

CSI

ADMIN. RECORD

24 APRIL 1991

RESPONSE TO FIRST SERIES OF QUESTIONS (April 24, 1991)

RESPONSE TO FIRST SERIES OF QUESTIONS (April 24, 1991)

\* \* \*

April 24, 1991

QUESTION 1

A COMPLETE LIST OF ALL ENTITIES ASSOCIATED OR AFFILIATED, WHETHER BY OWNERSHIP, CONTRACTUAL AGREEMENT, OR OTHERWISE, WITHIN THE CHURCH OF SCIENTOLOGY ORGANIZATIONAL STRUCTURE (WHETHER OR NOT THE WORD "SCIENTOLOGY" APPEARS IN THE ENTITY'S NAME). THIS LIST SHOULD INCLUDE ALL DOMESTIC AND FOREIGN CORPORATIONS, TRUSTS, ASSOCIATIONS, AND UNINCORPORATED ENTITIES OR ACCOUNTS (INCLUDING ALL RESERVE ACCOUNTS), WHETHER RELIGIOUS, SECULAR, EXEMPT, NON-EXEMPT, NON-PROFIT OR PROFIT-MAKING. EACH ENTRY SHOULD INCLUDE A DESCRIPTION OF THE EXTENT (IN TERMS OF INCOME AND EXPENSES, STAFF TIME EMPLOYED IN ITS ACTIVITIES, ETC.) OF ITS OPERATIONS, AND A LIST OF ITS OFFICERS, DIRECTORS, TRUSTEES, AND STOCKHOLDERS.

The principal organizations to which this question relates are described in the Form 1023 Church of Scientology International ("CSI") filed in March 1990, a copy of which is enclosed as Exhibit I-1.<sup>1/</sup> That application includes an attachment of 69 pages describing the principal organizations within the referenced "organizational structure." You should let our representatives know of any specific questions you may have about any organization described there.

CSI's Form 1023 describes the churches and missions that minister the lower levels of Scientology religious services and lists the number of each within the United States and worldwide, but it does not name them. Each such church serves the same role and operates substantially identically to all other churches; each mission likewise is functionally identical to all other missions. You indicated that you were not interested in receiving a list of all such organizations so we have not provided that information.

There are a few miscellaneous Scientology organizations that were not specifically described in the Form 1023 because they are

---

<sup>1/</sup> Technically, there is no single entity known as the "Church of Scientology", but for convenience, we sometimes refer to the Scientology international ecclesiastical hierarchy of churches -- including ecclesiastical support and related social betterment organizations -- as the "Church of Scientology" or the "Church".

relatively insignificant in light of the overall hierarchy (though many were noted or described in other submissions). These organizations are:

1. WISE, Inc. WISE, Inc.,<sup>2/</sup> is a Delaware corporation used by Religious Technology Center ("RTC") as its interim nominee for registering Scientology religious marks in countries that do not recognize ownership rights of religious corporations or enforce their contracts. (It was described in the Form 1023 RTC filed on March 15, 1990.) In 1985, the Inspector General Network ("IGN") was formed to be the registered owner of the religious marks in such countries. The process of transferring registration of the marks from WISE, Inc., to IGN is ongoing; hence, WISE, Inc., is still the registered owner of the marks in a few countries, but this is its sole function. Once IGN becomes the registered owner of all the marks, WISE, Inc., will be dissolved.

WISE, Inc., has filed Federal corporate income tax returns on Forms 1120 since its incorporation in 1982. All of its shares are owned by IGN. It has never paid any dividends.

2. FSO OIC. FSO Oklahoma Investments Corporation is a wholly-owned for profit subsidiary of Church of Scientology Flag Service Organization ("CSFSO"). FSO OIC was formed for investment in oil and gas properties and real estate. It files Form 1120 corporate income tax returns and has never paid any dividends.

3. NEP subsidiaries. New Era Publications International, ApS ("NEP"), the Danish corporation which publishes and distributes the Scientology Scriptures outside of North America, carries on its activities in countries where it has major printing and distributing operations through locally-incorporated entities. (These subsidiaries were noted but not identified in CSI's Form 1023.) NEP's subsidiaries are:

N.E. Publications Australia Pty. Ltd.  
NEW ERA Publications Italia, S.r.l.  
NEW ERA Publications Japan, Inc.  
NEW ERA Publications Deutschland, Gmbh  
NEW ERA Publications France, SARL  
NEW ERA Publications UK, Ltd.  
NEW ERA Publications S.A. (Spain)

---

<sup>2/</sup> WISE, Inc., should not be confused with World Institute of Scientology Enterprises, a fellowship association of Scientology business men and business women, which has the acronym "WISE" and is discussed separately in the response to question 8.

NEW ERA Publications Israel (dormant)

None of these subsidiaries has ever paid a dividend.

4. ERA Dinamica Editores is a Mexican corporation that publishes and distributes the Scientology Scriptures in Mexico and Central America. Half of its shares are held by the Federacion Mexicana Dianetica ("the Federation"), a Mexican membership corporation whose members are local Scientologists. The other half are held by staff of the Federation as nominees for the Federation. Since Mexican law prohibits churches from incorporating, owning property, and exercising other important legal rights, Scientology's affairs are conducted in that country through secular corporations, as are the affairs of most other religions in Mexico. The Federation is the equivalent of a Scientology ecclesiastical management organization.

5. SOR Services Ltd. SOR Services Ltd. is a non-U.S. corporation which performs bookkeeping and banking services for three non-U.S. Scientology trusts -- Trust for Scientologists ("TFS"), which holds advance contributions to CSFSO from its non-U.S. parishioners; Scientology International Reserves Trust ("SIRT"), the principal non-U.S. entity for Church reserves; and Flag Ship Trust ("FST"), the trust formed to help effect the purchase of the vessel to house the Foundation Church of Scientology Flag Ship Organization ("CSFSSO"). These trusts are described in more detail in CSI's Form 1023 as well as in response to questions three, four and five, below. SOR Services files all required annual balance sheets and tax returns, as prepared by its accountants, Grant Thornton. All of its stock is owned by SIRT.

6. IAS service corporations. As discussed in CSI's Form 1023, IAS is a voluntary membership association formed to promote and preserve the Scientology religion worldwide. IAS is not part of the Church of Scientology hierarchy. It has its own separate board of directors elected annually from among its members, and it functions autonomously from CSI and the rest of the hierarchy. Nevertheless, information is provided herein about IAS because the Service has specifically requested it.

