

RELIGIOUS TECHNOLOGY CENTER
CHURCH OF SCIENTOLOGY INTERNATIONAL
and
CHURCH OF SPIRITUAL TECHNOLOGY

PROTEST

VOLUME I

Ex. I-10

III. The Finance Network -- Financial and Reserves Systems

The Church of Scientology has nine networks that perform specific functions necessary for expansion such as property management, external affairs, finance, and program monitoring, execution and development. (The nine networks are described on page 17 of Your Guide To Management, Exhibit B-5.) All of the nine networks are equally important and essential in ensuring successful operations and expansion of the Church.

Each network is administered by a Network Head at the Flag Command Bureaux level. Network staff working in a local church are employed by that church, usually at the same level in the hierarchy as the Executive Director or Commanding Officer (in Sea Org churches). A network working in a particular church may form a unit of that church, such as the LRB Public Relations International unit in Church of Scientology International.

Since the Service has requested specific information of the Church's financial network, this network is described in detail below.

The financial and reserves systems of the Church and the activities conducted in connection with them are first described below in relation to the activities of the Class IV churches (the lowest level church which is authorized to ordain ministers), and

by tracing the flows of funds from these to the higher level organizations and to the organizations which receive and expend reserves. This is followed by a description of the functions, activities and authority of CSI and RTC in relation to the finance and reserves systems.

A. Treasury Division

Each Class IV church (referred to below simply as a church) includes a division called the Treasury Division. The Treasury Division is responsible for the receipt and disbursement of church funds; for the maintenance of financial records; for the preparation of periodic financial summaries and statements; for the safekeeping of records relating to the corporation housing the church; and for the safekeeping of physical assets of the church. Staff members of the church who are employees of the corporation carry on the activities related to these functions, with the assistance (when needed) of staff members of the higher level churches and of independent accountants.

The Treasury Division receives funds paid to the church, issues receipts (called Invoices in the church), disburses funds in payment of approved expenditures (and prepares disbursement vouchers to evidence payments).

Each church maintains several bank accounts. These include an account which is referred to generally as the FBO No. 1 Account or FO No. 1 Account. "FBO" stands for Flag Banking Officer. All receipts are banked initially in this account. Funds are then disbursed from the FBO No. 1 Account to other accounts. The principal such account is known as the Main Account, from which funds are disbursed for the payment of the day to day costs and expenses

of the church. Another such account is the Book Account. Funds received from the sale of books, E-Meters and other items sold by the church bookstore are transferred from the F30 account to the Book Account, and are disbursed from that account for the purchase of books and E-meters, the payment of book commissions and for a limited number of other church expenses.

The church will also maintain the following accounts:

1. Local Reserves. An account for reserves of the church for local purposes (such as the expansion of church facilities). These accounts are usually referred to as "local reserve" or "local org reserve" accounts.
2. General Liability Fund. An account for reserves for the payment of attorneys fees or other costs and expenses arising from litigation or threatened litigation, or other unanticipated liabilities. Funds in the GLF account are intended for the purposes of the church owning the account, rather than for the general purposes of the religion.
3. FSM Account. An account for the payment of Field Staff Member commissions (FSM stands for Field Staff Member).
4. SCA Account. It is the policy of the Church that parishioners who promptly complete a religious service should receive an award from the church which delivered the service. These are called Service Completion Awards. Amounts to pay such

awards are kept in this account (SCA stands for Service Completion Award).

5. CVB Account. Amounts are deposited in this account whenever a parishioner demands the return of a fixed donation, and are kept until the demand is abandoned or met. CVB stands for Claims Verification Board, a body of CSI which passes upon the validity of such claims.

6. FBO No. 2 Account. Amounts are deposited in this account (which is also sometimes referred to as the FO No. 2 Account) to pay anticipated local expenses of missionaries sent to the church by a higher level organization, and for local expenses of higher level ecclesiastical organizations.

7. FBO No. 3 Account. Amounts received by the church which do not fit in any of the usual categories of receipts of a Scientology church, or which must be held in suspense for any reason, are kept in this account.

