

TAX COMPLIANCE MANUAL

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INTRODUCTION

TAX EXEMPTION

The Internal Revenue Service issued letters formally recognizing that the Church of Scientology and various of its subordinate churches and related charitable and educational institutions are tax exempt organizations.

Tax exemption is a privilege extended to organizations that benefit society as a whole rather than specific individuals. This recognition therefore signifies that the Internal Revenue Service - and the United States government as well - has formally recognized that the Church is organized and operated exclusively for religious purposes. The IRS also ruled that donations made to churches - including donations for auditing and training - qualify as charitable contributions and can be claimed as deductions on parishioners' federal (and state) income tax returns.

This action by the Internal Revenue Service encompasses every SCIENTOLOGY church and qualified mission in the United States. It covers Religious Technology Center, Church of Scientology International, Flag Service Organization, Church of Scientology Western United States (which contains Advanced Organization of Los Angeles and the American Saint Hill Organizations) and Scientology Missions International (SMI). It also covers related organizations such as Bridge Publications. The IRS also issued Church of Scientology International and Scientology Missions International special group exemption rulings which enable them to extend tax-exempt status to all qualified Class V organizations and missions.

The SCIENTOLOGY charitable and educational institutions that the internal Revenue Service has recognized as tax-exempt include Association for Better Living and Education, Narconon and Applied Scholastics and all Narconon centers and qualified schools that operate under the authority of Narconon and Applied Scholastics, The Way to Happiness Foundation, as well as the newly formed Hubbard College of Administration and its subordinate colleges. Narconon, Applied Scholastics and Hubbard College of Administration each have the authority to extend tax-exempt status to newly formed subordinate organizations.

The IRS also has recognized that several of the most significant SCIENTOLOGY organizations located outside of the United States also qualify for tax-exempt status. These organizations include International Association of Scientologists, Flag Ship Service Organization and New Era Publications.

The IRS granted exemption after being thoroughly briefed on all aspects of the religion and its corporations and trusts. Thousands of pages of written description and very complete financial data on the Church were provided, making evident that the Church meets all qualifications for exemption and that the assets and income of the Church are fully dedicated to religious purposes.

PURPOSE OF THIS MANUAL

In order to ensure that tax exemption remains totally secure, there are certain legal requirements which churches and missions are required to meet at all times. The purpose of this manual is to provide information on these requirements and how to ensure that they are maintained.

Thus, by understanding and applying this information you can guarantee that your org or mission continues to be recognized as tax exempt.

WHAT ARE THE BENEFITS OF TAX EXEMPTION?

Tax exemption is a favored status accorded to certain religious, charitable and public benefit organizations organized and operated in the United States. It means that these organizations do not have to pay income taxes on their net earnings.

In order to qualify for tax exemption, an organization must fit within a religious, charitable or public benefit category, must be organized as nonprofit and must be operated so that its earnings do not go to the benefit of any individual or private interest but rather go to support the organization's religious or charitable activities or purposes.

Nonprofit does not mean that an organization earns less than it spends, but rather that its net earnings go to furthering and expanding its religious or charitable purposes. In the United States and elsewhere a nonprofit corporation does not have shares or shareholders. In other words, nobody owns a nonprofit corporation. A nonprofit corporation does not pay dividends and its assets can be distributed only to another nonprofit organization if it ever dissolves.

In contrast, a for-profit corporation or enterprise has owners or shareholders who ultimately personally benefit from the earnings of the activity. Top management of for-profit organizations also often participate in the profits of the organization by receiving large salaries and bonuses.

Aside from being exempt from income taxes, there are other advantages to tax exemption.

A major benefit of exemption in the United States is that individuals can contribute to a recognized tax-exempt organization with assurance that their contributions will qualify as tax deductible charitable contributions on their personal income tax returns. This enables them to go up THE BRIDGE much faster.

State and local tax agencies will usually automatically grant tax exemption to an organization that already has an exemption from the IRS. In some areas, state and city income tax questions, property tax questions or city business tax questions that have not previously resolved may now be handled, based on the IRS exemption recognition.

The United States Post Office, in issuing bulk mail permits, often requires evidence that the organization is tax-exempt before issuing the permit. It will now be much easier to obtain these permits where there might have been problems before.

Exemption will also help churches with staff who wish to emigrate from a foreign country to work in the United States. The Immigration and Naturalization Service has at times required proof that the United States church is recognized as exempt by the IRS before granting a religious worker visa.

Finally, recognition of tax-exempt status is a formal imprimatur of acceptance by the IRS that other government agencies, courts, private institutions and individuals throughout the world recognize. Predictably, the recognition by the IRS will result in similar government acknowledgements in countries where they don't already exist.

WHAT MUST THE CHURCH DO TO MAINTAIN EXEMPTION?

