair market value of an Endowment fund, calculated on the basis of market values determined at least quarterly and averaged over a period of the preceding three (3) years. The 6.25% figure was chosen in order to be conservative compared to UPMIFA's presumption that a 7% withdrawal is prudent.

The Debtor's forecast assumes that as a result of this amendment to the Endowment Documents, CBNA will receive disbursements of an amount equal to 2.5% to 3% of the historic dollar value of the Endowment on a consistent basis. This number is much lower than the 6.25% permitted under the UPMIFA amendment, but reflects an anticipated decrease in returns due to the large investment in mission real estate contemplated under the Second Amended Plan. The lower returns also permit the value of the Endowment to be replenished to historic dollar values over time, while still providing CBNA the ability to rely on the Endowment in its budgeting process.

c. Bequests

As discussed above, beginning in 2002, bequests received from estates of men and women who died before August 1, 2002, and which do not contain an express requirement that the corpus be preserved and only the income used, or other express restriction, were treated as current unrestricted donations. Since 2002, legacies, bequests, and annuity income has averaged \$841,678.00 annually. As of the Petition Date, CBNA had approximately 100 to 150 pending bequests. That is to say that these donors had named CBNA in a planned giving instrument, or had passed away and CBNA was waiting for the donors' estates to be processed. In many cases, charities are entitled to a percentage of the remainder after all other aspects of the estate have been processed. As such, bequests often are pending for several years until a potential donor dies or while the decedents' estates are probated and administered. Often CBNA is not aware it is a beneficiary of a will until it is contacted by a decedent's personal representative. The precise timing and amount of distributions varies widely and is very difficult to predict.

d. Fees for Services and Parish Assessments

The self sustaining Parishes pay a subsidy to the Fairbanks Diocese for support of the non-self sustaining Parishes and the CSF. The assessments are calculated as follows:

Assessment Calculation Fiscal Year 2009 - 2010										
Parish	Year Established	Years in Existence	Approx Registered Families	Prior Year Revenue	CSF Assessment		Subsidized Parish Assessment		Total Assessment	
SHC - Fbks	1967	42	500	396,400	48,559	12.25%	20,415	5.15%	68,974	17.40%
ICC - Fbks	1903	106	800	402,852	49,349	12.25%	20,747	5.15%	70,096	17.40%
St. Mark - Fbks	1980	29	45	56,414	4,654	8.25%	2,905	5.15%	7,559	13.40%
St. Nicholas - NP	1979	30	320	267,984	27,468	10.25%	13,801	5.15%	41,269	15.40%
St. Raphael - Fbks	1989	20	260	194,033	19,888	10.25%	9,993	5.15%	29,881	15.40%
ICC - Bethel	---	---	---	145,478	---	---	7,492	5.15%	7,492	5.15%
St. Patrick - Barrow	---	---	---	85,000	---	---	4,378	5.15%	4,378	5.15%
OLS - Delta Junction	---	---	---	60,000	---	---	3,090	5.15%	3,090	5.15%
<p>Assessment rates are set by the Bishop, in conjunction with the Finance Department</p> <p>{A} Revenues are based on the prior year plate collections, donations, and fundraisers</p> <p>{B} Parish assessment is a flat rate regardless of parish statistics</p> <p>{C} CSF assessment is based on registered families</p> <p>12.25% 500+ registered families</p> <p>10.25% 100 - 499 registered families</p> <p>8.25% 1 - 99 registered families</p> <p>{D} Barrow's and Delta Junction's 2008 operating reports have not yet been provided to the Finance Department. As such, we have used an estimate based upon their 2007 operating reports.</p>										

The Fairbanks Diocese redistributes these monies to the CSF on a monthly basis, and to the subsidized Parishes on or about the 15th day of August, November, February, and May. The Committee assert that the Bishop should raise the taxes that the Fairbanks Diocese charges to the eight self sustaining Parishes. Such a contention is absurd. First, even the self sustaining Parishes have very limited revenue. For example, the largest collection plate revenue for any of the Parishes is barely over \$400,000, and cumulatively the eight (8) self-sustaining Parishes report just over \$1.6 million. Thus, even if the Fairbanks Diocese were to impose a new 3% tax on revenue (which would represent a 58% tax increase over what is charged to the Chancery), it would raise less than \$50,000 in revenue. Finally, and most importantly the amount of a tax or assessment imposed by the Fairbanks Diocese on the Parishes is clearly an ecclesiastical church governance matter outside the jurisdiction of civil courts.

CBNA also collect fees for services for portfolio management for the Endowment, accounting services provided to the Alaska Conference of Catholic Bishops, and services

provided to the trustees of the Catholic Trust of Northern Alaska. Altogether, these fees and assessments average a total of approximately \$600,000 per year.

As a result of its financial difficulties in 2009, CBNA was forced to seek additional sources of income. One place that CBNA turned was to seek one time emergency gifts and or loans from dioceses and archdiocese in the lower 48 states. In all, CBNA contacted 77 diocese and archdiocese including — Albany, NY, Allentown, PA, Amarillo, TX, Arlington, VA, Atlanta, GA, Austin, TX, Baltimore, MD, Belleville, WA, Baton Rouge, LA, Beaumont, Boise, ID, Buffalo, NY, Burlington, VT, Camden, NJ, Charleston, SC, Charlotte, NC, Cincinnati, OH, Cleveland, OH, Colorado Springs, CO, Corpus Christi, TX, Dallas, TX, Denver, CO, Detroit, MI, Dodge City, KS, Des Moines, IA, Dubuque, IA, El Paso, TX, Erie, PA, Fall River, Fargo, ND, Ft Worth, TX, Fresno, CA, Gary, IN, Great Falls-Billings, MT, Green Bay, WI, Hartford, CT, Helena, MT, Honolulu, HI, Indianapolis, IN, Joliet, IL, Kansas City-St Joseph, MO, Kansas City, KS, Laredo, TX, Lafayette, ID, Lafayette, LA, Las Cruces, NM, Lexington, KY, Louisville, KY, Marquette, Miami, FL, Michigan Catholic Conference, Nashville, TN, New York, NY, Oakland, CA, Omaha, NE, Orange, CA, Palm Beach, FL, Phoenix, AZ, Pittsburgh, PA, Philadelphia, PA, Providence, RI, Reno, NV, San Angelo, CA, San Bernardino, CA, San Francisco, CA, San Jose, CA, Seattle, WA, St Louis, MO, Sioux Falls, SD, Springfield, IL, Springfield -Cape Girardeau, MO, Tucson, AZ, Victoria, BC, Yakama, WA, and Youngstown, OH. As a result of these efforts, CBNA has received gifts from 24 dioceses and archdiocese ranging from \$200 to \$50,000. The cumulative amount of all the gifts is \$416,900. Unfortunately, none of the dioceses or archdioceses have been willing to lend to CBNA in large part because CBNA is not able to debt-service.

2. Uses of Income

CBNA's operation is lean. Excluding KNOM and CSF, CBNA directs the majority of resources towards ministry and mission programs. In 2008, \$2,103,663 of revenue resources

were channeled back out to the bush Parishes in the form of direct subsidies, wage and benefit subsidies for religious and lay parish workers and program directors, as well as for the building, remodeling, and restoration of the Parishes themselves. Additionally, CBNA directed another \$749,175 of revenue resources towards other chancery based ministry programs such as Religious Education, Children and Family Life, and Adult Formation. Combined, CBNA was able to focus more than 56% of its resources towards ministry and mission. The Alaskan Shepherd Fundraising operations further comprise another approximately 11% of the expenditures.

Significantly, since 2000, professional fees have grown from 1.41% of expenses, to over 17% of expenses, while in reorganization proceedings in the fiscal year ended June 30, 2008. Since the fiscal year ending June 30, 2001 (no sexual abuse Claims were filed before that date), professional fees have grown by an average of 58.47% per year. Continuing to devote so many resources to professional fees is not sustainable.

As a result of significant cash shortfalls, in May 2009 the Diocese took certain emergency steps to drastically reduce its staffing levels. Among other things, the Bishop announced the elimination of five full-time positions and one part-time position for fiscal year beginning July 1, 2009. Further in addition to continuing to furlough employees one day per week throughout the summer, CBNA instituted permanent reductions for certain staff including:

- 20% hours and pay reduction for the Bishop's secretary;
- 50% hours and pay reduction for the Librarian/Archive Clerk (going from full time to half time);
- 20% hours and pay reduction for the office manager for the Alaskan Shepherd;
- 20% hours and pay reduction for three clerks in the Alaskan Shepherd's office;

and

- 16% salary reduction for the Chancery Office Campus Maintenance Director.

In addition to the foregoing, the Bishop announced that top management was also taking voluntary permanent salary reductions including:

- 20% salary reduction for the Bishop;
- 25% salary reduction for the Director of Finance; and
- 20% salary reduction for the Chancellor.

All told these efforts will reduce CBNA's payroll expense by more than \$400,000 per year.

3. Catholic Schools of Fairbanks Sources and Uses of Cash

As reflected in the historical analysis of CSF attached to this Disclosure Statement as Exhibit "4", on average, CSF's operations generate 73.4% of its income from tuition and fees, 5.45% of its income from after school program charges, and 16.87% of its income from direct donations consisting primarily of a direct subsidy from CBNA's chancery office and an assessment charged to the Fairbanks and North Pole metropolitan area Parishes. However CSF's operations, including direct donations, only account for 82% of the funds needed to operate CSF. On average, CSF's operations run at an annual deficit of \$589,179. CSF, therefore, depends on the generosity and hard work of the Monroe Foundation, which net of fundraising expenses raises \$610,433 on average each year or 18.46% of the funds necessary to operate the school. On average, direct contributions and Monroe Foundation contributions together account for 32.33% of CSF's annual operating budget.

4. KNOM's Sources and Uses of Cash

As reflected in the historical analysis of KNOM attached to this Disclosure Statement as Exhibit "5", on average, KNOM gets 84% of its income from its "*Static*" newspaper fundraising and 11.6% from bequests. On average, fundraising expenses account for approximately 27.93% of KNOM's expenses; programming accounts for 7.97% of expenses; expenses associated with

volunteers and staffing account for roughly 45.26% of expenses; technical expenses account for approximately 6.34% of expenses; and general operating overhead accounts for 12.50% of expenses. Since 2000, on average, KNOM's operations have lost \$16,491.18 per year.

E. Disputes Over Property Ownership and Associated Risks

Similar to other diocesan bankruptcy cases, CBNA scheduled property that it holds in trust for the benefit of Parishes and property that it holds in trust for charitable purposes (the Endowment) as property held for the benefit of others, under line 14 of the Statement of Financial Affairs. This is not out of the ordinary. Indeed, every debtor in every bankruptcy case in the United States answers line 14 of the Statement of Financial affairs. Pursuant to Bankruptcy Code § 541(d), property that a debtor holds in trust (a trustee holds bare legal title) for the benefit of another (who holds the equitable interest in the property) does not constitute property of the debtor's bankruptcy estate and cannot be used to pay the debtor's creditors. Specifically, Bankruptcy Code § 541 provides in pertinent part:

(a) The commencement of a case under section 301, 302, or 303 of this title creates an estate. Such estate is comprised of all the following property, wherever located and by whomever held:

(1) Except as provided in subsections (b) and (c)(2) of this section, all legal or equitable interests of the debtor in property as of the commencement of the case.

...

(d) Property in which the debtor holds, as of the commencement of the case, ***only legal title and not an equitable interest***, . . . becomes property of the estate under subsection (a)(1) or (2) of this section only to the extent of the debtor's legal title to such property, ***but not to the extent of any equitable interest in such property that the debtor does not hold***.

In so doing, the Bankruptcy Code recognizes long standing black letter law that it is a breach of fiduciary duty, a breach of the duty of loyalty, and self dealing for a trustee to divert funds that he or she holds for the benefit of another for personal benefit (i.e. paying the trustee's personal debts). See e.g., 38 Am. Jur. 2d Trusts § 381 (1992) ("A trustee is under a duty to

refrain from personal traffic in, or private use, or appropriation of trust property or funds, at least without the express consent of the beneficiary. The trustee must not apply trust property or funds to his or her personal debts, or suffer them to be so applied."); *Restatement (Third) of Trusts* § 42 cmt. c (2003) ("Although a beneficial interest in a trust may generally be reached by creditors of the beneficiary . . . , the trustee's personal creditors or trustee in bankruptcy may not reach either the trust property or the trustee's nonbeneficial interest therein."). In other words, just because a debtor files for bankruptcy protection or reorganization does not compel the debtor to breach his or her fiduciary duties with respect to property that is held in trust.

A true and correct copy of line 14 of the Statement of Financial Affairs that was filed with CBNA's amended schedules is attached to this Disclosure Statement as Exhibit "6". The property identified on line 14 includes: (1) Parish Church real property which is held by CBNA as a trustee for the benefit of the Parish Churches; (2) Endowment funds which are held by CBNA as a trustee for the benefit of certain charitable purposes; (3) custodial funds held by CBNA primarily resulting from consolidating "second collections" at church services for payment of a single check to the national charity; and (4) I.R.C. § 457 retirement accounts of certain employees.

The Committee and certain individual tort creditors have asserted that the Parish Church real property and the Endowment funds (collectively the Parish Church real property and the Endowment funds are referred to in this Disclosure Statement as the "Contested Trust Property") should be taken and used to pay CBNA's Creditors. The Committee has initiated declaratory judgment litigation in order to require the use of this trust property to pay Creditors. The Committee alleges that CBNA claims that it is a fiduciary with respect to the Contested Trust Property as part of an elaborate and cynical asset protection scheme designed to minimize the

compensation paid to victims of sexual abuse perpetrated by individuals associated with the Fairbanks Diocese. This characterization of CBNA's motives is deeply misguided.

The Committee's position with respect to the Parish Church real property boils down to two arguments: (1) an argument that there is no trust relationship between CBNA and Parish Churches because the Parish Churches have no separate existence but rather are mere divisions of CBNA and, therefore, CBNA is the beneficiary of the Parish Church property; and (2) an argument that CBNA and the Parish Churches operations are so intertwined that the Parish Churches' estates should be substantively consolidated with CBNA's estate.

CBNA strenuously disputes the validity of these theories. Alaska law clearly recognizes the separate legal existence of unincorporated associations and gives them the right to own real property, to sue and be sued, and to be the beneficiaries of a trust. The Parish Churches in fact operate as unincorporated associations, suing and being sued and applying for gaming permits to run bingo. Further, each Parish Church has, along with CBNA, recorded notices of their beneficial interests in their real property. Moreover, CBNA's initial articles of incorporation from 1952, and its subsequent amendments clearly express intent to create an express trust with respect to Parish Church real property. Indeed, the very purpose of religious corporations sole under Alaska law is to hold church property in trust in accordance with the religious doctrine of a church. See e.g., *St. Paul Church, Inc. v. Board of Trustees of the Missionary Church of the United Methodist Church*, 145 P.3d 541 (Alaska 2006) (Applying "neutral principles" of property law to the title issues the Alaska Supreme Court implied the existence of a trust relationship based upon religious governance doctrine of the Methodist Church notwithstanding the absence of trust language in a recorded deed.)

With respect to the Endowment funds, the Committee has not challenged the validity of the charitable trust created by the Endowment Documents. Instead, the Committee has argued

that under the Endowment Documents, Bishop Kettler has the power in his capacity as Bishop and in his capacity as the head of CBNA, to amend the terms of the Endowment so as to use the Endowment principal to pay CBNA's debts to the Tort Claimants. To do so, however, would be a *per se* breach of fiduciary duty because it would necessarily ignore the donors' intent that the funds continue in perpetuity. To heed to any such demands would also constitute an improper self dealing and breach of the duty of loyalty required of a trustee. The sale of CBNA Real Property to the Endowment under the Second Amended Plan, in contrast, retains the value of the corpus.

In addition to the foregoing, the Court granted the Committee the right to file avoidance actions in order to try to recover the transfer of funds to the CTNA as a fraudulent transfer, or as an improper preference, in October 2007. Immediately after the Court entered its order permitting the Committee to pursue avoidance actions against the CTNA, the Committee filed the complaint captioned *Official Committee of Unsecured Creditors v. Catholic Trust of Northern Alaska, et. al.*,¹⁰ Adversary no. 09-90025-DMD. The avoidance action claim is subject to numerous defenses, foremost of which is that the transferred funds were never CBNA's property, but instead were always held in trust for the benefit of the Parish Churches prior to creation of the CTNA under an arrangement that was referred to as the "Deposit Fund" ("Deposit Fund"). If the funds would not have been property of the Estate, then the Committee cannot meet the fundamental element of a claim under 11 U.S.C. §§ 544, 547, and 548 that the **Debtor's property** was transferred. The Committee counters this argument by saying that the Deposit Fund was in the nature of a bank and not a trust. Under this theory, the deposited funds were CBNA's property and the Parish Churches would have claims against CBNA for their deposits. This argument is not supported by the evidence. But even assuming that the Deposit Fund was

¹⁰ The Committee also named every trustee and every parish as defendants.

like a bank, there could be no fraudulent transfer because CBNA's liabilities for the deposits would have gone down by the exact amount of the transferred funds. Indeed, CBNA retained and used its share of the funds worth approximately \$1.2 million. Moreover, the beneficiaries of the transfer, the Parish Churches, are not insiders and the transfer occurred well before the 90 day preference period for non-insiders.¹¹

The Second Amended Plan incorporates a settlement between CBNA on the one hand and the Parish Churches and the CTNA on the other hand. Under that settlement, the Parish Churches agree to pay \$500,000 from their unrestricted deposits with the CTNA to the Fund on the Effective Date, in exchange for a release from claims against their property including a dismissal of the Committee's declaratory and avoidance action lawsuits, with prejudice. The \$500,000 represents more than two-thirds of the unrestricted funds still on deposit with the CTNA (the weak economy has forced Parish Churches to look to their savings to help sustain themselves). CBNA believes that the Second Amended Plan represents a far superior proposal than could be achieved by pursuing the Contested Trust Property through litigation especially when the delay and administrative costs created by such litigation are factored in. For example, the *Portland Archdiocese* reorganization case lasted three (3) years, did not finally resolve the property issues and cost \$19 million to administer, and the *Spokane Diocese* reorganization lasted four (4) years, also did not resolve the property issues and had an administrative cost of \$7 million. As of the date of this Disclosure Statement there has been almost no litigation over property of the estate and the Debtor has already experienced administrative expenses of close to \$2.5 million (\$1.5 million remains unpaid).