Because IAS is an unincorporated association, it is not a legal entity capable of holding property or carrying out legally cognizable activities and thus must rely on other entities to conduct its administrative and programmatic affairs. Thus, there are three non-U.S. corporations that carry out various activities on behalf of IAS pursuant to contract. One, Theta Management Limited, assists IAS by providing it membership services (correspondence, other direct mail and dues processing) and general banking and bookkeeping services. Another, Membership

Services Administration Ltd., functions as a relay point for incoming and outgoing mail and for dues, donations and other IAS receipts. It also handles the payment of fundraising commissions to membership tours and Field Disseminators which promote membership in and donations to IAS. The third corporation, International Membership Services Administration, N.V. (also called IAS Administrations), is responsible for membership communications and promotional activities, including publication and distribution of the IAS members' magazine IMPACT.

Each corporation's shares are held for the benefit of the IAS. Each corporation pays all required taxes and files all required tax returns and financial statements with the appropriate offices in their countries of incorporation; these returns and statements are prepared by their accountants, either Grant Thornton, or Coopers & Lybrand Dijker Van Dien.

7. European Association for Scientology, a Danish nonprofit membership corporation formed to facilitate membership functions in European countries that do not recognize unincorporated associations, was briefly mentioned in CSI's Form 1023. Its sole members are four European Churches of Scientology -- Church of Scientology Religious Education College (U.K.), Church of Scientology Advanced Organization Saint Hill Europe and Africa (Denmark), Church of Scientology of Sweden and Church of Scientology of Deutschland (Germany and Austria). Its annual financial statements are prepared by Deloitte, Haskins and Sells.

8. Danish Association of Scientologists is an association of Danish churches formed to coordinate matters of common interest among local churches and to appoint delegates to represent the Danish churches at the annual IAS convention. It has been ruled tax-exempt by the Danish authorities. Its sole members are the four Danish Scientology churches -- Church of Scientology Advanced Organization Saint Hill Europe and Africa, Church of Scientology Jylland (Arhus), Church of Scientology of Denmark and Church of Scientology of Copenhagen. Its annual financial statements are prepared by Deloitte, Haskins and Sells.

9. Mastertech is a California for-profit corporation which is wholly-owned by the World Institute of Scientology Enterprises ("WISE"). It is licensed by CSI (through WISE) to produce and sell the "How to Operate a Computer Course" which is an application of Mr. Hubbard's study technology to using a computer. Mastertech files Form 1120 Federal income tax returns and has never paid a dividend.

10. California Association of Dianetic Auditors ("CADA") is a nonprofit corporation created by CSI in 1987 to reserve that corporate name in order to protect the integrity of the religious

mark "Dianetics." It was and has remained a wholly dormant corporation.

11. RTC Australia - In 1986, RTC contemplated the establishment of continental level offices in California, the United Kingdom, Europe and Australia. RTC Australia was incorporated to be the Australian continental office and was recognized in Australia as tax exempt. RTC subsequently decided not to establish these continental offices. RTC Australia remains in existence although it is wholly dormant. It has minimal assets, has never received any income and has never paid a dividend.

These eleven entities, together with the entities discussed in CSI's Form 1023, constitute all of the entities presently in existence which can be considered as "affiliated" with Scientology. Attached as Exhibit I-2 is a list of the officers, directors, trustees and shareholders of each of the existing entities identified here or in CSI's Form 1023 which are part of the Church of Scientology ecclesiastical hierarchy as of April 24, 1991. A summary description of each of these organizations and the extent of its operations is provided in response to question 2.

A large number of Scientology organizations thus are no longer in existence. A question came up at the March 7 meeting with respect to some of these entities that no longer are in existence. Specifically discussed was IMU Services, Inc.,<sup>3/</sup> as well as certain entities about which the Service had raised questions late in the course of CSI's first exemption proceeding. The principal reason for these changes involved the consolidation of U.S. and non-U.S. Church reserve entities. Prior to 1989, there were a number of separate U.S. and non-U.S. reserve entities, primarily trusts, each for a specific reserve function. Most of these were dissolved before the end of 1988, leaving two U.S. entities -- Building Management Services, Inc., and Church of Scientology Religious Trust ("CSRT") -- and two non-U.S. entities -- Scientology International Reserves Trust ("SIRT") and

---

<sup>3/</sup> At the March 7 meeting, Mr. Owens suggested that the Service knew absolutely nothing about IMU Services, Inc. As our representatives discussed, however, IMU Services filed Form 1120 corporate income tax returns for all the years it existed -- 1985 through 1988 -- and recently had undergone an audit of its 1986-1988 taxable years by the Service's Jacksonville, Florida Examination Division. IMU Services has filed an action in the Tax Court to challenge the only adjustment proposed by the examining agents. See IMU Services, Inc. v. Commissioner, Tax Court No. 27695-90.

Flag Ship Trust. These four reserve entities are described in detail below in response to questions three, four and five. The various Scientology entities about which the Service has previously inquired which are no longer in existence, and the organizations receiving their assets on dissolution, are as follows:

<u>Dissolved Entity</u>	<u>Recipient</u>
IMU Services, Inc.	IMU Administrations ApS <sup>4/</sup>
International Scientology Films Trust	SIRT
International Scientology Religious Trust	CSRT
International SOR Trust	SIRT
Scientology International Missions Trust	Scientology Missions International
SOR Management Services, Ltd.	C of S Religious Education College, Inc. ("CSREC") <sup>5/</sup>
U.S. Churches of Scientology Trust <sup>6/</sup>	CSRT

---

<sup>4/</sup> IMU Administrations ApS itself was dissolved and its assets distributed to the Danish Association of Scientologists, described above.

<sup>5/</sup> CSREC is the corporation housing the Advanced and Saint Hill Organizations and other Church organizations in the United Kingdom.

<sup>6/</sup> As stated in its trust instrument, USCST was formed for the defense, propagation and dissemination of the religion. These are some of the many purposes for which central U.S. reserves are kept by CSRT. CSRT recently underwent an EP/EO examination in which the agent recommended no change in CSRT's section 501(c)(3) exempt status. That examination included 1988, the year in which USCST was dissolved and its assets transferred to CSRT; the examination specifically looked at all of CSRT's receipts as well as its disbursements.



## QUESTION 2

### AN ORGANIZATIONAL CHART SHOWING THE PLACE AND RELATIONSHIP OF EACH ENTITY IN THE STRUCTURE.

A single organizational chart is impracticable because of the number of different entities and the numerous and disparate relationships among them. Scientology is an international religion, encompassing many different functions and operating in 69 countries around the world. Instead, we have prepared and included four separate organizational charts, attached as Exhibits I-3 to I-6, one for each major function. Each separate chart shows, as requested, the place and relationship of each of the various entities in the ecclesiastical and corporate structure. Attached to each organizational chart, for your convenience, is a brief description of each organization shown on the charts. As you requested in question 1, these also include descriptions of the extent of each organization's operations through references to the size of the organization's staff and the size of its budget.

