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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.

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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.

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-3

CHURCH OF SCIENTOLOGY INTERNATIONAL
Analysis of Financial Money Flows
1989

<u>RECEIPTS</u>	<u>SOURCE(S)</u>	<u>PERCENT</u>
CONTRIBUTIONS	CSFSO, CSRT	44%
MANAGEMENT PAYMENTS	ALL SCIENTOLOGY ORGS	25%
RESALEABLE ITEMS	ALL SCIENTOLOGY CHURCHES	17%
FILM LICENSING FEES	ALL SCIENTOLOGY ORGS	6%
DISSEM PRODUCTS	ALL SCIENTOLOGY ORGS	3%
COMPUTER SALES/SERVICE	ALL SCIENTOLOGY ORGS	1%
<u>DISBURSEMENTS</u>	<u>RECIPIENT(S)</u>	<u>PERCENT</u>
OPERATING EXPENSES	COMMERCIAL VENDORS	41%
PURCHASES FOR RESALE	BPI, COMMERCIAL VENDORS	20%
STAFF WELFARE	CSWUS, BPI, FREEWINDS, CCI, COMMERCIAL VENDORS	11%
SALARIES	STAFF	6%
PAYMENTS PURSUANT TO TRADEMARK AGREEMENT	RTC	5%
RENT	BMS	5%
DISSEMINATION	CCI, BPI, CSWUS, C of S AOSH EU & AF, COMMERCIAL VENDORS	5%
PHONE	CSWUS, FCDC, COMMERCIAL VENDORS	2%
UTILITIES	CSWUS, COMMERCIAL VENDORS	2%
INSURANCE	CSWUS, COMMERCIAL VENDORS	1%
ROYALTIES	AUTHOR'S FAMILY TRUST	1%

AUTHOR SERVICES INC.
Analysis of Financial Money Flows
1989

<u>RECEIPTS</u>	<u>SOURCE(S)</u>	<u>PERCENT</u>	<u>US\$ AMOUNT</u>
MANAGEMENT FEES	AUTHOR'S FAMILY TRUST	99%	\$1,998,583

<u>DISBURSEMENTS</u>	<u>RECIPIENT(S)</u>	<u>PERCENT</u>	<u>US\$ AMOUNT</u>
OPERATING EXPENSES	COMMERCIAL VENDORS	52%	\$1,015,003
SALARIES	STAFF	44%	\$850,939
TAXES PAID	IRS & FTB	4%	\$85,326

Commercial
Vendors

AUTHOR'S FAMILY TRUST
Analysis of Financial Money Flows
1989

<u>RECEIPTS</u>	<u>SOURCE(S)</u>	<u>PERCENT</u>	<u>US\$ AMOUNT</u>
SALE OF BOOKS & PRINTS	PUBLIC. SCIENTOLOGISTS	36%	\$9,014,353
ROYALTIES	NEW ERA, BPI & CSI	52%	\$12,909,121
BANK INTEREST	COMMERCIAL BANKS	12%	\$3,101,005
<u>DISBURSEMENTS</u>	<u>RECIPIENT(S)</u>	<u>PERCENT</u>	<u>US\$ AMOUNT</u>
PURCHASES FOR RESALE	ARTISTS AND COMMERCIAL VENDORS	30%	\$3,580,156
OPERATING EXPENSES	COMMERCIAL VENDORS	9%	\$1,040,438
TAXES PAID	IRS & FTB	4%	\$527,143
MANAGEMENT FEES	AUTHOR SERVICES INC	16%	\$1,927,383
CHARITABLE DONATION	CHURCH OF SPIRITUAL TECHNOLOGY	41%	\$5,000,000

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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?

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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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28

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?

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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.

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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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