¹¹ Although, as is permitted under the CTNA trust documents, CBNA's standalone divisions—KNOM and the Catholic Schools of Fairbanks—had deposits at the CTNA from time to time, those deposits were withdrawn prior to commencement of the Reorganization Case and have been used to support their operations during the Reorganization Case.

As the Court recognized in its decision on the Committee's motion seeking authority to bring avoidance actions, the Parish Churches' real property, nearly all of which is in the bush, has dubious value. Further, much of the remaining unrestricted funds on deposit would likely go to defending the suits against the Parishes and the CTNA. CBNA believes that the likelihood of achieving significant value is very low, and that the \$500,000 is a highly reasonable settlement amount. Moreover, the time involved in such litigation is highly significant, especially when considering that under the Second Amended Plan, Settling Tort Claimants will receive their Minimum Settlement Amount within 30 days of the Effective Date.

1. Assets

a. Real Property

Below is a summary of CBNA's real property and its disposition under the Second Amended Plan:

- (1) Chancery and Retreat Center, 1316-1318 Peger Rd., Fairbanks, AK 99709
PAN: 0573787

The Chancery Office and Retreat Center is located just off of Airport Road in Fairbanks and serves as the main offices of CBNA and the Fairbanks Diocese. It was appraised at a value of \$1.1 million in late 2007. Under the Second Amended Plan, the Chancery Office will be sold to the Endowment for \$1.1 million in Cash on or before the Effective Date. The proceeds of the sale will be used to fund CBNA's funding obligations on the Effective Date.

- (2) Kobuk Center, 2890 N. Kobuk Ave., Fairbanks AK 99709 PAN#
0573795

The Kobuk Center, which is also critical to the continued mission and ministry, is located just off of Airport Road in Fairbanks and serves as a conference center used for retreats and other CBNA and Diocesan business; it also serves as a residence for priests including the bishop of the Fairbanks Diocese and guest quarters for ministers visiting Fairbanks from the bush. It was appraised at a value of \$1.1 million in late 2007. Under the Second Amended Plan, the Kobuk

Center will be sold to the Endowment for \$1.1 million in Cash on or before the Effective Date. The proceeds of the sale will be used to fund CBNA's funding obligations on the Effective Date.

(3) Warehouses, 1316 Peger Rd., Fairbanks, AK 99709 PAN# 0126985

The Diocesan Warehouses are on the same campus as the Chancery and Kobuk Center. CBNA uses the Warehouses for staging supplies and materials for shipping to bush Parish Churches. CBNA considers the Warehouses essential to its ability to subsidize and assist the bush Parish Churches. CBNA intends to retain the Warehouses for ministry purposes. Under the Second Amended Plan, the Warehouses will be sold to the Endowment for \$225,000 in Cash on or before the Effective Date. The proceeds of the sale will be used to fund CBNA's funding obligations on the Effective Date.

(4) Fairbanks Counseling and Adoption Center, 912 Barnette St., Fairbanks, AK PAN# 0040410

The Fairbanks Counseling and Adoption Center is an office building in central Fairbanks which CBNA leases to its sister charity, Fairbanks Counseling and Adoption ("FCA"), at below market rent. FCA provides essential charitable services to all the people of Fairbanks and northern Alaska in general, including providing counseling to victims of sexual abuse. In addition to providing FCA discounted rent, CBNA provides FCA a small operating subsidy. Under the Second Amended Plan, the FCA building will be sold to the Endowment for \$600,000 in Cash on or before the Effective Date. The proceeds of the sale will be used to fund CBNA's funding obligations on the Effective Date.

(5) Kateri Tekakwitha Center/Convent; Galena, AK

Named after the first Blessed Native American, the Kateri Tekakwitha Center, located in Galena, Alaska on the Yukon River, serves eight (8) Athabascan Indian villages in the interior and houses three (3) religious women. The primary work of the Center is to educate and support Catholics in the villages of Galena, Huslia, Kaltag, Koyukuk, McGrath, Nulato, Ruby and Tanana to become proficient in administering their local Parishes in the absence of priests, brothers and sisters. The Kateri Tekakwitha Center strives to enable and empower Athabascan

villagers lay ministry as Prayer Leaders, Eucharistic Ministers, Lectors, Sacristans and Parish Administrators in their home parishes. The work of the Center is essential to the Fairbanks Diocese's ministry and CBNA's ability to support the Parish Churches in the interior region. CBNA does not believe that there is any significant market in Galena for the Kateri Tekakwitha Center. Under the Second Amended Plan, the Kateri Tekakwitha Center will be sold to the Endowment for \$175,000 in Cash on or before the Effective Date. The proceeds of the sale will be used to fund CBNA's funding obligations on the Effective Date.

(6) Aircraft Hangar, 3548 University Ave., Fairbanks, AK 99709

CBNA constructed an airplane hangar sufficient to hold two aircraft, on land that is the subject of a long term ground lease from the Fairbanks Airport Authority. In the past, CBNA housed aircraft used for mission travel at the Hangar. In December 2008, CBNA successfully sold the primary aircraft housed at the location. Under the Second Amended Plan, the Aircraft Hangar will be sold to the Endowment for \$300,000 in Cash on or before the Effective Date. The proceeds of the sale will be used to fund CBNA's funding obligations on the Effective Date.

(7) Jesuit Residence, 1318 Peger Rd., Fairbanks, AK 99709

The Jesuit Residence is a 4 bedroom, 2 bath residence featuring a chapel and 4-car garage located in central Fairbanks and has an estimated to have a market value of \$255,000. It is part of the collateral pool securing the \$1 million of debtor-in-possession financing provided by Great Falls. CBNA will retain the property under the Second Amended Plan subject to the lien in favor of Great Falls.

(8) CBNA 14.5 Acres raw land next to Chancery - House of Prayer

There is a parcel of approximately 14.5 acres of raw land near the Chancery Offices and Kobuk Center and includes the House of Prayer Chapel. This land is also part of the collateral pool securing the \$1 million of debtor-in-possession financing provided by Great Falls. CBNA

will retain the property under the Second Amended Plan subject to the lien in favor of Great Falls.

- (9) Catholic Schools of Fairbanks, 615 Monroe Street and 709 Illinois Street, Fairbanks, AK 99701 PAN# 0103497, 0478377, 0478393 **

The campus of Monroe Jr. & Sr. High Schools and Immaculate Conception Elementary School are located in central Fairbanks. The Schools operated there are the only Catholic Schools located within the 410,000 mile territory of the Fairbanks Diocese. Closure of the Schools would impose an undue burden on the free exercise of religion on the Fairbanks families desiring a Catholic education for their children, and, therefore, its value is not included in the Second Amended Plan as Excluded Property, pursuant to the Religious Freedom Restoration Act. Further, almost all of the improvements on the campuses are the direct result of the fundraising efforts of the Monroe Foundation.

Although these parcels were scheduled with a value of \$3.5 million, CBNA does not believe that value accurately reflects the market for the property. As a preliminary matter, as is reflected in its historical information contained in Exhibit "4", CSF is only able to operate as a result of \$1,068,969 in annual contributions from the Monroe Foundation, CBNA and the Fairbanks and North Pole area Parishes. No for-profit private school would be able to invest \$3.5 million to acquire a campus to operate a school at a \$1 million annual loss. Although it is conceivable that a developer could acquire the property, raze the school buildings and attempt to develop it commercially, the nearby vacant retail and industrial properties, as well as the extraordinary costs of tearing down the school make such a scenario highly unlikely, much less at a value anywhere approaching \$3.5 million. For the foregoing reasons, the CSF campus is not included in the liquidation analysis. CBNA has further estimated that if the Religious Freedom Restoration Act argument could be overcome, the largest amount that a developer would pay for the property would be \$1,750,000. Nevertheless, under the Second Amended Plan, the CSF

campus will be sold to the Endowment for \$3.5 million in Cash on or before the Effective Date. The proceeds of the sale will be used to fund CBNA's funding obligations on the Effective Date.

(10) Catholic Schools - PAN #0478377 LOT A MONROE CATHOLIC SCHOOL FIRST ADDITION OUT OF J-1 MONROE CATHOLIC SCHOOL TRACT

This is a vacant lot adjacent to the CSF campus. It is presently subject to an eminent domain request by the City of Fairbanks. CBNA intends to sell this lot to the City, but to the extent the sale has not closed before the Effective Date, CBNA will transfer the property to the Settlement Trustee. The ultimate sale of this property will benefit Tort Claimants.

(11) CSF Convent, 615 Betty Street, Fairbanks, AK 99701 PAN# 0061778, 0061786

This is a small residential building/convent adjacent to the CSF campus which has been and can be utilized for housing teachers. CBNA intends to sell this property. Under the Second Amended Plan, the CSF Convent will be sold to the Endowment for \$195,000 in Cash, on or before the Effective Date. The proceeds of the sale will be used to fund CBNA's funding obligations on the Effective Date.

(12) Harding Lake Chapel and Lot, 11239 Salcha Dr., Harding Lake, AK

This is a small chapel located near some vacation cabins on Harding Lake that are used by certain families in summer. Visiting priests say Mass at this location occasionally to a handful of Catholic families who vacation at Harding Lake during the summer. CBNA intends to sell the Chapel to a group of the families who own nearby vacation cabins for \$15,000.

(13) KNOM Radio Station, 107 West Third Street, Nome, AK 99762 Lots 35A, 37A, 39A, 41A, and 43A of Block 30, according to the official plat recorded on April 2, 1992 as Plat 92-4; Records of the Cape Nome Recording District, Second Judicial District, State of Alaska.

There are five properties associated with KNOM in Nome: (1) Station, Garage, Generator, Cold Storage + Lot; (2) Volunteer house + Lot; (3) South Steadman Lot; (4) West 3rd Ave Lot; and (5) North Steadman (at 3rd Ave) Lot. CBNA scheduled the KNOM real property at a value of \$780,000; however, that was based on an estimate by a banker and not a formal

appraisal. CBNA believes that there is no market value to the lot with the Station, Garage, Generator and Cold Storage. This is because the building on the lot was built as a radio station studio, with significant wiring in the walls, no kitchen, and only public style restrooms. Any other user would need to either completely gut the building or raze it and construct a new building. Such a cost would make the building worth almost nothing in Nome's marketplace.

Further, there is no market whatsoever for a radio station in Nome. Indeed, KNOM's competitor in Nome, KICY, which is a commercial radio station, has to supplement its budget by doing salmon barbecue fundraisers at Covenant Churches throughout the lower 48 states. The reason for this is that there simply are not enough retailers in the listening area to purchase sufficient advertising. Indeed, as reflected in its historical performance as described in Exhibit "5", KNOM entirely depends on donations through its "Static" newspaper and direct mail appeals in order to survive.

The KNOM real property could have value to a developer willing to demolish the buildings and build new buildings. Under the Second Amended Plan, the KNOM Real Property Center will be sold to the Endowment for \$430,000 in Cash on or before the Effective Date. The proceeds of the sale will be used to fund CBNA's funding obligations on the Effective Date.

(14) Harding Lake Second Tier Vacant Lot PAN #0160121; LOT 50 US SURVEY 3210

This is a second tier lot located at Harding Lake that is suitable for constructing a vacation cabin. CBNA has been attempting to sell this lot for a number of years, but has so far been unsuccessful. If CBNA is still unable to sell this lot before the Effective Date, it will transfer the Lot to the Settlement Trustee.

(15) Two Rivers Vacant Lot.

The Two Rivers Vacant Lot was donated to CBNA. Unfortunately, the donors placed significant restrictions on CBNA's ability to sell this property whereby the donors must not only approve the purchaser, but also must approve the purchaser's plans for the property. CBNA has

brought what it believed to be three (3) viable offers for the property that have all been rejected by the donors. In light of the unwieldy restrictions on this gift, CBNA intends to return the property to the donors.

(16) Oknagamut raw land remote 23.15 acres

This is a very remote parcel of raw land that has primarily been used by area Native people for subsistence since time immemorial. CBNA presently is in negotiations with a nearby Alaska Native village corporation which is interested in purchasing this parcel to ensure that subsistence uses continue into the future.

(17) Akulurak raw land remote 66.06 acres

This is another very remote parcel of raw land that has primarily been used by area Native people for subsistence since time immemorial. CBNA obtained Court approval to sell this property to Alakanuk Native Corporation, an Alaska Native village corporation, for \$25,000 and the sale closed over the summer. The proceeds of the sale will be used to pay CBNA's funding obligations on the Effective Date.

(18) Pilgrim Springs 320 acres Historic Hot Springs 70 miles northeast of Nome AK.

Pilgrim Hot Springs ("Pilgrim Springs Property") is a verdant 320 acre enclave of fee land owned by CBNA located in western Alaska, about 46 miles (75 km) north of Nome. This property is surrounded by lands controlled by an ANCSA Native Village Corporation, the Mary's Igloo Native Corporation (MINC). The MINC lands, in turn, lie within a very large land swath, some of which is controlled by an ANCSA Native Regional Corporation known as Bering Straits Native Corporation (BSNC). It should be noted that the old village site of Mary's Igloo is approximately seven (7) miles northwest of the Pilgrim Springs Property. The Pilgrim Springs Property access road crosses some lands owned by the MINC, the BSNC and state-selected lands for the State of Alaska.

The Catholic Church's involvement in the region began in the early 1900's with missionary priests ministering to the native people of Old Igloo. In 1918, after a severe influenza epidemic killed more than 1,200 people, the Catholic Church was asked to take in orphans from

the Nome area. They built an orphanage, a church, some greenhouses, and assorted other buildings near the original hot springs. The thermal waters were used for the greenhouse, a bath house and the natural hot spring pool. Impressive vegetable crops were also grown on the property. This mission survived until 1941, by which time all the children had grown up. A cemetery used during the orphanage days and subsequent years is located on the property.

In 1969, CBNA entered into a 99 year ground lease with a company called Pilgrim Springs Ltd. ("PS Ltd.") who, it was contemplated, would develop the property so as to generate substantial royalties in addition to nominal rents. As a result of PS Ltd.'s failure to perform, and its alleged defenses of impossibility and mutual mistake, the Court authorized CBNA to rescind the lease. PS Ltd. and one of its former employees have filed unsecured claims as a result of this rescission. CBNA believes that the Pilgrim Springs Property has substantial development potential as a source of geothermal power in the region, or more limited tourist or agricultural uses. CBNA has already received one offer to purchase the Pilgrim Springs Property from the Bering Straits Native Corporation, though for a lower amount than CBNA believes may be realized under the current development plan for the property.

Geothermal Exploration – The earliest geothermal investigations at Pilgrim Springs included those of U. S. Geological Survey personnel G. Waring in 1917 and T. Miller in 1975. In 1975, R. Forbes of the University of Alaska undertook reconnaissance geological and geophysical studies. Then, in 1979 and 1982, the Geophysical Institute, the Alaska Division of Geological and Geophysical Surveys (ADGGS), and Woodward Clyde Consultants (WCC) mapped the surface and the bedrock, conducted helium, mercury, gravity, seismic refraction, and electrical resistivity surveys, undertook geochemical sampling and analyses, and logged test wells. Their combined findings are summarized below:

- 1979 surface thermal spring discharge was about 67 gpm of alkali-chloride water at a temperature of about 178°F (81°C).
- Preliminary Na-K-Ca geothermometry suggests that a deep underlying geothermal reservoir may be as hot as 302°F (150°C).

- Springs likely located near intersection of two orthogonal fault zones that form a corner of a graben.
- Gravity studies suggest that bedrock is 1,500 feet (458 m) below property.
- Resistivity studies suggest Pilgrim Spring reservoir is pancake shaped and about 160 ft. (50 m) thick over a ~ 0.58 sq. mi. (1.5 sq. km.) thawed area.
- Artesian aquifers were encountered in a 66-100 ft. (20-30m.) depth interval with flow rates estimated at 200 and 300-400 gpm respectively, at a temperature of 194°F (90°C).
- In 1982, 6 new wells produced artesian flows of 30 to 250 gpm with about 6 ft. (1.8 m.) of head. Maximum temperature was 194°F (90°C).
- The thermal gradient in the two deepest wells was ~4.0°F per 100 ft. suggesting that 302°F (150°C) might be reached at depth of about 4,800 feet (1,463 m.).