The IRS was completely satisfied that the information we provided concerning the purposes, operations and finances of SCIENTOLOGY churches and missions entitled them to tax-exempt status. In order to maintain exempt status, a church or mission must be prepared to demonstrate to the IRS at any time that it continues to be organized and operated exclusively for religious purposes, that it is maintaining complete and accurate financial records, that there are no financial irregularities, that it complies with all federal tax laws and regulations, that it is law-abiding and that its earnings do not go to the benefit of any private individual or private interest.

These requirements are common to all nonprofit tax-exempt organizations. They apply to SCIENTOLOGY organizations outside the United States as well, since SCIENTOLOGY is an international hierarchical religion. It

is therefore vital that each and every church and mission keep its own legal and financial rudiments in.

Maintaining tax compliance rudiments is a small price to pay to guarantee continued exemption from income taxes. These are not new requirements - they are part and parcel of long-established LRH policies on these matters. They are included in the articles of incorporation, bylaws and trademark licenses or charters of every org and mission in the world. Although there are aspects which are peculiar to the United States, in general tax compliance rudiments are similar the world over.

FORMATION OF THE TAX COMPLIANCE SECTION

The Tax Compliance Section has been formed in the Corporate and Legal Rudiments Branch of Office of Special Affairs International. It is staffed with veteran OSA INT crew who are extremely knowledgeable and experienced in tax and finance matters. There will also be a Tax Compliance Officer in each Continental OSA Office. A primary function of the Tax Compliance Section is to ensure that all churches and missions comply with all requirements of tax exemption.

The Tax Compliance Section is concerned with the activities of church organizations throughout the world - not just those located in the United States. Recognition of tax exemption by the IRS opens the door for similar recognition of local orgs and missions by tax authorities in many other countries.

There are certain legal and accountancy rudiments common to all tax jurisdictions. These are such things as maintaining proper up-to-date corporate documents and board minutes, having audits and balance sheets in present time, filing any necessary payroll tax forms and so forth. The Tax Compliance Section oversees these tax rudiments for all churches and missions internationally.

LEGAL RUDIMENTS - KEY TO EXEMPTION

In general, in order to remain tax exempt, SCIENTOLOGY churches must be fully legal as covered in HCO Policy Letter of 18 February 1966, "ATTACKS ON SCIENTOLOGY (Continued)." Specifically, orgs and missions must not be guilty of anything illegal, must have their corporate status in excellent condition, must have tax returns and books accurate and punctual and, of course, continue to be organized and operated exclusively for religious purposes.

For years, the Legal Rudiments Program has been the key successful action used to ensure that SCIENTOLOGY churches have all of their legal basics in at all times.

The rudiments checklist has been expanded and is being re-issued to include all of the key legal rudiments as well as the specific tax compliance rudiments described above. A copy of the new legal rudiments checklist is included at Appendix A.

It is therefore vital that you rapidly get in any legal rudiments that are out in your org or mission and keep these rudiments in 100 percent from here on out.

The remainder of this manual provides the information to help you keep these rudiments in.

CORPORATE INTEGRITY A VITAL SAFEGUARD

WHAT IS A CORPORATION?

SCIENTOLOGY organizations are organized as nonprofit religious corporations. It is important that the basics of what a corporation is and how it operates are understood in order to keep its legal rudiments fully in.

A corporation is a group of people which receives formal permission from the government of a state to become a separate legal entity. A corporation has a beingness, doingness and havingness in the eyes of the law that is separate and distinct from the individuals connected with it. Corporation is derived from the Latin word corpus which means body.

Being properly incorporated gives an organization the necessary legal form to operate in the day-to-day world. For example, it would be very difficult for the organization to have bank accounts, own or lease a building or engage in many other day-to-day affairs without being properly incorporated.

BASIC CONCEPTS

Corporations are formed when the founder of the corporation files a document called the Articles of Incorporation with the state government. The Articles of Incorporation contain the name of the corporation, its purpose and other key information. In most states the agency which monitors corporations and with whom articles and other corporate filings

are made is known as either the Secretary of State's office or the Department of Corporations.

The other key corporate document is the Bylaws which state the internal rules by which a corporation is governed. The corporate Bylaws are an internal document and are not filed with the government. The Bylaws state the purposes of the corporation in detail and the procedures by which the affairs of the corporation are governed. They also define the various positions which are held in a corporation.

CORPORATE POSITIONS

There are three major positions defined in the Bylaws of each church. The first, the Trustees, are selected from dedicated SCIENTOLOGISTS who are in good standing with the Mother Church, who have the function of electing the Board of Directors, described below. The normal definition of a Trustee is one who is placed in a position of trust to hold or manage property for another. In this case, the Trustees do not administer property; their position of trust is to see that the corporation remains in the hands of dedicated SCIENTOLOGISTS. The Trustees also approve any amendments to the Articles of Incorporation. They have no other function.

