

QUESTION 4-a

a. Please provide all directives (including HCO Policy Letters, Executive Directives and similar items) that set forth the amount and method by which the following entities' income is allocated to expenses (i.e. retained for its own uses) or is paid/contributed to CSI or other Scientology-related organization: (i) CSFSSO; (ii) CSFSO; (iii) CSWUS; (iv) CSREC; (v) all celebrity centers not included in (i) - (iv) above; (vi) IPT; (vii) NEP; (viii) BPI; and (ix) any Advanced or Saint Hill organization not already included in a category described above. Please include all ecclesiastical organizations within the above entities. Where you have provided a directive in response to another question a citation thereto is sufficient response.

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Attached are copies of the directives that give the amount and method by which income is allocated to expenses for each of the listed corporate entities. (Exhibit III-4-A).

The directive in each case is an International Finance Executive Directive entitled "FBO ALLOCATION FORM - _____ [org name]". Each directive applies to a particular ecclesiastical organization. Since higher level church corporations often house two or more ecclesiastical organizations, two or more directives may apply to a particular church corporation.

For your information, attached to each directive is a model of the actual form that is completed by the ecclesiastical organization's Flag Banking Officer each week.

The ecclesiastical organizations within each of the above entities and the directive that is applicable to each, are as follows:

(i) CSFSSO:

Int Finance ED 384
FBO ALLOCATION FORM - FLAG SHIP SERVICE ORG

(ii) CSFSO:

- a. Int Finance ED 381R
FBO ALLOCATION FORM - FLAG SERVICE ORG
- b. Int Finance ED 382
FBO ALLOCATION FORM - FLAG CREW ORG

(iii) CSWUS:

- a. Int Finance ED 378 FBO ALLOCATION FORM - AOLA
(for Advanced Organization Los Angeles)
- b. Int Finance ED 379
FBO ALLOCATION FORM - ASHOS
(for American Saint Hill Organization Day and
Foundation orgs)
- c. Int Finance ED 383
FBO ALLOCATION FORM - CLASS V ORGS
(for San Diego Class V org)
- d. FBO CLO ALLOCATION FORM
(for Continental Liaison Office Western US)

(iv) CSREC:

- a. Int Finance ED 386
FBO ALLOCATION FORM - NON-US SEA ORG ORGS
, (for Advanced Organization Saint Hill UK)
- b. Int Finance ED 380
FBO ALLOCATION FORM - SAINT HILL FDN
(for Saint Hill Foundation org)
- c. For UK Class V orgs - see Int Fin ED 383, above.

(v) all Celebrity Centers not included in (i) - (iv) above:

- a. Int Finance ED 385
FBO ALLOCATION FORM - CC INT
- b. For other Celebrity Centre orgs - see Int Finance ED
383, FBO ALLOCATION FORM - CLASS V ORGS, above.

(vi) IPT:

IPT's only source of income is advances from Scientology International Religious Trust to cover its de minimis annual expenses. It does not allocate or otherwise pay funds to CSI or any Scientology-related entity, and there is no directive pertaining to any such allocation or payment.

(vii) NEP:

- a. Int Finance ED 389
NEW ERA PUBLICATIONS - FBO ALLOCATION FORM

(viii) BPI:

- a. Int Finance ED 388
BRIDGE PUBLICATIONS - FBO ALLOCATION FORM

(ix) any Advanced or Saint Hill organization not already included in a category described above.

See Int Finance ED 386, FBO ALLOCATION FORM - NON-US SEA ORG ORGS, above. The same form applies to both Advanced Organization Saint Hill Europe & Africa (AOSH EU), and to Advanced Organization Saint Hill Australia, New Zealand & Oceania (AOSH ANZO), which are the only two other AOSHs not included above.

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QUESTION 4-b

b. You have described how income is recorded on invoices and immediately deposited. Please describe any circumstance where a Scientology-related organization's receipts are handled in any other manner.

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Church financial policy forbids a church organization to invoice and count income as received until it is on church premises in bankable form or in a church Finance Office Number 1 bank account. Some donations are received at a location distant from the church organization. Substantially all such donations are by check or credit card and are physically transported to the church by overnight express. In some cases, however, such donations are wired directly to the church's bank account. Bankwires normally would be sent by the parishioners themselves, or by the church representative in the rare case of a cash donation at a location physically remote from the church. The thrust of Scientology banking policies and practices is to promptly deposit or forward for deposit all monies belonging to the church organization involved.

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QUESTION 4-c

4c. Please provide a list and explanation of the income and expense categories, as well as balance sheet accounts.

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Attached as Exhibit III-4-B are the lists and explanations of the income categories and the expense categories. These income and disbursement categories are in general use throughout Scientology. These categories cover the most common sources of income and most common types of disbursements found in most Scientology churches ministering religious services. Additional categories are generally created locally as needed for other types of activities found within different types of Scientology organizations, such as Management organizations, Publications organizations, etc.

There is no single chart of balance sheet accounts issued for all Scientology organizations across the world to use for all their balance sheets. However, there are standard balance sheet groupings of assets and liabilities. In church organizations that prepare their balance sheets using a local computer program, local charts are developed tailor-made to their needs assigning specific numbers to the general and specific asset and liability accounts. Attached as Exhibit III-4-C is a chart of the different balance sheet accounts used by many United States Scientology churches. Not every individual organization necessarily will use all or even most of the listed accounts; the chart also does not list balance sheet accounts that are unique to individual church organizations.

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Question 4-d

Please explain the following terms: (i) Ad Council; (ii) Department 21; (iii) Data Bureau Flag; (iv) Div 3; (v) Div 6; (vi) ITO; (vii) PPU stats; (ix) Allocation to CMO CW; (x) Flag External Expenses; (xi) FSC; and, (xiii) management expenses incurred locally.

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Below is an explanation of what is meant by each of the above terms:

(i) **Ad Council** - This term is short for Advisory Council. The Advisory Council of a Scientology organization is a committee composed of the heads of the divisions of Church organization (which are called bureaux in a management organization). They meet regularly to coordinate the direction and activities of the organization and advise the Executive Director and his Executive Secretaries on recommendations to expand the organization.

(ii) **Department 21** - Each division is normally divided into 3 departments. The basic organizing board and pattern for a Scientology church provides for 7 divisions and 21 departments, both of which are often referred to by number, i.e. Divisions 1 through 7 and Departments 1 through 21. Department 21 is the Office of L. Ron Hubbard and includes the representatives of various ecclesiastical networks: the LRH Communicator, Keeper of Tech and Policy Knowledge, the Flag Representative and Flag Banking Officer.

(iii) **Data Bureau Flag** - This is a bureau of the Flag Bureaux. It has the function of collecting and providing information to others in the Flag Bureaux to help guide them in their ecclesiastical management duties.