The maintenance and use of the FBO No. 1 account and the other accounts is founded upon the Church system of control of expenditures. The churches operate on a weekly budget basis. Each division of the church prepares a budget for the anticipated expenditures of that division during the next week. When these are combined, they constitute the proposed Financial Planning (called the FP) of the church for the week. The proposed FP is then reviewed by two committees comprised of church executives

known respectively as the Advisory Council and the Executive Council, and is accepted, revised or rejected (on a line item basis). Differences are ironed out and the resulting FP becomes the authorization for expenditures, subject, however, to final approval by a staff member known as the Flag Banking Officer (whose authority and activities are discussed separately below). Amounts are disbursed from the FBO No. 1 account to the appropriate account in accordance with the FP, and are then expended in accordance with the FP. Expenditures for some church expenses are made directly from the FBO No. 1 Account. These include (for example) weekly payments to the United States Scientology Films Trust as license payments for the religious films furnished by that trust.

The primary financial records of the church are invoices, bank deposit slips, cancelled checks, disbursement vouchers, bank statements and paid bills. Church policy requires that upon receipt of funds, a multi-copy invoice must be written (with the original going to the payor as a receipt); and upon disbursement of funds a multi-copy disbursement voucher must be written. Copies of these are used as the original entry records of receipts and disbursements, from which cash summaries are prepared (and reconciled with deposit receipts, cancelled checks, bank statements and paid bill receipts). These are prepared periodically, and are summarized annually to prepare the annual statements of

account. Additionally, cash journals and other formal accounting books and records are maintained where local law requires them; and financial statements are audited by outside auditors where required by local laws.

B. Flag Banking Officer. It is the policy of the Church that each Class IV and higher church must have a staff member known as the Flag Banking Officer, and commonly called the FBO. The FBO is an employee of and is paid by the church. He is responsible for the financial prosperity and expansion of the church. It is his duty to assure that the church remains solvent and abides by the policies of the Church in the expenditure of its funds. These policies require not only that the church remain solvent, and build up reserves for defense and expansion, but also that the church contribute to the expansion of the religion as a whole by contributing to central reserves. The FBO's ecclesiastical authority derives from higher levels of the hierarchy. It is at the same level as the Executive Director or Commanding Officer. The responsibility of the FBO is discharged through his control over the banking of funds, by having the final authority to approve or disapprove the church's weekly Financial Planning, and by controlling the FBO accounts.

The Church has devised a system for the allocation of funds to assure that the needs of the several divisions of a church, of the particular church as a whole and of the religion generally are

met in accordance with policies of the Church. Under this system, amounts are automatically allocated to certain expenditures, in accordance with a weekly report form. A copy of the current form (known as the FBO AC3 Weekly Report) is enclosed as Exhibit C-1. This form is frequently referred to in the Church as an "allocation form."

Use of the form results in the calculation of an amount known as the corrected gross income, or CGI, of the church (see part III of the enclosed form). As will be noted, the report form is also used to check the balances of the amounts involved, in relation to the several bank accounts involved.

It should be noted that the report form includes an allocation of payments to "CSRT." (See part III, line A.) CSRT is Church of Scientology Religious Trust. This provision in the form is now obsolete, as the churches no longer make payments to CSRT but instead make payments directly to CSI. These payments are on account of ecclesiastical services furnished by the Mother Church

and are treated within Church policy as the contributions of the lower churches to the overall purposes of the religion. In this context, "Flag" refers to CSI.

It should be noted also that this form provides for an allocation of church funds to a General Liability Fund. (See page 4, line D, of Exhibit C-1.) This is a reserve fund maintained by the church for its own purposes and is kept in a bank account of the church. It is not part of the central reserves of the Church (which are discussed in detail below).

Of course, there will be occasions when a particular church will be financially unable to meet all of the demands upon its resources, even after drawing upon its reserves. When this occurs, the church may request an allocation of funds from central reserves to assist it. Such a request, if deemed worthy, may be met either by a grant or loan of funds from a church or trust that maintains central reserves and is the appropriate source for the particular church needing funds. However, it is the policy of the Church that each church should contribute to central reserves rather than drain them, and a failure of a church to remain solvent and able to contribute will usually be the occasion

for an investigation by a higher level organization.