Studies did not determine location and nature of the upflow zone or the location, depth, and nature of possible "deep" hot reservoir. These must be determined if the property is going to have potential for development to produce electric power.

Market Comments – Nome currently requires 5 MW power at a cost of approximately \$0.35 per kwh for residential customers. If adequate flows (~1,250 gpm per MWe) of thermal waters at 200°F (93°C) can be obtained from production scale wells at Pilgrim Springs Property, a modern (UTC-type) binary power cycle could be used to generate power. The efficiency of this system would be greatly enhanced by the availability of very cold river water nearby and the low (< 25°F, -3°C) average ambient air temperature. If a deeper, hotter resource is discovered, a more efficient industry standard "ORMAT-type" binary system might be installed. Using a modern (UTC-type) binary power cycle generation, Pilgrim Springs Property could be a viable power supplier. Power transmission to Nome must be considered in determining economic viability.

Bering Straights Regional Native Corporation filed a letter with the Court offering \$900,000 for the Pilgrim Springs Property. As a result of CBNA's ongoing efforts to market and improve the Pilgrim Springs Property, CBNA believes that the value could be as high as \$2.75

million. CBNA will auction the Pilgrim Springs Property at a hearing to be conducted by the Court in connection with the Confirmation Hearing. The proceeds of the auction sale will be used to pay CBNA's funding obligations on the Effective Date.

b. Personal Property

The following are CBNA's primary items of personal property:

(1) Cash

As of January 31, 2009, CBNA had approximately \$760,474.64 in Cash and cash equivalents, with \$283,813 associated with the administrative offices, \$468,887.68 associated with KNOM and \$7,773.36 associated with CSF. These balances, especially KNOM's balance, are relatively high because December and January are peak giving seasons.

(2) Investments

As of January 31, 2009, CBNA had approximately \$743,535.53 in investments associated with the Current Fund and the Second Amended Plan Fund. All of these investments are donated funds and grant proceeds that are subject to donor imposed use restriction and, therefore, are classified as temporarily restricted. As CBNA incurs the expenses contemplated by the grants or the donors, the funds will be released to the general fund and the expenses paid out of the general operating account of CBNA. CBNA has improved its management practices with respect to these restricted investment funds by more regularly reconciling the incurred expenses with restricted uses so as to free up more general unrestricted money.

(3) Limited Partnerships

As of January 31, 2009, CBNA had approximately \$261,324.53 in investments associated with its interest in the Alaska Conference of Catholic Bishops which is a 501(c)(3) corporation that provides, among other things, insurance services to the Dioceses of Alaska. The interest is not marketable. CBNA is also a member of CUP II which is not marketable.

(4) Accounts Receivable

As of January 31, 2009, CSF had approximately \$691,429 in tuition receivable. CBNA was also owed accounts receivable of roughly \$75,000. CBNA is also the holder of several small notes secured by mortgages on real property.

(5) Aircraft

CBNA is the owner of a 1965 Cessna 172 prop plane which has been used in missionary work since 1980. CBNA has been attempting to sell this aircraft for several years without success. CBNA intends to sell this aircraft, but if it is not sold on the Effective Date, CBNA will transfer it to the Settlement Trustee.

CBNA also owns a 1978 Cessna 207A prop plane, which is used to support CBNA's construction and engineering department's work supporting the repair, upgrade and building of mission parish churches. CBNA intends to retain and continue to use this aircraft. On Schedule B, CBNA estimated that this plane has a value of \$80,000.00.

(6) Claims Against NorthMail, Inc.

KNOM engages in fundraising activities by: (1) appeal campaigns mailed three times each year (spring, fall, and winter) to mailing lists purchased by KNOM for that purpose; and (2) monthly newsletters mailed to current and prior donors obtained through the appeal campaigns. KNOM purchases its appeal mailing lists. Each list has a "shelf life" - a period of time in which a solicitation must be sent so as to realize a maximum return of donations from the appeal. The monthly newsletters, or "*Statics*," also have a shelf life, and must be mailed several weeks apart so as to realize maximum return. KNOM contracted with NorthMail to insert, address, and send its mass-mailed appeals and *Statics*. NorthMail did not mail KNOM's *Statics* to certain zip codes; or mailed them in so defective a manner that they failed to reach the intended recipients. Further, NorthMail did not mail all of the *Statics* prior to the expiration of their "shelf life."

Similarly, NorthMail did not mail the January 2008 appeals to all intended recipients. NorthMail did not mail all of the January 2008 appeals prior to the expiration of their "shelf life."

As a result, KNOM suffered significant damages due to loss of cash flow. KNOM has estimated the loss to be in excess of \$250,000.

(7) Claims for Contribution or Indemnity Against the Oregon Province of Jesuits and Other Religious Orders

Under Alaska law, when there is more than one defendant there is "several liability" only. This means that each pays damages according to his/her own share of fault. Because you only pay for your share of fault, there is no need for a contribution claim, because you cannot be forced to pay more than your "fair share."

However there is nothing in the "several liability" that precludes an "indemnification" claim. It is possible for a defendant to have liability to a plaintiff and still be entitled to be indemnified for that liability - i.e. CBNA may have liability to the Claimants because of its status as the Fairbanks Diocese which may owe general duties to hire, install and/or supervise priests, but may claim indemnification against the Jesuits or other applicable religious orders because any liability of CBNA was due to the "active" fault of the Jesuits and CBNA did not have any "active" fault beyond the acts and omissions of the Jesuits.

CBNA has indemnification claims against the Jesuits, who provided most of its priests, including most perpetrators. Each and every bishop prior to Bishop Kettler was a Jesuit priest and subject to the governance of the Jesuit provincial with respect to Jesuit matters. Moreover, the CBNA bishop did not assign the priests' locations; the Jesuits did. The Jesuits filed for Chapter 11 reorganization on February 17, 2009. CBNA will timely file a proof of claim with respect to its indemnification claims. Under the Second Amended Plan, unless the Jesuits and other religious orders settle CBNA's indemnification claims by contributing substantial funds to the Reorganization Plan so as to become Participating Third Parties under the Second Amended Plan, CBNA will assign its indemnification claims against the Jesuits and religious orders to the trustees of the Litigation and Settlement Trusts.

CBNA may also have claims against the Brothers of St. Francis, the Sisters of Saint Ann and certain orders of religious women as well. Under the Second Amended Plan all such claims will be transferred to the Settlement Trustee.

(8) Claims Against Insurance Companies for Defense and Indemnity

CBNA has claims against its Insurance Companies with respect to the sexual abuse claims filed against it. Specifically, CBNA has claims for defense and indemnity coverage against Catholic Mutual Relief Society of America ("Catholic Mutual"), which provided CBNA primary and excess/umbrella layers of insurance coverage from April 15, 1979 through April 15, 1983, and then "claims made" special excess coverage claims for the policy period of July 1, 1990 through July 1, 2009; claims against Alaska National which provided a primary layer of liability coverage from April 15, 1983 to April 15, 1988; and against Travelers Casualty and Surety Company, formerly known as Aetna Casualty and Surety Company ("Travelers"), which provided primary and excess/umbrella layers of liability coverage from April 15, 1988 through July 1, 1990. As claims alleging tort liability for sexual abuse have been filed against CBNA it has tendered the defense and indemnity claims to its Insurance Companies.

In addition to the foregoing Insurance Companies, CBNA tendered claims alleging sexual abuse in the period between October 1973 and April 15, 1979 to Continental, under the belief that Continental had provided CBNA with liability coverage during that period. Unfortunately, neither CBNA or Continental was able to locate a copy of the policies. Nevertheless, Continental provided to CBNA a defense of the tendered claims but did so under a reservation of rights to deny coverage if the policies terms could not be established or if the claims of sexual abuse were not covered under the policies issued by Continental.

CBNA attempted to gather as much secondary evidence of coverage as possible in order to establish Continental's coverage of the tendered claims. Unsatisfied, Continental filed a declaratory judgment action in the United States District Court for the District of Alaska in 2006 (the "Policies Existence Case"). CBNA and Continental conducted extensive discovery and each fully briefed cross motions for summary judgment on the Policies Existence issue. The action

was stayed by the Reorganization Case and was subsequently referred to the Bankruptcy Court. The Bankruptcy Court heard oral argument on the cross motions for summary judgment on June 30, 2009.

On September 11, 2009, the Bankruptcy Court issued an interlocutory memorandum decision granting summary judgment to Continental in the Policies Existence Case, holding that although CBNA had some evidence that Continental had issued insurance policies to CBNA, there was insufficient evidence as a matter of law, to support the nature of the insurance or the scope and terms of the coverage. As a result of this decision, Continental asserts that it is entitled to extensive damages. CBNA has entered into a settlement of Continental's Claims against CBNA and CBNA's claims against Continental. CBNA is filing a motion to approve the settlement between it and Continental pursuant to 9019 Fed. R. Bankr. P. within days of the filing of this Disclosure Statement.

In addition to the Policies Existence Case, CBNA filed a separate declaratory judgment action against all the Insurance Companies to determine the scope of coverage under the relevant policies, Case No. 08-90019, entitled *Catholic Bishop of Northern Alaska, Plaintiff v. Continental Insurance Company, et al., Defendants* (the "Comprehensive Coverage Action"). As a result the settlement of Continental's claims, Continental will be dismissed from the Comprehensive Coverage Action. The parties have engaged in substantial discovery in the Comprehensive Coverage Action. CBNA's remaining Insurers have responded differently from one another with respect to the tendered claims and the Comprehensive Coverage Action. The response to the tendered claims and the treatment of the Insurance Claims under the Second Amended Plan are described in detail below.

Alaska National Insurance Company

Alaska National has honored its obligations to provide defense and indemnity coverage to CBNA within the terms of its Insurance Policies. Pre-petition, Alaska National authorized CBNA to issue offers of judgment to each remaining plaintiff who had asserted claims against CBNA that Alaska National had acknowledged were covered under its Insurance Policies. Each

such claimant accepted the offers of judgment. Post-petition there have been approximately six claims that Alaska National has agreed implicate its liability coverage. CBNA and Alaska National have agreed in principal to a settlement pursuant to which Alaska National Alaska National will obtain a release from any claim by CBNA to insurance coverage for any present Tort Claims or Future Tort Claims. The Alaska National settlement will be the subject of a motion under rule 9019 Fed. R. Bankr. P. when CBNA and Alaska National complete documentation. In that motion CBNA will also sell the Alaska National policies back to Alaska National under 11 U.S.C. § 363. The proceeds from the Alaska National settlement will be paid by CBNA to the Fund for compensating Tort Claimants under either the Settlement Trust or the Litigation Trust. Alaska National will become a Settling Insurance Company under the Plan and will benefit from the proposed Channeling Injunction. CBNA will file a motion to approve the settlement under 9019 Fed. R. Bankr. P. and sell Alaska National's Policies back to it under 11 U.S.C. § 363 within days of filing this Disclosure Statement.

Catholic Mutual Insurance Company.

Catholic Mutual Insurance Company ("Catholic Mutual") provided CBNA primary and excess/umbrella liability insurance coverage from April 15, 1979 through April 15, 1983 and again from July 1, 1990 through the present, including "claims made" special excess coverage for the period between July 1, 2008 to July 1, 2009. CBNA contends that Catholic Mutual has breached its obligations to CBNA under its policies, and as a result CBNA is relieved of its duty to cooperate with Catholic Mutual and, therefore, for example CBNA may waive its statute of limitations defenses as to Settling Tort Claimants, as applied to Catholic Mutual.

Catholic Mutual has outright denied CBNA any coverage of Post-Abuse Impact claims under the umbrella coverage provided during period from April 15, 1979 through April 15, 1983. Under the subject umbrella coverage certificates, Catholic Mutual agreed that it would indemnify CBNA "for all sums which [CBNA] shall be legally obligated to pay as damages, all as more fully defined by the term 'ultimate net loss' on account of:

1. Personal Injuries;
2. Property Damage,
3. Advertising Offense,

to which this Certificate applies, caused by an occurrence."

Section IV of the Catholic Mutual certificates states that "[t]his certificate applies to personal injury, property damage or advertising offense which occurs anywhere during the certificate period.

The Catholic Mutual Certificates define covered "Personal Injuries" as follows:

8. PERSONAL INJURIES

The term "Personal Injuries" whenever used herein means bodily injury, mental injury, mental anguish, shock, sickness, disability, false arrest, false imprisonment, wrongful eviction, detention, malicious prosecution, discrimination, (unless coverage thereof is prohibited by law), humiliation, also libel, slander or defamation of character or invasion of rights of privacy, except that which arises out of any Advertising activities.

(Parenthesis in certificates, underlined emphasis added)

In contrast, the Catholic Mutual primary liability coverage part covers "bodily injury" which takes place during a certificate period, and the certificates define "bodily injury" to mean

bodily injury, sickness or disease sustained by any person which occurs during the certificate period, including death at any time resulting therefrom.

(PSSOFS 7-9)

In spite of the broader definition of "Personal Injuries" in its umbrella coverage, to include potential coverage for such "Post-Abuse Impacts" as the "mental injury," mental anguish, "shock," and/or "humiliation," Catholic Mutual has attempted to equate "Personal Injuries" with the narrower definition of covered "bodily injury" in the primary liability coverage part. CBNA submits that this coverage position, confirmed by Catholic Mutual in coverage position letters to CBNA, and also during the deposition of Ray Miller, Catholic Mutual's Vice President - Claims, reflects an improper effort by Catholic Mutual to retroactively re-write CBNA's umbrella coverage to limit coverage to "bodily injury, sickness or disease," and to delete from CBNA's umbrella

coverage the clear statements of potential liability coverage to CBNA for "mental injury," mental anguish," "shock," and/or "humiliation" alleged to have taken place during the Catholic Mutual umbrella annual coverage periods of 04/15/79 - 04/15/80, 04/15/80 - 04/15/81, 04/15/81 - 04/15/82 and 04/15/82 - 04/15/83.

Having decided not to limit covered "Personal Injuries" in its standard umbrella coverage form to just "bodily injury, sickness or disease," Catholic Mutual should not be allowed to read out of its umbrella certificates coverage for "mental injury," mental anguish," "shock," and/or "humiliation." There is nothing in Catholic Mutual's definition of "Personal Injuries" in its umbrella Certificate that limits coverage to only the policy period(s) when a claimant was subjected to alleged physical sexually abusive contact with a priest, other religious or any other person. Catholic Mutual chose not to do so. CBNA is entitled to the broader coverage Catholic Mutual chose to sell to CBNA.

Various of the Tort Claimants who alleged that they suffered physical abuse prior to April 15, 1979, have asserted that they suffered post abuse impacts such as "mental injury," "mental anguish," "shock," and/or "humiliation" during the 1979-1983 coverage periods and, therefore, are covered by Catholic Mutual's umbrella coverage. CBNA further contends that Catholic Mutual is obligated to provide extensive insurance coverage of such post abuse impacts because under the Catholic Mutual Policies there is a \$2 million bodily injury umbrella coverage on a "per occurrence" basis, and there is no "general bodily injury aggregate" for any of the four annual certificate coverage periods beginning on April 15, 1979 through April 15, 1983. On September 28, 2009, CBNA filed a motion for summary judgment in the Comprehensive Coverage Action seeking a declaration of its rights to coverage for Post Abuse Impacts under Catholic Mutual's umbrella policies and that there is no general bodily injury aggregate limit for such injuries. Catholic Mutual will be responding to this motion by November 2, 2009, and at the same time Catholic Mutual intends to file a cross-motion for summary judgment on the Post-Abuse Impacts coverage issue.

Further, there are numerous other claims against Catholic Mutual's primary coverage, and several claims applicable to the claims made during the coverage period of July 1, 2008 to July 1, 2009. Catholic Mutual has asserted full reservation of rights with regard to indemnity coverage for these claims and has raised various coverage defenses, all of which CBNA contends are without merit.

Under the Second Amended Plan, CBNA will assign its claims against Catholic Mutual to the Settlement Trustee who will in turn assign CBNA's claims for indemnity against Catholic Mutual to individual Settling Tort Claimants pursuant to covenant settlements, under such authority as *Great Divide Insurance Co. v. Carpenter*, 79 P.3d 599 (Alaska 2003), contained within the Arbitration Awards issued by the Special Arbitrator on a claimant by claimant basis. The Settlement Trustee will also be substituted as the Plaintiff for CBNA in the Comprehensive Coverage Action.

Travelers Casualty and Surety Company, formerly known as AETNA,

Travelers provided both primary and secondary umbrella coverage to CBNA from April 15, 1988 through July 1, 1990. Only three claimants have asserted that they were physically abused during that coverage period. Travelers has agreed to defend CBNA with regard to the three claimants under the Travelers umbrella coverage, but under a full reservation of rights to withdraw the reference and to deny indemnity coverage to CBNA for the three claimants. Travelers has completely denied umbrella coverage to CBNA for all Post-Abuse Impacts Claimants. Like Catholic Mutual, Travelers has raised various coverage defenses, all of which CBNA contends are without merit. The Travelers umbrella Insurance Policies include an annual \$5 million aggregate coverage limit. Thus Travelers' maximum exposure under its umbrella coverage Insurance Policies is \$15 million.