The Data Bureau is the information center for the Flag Bureaux. It gathers and makes available general information of interest and use to those who manage Scientology Churches. One can go to the Data Bureau to get updated on anything from world news as it affects Scientology, to the statistics of organizations, to general reports on the health and condition of any Church.

The Data Bureau also maintains display charts and boards on which copies of the latest despatches and reports from individual churches are posted so CSI staff can get quickly updated on events and activities around the world.

(iv) Div 3 - This is short for Division 3 which is one of the 7 divisions of a Scientology organizing board. It is called the Treasury Division and responsible for collection and recording of contributions, payment of operating expenses, ensuring that proper records are kept of all transactions and that all required financial statements and tax or other filings are prepared and filed.

(v) Div 6 - This is short for Division 6 which is one of the 7 divisions of a Scientology organizing board. This Division is responsible for attracting new Scientologists. Due to the scope of this activity, it is now divided into three divisions. Division 6A, called Public Contacting Division, is concerned with broad public promotion. Division 6B, Public Servicing Division, provides introductory services to prospective members to give them an understanding of Scientology. Division 6C, Field Control Division, encourages Scientologists to be active in attracting new members.

(vi) ITO - This is an abbreviation for the International Training Organization. It is located within CSI in the Hollywood Guaranty building and trains executives from Scientology church organizations around the world.

The ITO has highly trained and experienced staff devoted to supervising these executive trainees. The most extensive and advanced administrative training courses for church staff are conducted at the ITO. Graduates of these courses return to their local churches as experts in Scientology administrative procedures and policy application. By applying what they have learned, they are able to direct the expansion of their local church to serve more and more parishioners.

(vii) PPU stat - This is an abbreviation for "prepayments used statistic." Prepayments are donations made for services in advance of taking the service. Prepayments are used when the parishioner applies them to a service. Each church keeps track of prepayments used and prepayments received (PPR) on statistical graphs as a means of ensuring that it is providing religious services commensurate with the amount of donations it is receiving. In the case of the FSO and its allocation form, these statistics are necessary to determine how much is owed to or receivable from the advance payment trusts. This also applies to CSWUS and its allocation form. Note that the terms "prepayments received" ("PPR") and "prepayments used" ("PPU") are interchangeable with the terms "advance payments received" ("APR") and "advance payments used" ("APU").

(ix) **Allocation to CMO CW** - This is the nominal sum which the Commodore's Messenger Org in Clearwater receives for its expenses for the week. CMO CW is a separate ecclesiastical organization from the Flag Service Organization, and therefore is not included within the FSO weekly financial planning, but is shown as a separate allocation. CMO CW does their own internal weekly financial planning based on the operating expenses received from the FSO. CMO CW is corporately part of the Church of Scientology Flag Service Org.

(x) **Flag External Expenses** - Due to the international scope of its activities, including the sending of missions to many parts of the world, CSI sometimes has the need to have funds disbursed on its behalf by local churches, including the FSO. Typically these disbursements are operating or travel expenses for missions which have been sent from the Flag Bureaux (hence the name "Flag") to the local church to provide on the spot guidance or instruction.

(xi) **FSC** - This is short for Flag Service Consultants. There are Flag Service Consultants located in every Flag Operations Liaison Office ("FOLO"). Their function is to inform individual Scientologists in their areas as to services available at the FSO and to assist them as needed so that they participate in religious services at the FSO. The Flag Service Consultants are staff of the FOLO to which they are attached and are paid and supported by it similarly to any other staff in the FOLO. The FSO pays a commission of 5% of the donations generated by the FSCs to the FOLO, which uses this income to cover the expenses of the FSCs and any surplus is used for the general operating expenses of the FOLO.

(xii) **International Management Expenses** - This refers to the responsibility of the FSO for supporting CSI management. This is in accordance with church doctrine that a management entity must be supported by its nearest major service organization, since the success of that church is a measure of the effectiveness of management. Each week, the FSO transfers to CSI the amount needed to cover the costs of its management activities.

(xiii) **Management expense incurred locally** - This term is synonymous with the term "Flag External Expenses" described in (x) above.

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QUESTION 4-e

e. Please provide an executed copy of a representative contract now in force between CSI and a Class V Church.

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Enclosed as Exhibit III-4-D is an executed copy of a representative contract between CSI and Church of Scientology of Hawaii.

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Question 4-f

f. The Service has seen references to "6-week trend reports" and "12-week trend reports." Please identify and describe these documents and provide representative samples of such documents for any period after December 31, 1989, including any supporting information that may be useful in interpreting these reports.

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The short answer to your question is that there are no such "6 week trend reports" or "12 week trend reports" and therefore it is impossible to provide such to you. In an effort to explain what trends are in Scientology, an explanation follows. However, this is such a broad subject, that when you ask us to "provide any supporting information that may be useful in interpreting these reports", you in fact are asking for a full training on the technical and administrative philosophy and technology of Scientology.

The Service states that it has seen references to such reports. From where? This is another example of the Service apparently having concerns about some subject based on information obtained from an ex-parte source. If the Service would tell us exactly what it is they have been told, or give us what they have been given - then we probably could more easily answer the question. It is one thing to ask how FSM commissions are paid and quite another to ask about statistical trends which encompass the entire scope of Scientology. However, we want it known at the outset that no 6 week, 12 or any other number of weekly trend reports are generated.

There is a subject called statistic analysis. The key policies on these are included as Exhibits III-4-E and III-4-F. It is the subject of analyzing a number of statistics for an individual, group, section or full organization. It's purpose is to either locate why things are improving or why they are worsening. Unlike the impression one may have of just looking and seeing what stats are up and what stats are down - our subject is one that takes into account many statistics to find out WHY things are the way they are and to locate which statistic or statistics that if handled would improve the overall situation. To handle such a situation, one must know what the statistic is composed of and have an understanding of the actions that make up that statistic so that he can take the actions to improve such. This is not like the Service's method of setting quotas. Just pointing to stats and saying "get them up" is called "stat pushing" in Scientology and is forbidden.

Management by statistics is a key component of Scientology administrative technology, which was developed by Mr. Hubbard for use in managing churches of Scientology. In a Scientology organization, the organization itself, every division, department, section and unit, every post is assigned one or more statistics which measure its performance over time. A statistic is simply a numerical measure of a quantity of something as compared with the quantity of those same somethings in earlier periods of time. These are plotted on graphs against time so that one can see if performance is increasing or decreasing or staying level. These increases or decreases over time are known as stat trends.

Some statistics are embrative of a number of sub-statistics. For example in a Scientology Academy, the study actions taken by students are each assigned a numerical value - each page read, each word cleared, each clay demonstration, each practical drill, each essay, etc.. is worth a certain number of points. Each student keeps track of his own student points each study period and keeps his own personal graph of these points and turns them in to the Course Supervisor each day. The Course Supervisor then totals these student points and plots them on graphs and this total then becomes an important statistical measure of the performance of the entire Academy. Another statistic, Auditors Made, is embrative of student points, as well as another statistic, number of students on course, which is in turn influenced by another statistic reflecting the number of new student enrollments and so forth. Some statistics are made up of sub-statistics and some statistics follow other statistics in time - e.g. an increase in numbers of courses completed should be preceded in time by an increase in the number of new students enrolled.