It is the duty of the church's FBO to assure that the regimen specified in the weekly report form (Exhibit C-1) is followed.

C. Finance Enforcement Officer. Policy of the Church provides for each church having a staff member known as the Finance Enforcement Officer. The function of the Finance Enforcement Officer is to assure that the Treasury Division abides by Church policy in matters such as the banking of funds, the preparation and maintenance of invoices, disbursement vouchers and other financial records, and the preparation of summaries and of financial statements. Like the FBO, the FEO is an employee of and is paid by the church, but is the ecclesiastical superior of all other staff members other than the Executive Director or Commanding Officer in respect of his enforcement of the policies relating to the Treasury Division's handling of financial matters.

D. Multiple Organization Churches. A church corporation may include more than one church and may also include other distinct organizations of the ecclesiastical hierarchy. For example, Church of Scientology of New York houses a Class IV church. It is also the continental church for the Eastern United States, and houses a Continental Liaison Office. As another

example, Church of Scientology Flag Service Org, Inc., houses the Flag Service Org (the highest level church in the world in respect of the religious services it delivers to its parishioners) and also houses the Flag Estates Org, which is responsible for the operation and maintenance of the physical facilities used by the Flag Service Org. As a further example, Church of Scientology Western United States houses the American Saint Hill Organization, the Advanced Organization of Los Angeles, the Continental Liaison Office for the Western United States and an Estates Org which operates and maintains its physical plant.

When there is more than one organization within a church corporation, each of the organizations will have its own weekly Financial Planning, allotments, Treasury Division, bank accounts, Flag Banking Officer and Finance Enforcement Officer. This may result in transfers of funds between accounts within the same corporation -- including transfers from one FBO No. 1 account to another FBO No. 1 account. Such a transfer will occur weekly (for example) between the FBO No. 1 account of the Advanced Organization of Los Angeles to the FBO No. 1 account of the Continental Liaison Office Western United States, pursuant to policies of the Church which require that a major church such as an Advanced Organization must contribute to the support of its Continental Liaison Office.

E. FBO Network. The FBOs in the various churches have higher ecclesiastical authority than the other staff members of a church in respect of the matters entrusted to the FBO (as described above). Each FBO has a superior in the ecclesiastical hierarchy. The senior of the FBOs in the churches of Class IV and above (other than the Flag Service Org church) is the Continental FBO, a staff member of the appropriate Continental Liaison Office. The senior of the Continental FBO is the International FBO, a staff member of CSI; and the senior of the FBOs in Church of Scientology Flag Service Org, Inc., also is the International FBO.

F. FEO Network. The ecclesiastical seniors of the FEOs in Class IV churches, Saint Hill churches and Advanced Org churches are the Continental Finance Ethics Officers, staff members of the Continental Liaison Offices, and their senior is in turn the Flag Finance Ethics Officer, a staff member of CSI.

G. Central Reserves. Several of the churches maintain bank accounts wherein funds intended for the general purposes of the religion are kept. These are referred to variously as central accounts, central bank accounts, SOR accounts or central reserve accounts. The funds in these accounts are referred to as Sea Org reserves or SO reserves or simply SOR. In addition to corporate funds, the funds of several trusts are part of the Sea Org reserves. It is the policy of the Church that Sea Org

reserves are to be spent only for the general purposes of the religion -- expansion, defense of the religion, emergencies, broad scale dissemination and the like.

The official Church definition of these reserves is as follows:

SEA ORG RESERVES: Often miscalled "Flag Reserves" or "Management Reserves" which they are NOT. SO Reserves are: The amount of money collected over and above expenses that is sent by various units (via FBOs and the Finance Network) to Central Reserves bank accounts of Scientology corporations and trusts. It is used for purposes assigned by the Boards of Directors or Trustees of such corporations and trusts and for NO OTHER PURPOSE. These are normally employed for periods of stress or to handle situations. They are NOT profit. It is not support money for "Flag" or "Management." It is not operating money. . . .