Mission corporations do not have Trustees and this function is held by the Mission Holder. The Mission Holder serves in this capacity with the permission of Scientology Missions International, is fully responsible for the affairs of the mission and has the authority to appoint the Board, ensuring that the corporation remains under the control of in-ethics SCIENTOLOGISTS. The Mission Holder may also appoint himself to the Board.

The next echelon is the Board of Directors. This is the group which manages and controls the affairs of the corporation.

The third echelon of corporate personnel consists of the officers of the corporation. Officers normally consist of a President, Secretary and Treasurer and sometimes one or more Vice-Presidents, Assistant Secretaries and Assistant Treasurers.

The officers are elected by the Board of Directors. The officers have supervisory authority over the day-to-day affairs of the corporation and carry out the direction of the Board of Directors. Their specific duties are covered in the Bylaws.

CORPORATE RECORDS

There are certain key written records that a corporation must keep.

Actions formally taken by the Board of Directors or Board of Trustees are recorded in written board minutes, which are an official record of meetings actually held or a consent that is agreed to and signed by all board members. The Mission Holder must also make a written record of his appointments of Directors.

A unanimous written consent is the most common way to transact routine business of the board. This is usually logistically easier than getting all the directors together for a meeting. Consent is defined in normal English as permission, approval or assent. A unanimous written consent is a legal term for formal approval given by a board of directors or board of trustees without a meeting.

The Bylaws allow any business of the board to be conducted by unanimous written consent. Note that all directors must sign for a consent to be valid - it is not valid with a simple majority.

The board book is a large ring binder which holds the originals of the minutes and consents in chronological order along with the originals of the Articles of Incorporation and Bylaws. Appointments made by the Mission Holder would also be included in a mission's board book. The Articles and Bylaws are kept in a separate section of the book along with any amendments.

WHAT ARTICLES OF INCORPORATION AND BYLAWS CONTAIN

The two most important documents of a corporation are its Articles of Incorporation and its Bylaws. SCIENTOLOGY churches all use the same model Articles of Incorporation and Bylaws with minor variations necessary to fit the laws of individual states. A copy of the model Articles of Incorporation for orgs is included at Appendix B for reference.

There are several key articles concerning tax exemption. One is Article Three of the model Articles which provides that the corporation is fully dedicated to accomplishing the religious purposes Of SCIENTOLOGY. Another key article is Article Four, which makes it mandatory that the corporation operates only in a manner that conforms to the law for tax-exempt organizations and that its property serves such a purpose.

The Bylaws state the internal rules by which a corporation is governed. They also state the purposes of the corporation in detail and the procedures by which the affairs of the corporation are governed. In addition, they define the various positions which are held in a

corporation (i.e., trustees, directors and officers) and state specifically the duties of these positions, the procedures of electing them and their required qualifications. The Bylaws used by all churches of Scientology make it very clear that each church is a religious corporation and operates exclusively for religious purposes. The model Bylaws for orgs are attached at Appendix C for reference as needed.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

Full responsibility for the success of the corporation is placed in the hands of its Board of Directors. The model Bylaws define the Board's function as follows: "The activities and affairs of the corporation ... shall be managed and conducted and all corporate powers shall be exercised by or under the direction of a Board of Directors."

To qualify to serve as a Director of an org an individual must be:

1. Well-versed in the Scriptures (i.e., well-trained in tech and policy);
2. Well-versed in the SCIENTOLOGY ethics system;
3. A proven SCIENTOLOGY executive as evidenced by statistics;
4. A duly ordained minister Of SCIENTOLOGY in good standing with the Mother Church; and
5. Has attained the age of majority (either 18 or 21 in most areas).

As provided in the Bylaws, the Board has the following five vital duties with reference to maintaining tax-exempt status:

1. Ensuring that no part of the net earnings of the corporation inures to the benefit of any person. Inure means to benefit someone or something. Net earnings means the amount left over after paying all ordinary and reasonable expenses. Pay and on-policy bonuses are totally acceptable and do not constitute inurement as this constitutes an ordinary expense of any organization.

As noted above, nonprofit corporations are subject to special rules with respect to how they use their net earnings. In a for-profit corporation, the net earnings of the corporation are distributed to the shareholders. In a nonprofit corporation, on the other hand, all of the net earnings are used to further the public good in accordance with the corporation's stated purposes. In the case of a SCIENTOLOGY corporation, these funds are used to expand the religion.

2. Ensuring that no substantial part of the activities of the corporation are directed to influencing legislation by propaganda or otherwise. Note that the key word is substantial. As a matter of

policy, the Church is not political in nature, though this does not stop individual SCIENTOLOGISTS from having positions on legislative issues.

