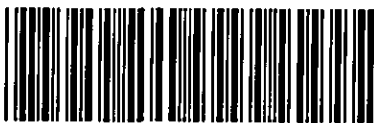


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**UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007
FOR
Church of Scientology
Religious Education College Inc**

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For The Year Ended 31 December 2007**

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**Church of Scientology
Religious Education College Inc**

**CHARTERED ACCOUNTANTS' REPORT TO THE TRUSTEES
ON THE UNAUDITED FINANCIAL STATEMENTS OF
CHURCH OF SCIENTOLOGY RELIGIOUS EDUCATION COLLEGE INC**

In accordance with our terms of engagement and in order to assist you to fulfil your duties under the Companies Act 1985, as applicable to the Church under Statutory Instrument No 1990/440, we have compiled the financial statements of the Church for the year ended 31 December 2007 which comprise the principal accounting policies, the income and expenditure account, the balance sheet and the related notes, from the accounting records and information and explanations supplied to us.

This report is made to the Church's trustees, as a body, in accordance with the terms of our engagement. Our work has been undertaken so that we might compile the financial statements that we have been engaged to compile, report to the Church's Trustees that we have done so, and state those matters that we have agreed to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Church and the Church's trustees, for our work or for this report.

We have carried out this engagement in accordance with technical guidance issued by the Institute of Chartered Accountants in England & Wales and have complied with the ethical guidance laid down by the Institute relating to members undertaking the compilation of financial statements.

You have acknowledged on the Balance Sheet as at 31 December 2007 your duty to ensure that the Church has kept proper accounting records and to prepare financial statements that give a true and fair view under the Companies Act 1985.

We have not been instructed to carry out an audit of the financial statements. For this reason, we have not verified the accuracy or completeness of the accounting records or information and explanations you have given to us and we do not, therefore, express any opinion on the financial statements.

Grant Sellers

Grant Sellers
Bank Court
Manor Road
Verwood
Dorset
BH31 6DY

Date: *4 December 2008*

**Church of Scientology
Religious Education College Inc**

**INCOME AND EXPENDITURE ACCOUNT
For The Year Ended 31 December 2007**

| | Notes | Year to 31/12/07 £ | Year to 31/12/06 £ |
|---|-------|-----------------------------|-----------------------------|
| INCOME | | | |
| From ordinary activities | | 12,971,494 | 11,424,607 |
| From compensation claim | | 8,016,100 | - |
| Expenditure | | | |
| On ordinary activities | | <u>14,697,728</u> | <u>11,990,016</u> |
| OPERATING SURPLUS/(DEFICIT) | 3 | 6,289,866 | (565,409) |
| Interest receivable and similar income | | | |
| From ordinary activities | | 316,476 | 224,087 |
| From compensation claim | | <u>9,043,066</u> | <u>-</u> |
| | | 15,649,408 | (341,322) |
| Interest payable and similar charges | 5 | <u>896,331</u> | <u>332,198</u> |
| SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES BEFORE TAXATION | | 14,753,077 | (673,520) |
| Tax on surplus/(deficit) on ordinary activities | 6 | <u>(4,216,863)</u> | <u>253,000</u> |
| SURPLUS/(DEFICIT) FOR THE YEAR AFTER TAXATION | | <u>10,536,214</u> | <u>(420,520)</u> |
| RETAINED SURPLUS/(DEFICIT) FOR THE YEAR | | <u>10,536,214</u> | <u>(420,520)</u> |

There are no other recognised surpluses or losses not recognised through the Income and Expenditure account