CENTRAL RESERVES: Funds collected over and above expenses that are held in reserve in bank accounts of Scientology corporations. Often called SO Reserves.

(Exhibit C-2.)

2. Central Reserves Management. As indicated by the above quotation, the central reserves owned by a particular corporation or trust are expended in accordance with the determinations of the Board of Directors or Trustees of that corporation or

trust. Such decisions are not made in a vacuum, as the hierarchical Church includes a system for the safeguarding of such reserves.

The highest ecclesiastical authority in respect of the central reserves is a member of the Watchdog Committee known as WDC Reserves. He is a staff member of CSI. Immediately junior to WDC Reserves is the International Finance Director ("IFD"), a staff member of CSI, who is the head of the International Finance Office. Below the IFD is the Flag Finance Director, also a staff member of CSI.

I. The Finance Network. The components of the church hierarchy mentioned above are part of an overall network concerned with finance, reserves and like matters, known as the International Finance Network, and commonly called Int Finance. The ecclesiastical command channels of this network are discussed in Int Finance ED 1RD, 3 April 1983, revised 5 September 1985, a copy of which is enclosed as Exhibit C-3. Attachment 1 to this Executive Directive depicts the network. All of the positions, offices and bureaus shown on this attachment above the Continental level are components of CSI. The ED explains the functions and activities of each of the components of the finance network.

The post of Int Finance Director was temporarily called Int Finance Dictator during a period in 1982 and 1983, when many churches of Scientology were in serious financial straits caused

by disaffected elements in the orgs and missions who were attempting to disrupt Church finance lines and operations.

Under Church doctrine, such a situation necessitated imposition of dictatorial powers to remedy the situation and restore financial solvency and stability. When the situation was rectified, the Dictator title was retired.

At that same time of financial stress, the Int Finance Office employed Finance Ethics Officers, temporarily called Int Finance Police, to assist the Int Finance Dictator resolve the situation described above by policing the relationships involved.

Once the emergency was resolved, the title of Int Finance Police was retired. In the current org board for the Int Finance Network, the Finance Ethics and Enforcement Bureau is responsible for the maintenance of standardness and integrity with respect to financial matters.

J. Non-Church Organizations. Two organizations which are not churches are mentioned in Int Fin ED 1RD. These are WISE (World Institute of Scientology Enterprises, a California nonprofit religious corporation) and SOCO (standing for Social Coordination, a group of secular organizations engaged in charitable works). These are described in the section on the functions of CSI.

K. SOR Management Services Ltd. SOR Management Services Ltd. is a United Kingdom for-profit corporation, incorporated in 1985, to act as an agent for United States church corporations and trusts holding central reserve accounts. It is an agent for the entities concerned to bank, disburse, and account for reserves funds for these entities and ensure efficiency in the handling of reserves transactions pursuant to contracts with the entities concerned.

Enclosed as Exhibit C-4 is a copy of the contract between CSI and SOR Management Services which is typical of these contracts. Although organized as a for-profit corporation, it is staffed entirely by Sea Org members who are ecclesiastically responsible to the International Finance Director, and is in fact operated exclusively for the religious purposes of Scientology.

SOR Management Services has retained Grant Thornton International to review its accounts and the accountings it furnishes to its principals.

L. Reserves Committee. As presently constituted, the Reserves Committee is comprised of the holders of the following ecclesiastical posts:

1. WDC Reserves.
2. International Finance Director.

3. SOR Chief.
4. Reserves Budget Finance Officer

The holders of these posts are all staff members of CSI.

Prior to about the middle of 1981, there was a Reserves Committee whose members were the SOR Chief, and CS3 (Commodore's Staff Aide for the Treasury Division), staff members of Church of Scientology of California, and the Deputy Guardian for Finance World-Wide. From the middle of 1981 until March of 1982, there was no Reserves Committee. In March of 1982, a new Reserves Committee was formed, consisting of representatives of United States corporations and trusts which held central reserves (this is the committee described in earlier correspondence in respect of this application). That committee was found to be inefficient because its members were not centrally located and were generally not intimately involved in the strategic planning of CSI for the expansion of the Church and the dissemination of the religion. The present Reserves Committee was constituted in late 1985.