3. Ensuring that the corporation and its agents refrain from participating or intervening in any political campaign on behalf of or in opposition to any candidate for political office. This does not apply to all interaction with officials or candidates - we simply do not assist or oppose anyone in their campaign for public office, directly or indirectly, nor do we endorse candidates for public office, which is also in accordance with Church policy.

4. Ensuring that the property, assets and net income of the corporation remain irrevocably dedicated to charitable and religious purposes. By complying to policy and ensuring that all funds expended forward the expansion of SCIENTOLOGY, this duty is fulfilled.

5. Ensuring that in the event the corporation is dissolved, its assets remaining after payment or provisions for payment of all debts are distributed to a SCIENTOLOGY nonprofit entity which is recognized as exempt. Our organizations and missions are here for the long haul and this is mainly included because it is a legal requirement for tax exemption. But it does occasionally happen that corporate reorganization takes place and in such instances this must be kept in.

CORPORATE OFFICERS

Corporate officers are elected by the Board of Directors. Their specific duties are described in the Bylaws. The corporate offices of President, Secretary and Treasurer are mandatory. In a large corporation, there may also be one or more Vice-Presidents and Assistant Secretaries and Assistant Treasurers. Generally, the officers have supervisory authority over the affairs of the corporation and carry out the direction of the Board of Directors.

It is very common for the officers and directors to be the same people. it must be understood in such circumstances that they are wearing two different hats.

As the Board of Directors must make key corporate decisions which will affect the long-term activities of the entire organization, and the officers are responsible for their implementation on a day-to-day and month-to-month basis, board members and officers should be the senior executives of that church organization. The Executive Director, Director of Special Affairs (DSA) and Flag Banking Officer (FBO) posts should correspond to President, Secretary and Treasurer respectively.

Thus, the persons holding these posts should be on the Board of Directors and serve as corporate officers. In the event that one of these is not posted, then other network heads or Exec Council members would be alternative choices.

BOARD MINUTES & CONSENTS

It is very important that the decisions of the Board of Trustees and Board of Directors, as well as appointments of Directors by the Mission Holder, be written down and preserved. This is normally done by formal written minutes of meetings actually held (known as board minutes) or a consent that is agreed to and signed by all board members. Appendix D describes in detail the procedure for holding board meetings and the documentation needed.

AUDITS & BALANCE SHEETS

AUDITS, BALANCE SHEETS AND INCOME AND EXPENSE STATEMENTS ARE IMPORTANT

Accurate and punctual financial records are vital to maintaining tax rudiments and smooth relations with tax and other government authorities. They demonstrate that the financial flows of the church entity are devoted to religious purposes and that there is nothing untoward. More importantly, the finance records of an org also are a key tool which can be utilized by org execs to assist expansion.

Financial records and record keeping are conceptually very simple. The purpose of this section of the manual is to provide a simple explanation of org audits and financial statements for use by non-finance terminals. There are further specialized hatting materials available to actually train staff on how to prepare audits and balance sheets.

WHAT ARE AUDITS?

A typical SCIENTOLOGY organization has hundreds of financial transactions every week. Not only is there the receipt of donations and payments from public and the paying of bills, salaries and commissions, there is also the transfer of funds between an org's various bank accounts. To this we can add bounced checks and bounced check collections, credit card deposits and collections, bank charges, interest credited, wire transfers and so forth. There are also non-cash transactions such as the debiting of a parishioner's account when he or she starts a service.

Each financial transaction is recorded on an invoice or disbursement voucher ("DV") depending on the nature of the transaction. These invoices and DVs are simply forms that record the details of transactions so that they can be later summarized by category.

Long established Church financial policy mandates that all receipts be deposited in a bank account and all disbursements be made by check. Therefore, the bank statements contain information on all of the cash flows of an organization.

Audits are simply a methodical organization of all these individual transactions into useful audit categories. By audit category is meant that similar types of transactions are grouped together and totalled. Audits also involve an examination and analysis of the org bank accounts to ensure that all financial transactions are accounted for. That is really all there is to it.

For example, an org sells books, meters and cassettes throughout the year. All the invoices for these are added up to give a total for the year in an audit category. An org pays rent for its premises; all of the DVs for these monthly rent payments are added up and this total is in an audit category.

The audits summarize the many thousands of transactions into summary totals in audit categories. These audit summaries are then utilized to create the Balance Sheet and Income and Expense Statement as described below.

In the past, audits were done manually by organizing invoices and DVs into categories and adding them up. With org treasury computerization, the audits will be done electronically as an automatic consequence of writing an invoice or DV on the computer. There will still need to be reviews and examination of bank statements, but the labor involved will be a small fraction of what it has been on the manual system.

WHAT IS A BALANCE SHEET?

A balance sheet is a form of financial statement which shows the assets, liabilities and surplus of an entity as of a certain date, usually the end of the year.

