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Certified Public Accountant

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April 23, 1984

Church of Scientology International
4633 Fountain Avenue
Los Angeles, California 90029

Gentlemen:

During the course of our systems and control studies at various orgs, we made observations from which the following comments are derived.

Cash Management

It is our belief that the Church should undertake a Cash Management Study which we feel can probably lead to generating hundreds of thousands of dollars more income than is now being realized. Our firm would be pleased to work with the Church in the conduct of a Cash Management Study. The study would encompass, among other things, the following:

1. The manner in which funds (checks and cash) are moved throughout the various orgs and banking systems. It is our observation that substantial amounts of interest are being lost by funds not being deposited on as timely a basis as they might be. As one example, certain funds are received by overseas remote collection points and transmitted to FSO in Florida before being banked in Luxembourg. With the substantial amounts involved, means, such as direct wire transfers, can be established to get such funds directly into interest-earning accounts on a more timely basis.

Similar savings could be made relating to the transmittal of funds throughout the various orgs and banking systems. We also noted that substantial sums were being deposited only once per week. If more frequent deposits were made, substantially more interest could be earned.

2. toe raised certain questions concerning the Banner and timing of the paying of supplier and vendor bills by the various orgs. For example, we noted that printing bills, which are substantial in amount, were being paid on a COO basis where the invoice terms were net thirty days. There may be an internal order that printing bills be paid COD, but we were unable to determine that there is such an order and, if so, why.

As another example, we noted that discounts allowed on vendor invoices were not being taken in a number of instances where they were allowed. Sere again, it is our belief that a Cash Management Study could result in substantial savings to the Church.

3. Other matters which might be considered in a Cash Management Study could include the following:
 - a. Utilizing float in banking transactions, as, for example, timing payments to take advantage of weekends and holidays to pick up additional interest,
 - b. Negotiating discount and extended payment terms with vendors and suppliers,
 - c. Purchasing the optimum quantity levels of inventories and supplies to take advantage of quantity discounts.
- A. The number of bank accounts utilized by the various orgs should be reviewed. By reducing the number of bank accounts and pooling funds, monies can be placed in accounts earning higher interest rates than may be presently realized.

Real Estate

We believe the Church should consider extending its real estate acquisition programs based on the following:

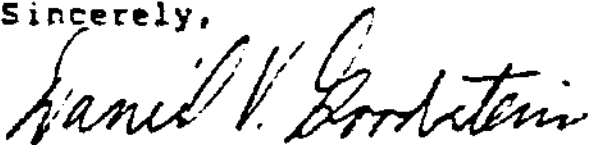
1. The substantial appreciation in real estate values which the Church has experienced in property it already owns.
2. The continuing limitation on the availability of prime real estate.
3. The growth in utilization of existing facilities. For example it is our understanding that Church-owned facilities in Clearwater, Florida, are reaching a point where, due to occupancy and growth, the Church may soon find itself without the capacity needed for staff and parishioners.

Miscellaneous

1. The Church has substantial investments in gold bars. There may be opportunities to utilize some of the gold for the production of religious articles (such as bracelets, rings, other jewelry, artifacts, etc.) to be sold to parishioners.
2. The Church might want to consider charging parishioners for bounced checks, especially in those cases where services have already been delivered.
3. Presently certain vending machines in Clearwater are serviced by outsiders, with the Church receiving a small percentage of the profits. With the number of vending machines presently in operation, it might be worthwhile for the Church to consider undertaking the handling of all vending machine operations itself, and thereby generate more income.
4. With the cost and volume of printing being done on behalf of the Church and its various orgs, consideration could be given to the acquisition of more extensive, or even a complete, printing operation.
5. Long distance telephone usage is extensive throughout the Church system. If it has not already been done, we would recommend that lower rate communication services be investigated.
6. If it has not already been done, it might be appropriate for the Church to consider undertaking energy surveys, especially at its major locations such as Clearwater and Los Angeles.

If you have any questions concerning our observations or comments, please contact us.

Sincerely,



Daniel V. Goodstein
Partner

Juna 25, IMC

Church of Scientology International
4751 Fountain Avenue
Los Angeles CA 90029

Gentlemen:

You have asked me to review portions of a letter (Reference A) dated January 7, 1986 (EIN: 59-2153393) from Milton Conway, Chief, Exempt Organizations Rulings Branch of the Internal Revenue Service to K. Martin Worthy* Inc. of Laaol a park# insofar as it relates to your accounting systems.

