

Question 7

To the extent not already answered in responses to the previous questions in this letter, please describe the method by which the funds held overseas are managed and controlled, with particular emphasis on safeguards against inurement to private individuals.

There are primarily three circumstances in which funds belonging to churches of Scientology are held in overseas accounts: a local church of Scientology in a foreign country has its own funds in its own accounts in that country; a United States church of Scientology has accounts in a foreign country; and the Church's central reserves has accounts either for U.S. or non-U.S. churches. Each of these circumstances and the manner in which the funds are managed and controlled are discussed separately below.

As an initial matter, however, it should be noted that Scientology Church organizations have an overriding safeguard against inurement arising from the caliber of staff personnel holding responsible positions in finance. Staff members who hold responsible finance positions are entrusted with those positions only after careful review of their past experience on Scientology positions, ethical records, level of Scientology training and auditing, their length of service to the Sea Organization or to the Church, and their overall level of responsibility as executives. Those with a poor ethical record or evidence of past irresponsibility simply are not entrusted with such positions. If an office holder violates that trust, he will be summarily removed and replaced.

1. Accounts of Non-U.S. Churches

Churches of Scientology outside of the United States maintain their own local bank accounts where they deposit their receipts and expenses incurred in conducting their programs of religious activities. Safeguards against inurement to private individuals from these accounts is built into Scientology policies and procedures governing expenditures.

Typically the signatories on the local accounts of a church of Scientology include the Flag Banking Officer and other trusted executives of that church. At least two signatures are required on all accounts. Before funds are disbursed, however, they must be

approved through the Church's financial planning procedure which is designed to ensure that all expenditures are tightly controlled and are made for proper Church purposes.

The financial planning process at a church of Scientology begins with that church's Advisory Council. The composition of the Advisory Council is established in Scientology administrative policy as the heads of each of the divisions that comprise a Scientology organization. The Advisory Council reviews purchase orders submitted by anyone in the organization wishing to make an expenditure on behalf of the church and decides, based on the amount of funds available that week and the priority of expenses, which purchase orders to approve and which cannot be covered. The priorities of expenses are determined by which are vital to the organization and forward the goals of the religion. Proposed expenditures that would result in private inurement would not be approved.

When the Advisory Council completes its consideration of the proposed purchase orders for the week, it formulates a Financial Planning that consists of a proposal of which expenses will be covered. This is forwarded to the organization's Executive Council. The Executive Council consists of the Executive Director of the church and the other chief executives of the organization. They review the proposed financial planning submitted by the Advisory Council, as well as the purchase orders that the Advisory Council rejected, and either approve, modify or reject the proposal. Once the Executive Council completes its consideration of the Financial Planning it is passed on to the Flag Banking Officer who reviews it to ensure it conforms with Church financial policy as established in Scripture and gives the final approval.

Based on the approved Financial Planning the church's Treasury Secretary or Director of Disbursements prepares checks for presentation to the signatories on the church's accounts. The signatories are charged with ensuring that the proposed checks conform with the approved Financial Planning.

The church staff member who expends the funds is then responsible for accounting for those funds with appropriate receipts and documentation of the expense or return of unused funds. The required accounting must include a copy of the disbursement voucher received by the staff member when the funds were disbursed to him or her, a listing of the actual expenditures made and what they were for with receipts for each expenditure attached. Treasury Division personnel receive this accounting, compare it to the approved purchase order that authorized the

expenditure and, provided the documentation is satisfactory, attach the accounting to the purchase order and file the documents as an original Church financial record. Any unused funds that are returned are invoiced back to the Church.

2. Funds of United States Churches in Overseas Accounts

Funds belonging to United States organizations that are held in "local" overseas bank accounts (i.e. bank accounts that are not part of central reserves) primarily consist of money collected from parishioners or from organizations for contributions or donations due with respect to services to be ministered by the organization in the United States. In general, a United States church maintains local bank accounts overseas because foreign currency checks clear promptly and thus the funds become available sooner. In several countries local banking is a necessity due to exchange control restrictions in remitting funds abroad.

Usually, the balances in local overseas accounts are relayed by check or bankwire to the organization's principal overseas reserve accounts in Luxembourg. Funds do not normally accumulate in local accounts overseas, other than in Luxembourg.

The financial planning procedures and safeguards followed by churches of Scientology in the United States for monitoring expenses from these accounts are the same as those described above for the local accounts of foreign churches. These safeguards provide absolute protection against inurement.

3. Central Reserves Accounts

The principal accounts of United States and non-U.S. organizations that are held in Luxembourg fall under the central reserves system, and are thus under the ecclesiastical control of the International Reserves Committee. Funds are disbursed from those accounts only for purposes that have been expressly approved by the Reserves Committee, as part of their regular review and authorization of the reserves financial planning for the week. Factually, no disbursements from those accounts are ordered which have not first been approved by the International Reserves Committee. The method by which funds in central reserves are managed and controlled is described in detail in the response to Question 6.