On October 9, 2009, Travelers filed a motion for summary judgment in the Comprehensive Coverage Action seeking a declaration that its umbrella policies do not cover Post Abuse Impacts and that the only claims potentially covered under Travelers' umbrella coverage are the three claims alleging that physical abuse took place during the umbrella policy

period of April 15, 1988 to April 15, 1989. On or before November 9, 2009, CBNA will be filing a response to Travelers' motion and a cross-motion for summary judgment seeking a declaration that Travelers' umbrella policies cover Post Abuse Impacts.

Like Catholic Mutual, Travelers is treated as a Breaching Insurer under the Second Amended Plan. CBNA's claims against Travelers' will be assigned to the Settlement Trustee on the Effective Date for further assignment to individual Settling Tort Claimants who will in turn assign the claims for indemnity against Catholic Mutual to individual Settling Tort Claimants pursuant to the Arbitration Awards issued by the Special Arbitrator on a case by case basis.

2. Liabilities

a. Great Falls Secured Claims

The Diocese of Great Falls-Billings, Montana loaned money to CBNA under the post-petition debtor-in-possession financing arrangement in the amount of \$1,000,000 at 7% interest payable over a twenty (20) year term and was granted a super-priority claim and a first priority lien on (1) 14.5 acres of raw land next to the chancery in Fairbanks described in Section F.1.a(8); and (2) the Jesuit Residence, a 4 bedroom, 2 bath residence featuring a chapel and 4 car garage described in Section F.1.a(7). No payments are due under the loan until the Court confirms a Plan of Reorganization in this Reorganization Case.

b. Annuity Secured Claims

Certain individual persons have claims for charitable gift Annuities purchased by them from CBNA under a gift and bequest program. Various donors made charitable gift annuities in exchange for which such donors are receiving certain fixed payments during their lives or the lives of another person, the payments for which were fixed at the date of the gift based on actuarial tables of the donor's life expectancy and uniform gift annuity rates. Upon the individual's passing, the remainder of the gift becomes the property of CBNA. Because of the unknown nature of future mortality, CBNA is unable to precisely estimate the amounts it owed under the charitable gift Annuities; however, as of the Petition Date, it believed it had approximately \$202,751.31 in such liability, secured by the property given to CBNA by the

gifting individual.

c. Lease Related Claims & Pilgrim Springs Claims

CBNA filed a motion to assume its leases with (1) the State of Alaska, Department of Transportation and Public Facilities for use of the aircraft hangar and land described in Section F.1.a(6), and (2) Ciunerkiurvik Corporation for use of a dormitory, offices and storage space in the village of St. Mary's, Alaska. The Hangar lease runs through May 31, 2040 and requires CBNA as lessee to make annual rental payments of \$1,735.20 each. The St. Mary's lease runs through 2011 and requires CBNA to make semi-annual rental payments of \$68,817.60 on January 1 and July 1 of each year.

In relation to the Pilgrim Springs lease rescinded by CBNA as landlord following breach of the lease by the lessee, two Proofs of Claim were filed. The first, filed by PS Ltd. in the amount of \$2,875,000.50, alleges damages related to the rescission of the lease. The second was filed by Louis and Nancy Green, employees of PS Ltd. It alleges \$263,143 in damages representing lost wages that they allege Pilgrim Springs would have paid to them had the lease not been rescinded. The Greens subsequently withdrew their Proof of Claim. CBNA disputes the validity of each of these Pilgrim Springs Claims and will file an objection to them, in addition to exercising and asserting its Pilgrim Springs Setoff Claims.

d. Employee Benefit Claims and Tax Claims

On March 5, 2008, the Court granted CBNA's motion to honor its employee benefit plans with the caveat that CBNA could not cash out any accrued benefits save under a Plan of Reorganization. As of the Petition Date, CBNA believes it owed employee benefits in the approximate amount of \$346,006.80, of which amount \$224,422.56 is entitled to priority treatment. CSF also owed approximately \$56,526.56 to the Internal Revenue Service in payroll taxes as of the Petition Date, which amount is entitled to priority. In addition to these Claims, certain employees of Parishes subsidized by CBNA may also assert General Unsecured Claims against CBNA based on accrued benefits owed to their employees.

The Internal Revenue Service also filed a Proof of Claim in the amount of \$1,131.18. The Claim appears to be for a post-petition tax penalty. CBNA will investigate this Claim to determine whether an objection should be filed.

e. Trade Debt

CBNA, as an operating religious non-profit, has incurred certain trade debt. As of April 23, 2008 (the date of filing its Amended Schedule F), CBNA believes that it, along with CSF and KNOM, had approximately \$94,126.26 in trade debt. Additionally, First National Bank of Alaska holds a General Unsecured Claim against CBNA in the approximate amount of \$16,278.73. First National Bank filed a Proof of Claim in the Reorganization Case in the amount of \$18,520.90. To the extent the Claim includes debt incurred and paid post-petition, CBNA will object to this Claim. Other trade creditors have filed Claims that were not scheduled by CBNA. CBNA is investigating these Claims to determine whether an objection should be filed. These include a Proof of Claim filed by Gear Athletics, L.L.C. in relation to CSF in the amount of \$1,317.99, and a Proof of Claim filed by Alpenglow, Inc., in the amount of \$959.50, also in relation to CSF.

f. Tort Claims and Future Tort Claims

As is discussed in detail below, CBNA is a party to a number of lawsuits or other claims wherein the Claimants allege that they were abused by clergy or others associated with CBNA. The plaintiffs assert, among other things, that CBNA is liable because it failed to properly hire, install and/or supervise these individuals and that CBNA knew or should have known about the acts and/or omissions of these individuals. CBNA has denied these allegations and has been defending those suits. CBNA cannot, at this time, estimate the magnitude of the amount of the Tort Claims. In addition to the Claims that were known on the Petition Date, one hundred sixty-five (165) individuals filed Proofs of Claim (collectively the "Present Tort Claims"). CBNA further believes that there may be other potential Tort Claimants for whom the statute of limitations applicable to Tort Claims had not occurred before November 2, 2008 ("Future Tort Claims").

The Court appointed Michael Murphy to represent the legal interests of the Future Tort Claimants (the "Future Claims Representative") at the joint request of CBNA and the Committee. The Future Claims Representative filed a contingent, unliquidated Proof of Claim on April 2, 2009.

g. Insurance Related Claims

As part of the Policies Existence Case, Continental asserted that because it has incurred costs defending CBNA under a reservation of rights, it has a substantial Claim against CBNA for reimbursement of such costs in the event that the Court were to determine that Continental had and has no duty to defend or indemnify CBNA. Continental filed a Proof of Claim for these damages prior to the hearing on the Disclosure Statement conducted on June 18, 2009. CBNA has objected to the Proof of Claim arguing, among other things, that Continental is not entitled to reimbursement for funds advanced defending CBNA because, absent a provision for such reimbursement in the insurance policy, Alaska courts would refuse to recognize reimbursement claims based on a unilateral reservation of rights. Although it could also be argued that Alaska courts would, under a theory of quasi-contract to prevent unjust enrichment, imply a right to reimbursement of defense costs for claims that are not even potentially covered, that argument fails here because the question of whether or not CBNA's tendered Claims are covered is a very close case. In addition, Continental only provided a specific enough reservation of rights to qualify under the quasi-contract unjust enrichment cases as to six Claims and, therefore, is only entitled to reimbursement for those six Claims.

As a result of having been granted summary judgment in the Policies Existence Case that there is not sufficient secondary evidence of the terms of the policies that CBNA purchased from Continental in order to establish coverage of the Tort Claims, the Court had trial on whether Continental is entitled to reimbursement of defense costs for Friday October 16, 2009. Continental also asserts a right to attorney's fees and costs from the Policies Existence Case and the Comprehensive Coverage action. CBNA intends to appeal the final judgment in the Policies Existence Case. In the days leading up to the October 16, 2009 damages trial, CBNA and

Continental agreed in principal to a settlement that will result in a \$1,200,000 allowed claim in favor of Continental, but which also provides for an agreed plan treatment allowing CBNA to pay Continental \$75,000 in four annual installments with no interest.

Additionally, CBNA's Insurance Companies have failed to pay their portion of certain legal fees incurred in the Tort Claim litigation proceedings. Therefore, the law firm of Cook Schuhmann & Groseclose, Inc., CBNA's Special Litigation Counsel appointed under 11 U.S.C. § 327(e) filed a Contingent Claim against CBNA in the amount of \$389,123.19, the amount owed by CBNA's Insurance Companies for the defense of CBNA in the state court Tort Claim litigation. Based on information and belief, the Groseclose firm is in fact owed approximately \$191,000 on unpaid insurance reimbursement claims. The Groseclose firm prepetition claim, if and when allowed, will be treated as a general unsecured claim.

h. Society of Jesus, Oregon Province ("Jesuits")

CBNA also has liability under a Promissory Note given to the Jesuits in consideration for the purchase of the Bishop's residence in Fairbanks. As of the Petition Date, the amount of the claim was approximately \$217,081.51.

Based on Proofs of Claim filed in the Reorganization Case, CBNA believes the Jesuits assert contingent and unliquidated Claims against CBNA for insurance coverage, allocation of fault, or other indemnification.

i. Parish Claims

As described above, certain of the subsidized Parish Communities may hold contingent, unliquidated Claims against CBNA for certain employee benefits. The Parish Churches may also hold contingent, unliquidated Claims against CBNA for future indemnification or contribution related to the Tort Claims; however, at this time, no Parish Church has filed a Proof of Claim.

V.
SIGNIFICANT EVENTS PRIOR TO THE REORGANIZATION CASE

A. Clarification of Fiduciary Relationships

As is discussed extensively above, CBNA has always served in the capacity of a trustee holding the legal but not the beneficial interest in certain property belonging to the Parishes and others. As CBNA became aware of decisions in the Portland Archdiocese and Spokane Diocese reorganization cases, it became clear that unnecessary confusion and litigation about the CBNA-Parish Church trustee-beneficiary relationships could arise with respect to these longstanding trustee-beneficiary relationships under the corporation sole statutes. Indeed, in the Davenport Diocese's reorganization case where, like the diocese where Bishop Kettler served as a pastor, the parishes are separately incorporated and directly hold title to their land, the controversy over parish property that was so time consuming and costly was completely avoided. As fiduciaries, Bishop Kettler and CBNA believed it to be important to try to avoid any confusion about property that CBNA held as a trustee for the Parishes in the geographic territory of the Fairbanks Diocese.

On April 2, 2007, Bishop Kettler executed amended and restated Articles of Incorporation for CBNA to make clear the long-standing pre-existing trust relationship between CBNA and the Parishes with respect to property ownership. Further, each Parish recorded a "notice of beneficial interest" to further give notice of the trust relationship.

B. Creation of the Catholic Trust of Northern Alaska

In carrying out the oversight responsibilities of the Bishop, it has long been the policy of the Fairbanks Diocese that excess deposits of Parish Churches should be pooled for investment and management purposes. This allows the Parish Churches to obtain a greater return than they would be able to get if they separately invested their funds and also allows for more professional management of the funds. Historically, the Parish Churches' funds that were sent to CBNA as custodian and manager were deposited and invested through an investment portfolio account that was segregated from other funds. Also, the Parish Churches and other related entities, such as

FCA who participated in the program, were guaranteed a certain rate of return on their investments. The excess earnings were held in reserve in order to ensure that in times when the investments did not generate the guaranteed rate of return, there would be funds to cover the return to be paid. However, any funds in excess of the guaranteed return and not needed for reserves were to be paid to CBNA. Over the years, that reserve had built up to approximately \$1,294,629.55 as of June 30, 2006.

Approximately two years ago, Bishop Kettler requested that CBNA, the Finance Council of the Fairbanks Diocese and Parish administration explore whether there was another mechanism for investment of their excess funds that might better serve the Parishes. As a result, the Catholic Trust of Northern Alaska ("CTNA") was formed with George R. Elliott Jr., James Haselberger, Frederick A. Villa, Fr. Ross Tozzi, Harold Esmailka, Norman E. Schmidt and Bishop Kettler, as Trustees. Each Parish with deposits signed Settlor Statements, among other things, agreeing to the terms of the CTNA and instructing CBNA to transfer of the investments from the Parish deposit accounts to CTNA. This work was completed in October 2007, even though the establishment of the CTNA and discussion regarding the manner in which the CTNA would operate, were ongoing since sometime in 2005. As both Bishop Kettler and finance director Deacon Bowder have testified, the establishment of the CTNA was simply to provide a better way for the Parish Churches' funds to be invested and managed.

None of the reserves were transferred to the CTNA, but instead were paid to and used by CBNA. CBNA provides administrative assistance to the Trustees for which it will receive a fee of approximately \$7,500 to \$10,000 annually. As discussed above, the Committee has filed an Adversary Proceeding seeking to avoid the initial transfer of funds to the CTNA as a fraudulent transfer under 11 U.S.C. § 544 or 548 or as preference under 11 U.S.C. § 547. CBNA disputes these allegations.

C. CBNA and the Fairbanks Diocese's Response to the Sexual Abuse Crisis

Immediately after the victims of sexual abuse began to come forward in the Fall of 2002, CBNA and the Fairbanks Diocese, under Bishop Kettler's leadership, have worked uncompromisingly to provide a safe environment in the programs, Parishes and missions throughout the geographic territory of the Fairbanks Diocese.

The United States Conference of Catholic Bishops adopted the "Charter for the Protection of Children and Young People" in June 2002 at its meeting in Dallas (the "Charter"). As part of the Charter, the Office of Child and Youth Protection ("OCYP") was established and is responsible for assisting dioceses in implementing the Charter and ensuring the consistent application of guidelines and procedures to prevent sexual abuse of minors and properly deal with allegations of misconduct.

In accordance with the Charter, all clergy and staff, along with volunteers working with children, youth, and vulnerable adults, undergo criminal background checks. Training in the recognition and prevention of child sexual abuse is provided to children, youth, parents, volunteers, staff and clergy. In addition, clergy and staff receive additional training in ministerial misconduct and maintaining healthy boundaries. These are critical programs which must continue to be funded and must be maintained, so that what happened decades ago cannot be allowed to happen again.

CBNA maintains a Victim Assistance Coordinator to assist anyone who has been abused. Any current reports of abuse are promptly reported to civil law enforcement agencies. Past reports along with abuse policies are reviewed by the Child Protection Team, which is comprised of community members.

In order to measure how effectively each diocese adheres to the Charter, the OCYP developed and manages an appropriate compliance audit mechanism which is conducted by the Gavin Group, Inc., (the "Gavin Group"), an independent consulting firm founded by a retired

FBI official. The implementation of Diocesan abuse prevention programs has been audited annually by the Gavin Group. CBNA is in full compliance with the norms of the Charter and has received commendations for its efforts.

D. The Alaska Clergy Abuse Litigation

Beginning in 2003, the first in a series of cases were filed against CBNA alleging sexual abuse committed by priests and other workers in the Roman Catholic Church in Alaska (the "Alaska Clergy Abuse Cases"). These cases have resulted in claims by approximately 150 plaintiffs. The number of plaintiffs has, from time to time, fluctuated because of settlements and dismissals.

For each of the Alaska Clergy Abuse Cases containing allegations of abuse between October 1973 and April 15, 1979, CBNA tendered defense of the claims to Continental which served as CBNA's primary insurer during that time period. Continental provided defense in these cases under a reservation of rights. However, on January 19, 2006, Continental filed a complaint in the District Court initiating the Policies Existence Case to obtain a judicial declaration that CBNA cannot offer satisfactory evidence of the issuance of various liability policies by Continental to CBNA for any policy periods from October 1973 to April 15, 1979, and to be awarded a money judgment against CBNA equal to the defense costs already advanced under a reservation of rights. As of the Petition Date, there were cross motions for summary judgment by Continental and CBNA pending before the District Court with regard to the existence of the policies CBNA contends were issued to it by Continental.

The Alaska State Court ordered CBNA, the plaintiffs in the Alaska Clergy Abuse Cases, as well as other co-defendants, to participate in a mediation conducted by retired California State Court Judge William L. Bettinelli. Unfortunately, CBNA was unable to make a meaningful settlement offer in large part because Continental refused to participate in the mediation in a way that would allow the Alaska Clergy Abuse Cases to be resolved. However, following the

mediations, CBNA made several offers of judgment on cases implicating Alaska National, which were accepted by the plaintiffs.

In November 2007, the Jesuits, a co-defendant with CBNA in the Alaska Clergy Abuse Cases and the religious order that historically supplied all of the religious workers in the Fairbanks Diocese, including every predecessor of the current Bishop, entered into a global settlement of the sexual abuse claims against the Jesuits for an aggregate amount of \$50 million. CBNA was not a part of that settlement.

In view of CBNA's limited resources, the failure of Continental to participate in any meaningful way that would assist in resolution of the pending cases outside of bankruptcy, and CBNA's desire to fairly compensate the victims of sexual abuse, CBNA filed the Reorganization Case on March 1, 2008.