If one understands the functions of a Scientology organization and the interrelationships between the various divisions, departments, sections, units and posts - and if one has the performance of each of these correctly reflected on statistics - one can tell a great deal about that organization.

What one does about rising or falling statistics is covered in a subject called the "conditions of existence". These conditions stem from another area of Scientology philosophy and technology, the technology of ethics. Ethics in Scientology is not a moral code system of do this and don't do that; it is based on reason and the rationality for the highest level of survival for self, the family, the group, mankind and so forth across the eight dynamics. Using these conditions formulas one can attain higher conditions of existence and thus increase survival in all spheres of life. Conditions apply to any entity, individual or group. At any point in time an individual, a post, unit, section, department, division, organization, a sector and the entire religion is in a certain condition relative to survival. If there is improvement this means increased survival and a high condition and if things are getting worse this is worsened survival and a lower condition.

Mr. Hubbard isolated 12 such conditions of existence which are gradients of survival. At one end of the spectrum is the condition of Confusion in which one or a group is in such a bad state that it is unable to do much of anything, literally a state of being confused. At the other end of the spectrum is the condition of Power which is such an abundance that survival is guaranteed. In addition to isolating these conditions of existence, Mr. Hubbard discovered the exact formula or steps to take when in a certain condition in order to improve and reach the next higher condition. These conditions formulas for the higher conditions of Normal or above (which means that performance and survival are increasing) generally relate to isolating and reinforcing those things or actions which cause the high conditions. If performance is level or slightly decreasing, it is a condition of Emergency. The reason it is an Emergency is that conditions never stay the same for long, they either get better or they get worse. If the Emergency formula is not applied, they will get worse. The formula for the lower conditions of Danger through Confusion, generally relate to isolating and correcting whatever is causing the decline in performance and survival.

If one has performance statistics plotted on graphs over time one can tell which condition to apply and use its formula to improve performance statistics to the next higher condition on up to Power. A steadily rising statistic is a condition of Normal, a sharply rising statistic is a condition of Affluence and a statistic that is in a Normal trend but is in a very high range is a condition of Power. Conversely, a statistic that drops sharply is a condition of Danger and a statistic that is either a steeper or more pronounced drop or so low as to be totally unviable is in a condition of Non-Existence.

Statistics can be read and interpreted for any length of time. In a Scientology church or organization, the week's performance is plotted on stat graphs on a weekly basis. Each Division has one or more Gross Divisional Statistics which measure the performance for that Division as a whole and which are comprised of the many sub-statistics measuring the performance of various posts in that division.

An individual or someone over a small portion of an organization such as a unit or section can operate on daily statistics in order to attain a high condition by the end of the week. For example, if an auditor took a day off, he would know that he had a zero statistic of Well Done Auditing Hours for that day and might try to audit extra hours the rest of the week to make up for it.

Determining a weekly trend is fairly simple. A statistic is level or it is up or it is down. As covered above, if the stat is level or slightly decreasing the Emergency condition and formula applies in order to get the stat up in Normal the following week. If the stat is up over the last week but not significantly, then it is a condition of Normal and that formula applies. If the stat is sharply up then the condition and formula to apply is Affluence in order to keep the performance increasing the next week. If there is a sharp drop, then the condition and formula to apply is Danger. However, if the stat takes a serious dive, then the condition and formula to apply could be Non-Existence.

For longer trends the process is a bit more involved. For example, the scale of the graph must be correctly established. Too large a scale will flatten the plotting of the weekly statistics to the point where they are almost unreadable. A scale that is too small will exaggerate the peaks and valleys and likewise obscure trends. A properly scaled graph is generally one in which the minimum anticipated performance is the bottom of the graph and the highest possible performance is the top of the graph. The top and bottom of a particular graph will change over time as an organization grows.

On any stat graph in Scientology, an statistic which is up is an improvement and a higher condition and a statistic which is down is a deterioration and a lower condition for the period in question.

There is no mechanical system for determining a stat trend. One cannot average each week or simply concentrate on the peaks and valleys for each period as this will sometimes result in a wrong condition assignment. One has to view a graph for a period of time and use judgment to determine if overall performance is level or increasing or decreasing and by what degree. A skilled interpretation of a graph will result in a proper condition assignment and formula application to improve the overall scene. The period selected is also important. An extreme example would be selecting several years as the period for a particular church organization or a sector comprised of several organizations. During that period the organization or sector may have increased severalfold and, viewed over that period, any condition assignment would perforce be a very high condition since the graphs would overall be uptrending. Yet the existing organizations, operating at their current capacities, may be down trending in present time and the application of a lower condition would be appropriate to arrest the decline and get them headed in the direction of increased performance, expansion, survival and higher conditions.

Conditions and the formulas to apply are determined by stat

trends. Each condition formula flows one into the next and must be fully completed in order to arrive at the next higher condition. For example, if a church organization was staying the same size or declining slightly, with substantially the same statistics for a period of time, it would apply the Emergency formula in order to move it to the next higher condition of Normal.

Utilizing stat trends to assign proper conditions and utilizing the proper condition formula is a skilled activity and requires knowledge of the subjects of statistics, trends and conditions formulas. It also requires knowledge of Scientology ethics and administrative technology to know what to do to apply each step of a condition formula.

There is another, more sophisticated use of stat trends which is the subject of stat analysis. In this instance a skilled Scientology manager looks through the stat graphs of an entire organization or sector and finds the one area which, if handled, will result in an overall improvement in the health and well being of that organization or sector.

For example, assume an organization or sector containing a number of organizations is in a general slump. Almost any stat one looks at is in a decline. A simplistic view would be to simply assume that the staff of that organization are not doing much and to assign and apply the formula for the appropriate lower condition depending on the severity of the decline. This handling could miss the whole point because an actual analysis of the statistics could reveal that the staff were working harder than ever but getting less done.

A proper stat analysis might reveal that the organization recruited many new staff members just prior to the slump as evidenced by a statistic called New Staff Hired. Another statistic, Staff Training Completions, is found to be at zero for several weeks immediately following the big influx of new staff. A skilled manager reading these statistics concludes that instead of putting new staff through a proper training and apprenticeship regimen, they were simply put on post without such preparation. As a result, these new staff members are generally making mistakes and consuming the time of the veteran staff members and getting in the way of their performance. This situation would be revealed by the statistics alone. The proper actions to take would then be to get these new staff members on to training and apprenticeship programs for a good portion of the day, while allowing the veteran staff to get on with performance.