An asset is simply an item that one owns for which there is a future benefit. Typical assets are cash, bookstore inventories, vehicles, buildings and furniture. Monies owed to the org are also an asset if it is reasonably certain that they will be collected.

A liability is something the org owes to another, either in money or in goods or services. The incurred but unpaid phone, utility or rent bill is a simple form of liability. A mortgage on a building is also a liability. Often this is broken into two parts, the amount which is currently owing and the balance which will be due in the future.

Surplus is a term which is synonymous with net worth, equity and capital. Surplus is actually the preferred term for nonprofit organizations such as churches of SCIENTOLOGY. Surplus is what is left over when liabilities are subtracted from assets. It is an overage or a measure of what resources would remain after all financial obligations were handled.

A balance sheet is called a balance sheet because it balances. It is based on the following equation:

$$\text{ASSETS} = \text{LIABILITIES} \text{ plus } \text{SURPLUS}$$

This is the equivalent of, and perhaps more easily envisioned as, the equation:

$$\text{ASSETS} \text{ minus } \text{LIABILITIES} = \text{SURPLUS}$$

Balance sheets are laid out in various formats. In a horizontal format, Assets are customarily listed on the left hand side of the balance sheet and Liabilities and Surplus are listed on the right side. There are also other formats possible, such as Assets listed at the top and Liabilities and Net Worth listed at the bottom as in the example below.

This equation is a simple concept as the following example illustrates:

Assume an org has the following assets:

Cash	\$ 20,000
Bookstore Inventory	20,000
Furniture	20,000
Building	940,000
Total Assets	\$1,000,000

Assume it has the following liabilities:

Creditor Bills Payable	\$ 10,000
Mortgage on Building	590,000
Total Liabilities	\$600,000

Its surplus must therefore be:

Surplus	\$400,000
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Total Liabilities & Surplus	\$1,000,000
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This is a balance sheet and it does balance. It is a simple example with only very few assets and liabilities for sake of illustration.

Normally, when comparing balance sheets of an organization from year to year, the key to whether the organization is doing better or worse is whether its surplus is increasing or decreasing. Surplus is the accumulated excess reserves of the organization - increasing surplus means that assets have been increasing at a greater rate than the liabilities.

WHAT IS AN INCOME AND EXPENSE STATEMENT?

An Income and Expense Statement is a financial report which lists the income and expenses for the year and whether there was a surplus or deficit during that period.

For example, assume an org had the following sources of income for the year:

Donations for Training & Processing	\$5,000,000
Bookstore Income	1,000,000
Canteen and Other	50,000
 Total Income	 \$6,050,000

Assume it had the following expenses for the year:

Purchase of Bookstore Inventory	\$500,000
FSM Commissions	700,000
Service Completion Awards	400,000
Management Fees	500,000
Film License	200,000
Promo	880,000
Canteen Goods	20,000
Salaries,	300,000
Staff Training	350,000
Repairs and Maintenance	300,000
Interest on Mortgage	100,000

Telephone	250,000
Utilities	50,000
Other	200,000
Total Expenses	\$5,750,000
Surplus for the Year	\$300,000

Surplus or deficit for a specific period, in this instance a year, are synonymous with the terms profit or loss in a commercial company. However, surplus and deficit are the preferred terms for an organization such as a church which is not organized for commercial purposes.

From the above example, we see that the org made a surplus of \$300,000 during the year. This does not necessarily equal a \$300,000 cash gain. It could have used some cash to buy an asset or it could have used some cash to pay off a debt.

The Income and Expense Statement ties into the Balance Sheet. It is a measure of the increase or decrease in surplus during the year. For example, the total surplus in the above hypothetical balance sheet is \$400,000. This means that the beginning balance was \$100,000 and an additional \$300,000 was made during the year to add up to the \$400,000 ending balance.

Together, the Balance Sheet and the Income and Expense Statement comprise the financial statements of the org or corporation for the year.

They are made possible by the org audits, which summarize the thousands of transactions into summary totals by category. The summary totals are then utilized to prepare the Balance Sheet and Income and Expense Statement.

These basic financial statements are then copied onto tax returns or are used for other purposes such as securing credit with suppliers.

The financial statements are also useful for the Executive Council of an organization. They give a financial overview of how the org did change that has occurred in the org's during the year and what the assets and operations. While they do not replace obligations are at the end of the year. The statistical management, they give a different financial statements for two or more years can and informative view of the org and how well be compared to give an idea of progress or it is surviving.

STANDARD FINANCE COMPUTER SYSTEM

To assist you to create standard audits, The Standard Finance Computer System has been created according to LRH finance policy utilizing state-of-the-art computer technology. Two versions of the system will be exported - you will receive the system that is the right size for your org or mission.

Extensive hatting will be provided separately on the computer system. However, you need to be aware that you will shortly have an invaluable tool to help you maintain your exempt status as well as help your church or mission expand to new heights. For these reasons, computerized Treasuries will be required in the future for all orgs and missions.