VI.

SIGNIFICANT EVENTS IN CHAPTER 11

The significant events that have occurred since the Petition Date are summarized as follows:

A. First Day Motions

The Court granted CBNA's "first day" motions and entered orders:

- (1) Approving adequate assurance of payment to utility companies pursuant to 11 U.S.C. § 366 and prohibiting utility service providers from altering, refusing or discontinuing services;
 - (2) Authorizing CBNA to continue to honor certain employee benefit plans, including those for vacation and sick pay, to retain CBNA's current employees;
 - (3) Authorizing CBNA to file portions of Schedule F, the Master Mailing List, and other pleadings and documents under seal;
 - (4) Establishing an official service list and limiting notice;
 - (5) Authorizing CBNA to continue its current bank accounts and current cash management system in order to avoid disruption in CBNA's business and conserve estate assets;
- and

(6) Granting various relief pertaining to employment and compensation of professionals (described in detail *infra*, Section VI "B").

B. Employment of Bankruptcy Professionals

CBNA filed applications to employ certain professionals to assist it with the Reorganization case. The Bankruptcy Court has entered orders approving the employment of the following professionals by CBNA:

- The law firm of Quarles & Brady, LLP;
- The law firm of Dorsey & Whitney, LLP;
- The law firm of Cook, Schuhmann & Groseclose, Inc.;
- The accounting and financial consulting firm of Keegan, Linscott & Kenon, P.C.;
- The aircraft brokerage Northern Aircraft, Inc.;
- The real estate firm of Robert Fox Realty, L.L.C.; and
- The geothermal consultant Gerald W. Hutterer of the firm of Geothermal Management Company, Inc.

The United States Trustee appointed an Official Committee of Unsecured Creditors ("Committee"), which has also filed applications to employ professionals. The Bankruptcy Court has entered orders approving the employment of the following professionals by the Committee:

- The financial consulting firm of J.H. Cohn;
- The law firm of Manly & Stewart, LLP;
- The firm of Morrow & Hensel Consulting;
- The law firm of David H. Bundy, P.C.; and
- The law firm of Pachulski Stang Ziehl & Jones, LLP.

CBNA and the Committee jointly moved to employ the individual Future Claims Representative, Michael Murphy, and his firm, Alix Partners, L.L.C., which employment was approved by the Court.

On CBNA's application, the Court also entered an order establishing a procedure for

allowance and payment of professionals on a monthly basis during the course of the Reorganization Case.

C. Establishment of Bar Date and Procedures Related to Filing Claims Under Seal

Because of the sensitive nature of the Tort Claims, CBNA filed a motion on the Petition Date, which the Court granted, to allow filing of certain portions of Schedule F and the Master Mailing List under seal. All Proofs of Claim forms of Tort Claimants have similarly been filed under seal. CBNA has worked closely with the United States Trustee and the Committee to establish practices that ensure the confidentiality of the Tort Claimants' personal identifying information, while at the same time preserving the Claimants' right to appear and be heard.

The Court set December 2, 2008, as the date by which all claims against CBNA were to be filed. This date was extended to April 2, 2009 as to the Future Claims Representative. The Court also approved the form of notice, the Claim form to be used by Tort Claimants, and the manner in which CBNA proposed to publish, and did publish, notice and advertise in various state and national printed publications and other media.

D. Construction Motion

On March 28, 2008, CBNA filed an "Emergency Motion to Use Restricted and Unrestricted Funds for Certain Construction Projects," which the Court granted over the Committee's objection following an evidentiary hearing. Through the motion, CBNA sought permission to complete various projects that had begun pre-petition. These included: (1) repairing fire damage to St. Michael Parish church in McGrath; (2) installing a water treatment system in Kalskag; (3) constructing a new church to replace an old, unsafe structure in Scammon Bay; and (4) adding an emergency exit and small private room to the church in Kotlik. The Committee stipulated to allow the fire repairs in McGrath, and the Court granted the remainder of the disputed relief over its objection. Recognizing the importance that donated funds be used by CBNA in accordance with the donors' intent, and the important role that CBNA plays in rural Alaskan villages through projects such as these, the Court held that the construction projects were within the ordinary course of CBNA's charitable religious operations.

E. Insurance and Tort Litigation

The Court granted a motion for limited stay relief on June 27, 2008 to allow the District Court to hear oral argument on pending cross-motions for summary judgment in the Policies Existence Case. That case was referred to the Bankruptcy Court approximately two weeks later and is currently pending as Adversary No. 08-90033. Oral argument on the cross motions for summary judgment was heard on June 30, 2009. The Court issued its summary judgment decision in favor of Continental on September 11, 2009.

On April 24, 2008, CBNA filed the Comprehensive Coverage Action, seeking, among other things, a determination as to the existence and extent of its insurance coverage. A motion to withdraw the reference was filed, but the case will remain in the Bankruptcy Court through the completion of pre-trial proceedings, which will last at least through the first half of 2010. On March 25, 2009, the Court denied the Committee permission to intervene as a plaintiff in the case. CBNA has taken several depositions in the Comprehensive Coverage Action, and on October 2, 2009 filed a Motion for Summary Judgment contending that Catholic Mutual Insurance Company has breached its policy with CBNA, and that under the terms of Catholic Mutual's umbrella second level coverage during the period between April 15, 1979 and April 15, 1983, mental anguish, shock and humiliation experienced by Tort Claimants during the policy period is covered, even if the physical abuse occurred before the policy period. CBNA will file a similar motion as to Travelers Insurance Company's second level umbrella policies for the period between July 1, 1988 and June 30, 1990. On October 9, 2009, Travelers filed a motion for summary judgment seeking a finding that its coverage only extends to three claimants that allege that they were abused during their coverage period.

The Committee, certain Tort Claimants, and CBNA twice stipulated to extend the deadline for CBNA to remove certain actions filed by Tort Claimants in state court to the Bankruptcy Court, which relief the Court granted although, pursuant to Bankruptcy Rule

9027(a)(2)(B), the time for CBNA to remove has not yet begun.¹² Therefore, CBNA still has the option of removing the Alaska Clergy Abuse Cases to the Bankruptcy Court.

F. Post-Petition Financing

CBNA negotiated an agreement with Great Falls, to provide interim debtor-in-possession financing in the amount of \$1,000,000, which was approved by the Court by final order entered December 12, 2008. Great Falls was granted a super-priority administrative claim in exchange for such financing, as described in Section F.2.a. The loan was used to pay certain administrative costs associated with the Reorganization Case, among other things.

G. The Standing Motion and Related Proceedings

On January 23, 2009, the Committee filed a motion for the Court to grant it standing to prosecute various claims on behalf of CBNA, which, if they exist, would be property of the estate. CBNA believes these claims are unsustainable and that the resources of the Estate are better used to compensate the Tort Claimants rather than to incur the administrative expenses necessary to pursue claims that will ultimately be unsuccessful. The Committee disagrees. CBNA and the Committee attempted to mediate these issues in October, 2008, but were unsuccessful.

In the course of reviewing the motion, CBNA discovered that state court litigation counsel had violated the automatic stay. On February 11, 2009, at CBNA's request, the Court issued an Order to Show Cause why counsel should not be sanctioned for the stay violation. The Order granted CBNA an extension of time to respond to the standing motion, which portion of the Order was later modified. Counsel responded in opposition to the Order to Show Cause and the matter was taken under advisement following an evidentiary hearing. The Court issued its Memorandum Decision and Order on the matter on April 16, 2009. The Court held that the stay had been violated and, in addition to imposing monetary sanctions, among other things, ordered the Committee to file an amended standing motion on or before April 20, 2009. The Committee

¹² The Stipulation specifically acknowledged that this time period had not yet begun.

failed to file an amended standing motion in the time allotted. At a hearing on May 7, 2009, the Court addressed this issue and allowed the Committee a second chance to file an amended standing motion on or before May 11, 2009.

Additionally, CBNA's response to the standing motion was filed on March 2, 2009 and the Committee failed to reply within the seven days allowed by the United States Bankruptcy Court for the District of Alaska's Local Rule 9013-1. The Committee's reply was not filed until some 63 days after the response was filed. While CBNA is not in any way reluctant to address the standing motion on its merits, which CBNA believes are lacking, the Local Rules provide that a failure to file a reply in the time allotted may result in a summary ruling on the underlying motion by the Court. See Local Rule 9013-1(d). Accordingly, CBNA filed a motion to strike the late-filed response. This was argued to the Court on June 18, 2009. On September 11, 2009 the Court denied the Motion as to all of the claims except for the avoidance action against the CTNA because the Committee had failed to establish that the claims would benefit the Estate based on a cost benefit analysis.

H. Other Property of the Estate

The Court granted CBNA's motion to sell an aircraft and certain remote real property in western Alaska, under which CBNA was able to realize significant value for the Estate. The Court also granted CBNA's application to employ Robert Fox Realty, L.L.C. to market certain of CBNA's real property that has not yet been sold.

The Court also granted CBNA's stipulated application to extend time for it to assume or reject executory contracts and unexpired leases.

In December, 2008, the Court approved CBNA's rescission of a lease of its property known as Kruzgamepa Hot Springs Ranch or Pilgrim Hot Springs. CBNA had entered into the Lease in 1969, under which the tenant agreed to develop a resort or other business enterprise at the hot springs, to develop the geothermal potential of the property, to develop the oil and gas potential of the property, and to remit a percentage of the proceeds of these operations to CBNA. The tenant defaulted under the lease by failing to develop the property and even to maintain the

structures already existing on the property. The tenant asserted, among other things, impossibility of performance which resulted in recession of the lease. CBNA intends to sell the property, for which purpose it has retained a geothermal consultant. Additionally, the Alaska Center for Energy and Power, based at the University of Alaska at Fairbanks, is currently conducting research regarding the property's potential at no expense to CBNA. CBNA also brought a motion for turnover after the former tenant refused to vacate the property and the motion was granted.

I. Recession Affects CBNA Income and Budgets

CBNA has been affected by the global economic down turn. Specifically, as a result of the unprecedented fall in the equities markets (for example, the S&P 500 57% drop from its October 2007 peak), the market value of the Endowment investments has fallen 32% from their Petition Date values. Accordingly, a source of funds on which CBNA would ordinarily rely became unavailable. CBNA's other investments have similarly suffered, and it has not realized donations at the rate it ordinarily would, as many of its donors have suffered similar economic distress. Moreover, other capital reserves have been depleted, primarily to pay professional fees for defense of the State Court Actions and with respect to the Reorganization Case. As a result, CBNA has been forced to rely more heavily on bequest income for basic operations. Unfortunately, bequest income is less predictable than standard Alaskan Shepherd donations. These unforeseeable decreases in income have adversely affected CBNA's ordinary operating budgets.

While CBNA's operations have always been lean, CBNA has taken unprecedented measures to slash its budgets to respond to these challenges. Beginning in May 2009, CBNA has imposed a furlough of one day per week on all its employees, which it anticipates will reduce its payroll expenses by some twenty (20%) percent through direct pay reductions as well as payroll tax deductions. Additionally, CBNA has eliminated the matched retirement contribution benefit previously offered to its employees. Finally, CBNA significantly reduced its staffing by laying off several employees. These steps will result in approximately \$400,000 per year of savings on

payroll expenses. Even with these drastic stop-loss measures, the very existence of CBNA was in danger.

Fortunately, the Endowment has regained much of the value that it lost over the winter and spring. No one can foresee how long the current national economic crisis will persist, or whether it will worsen before it improves. These severe economic problems caused CBNA to reconsider a plan based on major debt service obligations.

J. Mediations and Settlement Negotiations

As part of its ongoing efforts to present a consensual resolution of the Reorganization Case and facilitate confirmation of a Plan of Reorganization that can be supported by all significant creditor constituencies, CBNA has engaged in ongoing mediations with parties essential to its Second Amended Plan. CBNA, the Committee and counsel for certain Tort Claimants engaged in several days of mediation in October 2008 ("October Mediations") regarding the extent of Estate property. The October Mediations were conducted by the Hon. William L. Bettinelli (Ret.). Unfortunately those negotiations proved unsuccessful. The parties concluded that until the Claims Bar Date passed on December 2, 2008 and the Insurance Companies could be brought to the table, no productive mediations could take place.

Accordingly, the parties and the Court scheduled mediation secessions to be conducted by the Hon. Frank L. Kurtz, United States Bankruptcy Judge for the Eastern District of Washington, and the Hon. William L. Bettinelli (Ret.) beginning in Seattle, Washington on April 20-23, 2009 ("April Comprehensive Mediations"). CBNA filed its initial Plan of Reorganization and Disclosure Statement in order to set forth a starting place proposal for these comprehensive negotiations. Regrettably the parties were unable to resolve the issues.

K. Stay Relief Proceedings.

On September 14, 2009 eight (8) Tort Claimants filed a limited motion for relief from the automatic stay in order to release their eight claims for trial solely for purposes of conducting a jury trial in order to determine the value of their Tort Claims. The Debtor objected. The moving

Tort Claimants responded as did Travelers. The Committee joined in the moving Tort Claimants' response. The Court heard argument on the motion on October 28, 2009, and took the matter under advisement.

L. Plan & Disclosure Statement

The Court also granted CBNA's two stipulated motions to extend its exclusivity period in which to file its plan of reorganization, to allow CBNA further time to try to come to an agreement with the Committee as to a plan of reorganization. CBNA had presented a detailed term sheet to the Committee in the early stages of the Reorganization Case in the hope that the parties could agree to a plan. CBNA timely filed the First Amended Plan prior to expiration of the exclusivity deadline of March 31, 2009. CBNA's exclusivity, therefore, is automatically extended through June 15, 2009 during which period CBNA may exclusively solicit acceptance of a plan. The Debtor sought a further extension of the exclusive period in connection with its pending plan and disclosure statement. The Court further extended exclusivity through oral argument on the Disclosure Statement on June 18, 2009.

The Disclosure Statement supporting the First Amended Plan was argued on June 18, 2009. The Court extended exclusivity while it considered certain under advisement matters. The Court ruled on the objections to the disclosure statement requiring that the Debtor include information about its rulings on the Policy Existence Case and the Avoidance Actions Motion, and further requiring certain technical amendments. In addition the Court extended exclusivity through November 2, 2009. No further exclusivity extensions are permitted under the statute.

VII.

DESCRIPTION OF THE SECOND AMENDED PLAN

Among other things, treatment of Claims is described below. However, whether or not any payment is made under the Second Amended Plan on account of a Claim depends on whether it is "Allowed" by the Bankruptcy Court. A Claim may be allowed in one of three ways- (1) it was listed in CBNA's schedules as undisputed and in a liquidated amount even if no Proof of Claim was filed by the holder of the Claim; (2) a timely Proof of Claim was filed by the

holder of the Claim and no objection to the Proof of Claim was timely filed in accordance with the treatment the applicable Class of Claims; or (3) if an objection was filed to a Proof of Claim then when an order has been entered by allowing the Claim that has not been appealed, or if appealed, the appeal has been finally determined or dismissed.

The Second Amended Plan proposes that it will become effective (the "Effective Date") the first Business Day which is sixty (60) days after the Bankruptcy Court enters an Order confirming the Second Amended Plan, in a form and substance acceptable to the Debtor, and all actions, documents, and agreements necessary to implement the Second Amended Plan will have been effected or executed. The Effective Date triggers many of the obligations of the parties under the Second Amended Plan, including funding the Second Amended Plan and payment of Claims. However, the Effective Date may occur before all Claims have been allowed by the Bankruptcy Court. Accordingly, in the description of the treatment of Claims below and in the Second Amended Plan, the payment of Claims is triggered by the "Claim Payment Date" which is defined as the later of the Effective Date or the first Business Day ten (10) days after a Claim becomes an Allowed Claim by a Final Order.

A. Unclassified and Unimpaired Claims

The Second Amended Plan identifies three types of Claims as unclassified and treats those Claims in accordance with the Bankruptcy Code and applicable law: Administrative Claims, Priority Unsecured Claims and Priority Tax Claims. The Second Amended Plan defines Administrative Claims to include any actual and necessary costs or expenses of administration under Bankruptcy Code § 503, post-petition operating expenses, professional fees and expenses approved by the Bankruptcy Court under Bankruptcy Code §§ 330 or 331, certain post-petition property tax claims and charges assessed under Chapter 123 of Title 28, United States Code. The Second Amended Plan defines Priority Unsecured Claims to include any Claim entitled to priority under Bankruptcy Code § 507 that is not an Administrative Claim, a Priority Tax Claim or a Priority Employee Unsecured Claim. The Second Amended Plan provides that Administrative and Priority Unsecured Claims will be paid in Cash in full on the Claim Payment

Date, or by any alternative arrangement agreed to by the Claim holder. The Second Amended Plan defines Priority Tax Claims to include all unsecured Claims entitled to priority pursuant to Bankruptcy Code § 507(a)(8) and provides for the treatment authorized by Bankruptcy Code § 1129(a)(9)(C).