In addition, as another example of how the conditions of existence are applied, each of the new staff once they were through their training and apprenticeship and newly posted within the organization would apply the Expanded Non-Existence formula, which is as follows:

1. Find and get yourself on every comm (communication) line you will need in order to give and obtain information relating to your duties and materiel.
2. Make yourself known, along with your post title and duties, to every terminal you will need for the obtaining of information and the giving of data.
3. Discover from your seniors and fellow staff members and any public your duties may require you to contact, what is needed and wanted from each.
4. Do, produce and present what each needs and wants that is in conformation with policy.
5. Maintain your comm lines that you have and expand them to obtain other information you now find that you need on a routine basis.
6. Maintain your origination lines to inform others what you are doing exactly, but only those who actually need the information.
7. Streamline what you are doing, producing and presenting so that it is more closely what is really needed and wanted.
8. With full information being given and received concerning your products, do, produce and present a greatly improved product routinely on your post.

Too often, a staff member goes onto a new post and relies strictly on his own ideas of what he should be doing and this is out of step with the rest of the organization. His fellow staff members will not even know he is there to the degree he fails to follow the Expanded Non-Existence formula. In the example given above concerning the new staff members who were not trained and apprenticed before being put on post, they also did not follow the Expanded Non-Existence formula or they would not have disrupted the performance of veteran staff members so severely. Properly applied, the Expanded Non-Existence formula will result in a smooth transition onto a post where one rapidly becomes a contributing member of the team and moves on up to higher conditions.

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An organization or even a sector could also apply the Non-Existence formula. Surveys are often done to find out what is needed and wanted by society. In this wise the Church learns how to make the most effective contributions. For example, in Los Angeles it was found that the community most wanted help with the drug problem and with illiteracy. The churches there responded with the "Lead the Way to a Drug Free LA" campaign and has launched a tutorial program utilizing volunteer Scientologists near Los Angeles in the city of Compton. This has resulted in the churches coming out of non-existence with major portions of the community and being recognized as a solution to social problems.

Trends also have another use which is to trace back to changes which had either a beneficial or harmful effect on the overall health and well being of a church or sector. For example, if the church organizations in the western United States were experiencing a slump for the last several months one could take their combined statistics and trace back to where the slump began. Date coincident with the start of that slump there will be some change which broadly and adversely affected the statistics of organizations in that geographic region thereafter. It might be found that there was a program of weekly Dianetics seminars being held by each church and that these were dropped out just prior to the slump. It might be that there was some successful television or radio dissemination campaign that ended just before the slump. It is always something and it can be detected by analyzing the statistics for the period in question.

Trends also provide prediction due to the interplay between statistics. For example, uptrending sales of Dianetics and Scientology books always precedes a similar uptrend in new parishioners coming into churches for training and auditing. This is true of an individual church, it is true of a region which contains a number of church organizations. This prediction enables management to take additional actions to deal with the anticipated activity - hiring more staff and getting them trained as course supervisors and auditors for example.

All of the above uses of stat trends, assignment and applying the formulas for the proper condition, stat analysis, prediction, evaluations and so forth are part of management by statistics.

Generally, the closer one is to the site of activity, the shorter time span one uses to manage by statistics. A staff member can and does manage his own statistic on a daily basis in order to get his performance higher for the week. An Executive Director will generally manage his church organization on week to week statistics. An Executive Director is in a position to

detect, investigate and apply the appropriate condition formula and other handlings to an area of his organization and he is expected to take primary responsibility for management of his area.

Lower middle management bodies are not in a position to react quickly to a one week slump, nor are they expected to. For one thing, by the time they determined the condition to be applied and the steps to be taken, the situation may already be under control by the local church executives. For another, they want the local church executives to deal with situations on the ground as much as possible as they have the immediate responsibility for the affairs of their own organization. So they generally manage by longer three week trends and also tend to address their attention to the combined organizations of their continental area rather than just individual organizations.

Remote management units such as the Flag Bureaux or international management utilize longer 6 week trends for similar reasons and also broadly manage toward the increased health and well being of entire sectors. Management is looking at the big picture so it can plan for the expansion of the religion as a whole. A review of one year's statistics may reveal that efforts need to be placed on increasing the number of student C/Ses to see to future expansion. That may be true in general but does not result in a report or even necessarily a communication to an individual church. The church in Philadelphia may not have that problem whereas the one in Germany has. So whenever management views statistics they are more broad.

Trends can be viewed for longer periods than 6 weeks. Virtually any length of time can be viewed - 6 weeks, 12 weeks, 52 weeks or whatever time span is needed to get to the bottom of the situation. One could also go back several years to find a particularly successful period and find out what application of the conditions formulas created that upsurge.

Thus used, statistical trends are an invaluable tool for the objective management of church organizations. They take the guesswork out of the process.

Trends of any sort are associated with conditions assignments, stat analysis or with evaluations. But to analyze, one looks and thinks and as you well know this does not print out. 6 week trends are in common use for stat analysis at middle and upper management levels. 12 week trends could be used but are generally not used unless that period is picked for or coincides with a particular purpose of a statistical analysis

or evaluation. We are not aware of any common use of the term "6-week trend report" or "12-week trend report". This does not rule out that someone may have used these terms before, we are just not aware of any nor are any called for in policy.

To ask about the use of conditions in Scientology and to give a full explanation of how they are used would be like asking, "describe how alive you are and how much you are surviving and give me some references that are useful in facilitating my understanding."

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QUESTION 4-g

g. To understand the accounting system of the Church, the Service needs a complete set of the given Church's records and reports for the given time period. Accordingly, to the extent not already provided, please provide for the month indicated all FBO AC3 Weekly Reports; Income Sources Summaries; Financial Plannings; and the monthly bank statement(s) for all bank accounts for the following organizations. In addition, please identify the name of the organization where the name is unclear. The months and entities requested are as follows: (i) for October of 1989, the Boston organization referenced in the FBO AC3 Weekly Report of October 1989; (ii) for November of 1990, the "SNC" org referenced in the FBO AC3 Weekly Report of 1/11/90; (iii) for November of 1991, the organization referenced in the FBO AC3 Weekly Report of 7/11/91; (iv) for October of 1991, the organization referenced in the financial planning for the week of 10/31/91; and, (v) for October of 1991, the Church of Scientology of Colorado, Inc.

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In response to your request, we provide the following:

(i) for October of 1989, the Boston ("BSN") organization's FBO AC3 Weekly Reports; Income Sources Summaries; Financial Plannings; and the monthly bank statement(s) for all bank accounts.

(ii) for November of 1990, Stevens Creek ("SNC") organization's FBO AC3 Weekly Reports; Income Sources Summaries; Financial Plannings; and the monthly bank statement(s) for all bank accounts.

(iii) for November of 1991, the organization referenced in the FBO AC3 Weekly Report of 7/11/91; note: this organization is Denver (DVR). The relevant data for the month of November is attached.