("Your" as used above relates to the eleven entities which were identified in our letter to you dated April 23, 1984. My reasons in referring to "your" are twofold. First, our letter of April 23, 1984 encompassed all eleven entities. Secondly, I understand that this method of response concurs with the position taken by the Internal Revenue Service in their January 7, 1986 letter, to wit: "Since all of the applicants function within this common matrix of interrelationships, their activities are inextricably intertwined." It should be noted that neither our letter of April 23, 1984 nor this letter implies that we agree with the position taken by the Service.)

You have asked that I qualify my background as it relates to nonprofit organizations. I have been in public accounting as a CPA for over 25 years, having earned my MBA at Columbia University Graduate School of Business. I have served as a partner on over 100 engagements involving nonprofit organizations including a world-wide church other than the Church of Scientology. I have lectured on accounting and auditing matters relating to nonprofit organizations, most recently on the subject of unrelated business income. I serve or have served on the boards of directors of approximately 20 nonprofit organizations and have served on a senior technical committee of the American Institute of Certified Public Accountants.

I understand that the Service has "... concluded that you are not exempt under Section 501(c)(3) of the Internal Revenue Code" because, among other reasons, you are operated in a manner indistinguishable from that of an ordinary commercial enterprise. To support its conclusion, the Service alleges certain features of your operation replicate those of commercial enterprises, for example, such as the way you make managerial decisions, monitor the finances of subordinate organizations, and build up reserves.

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You have asked whether your accounting and managerial decisions systems replicate or are indistinguishable from those of commercial enterprises. You have also asked whether it is common for Section 501 (c)(3) organizations to monitor the finances of subordinate organizations and to build reserves.

Insofar as your accounting systems are concerned, my professional opinion based on the evidence made available to me, is that you are not "operated in a manner indistinguishable from an ordinary commercial enterprise" nor do your managerial decision systems replicate those of commercial enterprises that maximize profits. It also is my opinion that it is both common and advisable for parent Section 501 (c)(3) organizations to monitor the finances of their subordinate organizations and to build sufficient reserves to cover operating expenses for a significant period of time in case of financial stress.

Your accounting systems are, for the most part, manual. While you have an extensive and vast computer network, I understand that it is not devoted to the production of financial records and statements. I also understand that you do not budget further than one month in the future and that your budget and accounting systems are not integrated in a way that produces financial statement for job costing systems. If you wanted to maximize income and profit, you might utilize computers that are more sophisticated than your present manual accounting; you would, for example, budget in six month, annual, and five-year cycles. And also you would integrate your budgetary and accounting systems to produce financial statements for job costing systems. Without these systems in place, you operate and make managerial decisions in a manner distinguishable from that of ordinary commercial enterprises of your size.

In my experience, both monitoring and intervention by a parent organization into the affairs of a subordinate is not only common, it is considered good management. As one example with which I am familiar, the multiple Jewish community centers in the City of Los Angeles are controlled by a central organization, the Jewish Centers Association of Greater Los Angeles, which is subordinate to the Jewish Federation Council of Greater Los Angeles, which in turn is subordinate to the United Jewish Fund. In this pyramidal structure, the subordinate organizations are tightly held to account by the parent organizations.

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Concerning surpluses, it is both advisable and normal for non-profit organizations to budget for and accumulate surpluses. The trend of government, specifically Gramm-Rudman, makes it even more imperative that nonprofit organizations ensure their future by being fiscally responsible. Thus, it is not unusual, that those nonprofit organizations which have historically made the greatest impact on society have the largest endowments and surplus operating funds. Included herein, for example, are the Catholic Church, Yale, Harvard and Stanford Universities, many public television and radio stations, the National Geographic Society and its magazine, the City of Hope, and others to name a few.

It is my understanding that your policy is to build up sufficient reserves to cover operating costs for two years. My professional opinion is that this is a responsible and prudent policy and insures that you can continue to carry out activities in times of economic stress.

Nothing herein should be taken to mean that your accounting system is unauditable since it has been represented to us that there have been no major changes in the system since our letter to you of April 23, 1984. Our letter stated, "We have reviewed the accounting and internal control systems and procedures as described to us by Church personnel as being representative of and applicable to the subject entities." Further, "Our finding is that with reasonable compliance with these systems and controls, resultant financial statements would be auditable in accordance with generally accepted auditing standards."

If you have any questions concerning this letter, please contact me.

Very truly yours,



Daniel V. Goodstein
Partner

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