The system fulfills two major purposes:

1. Enforces standard finance policy and lines;
2. Provides complete financial records.

This system will handle all standard invoicing, disbursements and balance sheets and treasury records.

It will also produce the FBO's Treasury record-keeping functions including audits and balance sheets and administrative functions.

With its extremely fast processing speeds and large computer storage capabilities the system greatly increases the accuracy of Treasury record-keeping and improves the speed with which these functions may be handled. Therefore, it is a vital tool to maintain exempt status.

THE CHURCH AS AN EMPLOYER

A key requisite for tax exemption is that the earnings of the organization cannot inure or go to the benefit of any private individual or private interest. Essentially, this is a concept of exchange - if an organization pays excessive amounts of pay in comparison to what it receives from an employee, then there could be private benefit.

LRH Policy on staff pay enables org staff to be compensated for their work commensurate with org production. By applying these references standardly, there is no possibility that staff pay will constitute private benefit.

Missions, on the other hand, do not have a definite system of compensation defined in policy and must ensure that staff pay does not constitute private benefit to the Mission Holder or any mission staff member.

Mission Holders and mission staff can and should receive a fair exchange for services to their mission. There is nothing wrong with the mission paying fair compensation to its staff. However, fair compensation under tax rules depends on various facts and circumstances and can get quite complex. Therefore, it is necessary to have some general guidelines in order to ensure compliance with tax law.

SMI INT surveyed successful missions as to their pay systems to find one that would both comply with tax law and also promote expansion. Not surprisingly, the pay systems used by successful missions closely follow the policy laid out for org pay systems. They generally allocate 30 percent of the Corrected Gross Income to staff pay and then allocate the individual staff pay amounts on a unit system with performance bonuses.

In the interest of both expansion and tax compliance, it is therefore required that missions adopt an on-policy pay system following the guidelines described in SMI Executive Directive No. 977, which is included at Appendix E. Any significant departures from the system described in this ED must be cleared with the DSA SMI INT to ensure that the mission is not violating policy or any tax rule. It is also required that the mission report the weekly compensation amounts (including any parsonage allowances, as covered later) for the Mission Holder and the Executive Director in its weekly reports to SMI INT.

WHAT ARE THE CHURCH'S RESPONSIBILITIES AS AN EMPLOYER?

All organizations, whether or not they are tax-exempt, have certain legal obligations to the IRS and state tax agencies the moment they hire an employee. Following the instructions below will ensure that your organization fully complies to these laws.

WHO IS AN EMPLOYEE?

You need to have a basic understanding of who is an employee because whether someone receiving compensation from the org is or isn't an employee will affect the org's responsibility for such things as withholding taxes and reporting to the IRS.

By following these rules, you can ensure that your org or mission handles this correctly and is thus legally safeguarded. When in doubt, the safest solution is to treat the individual as an employee. You can also contact the Tax Compliance Officer in your Continental OSA Office or the Tax Compliance Section OSA INT if you have a question that you can't resolve locally.

Legally, an employee is defined as someone who performs a service where the employer can control what will be done and how it will be done,

whether it is full-time or part-time work. This applies even when the employee is given freedom of action and regardless of the seniority or management position in which the individual works. The key factor is the employer's legal right to control the method and result of the services.

An employer is a person or an organization for whom someone performs a service as an employee. An employer usually provides the employee with the tools and place to work.

Someone can be an employee whether their compensation is on a salary or a commission basis.

All individuals in the Sea Organization are employees of the local organization in which they work. The Sea Org is a religious order within the ecclesiastical structure of SCIENTOLOGY but is not an incorporated organization itself and has no staff or employees. The Sea Org contract is binding ecclesiastically but is not an employment contract. All Sea Org members sign standard employment contracts with the corporation at which they are currently working. If they are transferred to another organization, they will sign a new employment contract with that corporation for their period of employment.

All contracted staff at Class V churches and missions are employees of the organization at which they work, whether the contract is for 2 1/2 years or 5 years.

Anyone working part-time at any type of SCIENTOLOGY organization, not on any long-term contract, is usually an employee as well, because they operate on the same basis as contracted staff, in that the employer provides the place of work and tools and can control the method and result of the services. A Mission Holder is an employee of the mission.

By comparison, someone who is in business for himself offering his services to the public is generally not an employee. He is an independent contractor. Payments to independent contractors are not payroll, are not subject to payroll taxes and are reported separately on Forms 1099 as described below.

Additional criteria for independent contractors are:

- * They have their own place of work and may do some or all of the work at their own work location rather than on org premises.
- * They provide some or all of their own tools and/or equipment to do the work.

* They have other clients for whom they perform the same or similar services they perform for the org. In other words they work for more than just the one org or more than just for Scientology organizations in general.