(iv) for October of 1991, the organization referenced in the financial planning for the week of 10/31/91; note: this organization is Denver (DVR), which is the same org as in (v) below. Therefore only one copy of the requested documents is supplied.

(v) for October of 1991, the Church of Scientology of Colorado (Denver or DVR) organization's FBO AC3 Weekly Reports; Income Sources Summaries; Financial Plannings; and the monthly bank statement(s) for all bank accounts.

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QUESTION 4-h

h. On certain of your submissions, payments have been made to the "main" accounts. Please describe this account.

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An organization's "main" account is the account used to pay an organization's operating expenses, e.g. rent utilities, insurance, payroll, administrative supplies, etc..

Income is not deposited in the main account but rather into the Finance Office No. 1 Account as described in response to Question 3-b here. Each week the FBO transfers funds from the Finance Office No. 1 Account to the main account in accordance with the approved financial planning for the week as described in response to Question 3-b here. Checks are then drawn on the main account to pay the organization's operating expenses as covered above.

The main account requires two signatories as with any other church or other Scientology organization bank account. The signatories are senior executives of the organization who are familiar with the all approved disbursements for the week.

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QUESTION 4-1

1. Please state where credit card payments and checks drawn on United States Banks are first deposited.

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Any payments in the form of checks or credit cards which are received by United States churches or other United States Scientology organizations are first deposited into a local United States bank of the respective organization, not an overseas bank. In the case of credit card payments to a United States Scientology church or organization, these would be deposited to the United States bank which provides the credit card facility to the organization and which administers the account.

Credit card payments and checks drawn on United States banks to Scientology churches or other Scientology organizations outside of the United States are first deposited into their local accounts outside of the United States. For example, credit card payments and checks drawn on United States banks received on board M.V. Freewinds by Church of Scientology Flag Ship Service Organization and Majestic Cruise Lines, Inc., are first deposited into the respective organization's local bank accounts in Curacao, Netherlands Antilles.

. . . .

QUESTION 4-j

j. Please answer the following questions on the advance payment trusts:

(i) Has any individual or entity other than CSFSO and CSWUS ever deposited/contributed money to either trust?

* * * *

Although the respective trust instruments contemplate that the advance payment trusts might accept advance donations directly from individual parishioners, no individual or entity other than CSFSO or CSWUS has ever deposited/contributed money representing parishioner advance payments to either advance payment trust. Church management does not intend to implement procedures whereby individuals in the future may make advance donations directly to either of the advance payment trusts.

The advance payment trusts have received income in the form of bank interest from commercial banks and loan interest from Scientology-related entities. The latter includes bond interest received by U.S. Parishioners Trust from Church of Scientology Flag Service Organization and Building Management Services, and loan interest received by Trust for Scientologists from Transcorp Services S.A.

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(ii) The revised financial statements provided for TFS and USPT reflect the transfer of advance payments to and from both trusts and CSFSO and/or CSWUS. You describe the netting process by which those payments are periodically made to and from the trusts. Are the amounts included in the revised financial statements the net payments made to and from the trusts? If so, please provide for 1989 and 1990 the gross amounts that would have been received by the trusts and the gross amounts that would have been paid by the trusts but for the netting process.

The amounts reflect the net payments made to and from the respective advance payment trusts, Trust for Scientologists ("TFS") and U.S. Parishioners Trust ("USPT"). The gross amounts of advance payments received ("APR") which would have been received by the trusts and the gross amounts of advance payments used ("APU") that would have

been paid by the trusts but for the netting process are shown below:

USPT 1989	GROSS APR	69,060,428.19
	GROSS APU	59,944,691.69
USPT 1990	GROSS APR	49,833,066.92
	GROSS APU	59,117,507.66
TFS 1989	GROSS APR	30,783,190.62
	GROSS APU	29,716,550.96
TFS 1990	GROSS APR	23,756,400.79
	GROSS APU	24,671,650.67

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(iii) Do the amounts in Exhibit I-9 and Exhibit I-17, include for CSFSO and CSWUS the following:

(i) the gross amount of advance donations received from individuals and other entities (including the gross amounts that would be paid to the advance payment trusts but for the netting process);

The Exhibits I-9 and I-17 amounts for CS FSO and CS WUS do not include the gross amount of advance donations received in connection with religious services because these amounts must be transferred to the appropriate advance payment trust. The Exhibit 9 amounts do include the value of advance donations with respect to religious services actually ministered by the respective churches during the period; these are the amounts due from the trusts to the respective churches.

(ii) the gross amount of all other amounts received;

Yes, the Exhibits I-9 and I-17 amounts do include the gross amount of all other donations received by CSFSO and CSWUS, which are not advance payments.

(iii) the net amounts of advance donation payments paid periodically from the trusts to the Churches;

The Exhibits I-9 and I-17 amounts for CSFSO and CSWUS do not separately state the net amount of advance donations paid by the

trusts to the Churches. The Exhibits I-9 and I-17 amounts, however, do account for the net amount of advance donations paid by the trusts to the Churches as part of the total donations received in connection with religious services.

and (iv) the net amounts of advance donation payments paid periodically from the Churches to the trusts?

The Exhibits I-9 and I-17 amounts for CSFSO and CSWUS do not separately state the net amount of advance donations paid by the Churches to the trusts. The Exhibits I-9 and I-17 amounts for CSFSO and CSWUS, however, do account for the net amounts of advance donations paid by the Churches to the trusts to derive the total donations received in connection with religious services.

If any of these amounts are not included, please provide revised financial information, including dollar amounts (i.e. the Exhibits I-9 and I-17 information) for CSWUS and CSFSO for 1989 and 1990 that include these amounts and separately state all these amounts.

Parishioners' advance payments received ("APRs") for religious services are not receipts or income of the respective service org, because they must be transferred to the advance payment trust(s). Conversely parishioners' advance payments used ("APUs"), which represent the value of religious services delivered, are income of the respective service org because they must be delivered to it from the advance payment trust(s).

The difference between the gross amount of APRs and gross amount of APUs for CSFSO and CSWUS, represents the net amount due to or from each advance payment trust, i.e. the "netting" effect. However, to revise the financial information so as to include both the gross APRs and APUs and the net APRs and APUs, would not be meaningful since the same amounts would be included twice. The following summary provides the gross and net figures for each year:

SUMMARY OF GROSS AND NET FIGURES

		GROSS APR	GROSS APU	NET APR/APU
FSO	1989	72,396,104.50	65,245,282.07	7,150,822.43
	1990	54,991,800.37	57,832,161.08	(2,840,360.71)
CSWUS	1989	27,447,514.31	24,415,960.58	3,031.553.73
	1990	18,597,667.34	25,956,997.25	(7,359,329.91)

. . . .