The following Classes of Claims are unimpaired by the Second Amended Plan - that is to say that the Claims will be paid in full in accordance with the Claim holder's existing contractual rights:

Class 1- Priority Employee Unsecured Claims. This Class is defined to include the Claims of CBNA employees for vacation or sick leave pay which are entitled to priority under Bankruptcy Code § 507(a)(4)(A). These Claims will be honored in the ordinary course in accordance with CBNA's policies at the time the Claims mature. However, the Second Amended Plan does not alter CBNA's ability to review the policies and procedures regarding vacation and sick leave pay and to propose modifications to those policies and procedures to become a part of the Second Amended Plan. To the extent CBNA proposes any changes to such policies and procedures that would be retroactive, CBNA will modify the Second Amended Plan to include such changes and give notice to the holders of any Priority Employee Unsecured Claims. In that event, the holders of the Priority Employee Unsecured Claims will be impaired and the Second Amended Plan will be modified to so state.

Class 5- Annuity Secured Claims. This Class is defined to include the Claims of individuals who made charitable gifts to CBNA through Annuity contracts whereby the donors receive certain fixed payments during their lives or the lives of another person, the payments for which were fixed at the date of the gift based on actuarial tables of the donor's life expectancy and uniform gift annuity rates. These Claims are unaltered by the Second Amended Plan and will continue to be paid in the ordinary course.

Class 11- Insurance and Benefit Claims. This Class is defined to include Claims arising from or related to obligations, contributions or benefits pursuant to any pension or other benefit plan in effect as of the Petition Date. Such Claims will be determined and paid in accordance

with the provisions of the applicable benefit plans, CBNA's applicable policies and procedures, the documents evidencing the creation of the Second Amended Plan and applicable law.

B. Impaired Claims

1. Class 2: Prepetition Date Secured Tax Claims- Impaired and Entitled to Vote

a. Definition.

Class 2 is defined to include the prorated portion of a Secured Tax Claim which arises before and up to the Petition Date. Secured Tax Claims include the Claims of any federal, state, or local governmental unit secured by Estate Property by operation of applicable non-bankruptcy laws, including, but not limited to, unpaid real property taxes, unpaid personal property taxes, or unpaid sales taxes or leasing taxes, but only to the extent of the validity, perfection, and enforceability of the claimed lien, or security interest.

b. Allowance and Liquidation.

Secured Tax Claims will be prorated depending on the date when the tax arises: Taxes arising before the Petition Date will be treated under Class 2. Secured Tax Claims arising after the Petition Date but before the Effective Date will be treated as unclassified Administrative Claims. Secured Tax Claims that arise on or after the Effective Date will be paid in the ordinary course of business of the Reorganized Debtor. Class 2 Claims may be determined by the Bankruptcy Court notwithstanding the existence of any appeals to state or local taxing authorities of property tax or assessment determinations on the Petition Date.

c. Treatment

Allowed Class 2 Claims will bear interest from and after the Effective Date until they are paid in full at the rate of two percent (2%) per annum and will be paid in two equal installments, with the first installment paid on the first Business Day 30 days after the Claim Payment Date and the second installment paid on the first Business Day of the sixth (6th) month after the Claim Payment Date.

2. Class 3: Other Secured Claims-Impaired and Entitled to Vote

a. Definition.

Class 3 is defined to include every Claim, or portion thereof, secured against non-payment by property in which the Debtor has an interest, but only to the extent of the validity, perfection, and enforceability of the claimed lien, security interest, or assignment, which is not a Secured Tax Claim, or which is not separately classified under the Second Amended Plan.

b. Treatment

Allowed Class 3 Claims will bear interest at a rate of two percent (2%) per annum and will be paid in two equal installments with the first installment paid on the first Business Day 30 days after the Claim Payment Date and the second installment paid on the first Business Day of the sixth (6th) month following the Claim Payment Date.

3. Class 4: Great Falls Secured Claim- Impaired and Entitled to Vote.

a. Definition.

Class 4 includes only the Secured Claim arising out of the Great Falls DIP Loan.

b. Treatment.

The Class 4 Great Falls Secured Claim will be paid fully and in Cash accordance with the terms of Great Falls DIP Loan, except that the Second Amended Plan grants CBNA an option to extend the term of the Great Falls DIP Loan from its present 20 year term to a 25 year term. In order to exercise this extension option, the Reorganized Debtor must provide written notice of exercising the option and pay an extension fee of \$7,500 no later than Friday, May 31, 2019. The monthly payments due pursuant to the Great Falls Promissory Note will be reamortized beginning with the payment due in the second (2nd) month succeeding exercise of the extension option, so as to repay the full amount of principal and interest by the end of extended term.

4. Class 6: General Unsecured Convenience Claims- Impaired and Entitled to Vote.

a. Definition.

Class 6 includes all Unsecured Claims in an amount of \$500 or less, inclusive of interest accrued thereon after the Petition Date through the Claim Payment Date; but holders of Unsecured Claims greater than \$500 may elect to reduce such claim to \$500 and be treated in Class 6 for all purposes, by so electing on their timely submitted Ballot. Making this election will be deemed to be an irrevocable waiver right to participate Class 8 governing the treatment of General Unsecured Claims.

b. Treatment.

Class 6 Claims will be paid in two equal installments with the first installment paid on the first Business Day 30 days after the Claim Payment Date and the second installment paid on the first Business Day of the sixth (6th) month after the Claim Payment Date.

5. Class 7: Jesuit Unsecured Claims- Impaired and Entitled to Vote.

a. Definition

Class 7 is defined to include only the Claims described in the Proofs of Claim filed by the Jesuits in CBNA's Reorganization Case. These Claims include a Claim for allocation of fault or indemnity under Alaska law including AS 09.17.080, for \$217,081.51 due on an unsecured promissory note, and a Claim of a possible beneficial interest in insurance owned by CBNA.

b. Treatment.

If and when allowed, the Jesuit Unsecured Claims will be setoff against any recoveries against the Jesuits on account of the Jesuit Contribution Claims. The Jesuits will not receive or retain anything on account of the Second Amended Plan, except and only to the extent that the amount of the Jesuit Contribution Claims does not exceed any allowed Jesuit Unsecured Claims. If there are any remaining unsatisfied allowed Jesuit Unsecured Claims after such setoff, the allowed Jesuit Unsecured Claims will be paid the lesser of the amount owed after setoff or ten

thousand dollars (\$10,000) within (60) days after a Final Order is entered allowing any Jesuit Unsecured Claims and determining the amount of account any setoff.

6. Class 8: General Unsecured Claims- Impaired and Entitled to Vote.

a. Definition

Class 8 includes every Claim against CBNA (including, but not limited to, every such Claim arising from the rejection of an Executory Contract and every Claim which is the undersecured portion of any Secured Claim), which is not an Administrative Claim, a Priority Unsecured Claim, a Priority Tax Claim, a General Unsecured Convenience Claim, a Jesuit Unsecured Claim, an Other Tort and Employee Claim, an Insurance and Benefit Claim, a Pilgrim Springs Claim, a Tort Claim, a Future Tort Claim or a Penalty Claim.

b. Treatment

Allowed Class 8 Claims will incur interest at a rate of 2% per annum and will be paid in Cash in full in three (3) annual installments, including interest, with the first installment paid on the first Business Day of the sixth (6th) month after the later of the Effective Date or Claim Payment Date, the second (2nd) annual installment paid on the first Business Day that is twelve (12) months after the first payment and the third (3rd) annual installment to be paid on the first Business Day that is twelve (12) months after the second payment.

7. Class 9: Other Tort and Employee Claims- Impaired and Entitled to Vote.

a. Definition.

Class 9 includes any and all Unsecured Claims against the Debtor for property damage, liability or workers compensation whether arising from tort, contract or workers compensation for which there is insurance coverage or a self-insured retention, but excluding Tort Claims and any Claims of employees entitled to priority pursuant to Bankruptcy Code § 507.

b. Treatment

Class 9 Other Tort and Employee Claims may only be allowed up to the applicable insurance policy limits inclusive of any applicable self insurance retention or deductible. Any claim amounts exceeding policy limits will automatically be deemed disallowed. Class 9 Claims

will be paid solely from the proceeds of any insurance policies including any self insured retention applicable to such Other Tort and Employee Claim.

8. Class 10: Tort Claims, and Future Tort Claims- Impaired and Entitled to Vote.

a. Definition

Class 10 includes all Claims or every kind arising from pre-confirmation sexual abuse of children, adolescents, or vulnerable adults perpetrated by individuals associated with the Fairbanks Diocese and its missionary work in Alaska, including but not limited to priests, religious brothers, religious sisters, deacons, employees, or volunteers and based on a failure to properly hire, install and/or supervise the perpetrator so as to prevent the abuse from occurring, the failure to warn, disclose or provide information concerning sexual abuse or other misconduct committed by the perpetrator, or any other theory of fault or liability. Future Tort Claims are Tort Claims that are included in Class 10 even if the applicable statute of limitations had not expired as of November 2, 2008 (thirty (30) days prior to the December 2, 2008 generally applicable Claims Bar Date), whether because the Claimant had not yet turned 18 or for any other reason preventing the statute of limitations from expiring (i.e. tolling) under applicable Alaska or federal law. A fiduciary known as the Future Claims Representative has been appointed by the Bankruptcy Court to represent the interests of Future Tort Claimants with respect to the Reorganization Case and the Second Amended Plan.

b. Treatment

(1) Subclassification of Tort Claims.

The Second Amended Plan divides into two subclasses for purposes of allowance, liquidation, and payment: (1) Settling Tort Claims, or (2) Non-settling Tort Claims. The Plan provides alternative mechanisms for allowing, liquidating and paying Tort Claims depending on their subclassification. All Tort Claims will be treated as Settling Tort Claims for purposes of allowance and liquidation and compensated pursuant to the Settlement Trust Agreement unless:

(a) the Debtor has objected to a Tort Claim prior to the hearing on approval of the Disclosure Statement; or

(b) the Tort Claimant has expressly elected on his or her Ballot to be treated as allowed and liquidated under the Litigation Protocol and, if allowed, to accept pro-rata payment from the Litigation Trust as the sole source of payment and compensation for their Tort Claim.

(2) Settlement and Litigation Trust Sole Source of Recovery for Tort Claims; Allocation of Funding.

The Settlement Trust will be the sole source of recovery for Settling Tort Claimants for their Tort Claims. A copy of the proposed Settlement Trust Agreement is attached to this Disclosure Statement as Exhibit "7." The Litigation Trust will be the sole source of recovery for Non-settling Tort Claimants on their Tort Claims. A copy of the proposed Litigation Trust Agreement is attached to this Disclosure Statement as Exhibit "8." Upon funding the Settlement Trust and the Litigation Trust on the Effective Date all Tort Claims against the Debtor and the Reorganized Debtor will be discharged and no Tort Claimant will have any further Claim against the Debtor or the Reorganized Debtor. Pursuant to the Channeling Injunction in Article 21 of the Plan and the Confirmation Order, all Tort Claims held by Tort Claimants and Future Tort Claimants against the Debtor, the Reorganized Debtor, Released Parties, Settling Insurers, Settling Parties, and Participating Third Parties will be permanently enjoined and channeled into the Settlement Trust or the Litigation Trust as the sole source of recovery. The Bankruptcy Court will determine the allocation of the funding between the Litigation Trust and the Settlement Trust as part of the confirmation process and such allocation will be incorporated into the Confirmation Order.

(3) Treatment of Settling Tort Claimants.

Each Settling Tort Claim will be deemed allowed and will receive a reasonable share of the Settlement Trust as determined by the Special Arbitrator, in light of the facts bearing on the liability and damage aspects of the Settling Tort Claim

(a) In determining each Settling Tort Claim's reasonable share of the Settlement Trust, the Special Arbitrator must consider all of the circumstances affecting the Debtor's potential liability, available defenses and coverage regarding the Settling Tort Claim, including but not limited to:

- (i) the substance and credibility of the claim,
- (ii) the Debtor's legal responsibility for the actions of the perpetrator under Alaska law,
- (iii) the severity of the abuse suffered,
- (iv) the impact of the abuse on the claimant including any bodily injury, shock, fright, mental injury, disability, mental anguish, humiliation, sickness or disease sustained by the claimant, and

(v) the risks to CBNA and the Settling Tort Claimant had the Settling Tort Claim otherwise been the subject of a trial including the existence of affirmative defenses such as the statute of limitations; provided, however, that the statute of limitation defense will be deemed waived by the Debtor for purposes of arbitration. The Second Amended Plan also incorporates a savings clause that would eliminate the waiver of the statute of limitations if the Court sustains an objection to the waiver by an Insurance Company in the confirmation process. CBNA believes that even if the waiver of the statute of limitation defense is eliminated it will have a minimal effect on the Arbitration Awards because Settling Tort Claims are now deemed allowed and because, at most the existence of a statute of limitations defense is one among many factors to be considered in determining the reasonable settlement amount to be awarded to a Tort Claimant.

(b) The Special Arbitrator's determination of the reasonable settlement amount will be binding on all parties; the Special Arbitrator's determination of the reasonable settlement

amount may not be appealed, but each Settling Tort Claimant is entitled to receive the Minimum Settlement Amount.

(c) The Special Arbitrator may provide for satisfying each Settling Tort Claim out of a Cash payment of funds from the Settlement Trust, or out of a combination of Cash from the Settlement Trust and an assignment of CBNA's claim against one or more Breaching Insurers arising out of the Settling Tort Claim. To the extent the Special Arbitrator decides to include an assignment of CBNA's claims against one or more Breaching Insurers in the Arbitration Award, the Special Arbitrator must consider any aggregate coverage limits under applicable Insurance Policies when determining the amount of the Arbitration Award allocated to the assigned claims against Breaching Insurers.

It is difficult to predict the range of settlements that Tort Claimants will receive. CBNA will file a motion to estimate claims solely for voting purposes based on an estimated average per claim settlement value. The estimated values in the motion to estimate will not be binding on the Special Arbitrator; the estimates will not cap the aggregate award to Settling Tort Claimants or the amount that may be individually in the individual Arbitration Awards. In order to assist Tort Claimants with understanding the returns possible under the Settlement Trust several examples have been provided below—

For example, a Settling Tort Claimant that was abused in 1974 and who could produce evidence that he experienced significant post abuse impacts such as mental anguish and humiliation in 1981 and 1982 could receive an Arbitration Award of \$850,000, with \$100,000 to be paid in Cash from the Settlement Trust and the remaining \$750,000 satisfied by an assignment of CBNA's indemnity claim against Catholic Mutual arising out of his Tort Claim. In this circumstance, under CBNA's interpretation of the Catholic Mutual policies as having an annual per-occurrence limit of \$2 million and no general bodily injury aggregate limit, if the claim

warranted it (because of repeated violent rapes for example and multiple post abuse impact occurrences), this Settling Tort Claimant could receive an Arbitration Award involving a much larger Cash settlement amount that allocates \$4,000,000 or more of liability to be satisfied by the claims against Catholic Mutual. Such a settlement would only work if a \$4,000,000 award would represent a reasonable settlement. However, if the Tort Claimant was unable obtain payment of his award from Catholic Mutual, he would have no recourse against the Settlement Trust, the Debtor, the Reorganized Debtor, any Settling Insurer or any Settling Party.

On the other hand if this hypothetical Settling Tort Claimant could only establish post abuse impacts in 1989, the Special Arbitrator may deem it necessary to award a smaller amount, say \$650,000, with \$125,000 to be paid in Cash from the Settlement Trust and only \$525,000 to be satisfied by assigning CBNA's indemnity claim against Travelers arising out of his Tort Claim, because the claim would be subject to the \$5 million aggregate limit on Travelers' liability coverage. Again, if the Tort Claimant was unable obtain payment of his award from Travelers' he would have no recourse against the Settlement Trust, the Debtor, the Reorganized Debtor, any Settling Insurer or any Settling Party.

However, if the Special Arbitrator determines that a Settling Tort Claimant was unable to establish evidence to support an award based on post abuse impacts, such claimant would not receive any assignment of claims against Travelers or Catholic Mutual. If the Claim was less severe (i.e. a single incident involving a pat on the butt outside the clothes), the Special Arbitrator could decide to limit the Arbitration Award to the \$5,500 Minimum Settlement Amount. On the other hand if the Claim involved severe abuse (i.e., multiple rapes) but the Claimant was unable to establish post-abuse impacts during the relevant policy years, the Special Arbitrator could elect to grant a much larger Cash Arbitration Award than he granted to similar claims that were able to establish post-abuse impacts.

(d) The Settlement Trustee will be required to make an initial distribution to each and every Settling Tort Claimant equal to the Minimum Settlement Amount of \$5,500 within thirty (30) days of the Effective Date. The amount of the Minimum Settlement Amount is designed to provide at least some immediate compensation to Settling Tort Claimants while preserving funds to be awarded based on the facts of each claim.

(4) Treatment of Future Tort Claimants.