The purpose of the Reserves Committee is to assure that central reserves are kept safe, expended only for the purposes of the religion, and increased to assure continued expansion of the

Church and broader defense and dissemination of the religion. A principal function of the Reserves Committee is to approve or reject (on a line item basis) monthly budgets for the expenditure of central reserves of United States organizations. These budgets are the product of all requests from churches for the expenditure of central reserves. Such requests are prepared by the organization wishing to expend reserves, specifying the amount to be spent, the purpose, the reasons why the expenditure of reserves is justified and the reserves entity whose reserves are requested. Substantial expenditures, or involving any issue of propriety from the point of view of exempt status, are reviewed by attorneys for the Church and frequently by separate attorneys for the reserves entity involved.

The United States church corporations that maintain central reserves include Church of Scientology International, Church of Scientology Flag Service Org, Inc., Church of Scientology of California, and the Churches of Scientology of New York, Boston, Las Vegas and Portland.

Religious Technology Center maintains its own reserves and is not part of the central reserve system described above.

M. Scientology Trusts

A number of United States trusts have been created in recent years to receive and manage funds derived from

parishioners' contributions to the churches, and the funds held by these trusts are part of the central reserves of the Church and therefore subject to the ecclesiastical authority of CSI as described above. Each of these trusts is governed by a self-perpetuating Board of Trustees, which has both the authority and duty (as matters of civil law and Church policy) to control their trusts in accordance with their trust instruments. The trustees of all of these trusts are Scientologists who are staff members of churches of Scientology. The trusts described below are such trusts.

1. Church of Scientology Religious Trust.

Commonly known as CSRT, this trust was created in 1981 to receive payments made by churches of Scientology. In 1983 was recognized by the Internal Revenue Service as exempt as a religious organization described in section 501(c)(3), and no proceedings have been commenced to revoke its exempt status. CSRT has received approximately \$31 million from the United States churches. It has granted in excess of \$2.5 million to United States Churches, and has granted approximately \$18 million to International Scientology Religious Trust (described below). CSRT owns the major properties in Los Angeles and Riverside Counties, California, which are used as church premises by CSI, RTC and other churches of Scientology. In addition, Bridge Publications is a tenant. All tenancies are pursuant to leases.

2. Scientology Endowment Trust. Commonly known as SET, this trust was created in 1981. It received contributions in excess of \$6.3 million from Operation Transport Corporation, the corporation used by the Church during the 1970s when the Apollo was the base of church operations. SET was recognized as an exempt religious trust by the Internal Revenue Service in 1983, and no proceedings to examine it or revoke its exempt status have been commenced. SET has made contributions to churches outside the United States to assist them in the defense of the religion (primarily in Canada), has made other grants for the purposes of the religion, and has loaned funds to Scientology churches from time to time.

3. Church of Scientology Expansion Trust. Commonly known as CSET, this trust was created in 1982. It is a nonprofit religious trust. A copy of its trust indenture is enclosed as Exhibit C-5. This trust was created to receive grants from Church of Scientology Flag Service Org, Inc., and to loan funds to CSI to make up the difference between its expenditures and receipts. CSET received \$29.8 million from PSO, and is owed approximately \$30 million by CSI. It was anticipated that receipts by CSI from non-U.S. churches would eventually suffice to cover CSI's expenditures and repay the debts to CSET. However, this has not occurred, and this method of financing CSI was abandoned in 1985. At the same time, CSI and the subordinate U.S.

churches abandoned the practice of the churches contributing to CSRT instead of paying CSI for services furnished by it. Consequently, CSI is now self-sufficient.