QUESTION 4-j (iv)

(iv) It is our preliminary view that if the various entities comprising the Church are to be recognized as tax-exempt, we must similarly ensure that the advance payment trust are organized and operated in a manner consistent with the requirements of section 501(c)(3). To meet these requirements, however, it appears that the trust instruments would need to be modified to conform to the organizational requirements of section 501(c)(3), (e.g., appropriate dissolution clause for TFS). Please indicate whether the Church would be willing to make such modifications.

* * * *

We believe that the respective trust instruments already conform to the organizational requirements of section 501(c)(3). For example, in the case of TFS, the relevant provisions of the original trust instrument state as follows:

20. All assets of the Trust net of the aggregate amount of the Advance Payments as shown upon the Schedules (after deducting therefrom all amounts paid out by the Trustees at the request of Beneficiaries in accordance with the foregoing provisions of this Declaration), and net of general liabilities of the Trust (if any), shall be dedicated exclusively and irrevocably to religious purposes. No part of the income or net asset of the Trust shall inure to or be used for the private benefit of any person. The Trust shall not engage in any political activity.

Upon winding up of the Trust, and after adequate provision for all of its liabilities, the assets of the Trust shall be distributed to one or more of the non-profit organizations of the religion of Scientology which are organized and operated exclusively for religious purposes, of which no part of the net earnings of which inure to or may be used for the private benefit of any person, and which do not engage in political activity.

* * *

28. The Church and the Trustees agree that this trust shall terminate on the tenth (10th) anniversary of the death of the last survivor of the Beneficiaries who are living on the date of this Declaration. However, the Church and the Trustees may terminate this trust by mutual agreement at any time after the fifth anniversary of the date of this Declaration. Upon termination of this trust, the Trustees shall pay the aggregate amount of the Advance Payments then held by the Trustees for the benefit of the Beneficiaries to

any organization described in paragraph 20 of this Declaration, impressed with a trust for the continued benefit of the Beneficiaries as provided in this Declaration.

These provisions are repeated in substantially identical terms in the 1988 Amended trust instrument.

Nevertheless, if the Service believes that provisions such as these are defective, we have no objection to modifying the trust instrument of TFS, or any other Scientology trust, in order to fully comply with the provisions of section 501(c)(3). Please provide us with the changes you note as necessary or desirable, or information on what you consider undesirable so that the appropriate modifications can be made by the applicable trust.

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QUESTION 4 (k):

k. There is variance between the disbursements reflected on the Author's Family Trust B information provided in your prior response (showing \$1,800,000 in management fees paid to Author Services) and the receipts information for ASI (showing all of ASI's receipts as consisting of \$2,000,015 in management fees from Author's Family Trust B). The same information for ASI also appears to vary from the disbursement information for CSI, which shows royalties of \$468,000 paid by CSI to ASI. . . . Please explain. A similar (if smaller) variance occurs with respect to contributions in 1990 by USPT to CSRT. Please explain.

* * * *

As noted in your question, there is a discrepancy (equal to \$158,813) between the amounts of management fees disbursed by Author's Family Trust B (the "Trust") for 1989 (\$1,841,202) and the amount of management fees received by Author Services, Inc. ("ASI") for 1989 (\$2,000,015). The amounts for management fees disbursed was taken from Schedule C of the Trust's 1989 Form 1041A and the amount for management fees received was taken from line 3 (gross profit) of ASI's 1989 Form 1120. The \$158,813 discrepancy consists of the following items:

Management fees that were reported properly in Schedule E of the Trust's 1989 Form 1041 A as an expense related to the production for royalty income. These expenses were overlooked in preparing the June 1992 submission, since we took only management fees reported on Schedule C. \$75,243

An end-of-year timing overlap of management fees disbursed by the Trust at the end of 1988 but not received by ASI until 1989. (ASI was a cash-basis taxpayer in 1988; it changed to the accrual basis in 1989.) \$70,000

A 1989 payment of management fees by the Trust was miscategorized as an internal transfer of funds between the Trust's own bank accounts and therefore not claimed as an expense on its 1989 Form 1041. \$10,938

A 1989 beginning account balance discrepancy between the balance of the Trust's account for management fees payable as of January 1, 1989 and ASI's account for management fees receivable as of January 1, 1989. \$1,700

Miscellaneous income ASI received that it reported in the lump-sum total of its gross receipts on line 1 of its 1989 Form 1120 and therefore was erroneously included with management fees in preparing the summary financial statements for the June 1992 submission. \$1,432

A payment by the Trust directly to a third-party consultant hired by ASI with respect to the Trust's affairs that the Trust accounted for and reported as a disbursed management fee; ASI did not report the item as management fee income because it neither received the payment nor was aware that it had been made. (\$500)
\$158,813

The noted variance of \$468,000 with respect to royalty payments paid by CSI to ASI is due to several factors.

As an initial matter, you apparently computed the \$468,000 amount by multiplying the 1% figure given for CSI's royalty disbursements for 1989 in Exhibit I-9 against the \$46,823,985 figure given for CSI's total disbursements for 1989 in our prior response. However, the percentages given in Exhibit I-9 are approximate percentage values. In fact, the precise percentage value for CSI's royalty disbursements for 1989 is 1.13502 percent, or a dollar value of \$531,463.99.

In Exhibit I-9 we erroneously indicated that the recipient of CSI's royalty payments was ASI. However, since ASI functions only as agent for the owner of the copyright or patent, the royalty payments are properly reported by the owner, not ASI. Thus, these payments do not appear on ASI's financial data for 1989.

Rather, CSI's royalty disbursements for 1989 actually were paid to the copyright or patent owners, which reported the disbursements as income on their own tax returns. It paid \$9,998.07 to Mr. Hubbard's Estate until it made its final distribution on January 3, 1989 and thereafter it paid \$521,021.76 to Author's Family Trust A. (We did not prepare summary financial statements for Mr. Hubbard's Estate for 1989 since it was active only for three days of that year.) CSI paid the remaining \$444.16 in royalty disbursements (or 0.08 percent of CSI's total disbursements) to BPI as royalties on E-Meter accessories.

Corrected financial summaries for CSI and Author's Family Trust B and for ASI for 1989 are attached as Exhibits III-4-G, III-4-H and III-4-I.

QUESTION 4-1

1. Please explain the scope of organizations within the Finance Network. For example, are there any entities within the network with no FBO. Are the social betterment organizations or publishing organizations part of the Finance Network?

* * * *

The following Scientology church or other Scientology organizations have an FBO or a Finance Director, who serves the same functions as an FBO, and which participate in the International Finance Network are:

1. Bridge Publications, Inc..
2. New Era Publications, Aps.
3. Association for Better Living and Education International ("ABLE INT").
4. World Institute of Scientology Enterprises International ("WISE INT").
5. Scientology Missions International.
6. International Hubbard Ecclesiastical League of Pastors ("IHELP").
7. All churches of Scientology at the level of Class V church or above. This includes FSO, FSSO, Advanced Organizations, Saint Hills and Celebrity Centre churches.