The notes form part of these financial statements

**Church of Scientology
Religious Education College Inc**

**BALANCE SHEET
31 December 2007**

| | Notes | 31 December 2007 | | 31 December 2006 | |
|--|-------|-------------------|-------------------|-------------------|--------------------|
| | | £ | £ | £ | £ |
| | | | | | As restated |
| FIXED ASSETS | | | | | |
| Tangible assets | 7 | | 24,171,836 | | 14,009,955 |
| Subsidiary undertakings | 8 | | <u>451,000</u> | | <u>451,000</u> |
| | | | 24,622,836 | | 14,460,955 |
| CURRENT ASSETS | | | | | |
| Stocks | 9 | 1,656,165 | | 1,258,180 | |
| Debtors | | | | | |
| - amount due in more than one year | 10 | - | | 1,070,000 | |
| - amount due in less than one year | 10 | 11,103,245 | | 2,440,349 | |
| Cash at bank and in hand | | <u>18,039,601</u> | | <u>8,414,329</u> | |
| | | 30,799,011 | | 13,182,858 | |
| CREDITORS | | | | | |
| Amounts falling due within one year | 11 | <u>26,185,115</u> | | <u>16,670,978</u> | |
| NET CURRENT ASSETS/(LIABILITIES) | | | <u>4,613,896</u> | | <u>(3,488,120)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 29,236,732 | | 10,972,835 |
| CREDITORS | | | | | |
| Amounts falling due after more than one year | 12 | | 11,220,746 | | 3,832,063 |
| PROVISION FOR LIABILITIES | 13 | | <u>339,000</u> | | <u>-</u> |
| | | | <u>17,676,986</u> | | <u>7,140,772</u> |
| RESERVES | | | | | |
| Accumulated funds | 14 | | <u>17,676,986</u> | | <u>7,140,772</u> |
| | | | <u>17,676,986</u> | | <u>7,140,772</u> |

The notes form part of these financial statements

**Church of Scientology
Religious Education College Inc**

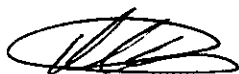
**BALANCE SHEET - continued
31 December 2007**

The trustees are satisfied that the Church was entitled to exemption from audit for the year ended 31 December 2007.

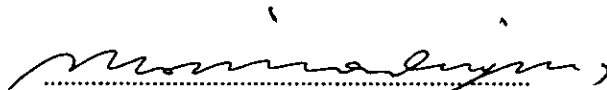
We acknowledge our responsibilities for ensuring that the Church keeps accounting records which comply with the Companies Act 1985, and preparing financial statements which give a true and fair view of the state of affairs of the Church as at the end of each financial year and of its surplus or deficit for the financial year and which comply with the Companies Act 1985 relating to accounts, so far as applicable to the Church.

These financial statements have been prepared in accordance with the special provisions of Statutory Instrument 1990 No 440 relating to overseas companies.

ON BEHALF OF THE TRUSTEES:



Richard Wilkins



Massimo Angius

Approved by the Trustees on 21/4/08

The notes form part of these financial statements

**Church of Scientology
Religious Education College Inc**

**CASH FLOW STATEMENT
31 December 2007**

| | 31 December 2007 | | 31 December 2006 | |
|--|-------------------|-------------------|------------------|------------------|
| | £ | £ | £ | £ |
| Cash generated from operations | | | | |
| Operating surplus/(loss) | 6,289,866 | | (565,409) | |
| Reconciliation to cash generated from operations: | | | | |
| Depreciation | 757,127 | | 662,286 | |
| Loss on disposal of fixed assets | 506 | | 21,090 | |
| Grant released | (57,712) | | (32,798) | |
| (Increase)/Decrease in stocks | (397,985) | | 230,449 | |
| (Increase)/Decrease in debtors | (8,662,896) | | (48,429) | |
| Increase/(Decrease) in creditors | <u>6,623,947</u> | | <u>2,569,476</u> | |
| | | 4,552,853 | | 2,836,665 |
| Cash from other sources | | | | |
| Interest received | 9,359,542 | | 224,087 | |
| Capital grants for fixed assets | 150,431 | | 1,399,996 | |
| Sale of fixed assets | 11,484 | | 200 | |
| Loans | <u>7,378,291</u> | | <u>3,347,150</u> | |
| | | 16,899,748 | | 4,971,433 |
| Application of cash | | | | |
| Interest paid | 896,331 | | 332,198 | |
| Purchase of tangible fixed assets | <u>10,930,998</u> | | <u>5,811,543</u> | |
| | | (11,827,329) | | (6,143,741) |
| Net increase/(decrease) in cash | | 9,625,272 | | 1,664,357 |
| Cash at bank and in hand at the beginning of the year | | 8,414,329 | | 6,749,972 |
| | | <u>18,039,601</u> | | <u>8,414,329</u> |
| Cash at bank and in hand at the end of the year | | | | |

The notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 31 December 2007**

1. STATUS

The Church of Scientology Religious Education College Inc was incorporated in Australia as a religious charity on 19 October 1976 and commenced activities in the United Kingdom on 1 May 1977.

2. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention.

The principal accounting policies of the Church, which are set out below, have remained unchanged from the previous period.

Income

Income represents the combined income from all the individual organisations of the Church in respect of religious services together with materials supplied, donations, and income from related activities provided to other churches and organisations. Income is recognised when received.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

| | |
|-----------------------|--|
| Freehold land | - No depreciation |
| Freehold property | - 2% on cost |
| Leasehold property | - Equal instalments over the period of the lease |
| Fixtures and fittings | - 10% & 20% on cost |
| Computer equipment | - 33.33% on cost |
| Motor vehicles | - 25% on cost |

Stocks

Stocks of religious books and artefacts are stated at the lower of cost and net realisable value.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are dealt with through the income and expenditure account.

Consolidation

The financial statements of the subsidiary companies have not been incorporated into a consolidated set of financial statements because the Trustees have applied the exemption afforded to medium sized groups not to prepare a set of such statements.

Grants received

As last year grants were received towards property improvements from a grant-making association. Grants are recognised in the income and expenditure account in future periods over the expected useful life of the asset.

Change of accounting treatment

The treatment of a grant received for property improvements in the balance sheet has been changed to show the amount as a deferred sum in creditors rather than a deduction from the cost of the fixed assets. Also, parishioners' donations received in advance is now included in creditors whereas before it was shown as part of reserves. The comparatives have been restated in line with the new accounting treatment; the change in policy has no effect on the surplus for the current year or the deficit for the previous year.

NOTES TO THE FINANCIAL STATEMENTS - continued
For The Year Ended 31 December 2007

Taxation

The Church is a South Australian charity, and is established in England for charitable purposes only. The trustees consider that corporation tax should not therefore be applicable, however corporation tax and deferred tax have been provided for in these financial statements.

Deferred tax is recognised on all timing differences where the transactions or events that give a taxpayer an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

3. OPERATING SURPLUS

The operating surplus (2006 - operating deficit) is stated after charging/(crediting):

| | Year to 31/12/07 £ | Year to 31/12/06 £ |
|----------------------------------|-----------------------------|-----------------------------|
| Depreciation - owned assets | 678,215 | 497,059 |
| Depreciation - leased assets | 78,912 | 165,227 |
| Loss on disposal of fixed assets | 506 | 21,090 |
| Grants released | (57,712) | (32,798) |
| Foreign exchange differences | (285,757) | 178,982 |
| Compensation claim | <u>8,016,100</u> | <u>-</u> |

The compensation claim arose from a successful claim against HM Revenue & Customs.

During the year there were the following transactions with other Scientology organisations:

| | Year to 31/12/07 £ | Year to 31/12/06 £ |
|-------------|-----------------------------|-----------------------------|
| Income | 1,206,458 | 949,506 |
| Expenditure | <u>5,922,949</u> | <u>2,968,963</u> |

4. TRUSTEES

| | Year to 31/12/07 £ | Year to 31/12/06 £ |
|--|-----------------------------|-----------------------------|
| Management remuneration in respect of trustees | <u>4,842</u> | <u>4,295</u> |

NOTES TO THE FINANCIAL STATEMENTS - continued
For The Year Ended 31 December 2007

5. INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable and similar charges includes the following:

| | Year to 31/12/07 £ | Year to 31/12/06 £ |
|--|-----------------------------|-----------------------------|
| On bank loans repayable within 5 years | | |
| - otherwise than by instalments | 409,200 | 214,733 |
| - by instalments | <u>487,131</u> | <u>117,465</u> |
| | <u>896,331</u> | <u>332,198</u> |

6. TAXATION

(a) Analysis of the tax charge/(credit)