Exhibit I-3 is an organizational chart showing the entities directly involved in the ministry of religious services to individual parishioners, and their ecclesiastical supervisory bodies. This chart represents the heart of the religion -- more than 700 churches, missions and groups operating in 69 countries around the world.

Exhibit I-4 is an organizational chart showing the various entities involved in the support, defense and expansion of the Scientology religion; included are those entities that exist solely for reserve purposes, and certain entities which, in the course of their activities, use their funds and property in a manner that accomplishes reserve purposes.

Exhibit I-5 is an organizational chart showing the various entities which are responsible for the production, publication and distribution of religious materials, including the Scriptures and E-Meters.

Exhibit I-6 is an organizational chart showing the various Scientology entities that are involved in social betterment and other public benefit activities. This chart, however, does not include individual churches of Scientology, which themselves engage in social betterment and other community outreach activities such as anti-drug campaigns, environmental improvement and assistance to children, senior citizens, the homeless and other neglected individuals.

Exhibit I-7 is a summary description of the Scientology membership system, i.e. the IAS, various regional and national membership organizations and various membership service and support organizations, which are not part of the ecclesiastical hierarchy.

Exhibit I-8 lists various other Scientology organizations which, while not part of the ecclesiastical hierarchy, were described to the Service in CSI's Form 1023 or herein or about which the Service has expressed concerns.

### QUESTION 3

AN EXPLANATION OF HOW OPERATIONAL AND FINANCIAL AUTHORITY IS EXERCISED IN THE ORGANIZATIONAL STRUCTURE, INCLUDING A COMPLETE DESCRIPTION OF THE AUTHORITY ORGANIZATIONS AT THE HIGHEST LEVEL HAVE OVER MID-LEVEL AND LOWER-LEVEL ORGANIZATIONS, IRRESPECTIVE OF THE ACTUAL ACTIVITIES PERFORMED. THIS SHOULD ALSO INCLUDE A DESCRIPTION OF THE FLAG BANKING OFFICE SYSTEM AND THE AMOUNT OF CONTROL A FLAG BANKING OFFICER HAS WITH RESPECT TO HIS OR HER ASSIGNED ORGANIZATION.

### QUESTION 4

AN EXPLANATION OF WHO EXERCISES CONTROL OVER THE ENTITIES. SPECIFICALLY, WHAT INDIVIDUAL OR INDIVIDUALS HAVE DECISION MAKING AUTHORITY FOR ECCLESIASTICAL, CORPORATE, LEGAL, OR FINANCIAL MATTERS AFFECTING ALL OR SOME ENTITIES IN THE SCIENTOLOGY STRUCTURE. THIS EXPLANATION SHOULD DESCRIBE HOW CURRENT DECISION-MAKING AUTHORITY DIFFERS FROM THAT EXERCISED BY L. RON HUBBARD IN THE TIME HE CONTROLLED THE CHURCH.

QUESTION 5

A DESCRIPTION OF THE FLOW OF FUNDS OR OTHER ASSETS BETWEEN AND AMONG ENTITIES (INCLUDING RESERVE OR OTHER ACCOUNTS), WHETHER SECULAR OR RELIGIOUS, DOMESTIC OR FOREIGN. THIS SHOULD SHOW THE PATH AND ULTIMATE DESTINATION OF FUNDS SENT OVERSEAS. "FUNDS OR OTHER ASSETS" INCLUDES INTANGIBLES AND ALL FINANCIAL INSTRUMENTS, WHETHER OR NOT THEY ARE CONSIDERED CASH OR CASH EQUIVALENTS. FOR EXAMPLE, THE TERM INCLUDES NONNEGOTIABLE NOTES, UNENDORSED PERSONAL CHECKS, AND SECURITIES TRANSFERRED BETWEEN ENTITIES, WHETHER PHYSICALLY OR ELECTRONICALLY.

At the March 7, 1991 meeting, you determined that these questions were closely related and should be answered together. You also indicated that you were interested in decision-making authority involving the flow of funds and financial matters and not those relating to actual conduct of religious services or nonfinancial administrative or operational matters. Our representatives pointed out that detailed and extensive information on this authority had been provided to you in the exemption determination proceedings involving CSI, RTC and CST and in the church audit inquiry proceedings involving the Founding Church of Scientology of Washington, D.C., Church of Scientology Flag Service Org, Inc. ("CSFSO"), Church of Scientology of Boston, Inc., and Church of Scientology Western United States ("CSWUS").

What follows is a compilation of the information contained in these prior presentations, updated to reflect a few minor changes that have occurred since. First, we describe the general flow of funds, for both churches and non-church Scientology organizations, including how funds come in and how funds are then disbursed or placed in reserves. Second, we explain the authorization process for disbursements, including the disbursement of reserve funds.

Needless to say, the Church's ecclesiastical structure is too complex to portray the flow of funds to, among and from the various churches and their related organizations through any pictorial representation. After a great deal of experimentation, we have concluded that the best way to depict this flow is on an organization-by-organization basis. Consequently, attached as Exhibit I-9 is a table for each distinct church and nonchurch

organization within the hierarchy<sup>7/</sup> that identifies the nature and source of each significant receipt, the nature and recipient of each significant disbursement, and the relative percentage of each<sup>8/</sup> for the most recent year for which an annual financial statement is available for the organization (generally 1989).

The primary source of funding for the Scientology ecclesiastical hierarchy is its congregation -- the thousands and thousands of individual Scientologists throughout the world who contribute to their missions or churches in order to receive Scientology religious services, books and materials. Ecclesiastic management organizations like CSI, Scientology Missions International ("SMI") and International Hubbard Ecclesiastic League of Pastors ("IHELP") are supported by the churches, missions, and field ministers that they manage (by tithes in the case of SMI and IHELP and by management<sup>9/</sup> and film license payments in the case of CSI).

---

<sup>7/</sup> You previously indicated that you were not interested in specific information about Class V churches and missions; accordingly, we are including in Exhibit I-9 a sample Class V organization and a sample mission. Because the four Advanced and Saint Hill organizations -- housed in CSWUS, CSREC, Church of Scientology Advanced and Saint Hill Organization Europe and Africa and Church of Scientology, Inc. -- are operationally identical organizations, we have included in Exhibit I-9 only one such organization -- CSWUS -- as an example. The information included on Exhibit I-9 with respect to CSWUS is for the entire corporation, which also includes an intermediate level ecclesiastical management organization (the Continental Liaison Office Western United States), a separate division which provides accommodations for Church staff at the Church's main Los Angeles complex, and a Class V church organization.