Allowed Future Tort Claims will be paid out of the Future Claims Reserve. The amount of the Future Claims Reserve will be determined by the Court and will be set forth in the Confirmation Order. The Future Claims Reserve will be held and administered by the Settlement Trustee unless the Future Claims Representative affirmatively elects for Future Tort Claims to be treated under the Litigation Trust. If so, the Future Claims Reserve will be administered by the Litigation Trustee. Unless the Future Claims Representative opts out of the Settlement Trust in favor of the Litigation Trust, Future Tort Claims, if any, will be treated as follows:

(a) Each Future Tort Claim will receive a reasonable settlement as determined by the Special Arbitrator in accordance with the treatment of Settling Tort Claims except that:

(i) No Future Tort Claimant is entitled to receive the Minimum Settlement Amount of \$5,500. Instead, the Special Arbitrator will have the ability to award any amount he or she deems reasonable to a Future Tort Claimant, but no less than one (\$1.00) dollar. This is intended to take away the incentive for unscrupulous individuals from submitting bogus claims to try to automatically get the \$5,500 Minimum Settlement Amount.

(ii) The Debtor will not be deemed to have waived the statute of limitations defense for purposes of determining whether the Future Tort Claim meets the definition of a Future Tort Claim.

(iii) When determining the reasonable settlement amount for Future Tort Claimants, the Special Arbitrator is required to consider if a significant risk exists that the Future Claims Reserve will not be sufficient to make such distributions and satisfy the Future Tort Claims, while still maintaining appropriate reserves.

(b) Upon the Special Arbitrator issuing the Arbitration Award for a Future Tort Claim, the Future Tort Claimant will receive a distribution in the same manner as for a Settling Tort Claimant.

(c) The Future Claims Reserve will be maintained as follows:

(i) The Future Claims Reserve may be reduced from time to time, after the Effective Date, by the Settlement Trustee, upon application of the Settlement Trustee or the Reorganized Debtor and notice to the Future Claims Representative, if so ordered by the Court after a hearing. The Future Claims Representative will have standing at any hearing to determine any reduction in the Future Claims Reserve.

If the Future Claims Representative opts out of the Settlement Trust by electing the Litigation Trust on his Ballot, the Future Tort Claims will be treated and determined in the same manner as the Claims of Non-settling Tort Claimants. The Future Tort Claimants will retain the right to adjudicate their Claims through litigation (including, if not previously waived, trial by jury in the Bankruptcy Court or the District Court, if and to the extent such is available), subject however, to the provisions of the Second Amended Plan, including the following:

(ii) The Future Tort Claimant will commence his/her action by filing a Proof of Claim in accordance with the procedures set forth in Section 18.2. An objection to the Proof of Claim by the Litigation Trustee, or the Reorganized Debtor, will constitute an

answer and commencement of the action to determine the allowance or disallowance of the Future Tort Claim.

(iii) Upon entry of a Final Order resolving all Future Tort Claims, a Future Tort Claimant will receive, in full release and discharge of such Allowed Claim, the lesser of:

(1) the amount of the judgment pursuant to a Final Order; or

(2) to the extent that the Future Claims Reserve, after deduction of all costs, expenses, fees and other charges which are to be paid or reserved by the Litigation Trustee solely from the Future Claims Reserve, is not sufficient to pay all Allowed Future Tort Claims, the Allowed Future Tort Claims will be paid Pro Rata from the remaining proceeds of the Future Claims Reserve.

(d) Any funds remaining in the Future Claims Reserve after payment of all Allowed Future Tort Claims, will be distributed to the Reorganized Debtor.

(5) Treatment of Non-settling Tort Claimants.

The Claimants electing to participate in the Litigation Trust will retain their right to a jury trial (if not already waived), but will only be entitled to a Pro Rata share of the funds allocated to the Litigation Trust calculated based on all judgments obtained by Claimants electing the Litigation Trust, net of the costs to defense and the Future Claims Reserve if the Future Claims Representative elects the Litigation Trust. No distributions will be made to Claimants electing the Litigation Trust until all such Non-settling Tort Claimants have reduced their Claims of judgment. The Second Amended Plan further requires the Special Arbitrator to work as a mediator to attempt to resolve the Claim of parties electing to participate in the Litigation Trust.

(6) Allocation of the Fund Between the Settlement and Litigation Trust and Future Claims Reserve

The Allocation of the Fund between the Settlement and Litigation Trusts and the Future Claims Reserve will be determined by the Bankruptcy Court at the hearing on Confirmation of the Second Amended Plan.

9. Class 12- Continental Claims.

a. Definition.

Class 12 includes any and all Claims held by Continental against the Debtor, including, but not limited to, any and all claims for reimbursement of defense costs, damages, attorneys' fees or costs, directly or indirectly relating to the Bankruptcy Court's order granting summary judgment to Continental in adversary no. 08-90033. Pursuant to the terms of CBNA's settlement with Continental, Continental will receive a stipulated allowed claim of \$1,200,0000.

b. Treatment

In full satisfaction of the Continental's allowed claims the Debtor or the Reorganized Debtor will pay holders of the Continental Claims, \$75,000 Cash, and no interest, in four (4) equal annual installments of \$18,750.00 with the first (1st) installment due and payable on the Effective Date (or the Claim Payment Date), the second (2nd) annual installment to be paid on the first Business Day that is twelve (12) months after the first payment, the third (3rd) annual installment to be paid on the first Business Day that is twelve (12) months after the second payment, and the fourth (4th) payment on the first business day that is twelve (12) months after the third payment.

10. Class 13 – Pilgrim Springs Claims- Deemed to Reject Plan- Not Entitled to Vote.

a. Definition.

Class 13 includes all Claims of whatever nature asserted by PS Ltd. and Louis M. and Nancy E. Green in the Proofs of Claim filed in the Reorganization Case, Claim Nos. 21 and 23, associated with the Pilgrim Springs Property.

b. Treatment

The Pilgrim Springs Claims are subject to the Pilgrim Springs Setoff Claims which exceed the Pilgrim Springs Claims. The Pilgrim Springs Claims will be Disallowed, there will be no distribution to the holders of any Pilgrim Springs Claims and such holders will not receive anything under the Second Amended Plan.

11. Class 14 - Penalty Claims- Deemed to Reject Plan- Not Entitled to Vote.

a. Definition.

Class 14 includes any Claims for any fine, penalty, forfeiture, multiple damages, punitive damages, or exemplary damages, including, but not limited to, any such Claims not meant to compensate the claimant for actual pecuniary loss.

b. Treatment.

No Class 14 will receive any property whatsoever on account of Class 14 Claims.

VIII.

MEANS FOR EXECUTION OF THE SECOND AMENDED PLAN

A. Pre-Effective Date Transactions

1. Amendment to the Endowment Documents.

Prior to the Effective Date, but after the Confirmation Order has become a Final Order, the Diocesan Bishop will amend the Endowment Documents to permit the sale of assets to the Endowment.

2. Closing the Sale of Assets to the Endowment.

Prior to the Effective Date, but after the Confirmation order has become a Final Order and after the Endowment Documents have been amended pursuant to the Confirmation Order, CBNA will close the asset sale transaction transferring certain CBNA Real Property to the Endowment in exchange for \$7.625 million of Cash.

3. Closing the Sale of the Pilgrim Springs Property.

CBNA will close the sale of the Pilgrim Springs Property to the highest bidder at the Pilgrim Springs Auction on or prior to the Effective Date.

4. Administrative Claims Bar Date.

The Administrative Claims Bar Date will occur and all Debtor's Professionals and Committee's Professionals will submit their final fee applications. Any objections to Administrative Claims or fee applications will be filed in accordance with Federal and Local Bankruptcy Rules. If and to the extent a fee application is disputed, CBNA will reserve sufficient funds to pay the fee application pending resolution of the fee objection.

B. Actions on the Effective Date

1. Creation of the Settlement Trust and the Litigation Trust

Unless the Settlement Trust and the Litigation Trust have been earlier established, the Reorganized Debtor will cause the Settlement Trust and the Litigation Trust to be established on the Effective Date.

2. Payments on the Effective Date

a. Payment, Cure and Reinstatement or Setoff of Allowed Claims Other Than Tort Claims.

The Reorganized Debtor will pay or make provision for the prompt payment to holders of Allowed Claims to whom payments, pursuant to the Second Amended Plan, are to be made on the Effective Date by the Debtor, including Allowed Administrative Claims. The Debtor will be

permitted to reserve for any disputed Administrative Claims, including professional fees, prior to funding the Fund.

b. Payment to the Fund.

On the Effective Date the Reorganized Debtor will deliver all amounts transferred to the Fund as of the Effective Date, and any other assignments or pledges provided for under the Plan to the Settlement Trustee and the Litigation Trustee pursuant to the allocation provided for in the Confirmation Order.

C. Post-Effective Date Performance by the Reorganized Debtor

The funds necessary to ensure continuing performance under the Second Amended Plan after the Effective Date may be obtained from:

- (a) Any and all remaining Assets retained by the Reorganized Debtor after the Effective Date;
- (b) Cash generated from the post-Effective Date operations of the Reorganized Debtor;
- (c) Cash generated from the sale of any property owned by CBNA for which it has both legal and equitable interest, that is not Excluded Property, that is not otherwise restricted and which CBNA, in its discretion, determines to sell in order meet its obligations under the Second Amended Plan;
- (d) Any reserves established by the Debtor or the Reorganized Debtor; and,
- (e) Any other contributions or financing (if any) which the Reorganized Debtor may obtain on or after the Effective Date.

Note that under the Second Amended Plan, CBNA is again proposing that Bishop Kettler send out a special appeal in the Alaskan Shepherd Newsletter for the purpose of soliciting gifts specially designated for compensation for funding counseling for Tort Claimants, with any money raised over \$150,000 in each campaign going to the Future Claims Reserve.

In light of the likely reduction of income from the Endowment and in light of the significantly larger Cash payment on the Effective Date, CBNA has abandoned the Alaskan Shepherd Sharing Agreement that was proposed in the First Amended Plan.

An analysis of CBNA's projected cash flow from operation of the Reorganized Debtor and for purposes of meeting its funding obligations under the Second Amended Plan, along with a Summary of Significant Assumption, are attached hereto as Exhibit "9". The Summary of Significant Assumptions reflects CBNA's business plan. This cash flow is premised on moderately aggressive assumptions about CBNA's income, and taking significant measures to control costs such as keeping wages frozen through FYE 2011. The projections assume that CBNA will recruit a Development Officer at a base salary of \$50,000 provided that the salary can be offset by a \$35,000 grant for the first three years of employment. Management conservatively anticipates the following increases in contribution revenue:

a.	FYE 2010	\$85,000
b.	FYE 2011	\$135,000
c.	FYE 2012	\$220,000
d.	FYE 2013	\$320,000
e.	FYE 2014	\$350,000

CBNA's management team believes that the assumptions are realistic and show the Second Amended Plan to be feasible. Creditors raised several questions about the capital projects included in the projection. As described in the business plan, all of the capital projects will require restricted funding either through special appeals or through grants. If CBNA does not obtain the special restricted funding it will not take on the capital improvement projects. CSF's projected Effective Date cash flow under the Second Amended Plan is attached hereto as Exhibit "10".

D. Post-Confirmation Management

The Reorganized Debtor will continue to be managed in accordance with the principles of Canon Law and applicable state law, and the Bishop will be the sole director of the Reorganized Debtor.

CBNA proposes that the Honorable Eric T. Sanders (ret), a retired Alaska Superior Court Judge serve as the Special Arbitrator. Mr. Sanders *curriculum vitae* is attached to this Disclosure Statement as Exhibit "11." Mr. Sanders received his law degree and was admitted to the Alaska Bar in 1975. Prior to entering private practice, Mr. Sanders served as a law clerk to the Alaska Supreme Court (1975-1976) and as Assistant Public Defender for the Alaska Public Defender Agency (1976-1978). After almost 20 years of private practice, focusing on personal injury, products liability, and wrongful death matters, Mr. Sanders was appointed to serve as a Superior Court Judge for the State of Alaska. During his tenure as a trial judge, Mr. Sanders was responsible for a diverse caseload, presided over dozens of trials, and conducted hundreds of hearings and settlement conferences in a wide range of legal matters. In 2003, Mr. Sanders retired from the court and re-entered private practice. Mr. Sanders' practice focuses on litigation involving civil matters. During the past 30 years he has handled cases throughout the State of Alaska, including most of the rural venues. Drawing on his judicial career and litigation experience, Mr. Sanders frequently is retained as a mediator, expert witness, and trial consultant. He also is called upon to serve as a discovery master for Alaska Superior Court judges in complicated civil actions.

CBNA is in negotiations with individuals regarding becoming the Settlement Trustee and the Litigation Trustee, but does not yet have their agreement. The Debtor will supplement with that information, along with a curriculum vitae for each individual prior to the Effective Date.

E. Treatment of Executory Contracts

1. Assumption and Rejection of Executory Contracts

In accordance with the provisions and requirements of Bankruptcy Code §§ 365 and 1123, all Executory Contracts of the Debtor will be deemed assumed on the Confirmation Date other than those Executory Contracts that have already been rejected by order of the Bankruptcy Court or are subject to a motion to reject Executory Contracts that is pending on the Confirmation Date. Executory Contracts associated with KNOM's operation will be automatically assigned to the new non-profit entity. Each Executory Contract assumed pursuant

to this Section will revert in, and be fully enforceable by, the Reorganized Debtor in accordance with its terms except that under no circumstances will the Debtor or the Reorganized Debtor assume or be responsible for any alleged indemnification obligations of any priests, the Jesuits or others against whom CBNA has determined or may, in the future, determine, that there are credible allegations of sexual abuse against such Person.

2. Claims Based on Rejection of Executory Contracts

Every Claim asserted by a Creditor arising from the rejection of an Executory Contract pursuant to the Second Amended Plan must be filed with the Bankruptcy Court no later than the first Business Day which is thirty (30) days after the Confirmation Date or the first Business Day that is thirty (30) days after entry of the Final Order of the Bankruptcy Court approving rejection if such Final Order is entered after the Confirmation Date. Every such Claim which is timely filed, as and when it becomes an Allowed Claim, will be treated under Class 8 General Unsecured Claims. Every such Claim which is not timely filed by the deadline stated above will be forever barred, unenforceable, and discharged.

IX.

EFFECT OF CONFIRMATION

A. Discharge

Except as otherwise expressly provided in the Second Amended Plan or in the Confirmation Order, on the Effective Date, the Debtor will be discharged from and its liability will be extinguished completely, in respect of any and all Claims that arose from any agreement of the Debtor entered into, or obligation of the Debtor incurred, before the Confirmation Date, or from any conduct of the Debtor prior to the Confirmation Date, or that otherwise arose before the Confirmation Date, including, without limitation, Tort Claims or Future Tort Claims and any debt, whether reduced to judgment or not, liquidated or unliquidated, contingent or noncontingent, asserted or unasserted, fixed or not, matured or unmatured, disputed or undisputed, legal or equitable, known or unknown and from any liability of the kind specified in Bankruptcy Code §§ 502(g), 502(h), and 502(i), whether or not a Proof of Claim is filed or is

deemed filed under Bankruptcy Code § 501, such Claim is allowed under Bankruptcy Code § 502, or the holder of such Claim has accepted the Second Amended Plan.

B. Vesting

Except as otherwise expressly provided in the Second Amended Plan or in the Confirmation Order, on the Effective Date, the Reorganized Debtor will be vested with all of the property of the Estate free and clear of all Claims, liens, encumbrances, charges and other interests of Creditors, and will, thereafter, hold, use, dispose or otherwise deal with such property and operate its business free of any restrictions imposed by the Bankruptcy Code or by the Court. All Retained Claims are hereby preserved for the benefit of the Reorganized Debtor. Any claims, causes of action or demands transferred to the Fund are preserved for the benefit of the Settlement Trustee under the Settlement Trust and the Litigation Trustee under the Litigation Trust.

C. Channeled Claims

Except as otherwise expressly provided in the Second Amended Plan, in consideration of the promises and obligations of the Participating Third Parties and the Settling Parties under the Second Amended Plan, including the establishment and funding of the Settlement Trust and the Litigation Trust, all Persons who have held, hold, or may hold Tort Claims and Future Tort Claims, whether known or unknown, will be forever barred from pursuing such Tort Claims, whether such Claims are based upon tort or contract or otherwise, that they heretofore, now or hereafter possess or may possess against the Settling Parties, in each case based upon or in any manner arising from or related to any acts or omissions of CBNA or the Fairbanks Diocese or any of the other Settling Parties related to any sexual misconduct or other acts committed by any clergy, employees, volunteers or other Persons associated with CBNA. Such Tort Claims will be channeled to the Fund. Except as otherwise expressly provided in the Second Amended Plan and the Second Amended Plan Documents, the provisions of the Second Amended Plan will operate, as between all Settling Parties, as a mutual release of all Claims which any Settling Party may

have against another Settling Party. The channeling provisions and the injunction are integral parts of the Second Amended Plan and are essential to its implementation.

D. Exculpation and Limitation of Liability

None of the Released Parties will have or incur any liability to, or be subject to any right of action by, any holder of a Claim or any other party in interest or any of their respective agents, employees, officers, directors, representatives, financial advisors, attorneys, or affiliates, or any of their successors or assigns, for any act or omission in connection with, relating to, or arising out of the Reorganization Case, the pursuit of confirmation of the Second Amended Plan, or the administration of the Second Amended Plan or the property to be distributed under the Second Amended Plan, except for their willful misconduct; and in all respects such parties will be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities under the Second Amended Plan or in the context of the Reorganization Case.