4. Church of Scientology Buildings Trust.

Commonly called CSBT, this trust was created in 1981. It is a nonprofit religious trust, and a copy of its trust indenture is enclosed as Exhibit C-6. Its corpus was a mortgage on real property in the United Kingdom which was owned by the Church of Scientology there, contributed by Church of Scientology of California in 1981. The mortgage debt has been paid in full. CSBT has made grants of approximately \$500,000 to churches in the United States and has loaned \$2,310,000 to Church of Scientology of California, at fair interest rates.

5. Scientology Dissemination Trust. Commonly called SOT, this trust was created in 1982 to receive tithes paid by Scientology Missions and to support Scientology Missions International. It is a nonprofit religious trust, and a copy of its trust indenture is enclosed as Exhibit C-7. It has received approximately \$4 million in tithes and has paid approximately \$2 million to SMI for its support.

6. Scientology International Missions Trust.

Commonly called SIMT, this trust was created in 1981 to receive tithes from Scientology missions outside the United States. It is a nonprofit religious trust, and a copy of its trust indenture is

enclosed as Exhibit C-8. It has received approximately \$1.4 million in tithes.

7. International Scientology Religious Trust.

Commonly called ISRT, this trust was created in 1986. It is a nonprofit religious trust, and a copy of its trust indenture is enclosed as Exhibit C-9. Church of Scientology Religious Trust has funded this trust by grants of approximately \$18 million. The purpose of this trust is to act as a primary central reserve trust for the world-wide defense, expansion and dissemination of the religion. ISRT has loaned approximately \$4,310,000 to the Church of Scientology in the United Kingdom as a short-term loan pending refinancing by mortgage loans, at a fair interest rate.

8. United States Scientology Films Trust. This

trust is discussed above in relation to Golden Era Productions and the Scientology training and dissemination films.

N. The Need For Reserves

The Church of Scientology has numerous good reasons for maintaining reserves, the primary reasons being promotion expansion, and defense. The central reserves accumulated by the Church historically have been used for precisely these purposes, and the same is planned as well for the future. Of course, the Church's reserves pale in comparison to other churches, such as the Roman Catholic Archdioceses of Boston ("worth precisely \$640,074,468.51) and of Los Angeles (worth "between \$800 million and \$1 billion"), and the Mormon Church ("around eight billion dollars by conservative estimates").

Scientology is a new religion that is expanding rapidly. This expansion requires new and bigger quarters and has been almost continual as can be seen in the following pattern:

1972-73: A building was acquired which now houses the Church of Scientology Celebrity Centre International for \$975,000.

1975: The Fort Harrison Hotel and Bank of Clearwater Buildings in Clearwater, Florida were acquired for total considerations aggregating \$3,005,000 with an additional \$100,000 expended between 1975 and 1976 in renovations and converting the buildings to

Church use. This property now houses the Flag Service Organization.

1976: The former Cedars of Lebanon Hospital facilities in Los Angeles were acquired for \$5,478,000 and expended approximately \$500,000 to convert those facilities to Church use. This property currently houses a large portion of Church of Scientology International Religious Technology Center and other Scientology Churches.

1976: Property was purchased in La Quinta, California using reserves for approximately \$1,600,000, which for a short time housed some of the Church functions now carried out by CSI.

1978: Property was purchased at Gilman Hot Springs near Hemet, California at the cost of \$3 million and is currently housing a portion of the Church of Scientology International operations and some of Religious Technology Center's operations.

1979: Approximately \$6 million was expended to purchase 5 buildings in Clearwater to be used as office space, for the conduct of religious services and staff quarters.

1979-80: During these years approximately \$17 million of reserves were used to purchase larger and better located buildings for a large number of Class IV Churches to expand and improve their facilities.

1983: The former Elk's Building in Clearwater was purchased to expand the Church facilities yet further at a cost of approximately \$240,000.

1983: A grant by Flag Service Org of approximately \$18 million was made to CST to forward CST's religious purposes.

All of the property purchases listed above were for buildings and property which have been and are being used exclusively for Church activities. The Church is expanded continuously and this has been made possible by funds that have been put aside in reserves.