<sup>8/</sup> We have compiled the attached tables from financial information for the various organizations in our possession. We, however, do not have detailed financial information with respect to most of these entities and, therefore, all percentages are approximations and not every source of receipts or recipient of disbursements can be identified. Nonetheless, we believe these tables present an accurate picture of the flow of funds. For convenience, any category of receipt or expenditure that makes up less than one percent of the total has been omitted.

<sup>9/</sup> The amount of management fees paid to CSI is determined weekly by each church's Flag Banking Officer in light of the amount owed CSI and the local church's own needs. The payment generally averages five to ten percent of local church's weekly receipts. Larger churches pay proportionately more.

The Church of Scientology's more secular-oriented organizations also rely on the general public for their financial support. The social betterment executive and management organizations derive their financial support from contributions and grants from the general public and from payments from local social betterment organizations for services or books. Local social betterment organizations and some national organizations are funded primarily by contributions and grants from the general public and grants from Scientology organizations. The church's publishing organizations -- New Era Publications International ApS and Bridge Publications, Inc. -- are supported primarily by sales of books, tapes and materials to Scientology churches and other organizations and, to a much lesser extent, sales to the trade.

Once funds are received by a church or other organization they become subject to Scientology ecclesiastical administrative policy and are administered through the Church's "Finance Network." The Finance Network is one of seven "networks" in the Scientology religion that perform specific functions necessary for expansion such as program development, execution and management and finance. Like the other networks, the Finance Network is administered by CSI's staff.

The Finance Network is responsible for all matters relating to the financial affairs of the hierarchical church, including budgeting and reserves. It coordinates the needs of the Church through weekly, monthly and annual budgets and financial planning throughout the entire network. The operation of the Finance Network is described in detail below by describing the flow of funds to a typical Scientology organization and by tracing the flow of funds to the higher level organizations and to the organizations which receive and expend reserves. This is followed by a description of the functions, activities and authority of CSI in relation to the finance and reserves systems.

The Flag Banking Officer ("FBO") is the ecclesiastical equivalent of a "Treasurer" or "chief financial officer" in the secular world and most often holds that corporate position. (The same position in a Scientology non-Church organization is called the "Finance Director.") The FBO is responsible for assuring that the church remains solvent and abides by Scientology administrative policy with respect to the expenditure of funds. The FBO has executive ecclesiastical authority and is at the same level as the church's senior executive officer. As chief financial officer, the FBO has final authority to approve or disapprove the church's weekly financial planning.

As discussed in more detail in CSI's protest, the financial staff personnel in the various churches have higher authority

than the other staff members of the church with respect to the matters under their authority. Each FBO therefore has superiors in the ecclesiastical hierarchy up through the Finance Network and ending with the CSI staff position of FBO International.

Missions, nonchurch organizations, and churches deposit the funds they receive directly in their bank accounts even though, in the cases of churches and missions, the services for which the funds were contributed may not be provided until far in the future. Two higher-level churches (CSWUS and CSFSO) forward their advance contributions to trusts established for the benefit of the contributors to hold until the contributor actually receives the services for which the contributions are made. This system ensures that the funds will be available in the event the parishioner desires that the contributions be refunded or applied to another purpose before the contributor actually receives the service. Two trusts have been established to administer these advance contributions.

One trust, United States Parishioners Trust ("USPT"), receives advance contributions of United States parishioners to both CSWUS and CSFSO and holds them in trust subject to appropriate instructions from contributors. USPT pays the advance contribution to CSWUS or CSFSO at the time the contributing parishioner receives the religious service in question unless the contributor directs that the contribution be transferred to another church of Scientology (so the contributor may obtain services there) or be refunded. USPT also holds bonds issued by CSFSO and BMS that are secured by mortgages on their properties, and it receives mortgage payments (including interest) from them. As required by USPT's trust instrument, it distributes any income earned on its corpus (including mortgage interest) for purposes of the Scientology faith that are consistent with section 501(c)(3).

The second trust, Trust for Scientologists ("TFS"), receives advance contributions from non-United States parishioners for religious services at CSFSO and holds them subject to the contributors' instructions. Like USPT, TFS will either pay the advance contribution to CSFSO when the contributor receives the religious service, or requests that the contribution either be transferred to another church or refunded. TFS also must distribute its income for purposes of the Scientology faith that are consistent with section 501(c)(3).

Each church initially banks receipts in one of several bank accounts the church maintains, called its "FO [Finance Office] No. 1 Account." The funds will stay in this account until the beginning of the following week, at which time they are transferred to other accounts according to Scientology

administrative policy. (These accounts are described below.) This policy requires that funds be allocated in a way that assures that the needs of both the specific church and the religion as a whole are met. Under this system, amounts are automatically allocated to certain expenditures pursuant to a weekly report form. (CSI provided you a copy of a typical weekly report form with its protest in the administrative proceeding for its first Form 1023.) This allocation includes recurring payments to other Scientology churches (such as film licensing fees to CSI, etc.) and the organization's own budget (called its "financial planning"), which is prepared on a weekly basis.

A church prepares its weekly financial planning (or "FP") at the close of each week on the basis of its receipts for that week. The FP is initiated at the "divisional level" Each Scientology church (and secular organization that follows Scientology administrative policy) is divided into seven Divisions, one for each facet of an effective program of religious activities (or charitable or educational activities in the case of nonchurch organizations). As the initial step, each of the church's seven divisions will prepare a budget for the anticipated expenditures of the division during the next week. When all these budgets are combined they constitute the church's proposed FP for the week. The proposed FP is reviewed by two staff committees -- the Advisory Council, which is composed of the heads of the church's seven Divisions, and the Executive Council, which is composed of the church's most senior staff members. The FP is accepted, revised or rejected on a line item basis, and the resulting FP becomes the authorization for church expenditures for the following week, subject to final approval by the FBO.<sup>10</sup> The FBO is responsible for assuring that the church's receipts for the week are actually disbursed as required by the allocation form and the approved FP.

---

<sup>10</sup> The preceding discussion assumes that the church corporation in question houses only one ecclesiastical "organization," as is the case for most churches. However, many church corporations higher in the ecclesiastical hierarchy house more than one ecclesiastical church organization within its corporate form. For example, CSFSO houses the Flag Service Org, which ministers services to parishioners, and the Flag Estates Org, which operates and maintains the physical facilities used by the Flag Service Org. When there is more than one ecclesiastical organization within a corporation, each organization will often have its own Treasury Division, Flag Banking Officer, bank accounts, etc, which often results in transfers of funds between accounts within the same corporation.