The tax charge/credit on the surplus on ordinary activities for the year was as follows:

| | Year to 31/12/07 £ | Year to 31/12/06 £ |
|---------------------|-----------------------------|-----------------------------|
| UK corporation tax: | | |
| - Current year | 2,807,863 | - |
| - Prior year | - | - |
| Total current tax | 2,807,863 | - |
| Deferred tax | 1,409,000 | (253,000) |
| | <u>4,216,863</u> | <u>(253,000)</u> |

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

| | Year to 31/12/07 £ | Year to 31/12/06 £ |
|--|-----------------------------|-----------------------------|
| Surplus on ordinary activities before tax | <u>14,753,077</u> | - |
| Surplus on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% | 4,425,923 | - |
| Effects of: | | |
| Expenses not deductible for tax purposes | 24,012 | - |
| Capital allowances for year in excess of depreciation | -307,464 | - |
| Utilisation of tax losses | -1,054,363 | - |
| Non taxable capital items | <u>-280,245</u> | - |
| | ----- | ----- |
| Current tax charge for the year | <u>2,807,863</u> | - |

NOTES TO THE FINANCIAL STATEMENTS - continued
For The Year Ended 31 December 2007

7. TANGIBLE FIXED ASSETS

| | Freehold property £ | Leasehold property £ | Fixtures and fittings £ | Motor vehicles £ | Totals £ |
|----------------------------------|---------------------------|----------------------------|----------------------------------|------------------------|-------------------|
| COST | | | | | |
| At 1 January 2007(As restated) | 10,327,230 | 3,060,772 | 6,444,651 | 180,408 | 20,013,061 |
| Additions | 10,030,643 | 466,960 | 410,347 | 23,048 | 10,930,998 |
| Disposals | - | - | - | (38,725) | (38,725) |
| At 31 December 2007 | <u>20,357,873</u> | <u>3,527,732</u> | <u>6,854,998</u> | <u>164,731</u> | <u>30,905,334</u> |
| DEPRECIATION | | | | | |
| At 1 January 2007(As restated) | 1,269,989 | 203,718 | 4,387,870 | 141,529 | 6,003,106 |
| Charge for year | 206,574 | 78,912 | 447,285 | 24,356 | 757,127 |
| Eliminated on disposal | - | - | - | (26,735) | (26,735) |
| At 31 December 2007 | <u>1,476,563</u> | <u>282,630</u> | <u>4,835,155</u> | <u>139,150</u> | <u>6,733,498</u> |
| NET BOOK VALUE | | | | | |
| At 31 December 2007 | <u>18,881,310</u> | <u>3,245,102</u> | <u>2,019,843</u> | <u>25,581</u> | <u>24,171,836</u> |
| At 31 December 2006(As restated) | <u>9,057,241</u> | <u>2,857,054</u> | <u>2,056,781</u> | <u>38,879</u> | <u>14,009,955</u> |

Included in the total net book value of tangible fixed assets held at 31 December 2007 was £21,830 in respect of assets held under hire purchase contracts.

The cost of depreciable assets included in freehold property at 31 December 2007 was £17,881,310.

NOTES TO THE FINANCIAL STATEMENTS - continued
For The Year Ended 31 December 2007

8. SUBSIDIARY UNDERTAKINGS

| | Shares in group undertakings £ |
|---|---|
| COST | |
| At 1 January 2007 and 31 December 2007 | <u>451,000</u> |
| NET BOOK VALUE | |
| At 31 December 2007 | <u>451,000</u> |
| At 31 December 2006 | <u>451,000</u> |

The Church's investments at the balance sheet date in the share capital of companies which were wholly owned and incorporated in England and Wales include the following:

Nesta Investments Limited

Nature of business: Holding of investment properties

| | % | | |
|--------------------------------|---------|-------------|-------------|
| Class of shares: | holding | | |
| 180,000 £1 ordinary | 100.00 | | |
| 3 £1 non cumulative preference | 100.00 | | |
| | | 31/12/07 | 31/12/06 |
| | | £ | £ |
| Aggregate capital and reserves | | 1,053,783 | 998,063 |
| Profit/(Loss) for the year | | <u>(24)</u> | <u>(66)</u> |