Currently negotiations are underway in Los Angeles to purchase another building to expand staff quarters to accommodate the rate of expansion the Church is enjoying. A building being considered would cost approximately \$3 million and require approximately \$500,000 in renovations and repair. At the current growth rate it is expected that still another building will be needed in Los Angeles in about a year.

Plans are currently being drawn up to renovate the former Fifield Manor in Los Angeles and to restore it with an expected cost of over \$6 million.

The Church also has plans to acquire new facilities for staff child-care at an approximate cost of \$3 to \$6 million.

Additional facilities are also needed in Clearwater where the Church is expanding at a very rapid rate and additional property purchases are planned there. New acquisitions contemplated in Clearwater will cost over \$6 million. In addition, construction and renovation for expansion space on existing properties there could run as high as \$15 million.

The Church requires considerable outlays of funds to properly maintain current properties. It is estimated that over \$1 million in renovations and repairs will be undertaken on the existing Los Angeles properties over the next two years. Approximately \$900,000 was expended over the last two years in renovations of the Fort Harrison Hotel in Florida.

In recent years the Church has also expanded in another way. Approximately \$10 million has been expended from Church reserves purchasing, installing and developing the Church's computer system between 1982 and the present. This system is used extensively by CSI and RTC and has contributed markedly to the Church's expansion by the increase in speed and efficiency it affords.

The Church is growing rapidly. As shown above, the Church out-grows its quarters almost as quickly as they are acquired and thus, reserves to acquire additional premises are essential to the Church's continued growth.

Another important use of reserves is the funding of broadscale promotion for dissemination of the religion. In the last year approximately \$3 million was spent on dissemination campaigns. For instance, between \$1 and \$2 million was expended from reserves to produce a booklet entitled "What is Scientology" which was inserted in newspapers in major cities in the United States. The purpose of these booklets was to educate the public

on what Scientology is and bring in new members. Within the next year it is projected that \$15 million will be spent on dissemination campaigns.

Over the past 8 years approximately \$3 million has been expended for film, video and audio equipment used in making films, videos and cassettes concerning Scientology, some of which are promotional, others are training films designed to help members of the Church better understand the Scriptures and sacraments of the religion. Another \$2 million has been expended in the construction of sound studios, which facilities were and are used in the production of these training and promotional aids.

Churches of Scientology have been under ceaseless attack by the IRS since the 1950s. Over the years, the churches have expended vast sums on litigation to demonstrate their exempt status and to defend their parishioners and ministers. These exemption applications are a case in point. In contrast, the Service recognized the section 501(c)(3) status of the Scientology Victims Defense Fund Trust, an organization established to underwrite and instigate litigation against the Church of Scientology, including Applicants, summarily, without a question asked. The Applicants filed their exemption applications three years ago and have not only had to answer a continuous stream of questions but have also been put to the test of countering

evidence entered into the record by the Service in clear violation of the law and procedures.

Various Scientology organizations are currently involved in civil litigation brought by former members seeking damages, the aggregate amount of which is far in excess of the aggregate amount of Church reserves. Not only is the defense of these suits very expensive (many millions over the last several years and an additional \$12 million projected over the next 12 months), but the Church has had no choice but to take these claims seriously as an unfavorable judgment in even one such case could require a large outlay of money. Last year, before it was overturned by the Judge, a jury in Portland, Oregon awarded a \$39,000,000 judgment against Church organizations and L. Ron Hubbard. Although the Church expects to prevail in these suits and to have most of them thrown out, it must plan for these contingencies.

Additionally, as a matter of internal church policy, the the church intends to maintain reserves to cover operating expenses for two years against the eventuality that a catastrophic situation may arise and stop funding for two years.

CSI relies upon the central reserves of the Church to assure that the religion is expanding, that promotion is being done and that the religion and its churches are safe.

RTC maintains reserves of its own. The purpose of the RTC reserves is to assure protection and expansion of the religion and the maintenance of the purity and integrity thereof. The major use of RTC reserves is in the area of litigation and registration. During the next year RTC will spend approximately \$2 million to fund trademark litigation and the registration and maintenance of the trademarks.