* They operate on their own schedule, which may be dictated in full or in part by the fact that they have other clients and therefore work for them or have appointments with them.

* They determine what they will do and how they will do it and they present the service or product. This does not mean they do not find out what you want done or do not consult you on the service or product; it just means they are more in control of the production of it than you are, as you are relying on their professional skills to produce a good product based on their having more know-how than the org has in that area.

The most important independent contractors working for the Church are Field Staff Members (FSMs). Other types of independent contractors include attorneys, accountants, repairmen and the like.

Depending on whether someone is an employee or an independent contractor, there are different tax and reporting obligations.

PAYROLL AND EMPLOYMENT TAXES

U.S. tax laws require that employers withhold income taxes from their payrolls and pay these directly to the government on behalf of their employees. Many states and other countries have very similar requirements.

In addition, there are federal social security taxes and some states have disability or unemployment taxes which must be properly handled and reported.

The proper handling of payroll and employment taxes are vital rudiments which must be kept in. It is a key tax compliance point which will help maintain smooth relations with the IRS.

A full discussion of payroll and employment taxes, including the forms, is contained in Appendix F. You need to study this and compare it to your org's or mission's compliance and correct any outnesses found.

PARSONAGE ALLOWANCE

Under the Internal Revenue Code, an ordained Minister of a church may exclude from his taxable income (for income tax purposes only):

1. The rental value of a home furnished to him by the church for which he works; or
2. The rental allowance paid to him by the church for which he works, to the extent used by him to rent or provide a home.

This is known as parsonage allowance.

In other words, a church employer may provide for an ordained minister on its staff, either living facilities which are not taxable to him, or may provide a cash allowance for him to rent his own living quarters and neither will be subject to personal income tax for the minister.

This must be done by expressly designating a portion of the minister's total wages as parsonage allowance or it may be by a separate disbursement to him. Regardless of which method of payment is chosen, there must be an express designation by the corporation that the payment (or portion thereof) is a parsonage allowance. Generally, this designation may be accomplished by a resolution of the corporation's board of directors. (See sample resolution at Appendix G.)

The amount excludable from the minister's taxable income will be the lesser of the amount designated as his parsonage allowance, the amount he actually spent on his parsonage (home) or the rental value of his parsonage (home).

This allowance is only available to a minister who is both ordained and operating in a ministerial capacity. It is not available to a staff member who either is not minister trained and ordained or is ordained but not operating in a ministerial capacity. Ministerial capacity for purposes of the parsonage allowance includes technical posts, posts directly involved with disseminating to public, ethics officers, chaplains, as well as executive posts. It would not include estates posts and back lines administrative posts. Any question as to whether a post qualifies as a ministerial capacity should be referred to the Tax Compliance Officer, Office of Special Affairs International.

The amount of any parsonage allowance for the Mission Holder or Executive Director is to be included in the weekly report to SMI INT.

INDEPENDENT CONTRACTORS

There are different requirements for reporting payments to an independent contractor. Normally, there is no withholding tax and there are no employment taxes. However, these payments must be reported on Form 1099 to the IRS and state agencies.

The most common independent contractor an org or mission has is its FSMs and FSM commissions must be reported on Form 1099 at the end of the year. Form 1099 cannot be properly completed without the social security number of the payee. Therefore, it is imperative that the needed information is obtained prior to paying FSM commissions or other payments to independent contractors.

A complete discussion of reporting requirements for independent contractors along with the sample forms is contained at Appendix H. You need to refer to this to ensure that your org or mission is in full compliance. Since the insurance is mandatory, every state has a program to make certain that employers have it. Your insurance agent will have this information.

If you do not have an insurance agent or know of a reliable agent in your area, then contact the Tax Compliance Office for assistance.

WORKER'S COMPENSATION

Worker's Compensation is a mandatory form of insurance whereby employers are required to be insured for work-related injuries to their employees. Failure to have this form of insurance is a misdemeanor in many states. In addition, state governments are empowered to order work stoppages on organizations that do not have worker's compensation under which the organization is required to cease all work until insurance is obtained. Therefore, each SCIENTOLOGY org, as well as missions with employees, is required to be insured for worker's compensation where required by law. (New York does not require religious institutions to carry worker's compensation insurance.) Premiums are to be paid when due and not allowed to backlog.

If your org or mission is currently without worker's compensation insurance, then this can be handled by contacting your insurance agent. You will need to provide him with basic personnel and payroll information as to the number of staff, the nature of their work and how much they are paid. He will contact various insurance companies and get the best possible price for you.

Form I-9 is published by the Immigration & Naturalization Service. Its purpose is to verify that staff working in the United States are either citizens or have visas which authorize them to work. "I-9" just means that it is form number 9 in a series of immigration forms. All newly recruited staff in the United States must fill out a Form I-9.