E. Permanent Injunction Against Prosecution of Released and Channeled Claims

Except as otherwise expressly provided in the Second Amended Plan, for the consideration described herein, or described in any agreement by which a Person becomes a Settling Party, or if such Person is a Released Party on the Effective Date, all Persons who have held, hold, or may hold Channeled Claims or Claims against CBNA, the Fairbanks Diocese, any Settling Party or any Released Party, whether known or unknown, and their respective civil law and Canon Law officers, directors, officials, representatives, council members, employees, agents, attorneys, and all others acting for or on their behalf, will be permanently enjoined on and after the Effective Date from: (a) commencing or continuing in any manner, any action or any other proceeding of any kind with respect to any Claim, including, but not limited to, any Tort Claim or any Future Tort Claim against the Parties or the property of the Parties; (b) seeking the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree, or order against the Parties or the property of the Parties, with respect to any discharged Claim or Channeled Claim; (c) creating, perfecting, or enforcing any encumbrance of any kind against the Parties or the property of the Parties with respect to any discharged Claim or

Channeled Claim; (d) asserting any setoff, right of subrogation, or recoupment of any kind against any obligation due to the Parties with respect to any discharged Claim or Channeled Claim; and (e) taking any act, in any manner and in any place whatsoever, that does not conform to or comply with provisions of the Second Amended Plan or the Second Amended Plan Documents, including, the Settlement Trust Agreement or the Litigation Trust Agreement. Each Non-settling Tort Claimant (including any Future Tort Claimant if the Future Claims Representative opts out of the Settlement Trust) will be entitled to continue or commence an action against the Litigation Trustee (in his or her capacity as trustee only and not in his or her individual capacity) for the sole purpose of obtaining a judgment as permitted by the Litigation Trust Agreement, the Litigation Protocol and the Second Amended Plan, thereby liquidating such Non-settling Tort Claimant's (including Future Tort Claimants, if applicable) Claim so that he or she may be paid with other allowed Tort Claims in the ordinary course of the operations of the Litigation Trust, consistent with the provisions of the Litigation Trust Agreement, the Litigation Protocol and the Second Amended Plan. The holder of any such judgment will be enjoined from executing against the Litigation Trust, its assets or the assets of any of the Parties or the Settlement Trust. In the event any Person takes any action that is prohibited by, or is otherwise inconsistent with, the provisions of the Second Amended Plan, then, upon notice to the Court by an affected Party, the action or proceeding in which the Claim of such Person is asserted, will automatically be transferred to the Court (or, as applicable, the District Court) for enforcement of the provisions of Article 21 of the Second Amended Plan. The foregoing injunctive provisions are an integral part of the Second Amended Plan and are essential to its implementation.

X.

FEDERAL TAX CONSEQUENCES

THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF THE SECOND AMENDED PLAN ARE COMPLEX AND, IN MANY AREAS, UNCERTAIN. ACCORDINGLY, ALL HOLDERS OF CLAIMS ARE STRONGLY URGED TO CONSULT

THEIR PERSONAL TAX ADVISORS WITH SPECIFIC REFERENCE TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE SECOND AMENDED PLAN WITH RESPECT TO SUCH HOLDER, AND THE TAX IMPLICATIONS OF SUCH HOLDER'S RECEIPT OF ANY PAYMENTS FROM THE TRUST. NEITHER THE DEBTOR NOR DEBTOR'S COUNSEL MAKES ANY REPRESENTATIONS REGARDING THE PARTICULAR TAX CONSEQUENCES OF CONFIRMATION AND CONSUMMATION OF THE SECOND AMENDED PLAN AS TO THE DEBTOR OR ANY CREDITOR.

Under the Internal Revenue Code of 1986, as amended (the "IRC"), there may be significant federal income tax issues arising under the Second Amended Plan described in this Disclosure Statement, that affect Creditors in the case.

The Settlement Trust and the Litigation Trust are each a "qualified settlement fund" ("QSF") within the meaning of Treasury Regulations enacted under Code Section 486B(g). Each Trust is characterized as a QSF because:

1. Each Trust is established pursuant to an order of, or is approved by, the United States, any state or political subdivision thereof, or any agency or instrumentality (including a court of law) of any of the foregoing and is subject to the continuing jurisdiction of that governmental authority;

2. Each Trust is established to resolve or satisfy one or more contested or uncontested Claims that have resulted or may result from an event that has occurred and that has given rise to at least one Claim asserting liability arising out of, among other things, a tort, breach of contract, or violation of law (but excluding non-tort obligations of CBNA to make payments to its general trade Creditors or debt holders that relates to: a case under title 11 of United States Code, a receivership, foreclosure of similar proceeding in a Federal or State court, or a workout); and

3. Each Trust is a trust under state law.

The primary tax consequences of a Trust being characterized as a QSF, are the following:

1. The Trust must use a calendar taxable year and the accrual method of

accounting.

2. CBNA must treat the transfer of property to the Trust as a sale or exchange of property. Accordingly, any gain or loss from the deemed sale must be reported by CBNA.

3. The Trust takes a fair market value basis in property contributed to it by CBNA.

4. The Trust's gross income, less certain modifications, is taxable at the rate equal to the maximum rate in effect for such taxable year under Code Section 1(e) (currently 35%). CBNA's funding of the Trust with Cash and other property is not reported by the Trust as taxable income. However, net earnings recognized from, for example, the short-term investment of the Trust's funds will be subject to tax.

5. The Trust may deduct from its gross income a limited number of administrative expenses; the Trust is not entitled to deduct distributions paid to its Claimants.

6. The Trust will have a separate taxpayer identification number and will be required to file annual tax returns (which are currently due on March 15 unless the Trust is granted an extension of time for filing). The Trust will be required to comply with a number of other administrative tax rules.

7. The Trust must treat distributions of property from the Trust as a sale or exchange. Accordingly, any gain or loss from these deemed sales or exchanges must be reported by the Trust.

8. The Trust's gross income will be subject to applicable state and local income taxation.

Regardless of the Federal income tax treatment of the Trust, payments and distributions made by a Trust to a Tort Claimant may be subject to certain information reporting (generally IRS Form 1099) when approved payments are made to Tort Claimants. Furthermore, the

Settlement Trust and the Litigation Trust may be subject to withholding obligations under the Code in connection with certain payments to Tort Claimants.

XI.
ACCEPTANCE AND CONFIRMATION

A. Voting Procedures

1. Generally

Only those Classes that are impaired under the Second Amended Plan are entitled to vote to accept or reject the Second Amended Plan. CBNA reserves the right to supplement this Disclosure Statement (if necessary) and to solicit any of those Classes which may prove to be impaired or unimpaired, as the Reorganization Case develops further.

Separate Ballots will be sent to the known holders of Claims whether or not such Claims are disputed. The Court has been asked to provide a mechanism for estimating Tort Claims for **voting purposes only**, which will be indicated on information sent to Tort Claimants. In addition, only the holders of Allowed Claims (or Claims that have been temporarily allowed or have been estimated by the Bankruptcy Court) which are impaired, are entitled to vote on the Second Amended Plan. A Claim to which an objection has been filed is not an Allowed Claim unless and until the Bankruptcy Court rules on the objection and any appeals are determined, unless the Bankruptcy Court determines otherwise. The holders of such Disputed Claims are not entitled to vote on the Second Amended Plan unless they request that the Bankruptcy Court, pursuant to Bankruptcy Rule 3018, temporarily allow the Claims in appropriate amounts solely for the purpose of enabling the holders of such Disputed Claims to vote on the Second Amended Plan, and the Bankruptcy Court does so.

2. Incomplete Ballots

Ballots which are signed, dated, and timely received, but on which a vote to accept or reject the Second Amended Plan has not been indicated, will not be counted as a vote either to accept or to reject the Second Amended Plan, or as a vote cast with respect to the Second Amended Plan.

3. Withdrawal Of Ballots; Revocation

Any Creditor holding an impaired Allowed Claim which has delivered a Ballot accepting or rejecting the Second Amended Plan or opting out of the Settlement Trust, may withdraw such acceptance or rejection or election by delivering a written notice of withdrawal to CBNA at any time prior to the voting deadline. A notice of withdrawal, to be valid, must: (i) contain the description of the Claim to which it relates and the amount of such Claim; (ii) be signed by the voting Creditor, in the same manner as the Ballot; and (iii) be received by CBNA in a timely manner at the address set forth below. Unless otherwise directed by the Bankruptcy Court, a purported notice of withdrawal of Ballots or change in the Claimants election to opt out of the Settlement Trust which is not received in a timely manner will not be effective to withdraw a previously furnished Ballot.

4. Submission Of Ballots

The form of Ballot for each of the Classes entitled to vote on the Second Amended Plan will be sent to all Creditors along with a copy of the Court approved Disclosure Statement and a copy of the Second Amended Plan. Creditors should read the Ballot carefully. The Bankruptcy Court has approved the form of Ballot to be submitted to the holders of Tort Claims. If any Creditor has any questions concerning voting procedures, it may contact:

QUARLES & BRADY LLP
One South Church Avenue, Suite 1700
Tucson, AZ 85701
Attention: Kasey Nye
Telephone: (520) 770-8700
E-mail: kasey.nye@quarles.com

Ballot(s) or withdrawals/revocations or changes of election thereof must be returned to the above counsel for the Fairbanks Diocese. Ballots (and withdrawals/revocations and changes of elections of Ballots) must be received no later than ____ a.m./p.m. prevailing Alaska Time, _____, 2009 by CBNA at the following address, in accordance with the "Notice of Hearing on Plan Confirmation; Notice of Manner and Timing for: (1) Voting on the Second Amended Plan;

Quarles & Brady LLP
One South Church Ave.
Suite 1700
Tucson, Arizona 85701-
1621

(2) Filing Objections to the Second Amended Plan; and (3) Submitting Ballots to Vote to Accept or Reject the Second Amended Plan."

Jane Friedman, Paralegal
Quarles & Brady LLP
One South Church Avenue, Suite 1700
Tucson, AZ 85701-1621
Phone (520) 770-8700; Fax (520) 770-2212
E-mail: jane.friedman@quarles.com

B. Feasibility

The Bankruptcy Code requires, as a condition to confirmation, that the Bankruptcy Court find that liquidation of CBNA, or the need for future reorganization, is not likely to follow after confirmation. For the purpose of determining whether the Second Amended Plan meets this requirement, the Reorganized Debtor's ability to meet its obligations under the Second Amended Plan has been analyzed. CBNA has prepared projections of the cash flow for the CBNA ministries and operations. The projections were prepared by management and are attached as Exhibit "7" to this Disclosure Statement. CBNA reasonably believes that it will be able to fund the Second Amended Plan on the Effective Date, and the Reorganized Debtor will be able to make all payments required to be made, pursuant to the Second Amended Plan.

C. Best Interests Of Creditors And Liquidation Analysis

Under Bankruptcy Code § 1129(a)(7), the Second Amended Plan must provide that Creditors receive no less under the Second Amended Plan than they would receive in a Chapter 7 liquidation of CBNA. This analysis is unusually hypothetical in this Reorganization Case, because, as a non-profit entity, CBNA's Reorganization Case cannot be converted to a Chapter 7 without CBNA's consent under Bankruptcy Code § 1112(c) (disallowing conversion of Chapter 11 cases where the debtors is "not a moneyed corporation"). CBNA submits that the best interest of creditors test in this context is akin to that of a Chapter 9 proceeding.

While the best interests of the creditors test is an elusive standard in Chapter 9 nevertheless the concept is not without meaning.... The concept should be interpreted to mean that the Second Amended Plan must be better than the alternative that creditors have. In the chapter 9 context, the alternative is

dismissal of the case, permitting every creditor to fend for itself in the race to obtain the mandamus remedy and to collect the proceeds.... [The courts] must apply **the test to require a reasonable effort by the municipal debtor that is a better alternative to the creditors than dismissal of the case.**

In re County of Orange, 191 B.R. 1005, 1020 (Bankr. C.D. Ca. 1996) (quoting 4 Collier on Bankruptcy, 943.03(7) (15th ed. 1995) (emphasis added by Judge Ryan).

Accordingly, the best interest of creditors standard best applied here is to compare the Second Amended Plan to the true alternative of dismissal and a race to the courthouse which greatly benefits the first to trial over the claims of others.

Nevertheless, CBNA has included a hypothetical liquidation (attached as Exhibit "12" to this Disclosure Statement) analysis similar to that filed in *In re General Teamsters, Warehousemen & Helpers Union Local 890*, 225 B.R. 719 (Bankr. N.D.Cal. 1998) aff'd 265 F.3d 869 (9th Cir. 2001). Specifically the *Teamsters Local* bankruptcy court determined—and the U.S. District Court and the 9th Circuit Court of Appeals each affirmed—that certain assets were properly excluded from the liquidation analysis because the assets did not "represent property of Debtor's estate that would be capable of liquidation under Chapter 7." See 225 B.R. at 734. Thus, CBNA's liquidation analysis excludes property that is not property of CBNA's Estate. Specifically, Parish Real Property, Parish personal property, the Endowment, the Priest's retirement fund, custodial funds. The liquidation analysis also excludes other property which is property of the estate, but which is not "capable of liquidation under Chapter 7" pursuant to the Religious Freedom Restoration Act and other reasons including the KNOM radio station license and equipment, and the Catholic Schools of Fairbanks campus and related personal property. The Committee disagrees with the Debtor over whether the property excluded from the liquidation analysis is properly excluded.

D. Confirmation Over Dissenting Class

In the event that any impaired Class of Claims does not accept the Second Amended Plan, the Bankruptcy Court may nevertheless confirm the Second Amended Plan at the request of CBNA if all other requirements under Bankruptcy Code § 1129(a) are satisfied, and if, as to

each impaired Class which has not accepted the Second Amended Plan, the Bankruptcy Court determines that the Second Amended Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such non-accepting Classes. Each of these requirements is discussed below.

1. No Unfair Discrimination

The Second Amended Plan "does not discriminate unfairly" if: (a) the legal rights of a dissenting Class are treated in a manner that is consistent with the treatment of other Classes whose legal rights are similar to those of the dissenting Class; and (b) no Class receives payments in excess of those which it is legally entitled to receive for its Claims. CBNA believes that under the Second Amended Plan: (i) all Classes of impaired Claims are treated in a manner that is consistent with the treatment of other similar Classes of Claims; and (ii) no Class of Claims will receive payments or property with an aggregate value greater than the aggregate of the Allowed Claims in such Class. Accordingly, CBNA believes that the Second Amended Plan does not discriminate unfairly as to any impaired Class of Claims.

2. Fair and Equitable Test

The Bankruptcy Code establishes different "fair and equitable" tests for Secured Claims, Unsecured Claims, and holders of Equity Interests, as follows:

(a) Secured Creditors. Either: (i) each impaired Secured Creditor retains its liens securing a Secured Claim and receives on account of its Secured Claim deferred Cash payments having a present value equal to the amount of its Allowed Secured Claim; (ii) each impaired Secured Creditor realizes the "indubitable equivalent" of its Allowed Secured Claim; or (iii) the property securing the Claim is sold free and clear of liens with such liens to attach to the proceeds, and the liens against such proceeds are treated in accordance with clause (i) or (ii) of this subparagraph (a).

(b) Unsecured Creditors. Each impaired Unsecured Creditor receives or retains under the Second Amended Plan property of a value equal to the amount of its Allowed Claim. There is no absolute priority rule issue in this Reorganization Case because there are no interests or junior creditors; or the holders of Claims and Equity Interests that are junior to the Claims of the non-accepting Class do not receive any property under the Second Amended Plan on account of such Claims and Equity Interests.

(c) Equity Interests. Either: (i) each holder will receive or retain under the Second Amended Plan property of a value equal to or greater than (A) the fixed liquidation preference or redemption price, if any, of such interest or (B) the value of such interest; or (ii) the holders of interests that are junior to the non-accepting Class will not receive any property under the Second Amended Plan. The Fairbanks Diocese believes that the Second Amended Plan satisfies the "fair and equitable" test with respect to all impaired Classes.

As with the best interests of creditors test, the fair and equitable test is applied differently in the Reorganization Case than in most reorganization cases because CBNA is not a moneyed corporation. This is the situation because the members of a non-profit, in this case, the Bishop, have no personal interest in the property of the corporation. Accordingly, there is effectively no equity interest in the Fairbanks Diocese. Therefore, what is commonly referred to as the "absolute priority rule" embodied by Bankruptcy Code § 1129(b)(2)(B) does not prevent CBNA from continuing to operate.

XII.
ALTERNATIVES TO THE SECOND AMENDED PLAN

If the Second Amended Plan is not confirmed, several different events could occur: (1) the Debtor could propose another plan providing for different treatment of certain Creditors; or (2) the Bankruptcy Court (after appropriate notice and hearing) could dismiss the Reorganization Case if the Debtor is unable to confirm an alternative plan in a reasonable period of time.

XIII.
RECOMMENDATIONS OF THE DEBTOR AND CONCLUSION

CBNA recommends that all Creditors vote to accept the Second Amended Plan. CBNA believes that the Second Amended Plan provides the best possible return to Creditors under the circumstances.

DATED: October 30 2009

CATHOLIC BISHOP OF NORTHERN ALASKA, an
Alaska religious corporation sole

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