The following, whether or not included in the definition of Scientology-related organizations, do not participate in Central Reserves either directly or indirectly, do not participate in the International Finance Network and do not have FBOs or Finance Directors (except in that circumstance where the title has been locally adopted and does not signify participation in the International Finance Network):

1. Church of Spiritual Technology ("CST").
2. Religious Technology Center ("RTC").
3. Author Services, Inc. ("ASI").
4. Author's Family Trust-B.
5. International Association of Scientologists and its operating arms and related membership organizations.

6. Missions.

7. WISE sublicensees.

8. ABLE licensees (Social Betterment Groups, including Narconon International, The Way to Happiness Foundation, Applied Scholastics International, etc. and their licensees).

9. Social Reform Groups (Citizens' Commission on Human Rights, Citizens for an Alternative Tax System, etc..).

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QUESTION 4-m

m. Under the new system of allocations described at page 4-15, the Class V Churches pay 12.5 percent of corrected gross income to CSI. How is this amount reflected on CSI's books (i.e., what income category includes these amounts)? Are all amounts forwarded to CSI received and processed by Flag Command Bureaux? If this is not the case, please clarify.

* * * *

The contributions received by CSI from Class V Churches under the new system of allocations are included under income audit category 15: Contributions from Other Orgs.

All amounts forwarded to CSI are received and processed by the Flag Finance Office which is at the Flag Command Bureaux echelon.

The only exceptions are any sums that cannot be remitted to CSI, for example due to local exchange control regulations or other legal reasons. In those cases, the amounts are accumulated in local accounts until remittance can be effected. Also, money remitted to CSI by bankwire, for example direct to CSI's Finance Office Number 1 account at Kredietbank Luxembourg, is not received physically at the Flag Finance Office. Nevertheless, the invoicing of such amounts, based on confirmation from the bank of funds received, is done at the Flag Finance Office.

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QUESTION 4-n

4.n. Please provide information (including dollar amounts), as provided for other entities in Exhibits I-9 and I-17, for 1989 and 1990 for: Church of Scientology Religious Education College; Church of Scientology Advanced Organisation Saint Hill Europe and Africa; and Church of Scientology, Inc.

* * * *

As requested, we attach Exhibit 9 information including dollar values for:

- Church of Scientology Religious Education College;
 - Church of Scientology Advanced Organization Saint Hill Europe and Africa;
 - Church of Scientology, Inc.,
- for the years 1989 and 1990. (Exhibit III-4-J).

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QUESTION 4A-a & b

a. Do tour or fundraising commissions differ from FSM commissions? If so, please explain.

b. Please describe how Church fundraisers, FSMs and "tours" operate. In this regard, please provide documentation containing all Church policies on FSMs, tours, and fundraising activities (e.g., how individual FSMs and fundraisers handle cash contributed to a Scientology-related organization through such individuals' efforts). Who is responsible for expenses of the tours or other individual FSMs and fundraisers? Specifically, is commingling of the organization's funds and the individual's funds permitted?

* * * *

Fundraising commissions is a general term used to describe any form of commission paid out in connection with fundraising. It therefore includes commissions that Church organizations pay to Field Staff Members ("FSM"), and for tours.

The short answers to each of your specific questions are as follows:

- Commingling of an organization's funds and those of any individual is prohibited and as you will see below virtually impossible.

- FSM commissions are calculated at 10 and 15% of donations raised and tours commissions are 5% of donations raised.

- FSMs are responsible for all of their own expenses.

- Tour expenses are covered by the Flag Operations Liaison Office (FOLO) that each Tour is a part of.

The following narrative describes how FSMs and tours operate.

NOTE: The tours described here are not to be confused with a Membership Tour which is described in the response to Question 3A-c (i) above. In addition, Field Disseminators for the IAS and Fundraisers for ABLE INT are described in the response to Question 3A-c (i) and are not covered below.

FSM COMMISSIONS

FSM commissions are paid at the rate of 15 percent of a parishioner's donation for training, and 10 percent for a parishioner's donation for auditing, in both cases only when the

parishioner actually commences the service. Donations for training receive a higher commission in order to encourage that activity, because a trained Scientology auditor is more valuable to the religion and to mankind since an auditor can help others.

FSM commissions are paid to those who assist a church in contacting and interesting an existing or potential parishioner in taking religious services for which he or she donates funds to the particular church. This practice defrays the cost of prosyletization and obtains new members for a church. It extends the influence of the Church into society by encouraging individual prosyletization. Often an FSM will provide someone who is unfamiliar with Dianetics or Scientology a book and then follow up to answer any questions and to enlighten him or her on the services available at the local church of Scientology - to the result of a new contributing member of the church.

Some FSMs arrange and give lectures, hold Dianetics seminars, play Mr. Hubbard's taped lectures at meetings, set up booths and sell Dianetics and Scientology books at fairs and malls, disseminate Dianetics and Scientology on radio and television and do other actions to interest people in the religion. Many others do this on a more casual basis with friends and acquaintances. In either event, their schedules and activities are not controlled or monitored by any church. They can do as much or as little prosyletizing as they choose. They can act as an FSM for one church of Scientology or for several churches of Scientology at their discretion. FSM commissions are only paid by the church which received the donation and only when the parishioner actually commences the religious service. FSMs bear all costs and expenses of prosyletization themselves.

Other Scientology organizations or groups can also act as FSMs for purposes of receiving FSM commissions from a particular church. For example, missions deliver introductory services to new Scientologists. Once complete with the services available in the mission, they are sent by the mission to a Class V church for more advanced religious services. The mission can receive an FSM commission from the Class V church. Similarly, Class V churches can receive FSM commissions from a Saint Hill or Advanced Organization when their parishioners move on to more advanced levels of training and auditing available at those higher church organizations. The FSO and FSSO also pay FSM commissions to lower echelon churches on a similar basis. Again, the FSM commission is paid only when the parishioner actually commences the service for which the donation was made as the intention of the FSM system is to increase the ministry of religious services as well as to raise funds for churches of Scientology.

FSM commissions are only paid once, either to an individual FSM or to an organization. There is no reimbursement of costs or expenses to either an individual or an organization acting as an FSM. When an FSM selects a parishioner for services, he fills out a selection slip and sends a copy to the church organization and also gives a copy to the parishioner. When the parishioner enrolls for a Church service, he or she brings a copy of the selection slip from the FSM and confirms that the individual or organization actually assisted in the capacity of an FSM to get him or her onto the next Church service. Church policy forbids immediate family members from being nominated as an individual's FSM, as the purpose of these commissions is to encourage new people to move up the Bridge. If there is no FSM, then there is no commission paid.