At the beginning of each week, the FBO will disburse funds from the church's FO No. 1 account to the appropriate recipient or other account in accordance with the FP approved for the week. The principal account receiving transfers from the FO No. 1 account is the church's "Main Account," from which funds are disbursed for the payment of its day-to-day costs and expenses in accordance with the FP. Another principal recipient account is the Book Account, which receives all funds derived from the sale of books, E-Meters and other items by the church bookstore that were deposited in the FO account. The only disbursements permitted from the Book Account are for the purchase of books and E-meters, the payment of book commissions and for a limited number of other church expenses. Other recurring principal disbursements include film licensing fees and management payments to CSI by all churches, tithes to SMI in the case of missions or to IHELP in the case of field ministers, and licensing fees to RTC for the use of the Advanced Technology, in the case of higher level churches. Such disbursements are identified in Exhibit I-9.

Scientology administrative policy requires that each church maintain the following additional accounts:

1. Local ("Org") Reserves. An account for reserves of the church for local purposes (such as the expansion of church facilities). This account is not the same as the central reserves system of the hierarchical church, which is discussed below.
2. General Liability Fund. An account for reserves for unanticipated liabilities, such as attorneys fees or other costs and expenses arising from litigation. Funds in the GLF account are intended for the particular purposes of the local church, rather than for the general purposes of the religion.
3. FSM Account. An account for the payment of Field Staff Member commissions for their assistance in fundraising.
4. SCA Account. It is the policy of the Church that parishioners who complete a religious service should receive a "Service Completion Award." Awards are disbursed from this account.
5. CVB Account. Amounts are deposited in a "Claims Verification Board" account whenever a parishioner requests the return of a fixed donation and are kept until the request is abandoned or met.



6. Reserved Payment Account. This account is used to set aside funds for payment of bills which are not yet due or which have been questioned as to amount or liability.

7. FO No. 2 Account. Amounts are deposited in this account to pay anticipated local expenses of missionaries sent to the church by a higher-level organization and for local expenses of higher level ecclesiastical organizations.

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

Like other hierarchical churches, the Scientology ecclesiastical hierarchy maintains a central reserves system to fund important long-term and extraordinary projects that benefit the entire faith such as capital development, dissemination and defense. These central reserves are managed within the ecclesiastical hierarchy's Finance Network by individuals serving on CSI's staff.

Reserves accounts are funded through different procedures, depending on the church or trust that owns the particular account in question. Most churches and IHELP participate in the reserve system indirectly through their weekly payments to CSI (which are credited against CSI's billings for ecclesiastical management services). CSI deposits these funds directly in its centralized reserves accounts and uses the funds for purposes that benefit the religion as a whole rather than for its own routine operating expenses. SMI and higher churches of the hierarchy -- CSWUS, CSFSO and Church of Scientology Flag Ship Service Organization ("CSFSSO") -- also fund their own reserves accounts directly. Each week, CSWUS, CSFSO and CSFSSO allocate their receipts among their operating expenses, including their licensing fees to RTC for use of the Advanced Technology and their film licensing and management fees to CSI, and any required payments to advance payment trusts (for CSWUS and CSFSO). These represent all of their recurring expenditures; any excess of receipts over these expenses is transferred directly to their reserves accounts. Nonchurch organizations like ABLE and WISE also directly fund their own reserves accounts, if they have one, with any excess funds they may have.

Scientology ecclesiastical policy would have all Scientology churches and organizations participate in the central reserves system. In practice, however, the primary contributors to Scientology reserves are CSI, CSFSSO, CSFSO, CSWUS, SMI, and

WISE.<sup>11/</sup> In addition, three Scientology religious trusts and one corporation participate in the reserves system by functioning like special endowment and grant-making entities or by holding, managing or financing real estate. These four reserves entities are:

1. Church of Scientology Religious Trust ("CSRT"). CSRT holds the mortgages on several buildings owned by various churches of Scientology (Churches of Scientology of Austin, Buffalo, Las Vegas, Philadelphia, Sacramento, San Francisco and Santa Barbara) for which it receives mortgage payments (including interest income). CSRT also receives contributions from individual Scientologists. CSRT makes grants to individual churches (including CSI), finances long-term or extraordinary real estate projects, and generally uses its funds to further the religion. As noted above, CSRT has been recognized as exempt under section 501(c)(3) and has successfully completed an examination of its tax status with the recommendation by the examining agent that there be "no change" in its status or operations.

2. Scientology International Reserves Trust ("SIRT"). SIRT essentially performs the same function as CSRT except that it serves non-U.S. entities. For example, SIRT holds mortgage loans to Scientology churches in Canada, Europe and Australia, which now pay SIRT on their debt as they can. SIRT uses its funds for the defense and dissemination of the religion and for real estate projects. Most of its disbursements have been to pay the legal defense costs of churches and church staff located in foreign countries.

3. Flag Ship Trust ("FST"). FST holds funds dedicated to the furtherance of the Scientology faith contributed by Scientologists throughout the world. FST also effected the purchase of the Scientology ship, the Freewinds, and is the sole shareholder of three corporations that perform the secular functions necessary to support an on-vessel church. FST now uses its endowment to fund grants to Scientology churches to finance real estate projects and general operations.

---

<sup>11/</sup> While the reserves of nonchurch entities such as WISE and ABLE are under the ecclesiastical supervision of the Reserves Committee, their reserves are used only for their own secular purposes.

4. Building Management Services ("BMS"). BMS is an integrated auxiliary of CSI and holds title to buildings in Southern California leased by CSI, BPI, CSWUS, CCI, CSLA, SMI, WISE, ABLE and CSC. It pays USPT interest on bonds that these properties secure.

In general, each of the churches, trusts and other organizations identified above maintains reserves in at least two separate U.S. dollar bank accounts: one local account (usually in Los Angeles) and one in Luxembourg. Some churches and nonchurch organizations maintain separate reserve accounts for the foreign currencies they hold. Lower churches generally maintain only local accounts, although occasionally they also may maintain an account in Luxembourg (none do currently). The two trusts for advance contributions, USPT and TFS, while not technically reserves entities, also maintain accounts in Luxembourg.