CST has its own need for reserves. CST currently has properties at four locations to serve as repositories for the Scientology Scriptures and plans to acquire another property in a foreign country. All of these properties will require large expenditures to turn them into the kind of facilities needed. Information concerning the purchase of some of these properties was provided and is already in the record. Recent and projected expenditures relating to these properties are covered below.

San Bernardino: The most recent purchase was a church and a repository site for \$2,100,000. To date \$50,000 has been expended renovating this property and another \$750,000 in renovations are projected, which will include putting in water, sewer and the paving of access roads. To complete installation of a vault on the property for storage of originals of the scriptures is projected to cost approximately \$200,000.

New Mexico: CST has had property for a few years. Installation of a vault is currently in progress. Renovations of this property and

the work done thus far on the vault has cost approximately \$300,000 to date and an additional \$500,000 is projected. A caretaker house will need to be built on this property at the projected cost of \$40,000.

Eureka: Projected costs for installation of a vault at this location is \$600,000.

San Jose: It is estimated that \$800,000 will be needed to install a vault at this location and another \$40,000 to building a caretaker's house.

Location #5: This property is not yet purchased and will be located in a foreign country. The projected cost of the property is \$500,000 and to install a vault, another \$800,000.

In addition to the acquisition of property and conversion to CST's needs, CST also has several large projects in progress or planned relating to the preservation of the Scientology Scriptures, which have required or will require large expenditures of CST's reserves:

1. Tape project: This is a project to get copies made of all original taped lectures by L. Ron Hubbard. The total cost of their project to date has been approximately \$1,000,000. It will cost approximately \$40,000 to complete.

2. Computer disc preservation: This is a project to get all taped lectures by L. Ron Hubbard put onto long-life discs. It is estimated that \$140,000 in equipment and \$250,000 in video tape will be required. The

discs themselves, which are still under research, are estimated to cost between \$5,000,000 and \$25,000,000.

3. Color separation project: The purpose of this project is to preserve Scientology films. This requires expensive equipment to separate the colors and screen them out of the film leaving it black and white, which can be preserved for a much longer time than color film. Costs of this project are estimated \$200,000 for equipment and \$20,000 for film.

4. De-Acidification Project: The purpose of this project, which is still under research and expected to cost \$100,000, is to remove acid from original written documents which will markedly extend their existence.

5. Time capsules: This project, which is under research, is estimated at a cost of \$1,500,000.

6. E-meter research and duplication: Research is in progress on an OT E-meter which can be used by a thetan outside of a physical body. It is projected that an additional \$85,000 will be needed to complete the research and duplication of this meter.

7. Archival supplies: It is estimated that \$170,000 will be needed to buy the necessary quantity of "durable masters," long-life neutral PH paper and pure carbon and linseed oil ink, for preservation of documents. For preservation of microfilm and another \$100,000 is projected for other archival supplies.

0. Banking. Church of Scientology International, Religious Technology Center and Church of Spiritual Technology own bank accounts in Luxembourg banks (as well as in banks in other

countries). Each of these churches deems it imprudent to maintain funds exclusively in United States dollar accounts, and therefore cannot bank exclusively in United States banks; and over the years, it has been the experience of the churches that higher interest rates are available outside the United States. Additionally, United States banking institutions are not deemed safe for two reasons: they have from time to time followed imprudent lending practices, resulting in the possibility of failures; and they have been known to unlawfully divulge confidential information. The maintenance of accounts in Luxembourg is motivated by such considerations. All such accounts are included in each organizations accounting records and accounts, and present no difficulty for independent auditors retained by the organizations to review their financial statements.

The signatories or foreign bank accounts owned by each of CSI, RTC and CST are in each case staff members of their respective corporations. They are:

- CSI: Any two of; Tom Woodruff, Kirsti Wilhere and Charlyne Hartley.
- RTC: Any two of; Vicki Aznaran, Jesse Prince, Paul Schroer, Darnell Bloomberg, Warren McShane and Barbara Griffin.
- CST: Any two of; Dan Przyblski, Nancy O'Meara and Lyman Spurlock.