The FSM and FSM commission system has been found to be a workable and valuable fundraising practice since the mid-sixties. More importantly, FSMs extend the influence of a Scientology church into society; attracting new members and helping to keep existing members on the path to spiritual salvation.

TOURS

Flag Operations Liaison Offices ("FOLO"), which are located at the Continental Liaison Office echelon send out tours to assist Church organizations in their continental areas. Their function is to assist local Scientology churches in contacting parishioners, enlightening and interesting them in taking services at and raising donations for a local church. FOLO tours consist of leading Scientologists who are well respected and command the attention of parishioners. They hold events where parishioners gather to listen to speeches on the latest accomplishments of Scientology and why it is important that they keep progressing on the Bridge and how they fit into the bigger picture. They also give talks on specific religious services that are available and testimonials from those who have participated in them. Thus inspired, many parishioners enroll for auditing and training and make donations for such to the local church. Tours get the congregations of local Churches revitalized and more actively involved in Scientology in their areas.

The FOLO that sponsors the tour earns a commission calculated at 5% of donations which are paid by the local church which benefits from the donations. The commissions are paid from the local church directly to the FOLO. The FOLO bears any expenses with respect to tours activities.

The above FSM and Tours Commission arrangements are covered in the key policies on the subject at Exhibits III-4-K and III-4-L. Additional policies can be found in Volume 6 of the Organization Executive Course in the section entitled "Field Staff Member Program." However the two attached policies contain a complete explanation of these arrangements. Exhibit III-4-L also refers to Flag Service Consultants or FSCs. FSC commissions are described in the response to Question 4-d below.

OTHER TOURS

Certain organizations are national or international in scope. The FSO and FSSO each provide upper level religious services which are not available at any other church of Scientology to parishioners from around the world. Advanced Organizations and Saint Hill Organizations draw their parishioners from broad geographic areas for upper level services which are not available at a Class V church.

These organizations may send out tours to hold events and to enlighten and interest parishioners in taking services at their church organization. They too, hold events and gather the local parishioners to give briefings on their organizations and to give reality on the spiritual benefits that can be obtained from the higher level religious services - as evidenced by success stories from those who have received such services.

In this instance, the tours are employee representatives of their respective churches and there are no "tours commissions" paid to the tours or to any outside entity or individual.

FINANCE FLOWS WITH RESPECT TO DONATIONS

As covered above, FSM and tours commissions are based on donations raised for particular churches of Scientology. Both FSMs and tours bear their own expenses and are not reimbursed for such.

Church policy and practice is that all donations from parishioners are paid directly to the church which is intended to receive them and are not commingled in any way. Neither FSMs nor tours deposit church donations in their own accounts. The full amount of the donation is remitted directly to the intended church organization and then the commissions are paid when owing. Donations are made to the churches who provide the service, not to the FSMs or tours.

The same banking practice is true of tours that are sent out from the FSSO, FSO, an Advanced Organization or a Saint Hill organization as described earlier. In this instance, the tours representatives are simply employees of the organization sponsoring the tour and they collect donations on its behalf for deposit in the organization's Finance Office Number 1 account.

EXCHANGE CONTROL COUNTRIES

In countries which have exchange control regulations (e.g. South Africa), the Continental Finance Office maintains a trust account as a temporary depository for parishioner donations pending permission to remit the sums abroad.

With the exception of special trust account arrangements to accommodate exchange control regulations where they exist, Church policy and practice is that gross donations are always remitted to the recipient church or to one of its Finance Office Number 1 accounts. Both FSM and tour commissions are then paid back to the FSM or to the FOLO which sponsors the tour as the case may be. Donations raised by Flag Ship Service Consultants or Flag Service Consultants are similarly transmitted to the respective church organization and commissions are then paid back to the relevant FOLO.

Donations to church organizations are not commingled with FSM, FOLO or tour funds. It may have happened at one time or another but such would be contrary to Church policy and practice. In any event, we are not aware of any instances of commingling.

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QUESTION 4A-c

c. Do any individual FSMs or fundraisers receive funds from one Scientology-related organization for payment to another such organization? If so, please explain the reasons for such transfers and how it is ensured that such transferred amounts are received by the recipient organization.

* * * *

We are not aware of any practice whereby individual FSMs or fundraisers receive funds from one Scientology-related organization for payment to another such organization, and Church policy does not permit this.

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QUESTION 4A-d

d. Please describe the method by which Scientology-related organizations report commissions paid to fundraisers or FSMs to both those individuals and to the Service. To the extent difficulties have existed in the past, please describe these difficulties. To the extent difficulties continue, is the Church willing to adopt alternative procedures as part of any closing agreement?

* * * *

The only method by which U.S. Scientology-related organizations report commissions paid to fundraisers, as well as other non-employee compensation, to the individuals and to the Service is through IRS Forms 1099. Church policy requires that Forms 1099 be issued to all non-corporate recipients of \$600 or more in any calendar year from any U.S. Scientology-related organizations, in accordance with the relevant provisions of the Internal Revenue Code. Non-U.S. Scientology-related organizations do not provide Forms 1099 to the recipients or the Service because none of these organizations is engaged in a trade or business in the United States.

Church management believes that Scientology-related organizations in the United States have substantially complied with Form 1099 requirements. Nevertheless, Church management also recognizes that compliance has not been 100 percent. At present, there is no central disbursing facility for local organizations' bills and tax reporting obligations. In accordance with Church policy, each individual Scientology-related organization disburses its own funds, which is an important component in maintaining local financial responsibility. Likewise, each individual organization is responsible for preparing and filing its annual Forms 1099.

At times, U.S. Scientology-related organizations have experienced difficulties in obtaining social security numbers and/or employer identification numbers from their fundraisers and other independent contractors. Provisions such as backup withholding and the 60-day grace-period for obtaining a TIN do not address the actual problems faced by U.S. Scientology-related organizations:

- * individuals or other payees sometimes move from their last known address and leave no forwarding address or phone number.
- * some independent contractors provide services only sporadically, thus generating no subsequent compensation against which to enforce back-up withholding.

- * local procedures have not always been in place to obtain Tax ID numbers at the time of payment, with the result that individuals sometimes have been paid without furnishing a TIN.

In the past, Church management has addressed problems in Form 1099 compliance with timely reminders to subordinate organizations of the applicable requirements and on occasion with instruction and technical assistance in preparing and filing Forms 1099.

CSI is presently developing a computerized treasury system that complies with Scientology finance policy as well as local filing and reporting requirements. When completed, it will be implemented in all United States Scientology organizations to assist each organization to improve the timeliness and efficiency of their reporting. To implement this new system Church management will issue directives that forbid the payment of any non-employee compensation until the recipient has furnished a TIN.

In summary, the Church has worked and is working diligently to solve past and existing difficulties with Form 1099 compliance. We also are amenable to any alternatives or suggestions the Service might have and would consider including any improvements as part of a closing agreement.

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