The specific such accounts (which may not necessarily have credit balances) maintained by the principal church corporations and trusts are:

	<u>Local Account</u>		<u>Luxembourg Account</u>	
	<u>Dollars</u>	<u>Other Currencies</u>	<u>Dollars</u>	<u>Other Currencies</u>
CSI	Yes	No	Yes	Yes
SIRT	No	No	Yes	No
CSRT	Yes	No	Yes	Yes
FSSO	Yes	Yes	Yes	Yes
FSO	Yes	No	Yes	Yes
CSWUS	Yes	No	Yes	No
SMI	Yes	No	Yes	Yes
WISE	Yes	No	Yes	Yes
ABLE	Yes	No	Yes	No
USPT	No	No	Yes	No
TFS	No	No	Yes	No
BMS	Yes	No	Yes	No
FST	No	No	Yes	No
Majestic	Yes	Yes	Yes	Yes
IPT	No	No	Yes	No
San Donato	No	No	Yes	No
Transcorp	No	No	Yes	No
SOR Services	Yes	Yes	Yes	No

The ecclesiastical body within the hierarchical church's Finance Network with primary responsibility for managing central reserves is the Reserves Committee. At present, each member of the Reserves Committee is a full-time staff member of CSI holding

a high ecclesiastical position. The purpose of the Reserves Committee is to ensure that central reserves are kept safe, expended only for purposes of the religion, and are increased to assure continued expansion of the church and broader defense and dissemination of the religion. A principal function of the Reserves Committee is to approve or reject on a line item basis weekly proposals for expenditures from central reserves. This weekly budget is compiled from all requests from all churches for any funding from central reserves.

A proposal for an expenditure from central reserves generally is prepared by a staff member responsible for the activity or purchase for which funding is being requested and sets forth complete details of the proposed expenditure (including how it will further the goals of the religion and the church). The proposal is initially reviewed by the immediate seniors of the staff member who prepared it and eventually by the organization's Advisory Council and Executive Council. The proposal then is sent to the Reserves Committee along with any other proposals from that church.

The Reserves Committee itself consists of five CSI staff personnel -- WDC Chairman, WDC Reserves, International Finance Director, SOR Chief, and Reserves Board Finance Officer. The specific responsibilities and functions of each of these members are:

1. WDC Chairman. WDC Chairman, CSI's most senior ecclesiastical official, chairs the Watchdog Committee ("WDC"), which oversees the ecclesiastical management structure of the Church. WDC Chairman serves as the chief executive officer of WDC.

2. WDC Reserves. WDC Reserves is CSI's highest ecclesiastical authority with respect to central reserves. WDC Reserves is the member of WDC who oversees the finance network and reserves system of the religion. WDC Reserves has the responsibility of keeping WDC informed as to all financial matters of the Church.

3. International Finance Director. The International Finance Director is the senior ecclesiastical official of the International Finance Office. The International Finance Director oversees operation of the International Finance Network, which supervises all financial planning and financial operations for the hierarchical church and has ultimate responsibility for managing the receipts, expenditures and reserves for the hierarchical church. The functions and activities of the various components of the International Finance Office are explained in

Exhibit I-10, which had been included with the protest CSI filed in its initial proceeding.

4. Sea Org Reserves Chief. The Sea Org Reserves Chief ("SOR Chief") is responsible for supervising the use of funds in central reserves. Since a major use of central reserves is to purchase or renovate real estate, one of SOR Chief's most important duties concerns the status of the church's needs with respect to land and buildings. The SOR Chief directly supervises staff with responsibility to coordinate the real estate needs of the various churches. The SOR Chief also assures that sufficient funds in the reserves budget are allocated for broad dissemination.

5. Reserves Flag Banking Officer. The Reserves Flag Banking Officer ("RFBO") (formerly called Reserves Board Finance Officer) is responsible for collecting all separate budgetary proposals into a single budget and for overseeing actual expenditures from reserves. The RFBO prepares the weekly budget for approval and presents it first to the full Watchdog Committee meeting as a Financial Planning Committee. Once the Committee approves the budget, with or without changes, the RFBO presents it to the Reserves Committee for final approval. One of the RFBO's important duties is to monitor projects that depend or will depend on reserves for financing, including those in the earliest stages of planning. This function benefits both the Reserves Committee -- by keeping it informed of anticipated needs -- as well as the organization preparing the proposal -- by giving its personnel realistic guidance on financial matters early on in the planning process.

Ideally, proposals for expenditures from central reserves will be prepared long before the expenditure is necessary so they can be incorporated into the Finance Network's annual budget projections for large, known expenses and into proposed projects for the upcoming year. These long-term budget projections are used to establish a stable base against which more detailed budgets are developed for each month and week of the ensuing year, as well as for coordinating with management on planning and execution. However, since the need for funding from central reserves can arise at any time during the year, organizations often submit their proposals for reserves expenditures when the need arises. Regardless of when submitted, all proposals are processed by the Reserves Committee under the same procedure, as outlined above.

The Reserves Committee does not have unfettered control over reserves accounts, however, if a proposal involves any large, unusual expenditure for a particular church or trust, it must be approved by the Board of Directors or Trustees of the church or

trust concerned, but only after ecclesiastical approval by management and financial approval by WDC and the Reserves Committee.

Once the Reserves Committee has approved the weekly reserves budget, staff are authorized to activate their plans, incur the expenses, and monitor expenditures to ensure they are kept within the approved budgeted amount. Bills incurred against previously approved weekly reserves budget are sent to the Reserves Disbursements Officer, who coordinates disbursements from reserves accounts and arranges for their payment pursuant to Scientology administrative policy.

Religious Technology Center ("RTC"), being the owner of the Scientology religious marks, is vested with ultimate ecclesiastical authority and responsibility to preserve, maintain and protect the religion. RTC does not participate directly in the Scientology central reserves system. However, RTC approves any major planning by CSI that affects the use of the Scientology marks, which would include projects affecting the marks requiring major disbursements from Reserves for funding.

The method of funding very large expenditures varies depending on the facts of the particular proposal. Some proposals include requests to set aside funds towards a large purchase or program that will not be implemented until the future, usually within six months. Funds approved for set asides towards a future expenditure may be retained in a separate bank account called the "Reserve Payment Account." When a very large disbursement is anticipated for the future, such as the purchase of a multi-million dollar building, but the exact property, payment date or purchase price is not yet determined, funds will be built-up in reserves for the large purchase even though not necessarily placed in a segregated account. Similarly, if the expenditure will be made in stages over a long period of time, as with the renovation of a building or certain dissemination programs, funds also will be built-up in reserves, though not necessarily placed in a separate account. Here, amounts will be drawn down regularly as approved in the weekly disbursements.

Thus, disbursements from a church's reserves account generally go directly toward a particular project or program. Disbursements from CSFSO's reserves accounts, for example, may fund a dissemination project by purchasing air time on television stations in the United States to broadcast a program or spot on the classic introduction to the religion -- the book Dianetics: The Modern Science of Mental Health. Or CSFSO may use disbursements from its reserves account to finance the acquisition of a church building in Clearwater, Florida. Whatever the particular purpose, any disbursement from a church's

reserves account also will be reflected on the church's own financial statements.<sup>12/</sup>

QUESTION 6

AN EXPLANATION OF THE DISTRIBUTION OF THE ASSETS OF THE UNITED STATES CHURCHES OF SCIENTOLOGY TRUST, WHICH WE UNDERSTAND WAS DISSOLVED IN 1988. THIS SHOULD INCLUDE A DESCRIPTION OF ALL RECIPIENTS AND THE USE TO WHICH THE ASSETS HAVE BEEN PUT. THE EXPLANATION SHOULD IDENTIFY ANY ENTITY OR ENTITIES THAT HAVE TAKEN OVER FUNCTIONS FORMERLY PERFORMED BY THE UNITED STATES CHURCHES OF SCIENTOLOGY TRUST.