SOR Services (UK) Limited

Nature of business: Providing bookkeeping services

| | % | | |
|--------------------------------|---------|------------|--------------|
| Class of shares: | holding | | |
| 1000 £1 ordinary | 100.00 | | |
| | | 31/12/07 | 31/12/06 |
| | | £ | £ |
| Aggregate capital and reserves | | 30,225 | 29,587 |
| Profit/(Loss) for the year | | <u>638</u> | <u>4,531</u> |

9. STOCKS

| | Year to 31/12/07 £ | Year to 31/12/06 £ |
|-------------------------------|-----------------------------|-----------------------------|
| Religious books and artefacts | <u>1,656,165</u> | <u>1,258,180</u> |

There were no significant differences between the replacement cost and the values disclosed for stocks.

NOTES TO THE FINANCIAL STATEMENTS - continued
For The Year to 31 December 2007

10. DEBTORS

| | 31/12/2007 | 31/12/2006 |
|--|-------------------|------------------|
| | £ | £ |
| Amounts due in more than one year: | | |
| Deferred tax (note 13) | - | 1,070,000 |
| Amounts due in less than one year: | | |
| Corporation Tax | 4,096 | 4,439 |
| Loan receivable from other organisations | 208,070 | 9,887 |
| Sundry debtors | 16,061 | - |
| Compensation claim (see note 3) | 8,142,385 | - |
| Prepayments and accrued income | <u>2,732,633</u> | <u>2,426,023</u> |
| | <u>11,103,245</u> | <u>2,440,349</u> |

Prepayments and accrued income at 31 December 2007 includes £2,611,531 (31 December 2006: £2,400,205) in respect of prepaid staff development costs.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 31/12/2007 | 31/12/2006 |
|---|-------------------|--------------------|
| | £ | (As restated) £ |
| Hire purchase contracts | 3,652 | 14,766 |
| Amounts owed to group undertakings | 393,073 | 393,073 |
| Tax | 2,807,863 | - |
| Social security and other taxes | 12,443 | 18,257 |
| Deferred receipts arising on capital grants | 1,459,917 | 1,367,198 |
| Bank loan (secured by a mortgage) | 4,000,000 | - |
| VAT | 133,977 | 21,881 |
| Accruals and other creditors | <u>17,374,190</u> | <u>14,855,803</u> |
| | <u>26,185,115</u> | <u>16,670,978</u> |

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 31/12/2007 | 31/12/2006 |
|---------------------------|-------------------|------------------|
| | £ | £ |
| Hire purchase contracts | 6,392 | - |
| Loans from other churches | 484,913 | 484,913 |
| Other creditors | <u>10,729,441</u> | <u>3,347,150</u> |
| | <u>11,220,746</u> | <u>3,832,063</u> |

**Church of Scientology
Religious Education College Inc**

**NOTES TO THE FINANCIAL STATEMENTS - continued
For The Year to 31 December 2007**

13. PROVISIONS FOR LIABILITIES

| | |
|-----------------------------|-------------------------|
| | £ |
| Balance at 1 January 2007 | 1,070,000 |
| Movement in the year | <u>(1,409,000)</u> |
| Balance at 31 December 2007 | <u><u>(339,000)</u></u> |

The balance at the end of the year comprises:

| | 31/12/2007 | 31/12/2006 |
|--------------------------------|-------------------------|-------------------------|
| | £ | £ |
| Tax losses | 299,000 | 1,375,000 |
| Accelerated capital allowances | <u>(638,000)</u> | <u>(305,000)</u> |
| | <u><u>(339,000)</u></u> | <u><u>1,070,000</u></u> |

14. ACCUMULATED FUNDS

| | Capital funds | General funds | Total funds |
|-------------------------------|-------------------------|--------------------------|--------------------------|
| | £ | £ | £ |
| At 1 January 2007 | 6,773,043 | 367,729 | 7,140,772 |
| Retained surplus for the year | <u>-</u> | <u>10,536,214</u> | <u>10,536,214</u> |
| At 31 December 2007 | <u><u>6,773,043</u></u> | <u><u>10,903,943</u></u> | <u><u>17,676,986</u></u> |