

Question 4(d)

Please describe the method by which funds payable to CSI were directed from CSI to CSRT, including the amounts and the reasons therefor. who ordered this direction and who carried it out? Please provide copies of any documents relating to this matter. Has any similar direction involving any Scientology related organization occurred since 1986? If so, please describe in detail, including dates, amounts, entities involved, and the reasons(s) therefore.

QUESTION 4 d. CONTRIBUTIONS BY US

CHURCHES TO CSRT

In early 1982, shortly after the establishment of CSI as the Mother Church of the Scientology religion on December 10, 1981, its several senior staff personnel conducted a review of ecclesiastical policy to determine how it should receive necessary funds to operate. There are specific requirements in Church policy regarding how management organizations should be financially supported.

One key policy is that management organizations must be supported by their nearest service organization (a service organization is one that ministers religious services to the public) in terms of relative position in the ecclesiastical hierarchy and in distance. In the case of CSI, the nearest service organization is Church of Scientology Flag Service Org ("CSFSO"), the highest service organization in the ecclesiastical hierarchy.

Thus, it was determined that Scientology policy called for CSFSO to fund CSI's day-to-day expenses. However, CSI also looked to other churches for support in exchange for ecclesiastical services and religious materials that it would provide. But CSI determined that their funding should be deposited in a reserve to pay for programs to benefit the entire religion, which also is a scriptural requirement regarding the use of such funds. However, due to governmental considerations in other countries, most foreign churches had to pay CSI directly for any services it provided them. Thus, as a practical matter, only United States churches could directly fund such a reserve.

Thus, in consultation with counsel, CSI executives proposed a structure under which CSFSO would provide for CSI's day-to-day operating expenses; United States churches would make their payments against management billings to Church of Scientology Religious Trust ("CSRT"), which would accumulate the funds to use

for the overall benefit of the religion, independent of the needs of any particular church; and foreign churches would pay CSI directly for their management billings, which funds CSI would apply for the benefit of the religion as a whole. Since CSI already had received management payments from the United States churches since its formation, CSI would transfer an amount equal to what it had reserved along with interest for the period in question, to CSRT once the arrangement was finalized.

WDC approved the plan, and it was implemented. Over the years, CSRT did accumulate funds which have been of great benefit to achieving the goals of the religion by enabling different churches to purchase or renovate buildings, assisting dissemination programs and has provided grants and loans to other Churches of Scientology in need of financial assistance. Unfortunately, CSI's operating cost became higher than anticipated and the support provided by the foreign churches and by CSFSO was barely sufficient to cover CSI's day-to-day operating costs, let alone the costs of projects of benefit to the religion as a whole.

Thus, in mid-1985, CSI executives reviewed this finance system with Church attorneys and determined it to be unworkable. Accordingly, they decided that CSI should receive payments directly from United States and foreign churches, as well as from CSFSO. CSI thereupon sent letters to all United States churches instructing them to stop sending their payments to CSRT and to begin paying CSI directly. (However, several churches inadvertently continued to send CSRT small payments on different occasions for several years after 1985.)

Between 1981 and 1988, CSRT received a total of \$31,542,084 from United States churches (including the amount CSI had previously received and transferred to CSRT after the arrangement was finalized). The total funding CSRT received from the churches included their payments for CSI's ecclesiastical management services as well as outright contributions, as follows:

	PAYMENTS FOR SERVICES	MANAGEMENT CONTRIBUTIONS	TOTAL
1981	3,535	- 0 -	3,535
1982	3,431,465	- 0 -	3,431,465
1983	8,403,368	909,563	9,212,931
1984	7,963,945	6,653,875	14,617,820
1985	3,906,502	357,707	4,264,200
1986	10,618	- 0 -	10,618
1987	- 0 -	- 0 -	- 0 -
1988	<u>1,506</u>	- 0 -	1.506
TOTALS	23,720,939	7,821,145	31,542,084

CSI reported the payments made to CSRT for its management services as income under assignment of income principles on the Forms 1120 it filed with the IRS under protest on November 7, 1988.

Following is a summary of the documents pertaining to this funding system.

1) On June 17, 1982, The Watchdog Committee issued Watchdog Committee Executive Directive 65. This issue stated the basic funding system described above and also described its rationale under the Scientology Scriptures. (A copy of the Executive Directive is attached as Exhibit II-4-K).

2) On June 21, 1982, the Board of Directors of Church of Scientology International approved entering into an Agreement for Services with all United States Churches of Scientology. The agreement provided that payments for services would be directed to CSRT, rather than CSI. Attached as an exhibit to this minute was a sample management agreement. (A copy of this Minute Agreement is attached as Exhibit II-4-L).

3) During the next few months, CSI entered into agreements with US Churches as described above. (A sample agreement is attached as Exhibit II-4-M).

4) In December 1982, CSI paid over to CSRT the sum of all payments that it had received directly from United States churches between December 10, 1981 and June 17, 1982 (included in the repayment were a few payments which were inadvertently sent to CSI after the June 17th date) . (A copy of CSI's confirming letter and the attached schedule of payment is attached as Exhibit II-4-N).

5) In 1985, CSI informed all US Churches by letter that their payments were henceforth to be sent directly to CSI. (See a copy of this letter attached as Exhibit II-4-0).

Since 1986, there have not been any similar directions involving any Scientology-related organization.

IRS National Office Technical Division personnel were aware of the implementation of this funding method; CSI provided a copy of WDC Executive Directive 65 to them in the course of its exemption proceeding and they attached a copy of the directive to the initial Adverse Letter they issued to CSI on January 7, 1986.