See response to question 1 and n.6, supra.

QUESTION 7

AN EXPLANATION OF ANY COMMISSION COMPENSATION SYSTEMS USED BY SCIENTOLOGY ENTITIES. THIS SHOULD INCLUDE A DESCRIPTION OF INTERNAL CONTROLS, IF ANY, TO INSURE THAT ALL INCOME TAX REPORTING REQUIREMENTS ARE MET FOR COMMISSIONS PAID.

The commission compensation systems used by Scientology organizations have been described to the Service in detail on a number of occasions. Two types of commissions are paid.

First, church staff whose duties involve them in such matters are entitled to receive small commissions on their sales to parishioners of religious literature and materials; such commissions are paid from church payroll accounts and are reported to the IRS as part of such individuals' W-2 compensation.

Second, individual Scientologists called Field Staff Members ("FSMs"), most of whom are not on staff of any church organization, proselytize the public and direct those interested to the nearest church. For these services, churches compensate their FSMs ten percent of amounts such parishioners contribute for religious service and 15 percent of amounts contributed for

---

<sup>12/</sup> Accordingly, reserves disbursements are reflected in the various disbursement line item categories listed in the cash flow tables included herein.

religious (ministerial) training.<sup>13/</sup> FSMs are compensated only when the individual begins receiving services, not when the donations actually are made. In addition to placing the commissions system in its appropriate context,<sup>14/</sup> this also serves to assure that commissions are paid only to those who truly earn them. FSM commissions paid to individuals are reported on Form 1099s when required; no reporting of commissions paid to Churches and church corporations is required.

There are adequate financial controls to assure that commissions are properly reported to the IRS. FSM commissions are paid from segregated bank accounts solely for these purposes, which serves to assure that such payments are properly reported. The individuals with signatory responsibility for such accounts also are corporately and ecclesiastically responsible for the preparation and filing of the required tax returns. Their superiors within their own churches oversee their work to assure that returns are prepared, and CSI occasionally queries subordinate churches to assure that all such filings have been made.

Additional financial controls are currently being implemented. Much of the financial record keeping for church organizations has now been computerized, and revisions to current programs are underway that will allow for the automatic transfer of payroll and FSM commission data for preparation of the required returns, including automatic reminders of filing requirements. In the FCDC church tax examination and the 1988 on-site review of RTC and CST financial records, the agents reviewed the churches' employment tax compliance, looking at both the reporting of staff compensation and commissions to third parties. In no case did the agents find anything requiring adjustment, much less anything reflecting on these churches' qualification for tax exemption under section 501(c)(3).

---

<sup>13/</sup> Where the individual who performed FSM services is on staff at another church or church organization, the commission for those services is paid not to the individual actually rendering such services but to his or her employing church and is used for welfare of all of that church's staff.

<sup>14/</sup> The event which triggers payment of an FSM commission is the receipt of religious services by the individual, not merely the payment of money. Thus, FSMs are motivated to follow through to see that individuals making advance donations actually receive religious services. This also directly contradicts the assertion often made by the Service that the commission system evidences a purpose to make money for its own sake, without regard to whether religious services ever are taken.



If you have any other questions about commissions please let us know.

#### QUESTION 8

A DESCRIPTION OF ALL SERVICES OR PRODUCTS OFFERED. THIS INCLUDES ALL AUDITING, TRAINING, MOTIVATIONAL COURSES, PUBLICATIONS, AND BUSINESS COURSES, WHETHER SECULAR OR RELIGIOUS. INCLUDE PRICE LISTS, A DESCRIPTION OF THE METHOD OF PRICING, AND A DESCRIPTION OF THE ENTITIES THROUGH WHICH EACH SERVICE IS OFFERED.

During the meeting on March 7 you stated that you did not wish to receive additional copies of information about courses, publications and prices that already had been provided to the Service. Nevertheless, CSI has submitted substantial information in the past that satisfied Service representatives as to the noncommercial character of Scientology operations. In CSI's first exemption determination proceeding it filed a separate submission (the "Commercialism Submission") specifically addressing, inter alia, donation rate and pricing policies for Scientology religious services and materials; the material facts and legal principles regarding the issue of "commercialism" have not changed since then. Thus, we are including as Exhibit I-11 another copy of that submission.

The Commercialism Submission shows that the policy for setting contribution rates and prices is very simple -- all prices and fixed contribution rates are set to enable churches to continue to provide their religious services, Scriptures and other materials of the religion to more and more members of the general public. In short, Scientology, like all other religions, simply seeks to raise sufficient funding to support an ever growing ministry and program of religious and community services. Like the Mormon Church, the Church of Scientology has decided that a mandatory system of fixed contributions is the most appropriate way to fund its program.

This policy manifests in the basic criteria that the fixed price or contribution amount be affordable to a broad segment of the general public and that it produce a sufficient return to enable the church to continue to carry out its religious program and minister to an ever-growing congregation. These amounts are not unreasonable. CSI's Commercialism Submission included affidavits from prominent experts that rates for religious materials and Scriptures were reasonable and in many cases substantially less than what could be justified were the purpose to maximize profits, and that the rates for royalties payable to

Mr. Hubbard during his lifetime for sales of his books and other properties were reasonable.<sup>15/</sup>

It appears from statements at the March 7 meeting that the Service's present concerns involve the World Institute of Scientology Enterprises ("WISE") and the Service's erroneous belief that churches of Scientology provide nonreligious business courses. Both concerns appear to reflect a fundamental misconception of the nature and applicability of Scientology religious beliefs and practices.

Scientology is not something that its adherents practice for an hour or two one day a week. Rather, it is a body of knowledge and system of beliefs which translate into a way of life for every moment of a human's experience. Scientologists put into practice their beliefs in everything they do in their lives. Indeed Scientologists by Scriptural definition, are individuals who apply principles of Scientology to better themselves and to better conditions for others.

The Church ministers religious services to its parishioners to raise their spiritual awareness and abilities and advance them to higher states of being. These services do not, however, address the individual in isolation from the world in which he lives. In the Scientology religion, man is perceived as a spiritual being, existing and interacting across eight dynamics: self, family and sex, his group, mankind, the universe of plants and animals, the physical universe, the spiritual universe and the Supreme Being. An individual's existence and survival with respect to the groups he is part of (including his or her job or business) constitutes the individual's third dynamic.

A substantial body of Scriptural materials within the Scientology faith establishes detailed principles and techniques for interacting with and being a member or leader of a group.

---

<sup>15/</sup> No expert approached felt qualified to give an opinion on the reasonableness of the fixed contribution amounts set for religious services. This is not surprising, since parishioner tithing is one of those purely ecclesiastical matters that the establishment clause insulates from governmental interference; indeed, the suggestion that donation levels for Scientology services are set to "maximize profits" implicitly questions the religious character of the services. You might note, however, that CSI's Commercialism Submission (at pages G61 to G64) showed that the fixed amounts set for religious services from 1980 to 1987 decreased by an average of 66 percent (adjusted for inflation) rather than substantially increased, as the Service had contended.

These principles largely derive from Mr. Hubbard's research and codification of policies and techniques for the administration and managing of churches. The material is applicable, however, to any group, large or small, including one's job, club, nation, circle of friends and any other activity that involves more than one person.

Many staff members of Scientology organizations attend courses on this administrative technology to learn these principles so they can apply them in carrying out their duties. Although the material in these courses was written by Mr. Hubbard specifically for the management of churches, the principles it embodies are equally applicable to any third dynamic (group) activity.

For example, the Organization Executive Course, which is offered at some churches, consists of eight separate courses: one for each division of the Scientology organizing board, plus one course covering the basics of serving at any position within a Scientology organization. (CSI described the Scientology organizing board in its July 3, 1986 protest at page B24 and has supplied the Service with examples of organizing boards in prior proceedings. Examples were included in the booklet Your Guide to Management provided as Exhibit B5 of the July 3, 1986 protest, and again during the on-site review proceedings and more recently in the Command Channels Booklet which was provided with CSI's 1023 application filed in March 1990.) The Organization Executive Course includes principles of administration, communication, production, personnel, ethics and justice, finance, staff training, delivery of services, personnel enhancement and correction, dissemination, executive actions and duties, etc, which, if applied, would help each of us achieve ethical and orderly administration in all of our group activities. It is only natural that an individual would like to attend courses on such topics and use the knowledge and principles they learn in their own endeavors. The use of Scientology principles in this manner directly advances CSI's exempt religious purpose of improving life in a troubled world.

This is not an unusual practice -- many, many churches around the country provide similar services to their parishioners. The First Presbyterian Church of Evanston for example, offers a conference for a fee for "Leaders in Training," to help "improve their skills in decision-making, teamwork and motivational leadership." Exhibit I-12. The United Methodist Church helps sponsor workshops for teachers on "Skill Development," "Setting Goals, Recruiting, Evaluating" and "Administrative Evaluation, Use of Computers." Exhibit I-13. The Oregon Conference of Seventh-Day Adventists offers a "'Love Takes Time' Marriage Retreat" to help nurture its parishioners'

love lives. Exhibit I-14. And the Valley Presbyterian Church in Scottsdale has a course on "Family Communications," covering such topics as "How to Get Your Needs Met Through Communication," "Techniques for Better Communication" and "Solving Individual Problems." Exhibit I-15.

WISE is a nonprofit religious corporation that performs several functions important to the furtherance of the Scientology religion.<sup>16</sup> WISE is a religious fellowship association of Scientology businessmen and businesswomen. WISE serves to assure that its members do not interfere with activities of their local churches by encouraging them not to have any business presence on church premises. It instills a more ethical influence to the resolution of business disputes by providing members chaplain and arbitration services in accordance with Scientology religious principles. It insulates churches from the business activities of Scientologist-owned businesses by serving as the responsible entity for licensing marks related to the religion to certain businesses (such as manufacturers of Scientology religious jewelry), and by licensing marks associated with L. Ron Hubbard's name to members who use these marks in their businesses, primarily in consulting with other businesses in the area of business management, administration and finance.

WISE does not offer courses on the administrative principles and techniques developed by Mr. Hubbard, though it has in the past. WISE is in the process of transferring the educational activities it previously conducted to a newly-organized nonprofit corporation, Hubbard College of Administration, which will offer courses, workshops and seminars on Mr. Hubbard's organizational management technology to the general public. (We understand that the College will be applying for tax exemption under section 501(c)(3) in the near future.) As a result of this transfer, WISE's functions now are exclusively religious rather than both religious and educational.

---

<sup>16</sup> Although organized as a nonprofit corporation, WISE has filed a corporate tax return on Form 1120 every year it has existed.

QUESTION 9

AN EXPLANATION OF THE FINANCIAL REPORTING SYSTEM USED TO MAINTAIN CONTROL AND PREVENT PRIVATE BENEFIT OR INUREMENT AT ANY ORGANIZATIONAL LEVEL. THIS SHOULD INCLUDE AN EXPLANATION OF HOW THE SERVICE COULD, WITH AS LITTLE INTRUSION AS POSSIBLE, EXAMINE THE ACCOUNTS TO ENSURE THAT CONCERNS ABOUT INUREMENT, COMMERCIALITY, PUBLIC POLICY, AND INTEGRITY OF RECORDS ARE ADDRESSED.

During the March 7 meeting, you agreed to defer this question pending your review of the responses to the other questions. Nevertheless, in light of the Service's often-expressed concerns about the integrity of Scientology organizations' financial records, we attach as Exhibit I-16 a statement from Grant Thornton which describes the extent to which they have become familiar with the recordkeeping systems required by Scientology administrative policy and the extent to which they have used those records in preparing tax and financial statements for specific U.S. Scientology organizations (including CSI). It also should be emphasized that overseas offices of Grant Thornton prepare the tax returns and financial statements required by law of a number of non-U.S. Scientology organizations.<sup>17/</sup> Grant Thornton personnel have expressed to the Service on a number of occasions their high level of confidence in the accuracy and verifiability of the financial records of Scientology organizations.

QUESTION 10

IN RESPONDING TO THE QUESTIONS HEREIN, AND PARTICULARLY QUESTION 5, PLEASE PROVIDE YOUR BEST ESTIMATE AS TO ACTUAL DOLLAR AMOUNTS.

Attached as Exhibit I-17 is a supplement to Exhibit I-9 converted to dollar amounts.

---

<sup>17/</sup> In addition, other accounting firms, including Deloitte, Haskins & Sells, Mazars, and Coopers & Lybrand (Dijker Van Dien), prepare annual financial statements and/or tax returns of many other non-U.S. Scientology entities, as required by the laws of the various countries.