Appendix I describes this form and tells you how to fill it out along with a sample.

POLITICAL ACTIVITIES

Internal Revenue Code contains certain rules regarding tax-exempt entities participating in political elections that need to be known and followed. Specifically, it absolutely prohibits an exempt organization from any involvement in a political campaign or trying to influence the outcome of an election for or against any candidate for public office.

Some churches and missions provide forums where political candidates for local, state or federal offices can come and speak. This is fine so long as these forums are open to all candidates for a particular office and nothing is done that would tend to indicate that the church or mission is in favor of (or opposes) any of the candidates. That way the event itself is neutral and not favoring any particular candidate.

The org or mission must not act in any way to support or defeat any particular candidate. This means not even a poster in a window or a stack of fliers in reception which promote or attack a particular candidate. There must be nothing printed in org publications which support or attack a political candidate.

For the most part, Scientology is apolitical, meaning that there is no impulse, desire or action with respect to political campaigns and candidates. These IRS rules will therefore be of little concern.

However, there may be circumstances where there is a temptation to influence an election. A Scientologist or a strong ally may be running for office. Or conversely a suppressive may be running. Whatever the reasons may be for participating, they are not good enough to risk the loss of tax-exempt status. Therefore it is a firm policy to:

NEVER ENGAGE IN ANY ACTIVITY WHICH CAN BE INTERPRETED AS FAVORING OR DISFAVORING ANY CANDIDATE WHO IS SEEKING ELECTION TO A PUBLIC OFFICE.

None of the above in any way curtails the right of the individual staff member or public Scientologist from exercising his right to vote as he or she chooses. There is also no prohibition on public Scientologists participating in elections in whatever way they choose. They can run for office, campaign for candidates, or do anything they want in their capacity as private citizens. Individual staff members also have these rights but it is not a good idea for them to participate in election campaigns, even on their own time, as it could appear to be an official org or mission activity.

CONCLUSION

In this manual we have described your key responsibilities in order to ensure that the tax-exempt status of your church or mission is protected where it exists and to make it easier to obtain where needed.

In addition to the specific areas described in this manual, it is vital that local laws be followed as required by policy. This includes such things as compliance to fire and building codes as well as all other laws.

LRH has pointed out that not being guilty of anything is a key survival point. SCIENTOLOGY has acquired a deserved reputation over the years for being highly law-abiding. This has headed off many attacks as there is then no point of vulnerability.

All areas covered in this manual are in conformance with LRH policy. Maintaining friendly relations with the environment and keeping our legal and accountancy basics in is an integral part of expanding SCIENTOLOGY and clearing this planet.

REFERENCE

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### ATTACKS ON SCIENTOLOGY

HCO Policy Letter of 18 February 1966

(This PL augments HCO PL 15 Feb. 66, ATTACKS ON SCIENTOLOGY.)

(TEXT OF THE HCO POLICY LETTER - NOT INCLUDE IN SCAN)

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APPENDICES

*7. The Directors of the corporation are qualified or replaced.

*8. The Officers of the corporation are qualified or replaced.

9. Any legal mail or particle or person is first routed to the Legal Officer, or whoever holds this post from above, and not accepted by anyone else in the org, per HCO PL 3 Feb. 66, "LEGAL, TAX, ACCOUNTANT AND SOLICITOR, MAIL AND LEGAL OFFICER."

10. The Trademark license Acknowledgement Certificate is prominently displayed in the public reception area.

11. The Articles of Incorporation Certificate is prominently displayed in the public reception area

12. There are no Customs matters impeding org production, per HCO PL 30 November 1964RB, "HCO BOOK ACCOUNT."

13. PC folders and ethics files are labelled as confidential and protected by the Priest/Penitent Privilege, per SPD 118R, "LABELLING OF TECHNICAL AND ETHICS FOLDERS."

LICENSES, CONTRACTS & FORMS: IN OUT N/A

*14. The Trademark License is signed, including any addendums, and securely stored in Valuable Documents.

15. The "[Ffli-n]" license is signed and securely stored in Valuable Documents.

16. The "Contract Respecting Certain Religious Documents" ([files?] license) is signed and securely stored in Valuable Documents.

* 17. The "Ecclesiastical Support Agreement" with CSI is signed and securely stored in Valuable Documents.

18. The Advanced Tech Agreement with CSI is signed and securely stored in Valuable Documents. (AOs only)

19. All staff have signed religious covenants, which are securely filed in HCO.

20. All Div 4 public are being signed up on standard enrollment forms per the most recent issue and kept on file in Valuable Document files, per HCO PL 18 February 1966, "ATTACKS ON SCIENTOLOGY (Continued)."

21. All Div 6 public are being signed up on standard enrollment forms per the most recent issue and kept on file in Valuable Document files, per HCO PL 18 February 1966, "ATTACKS ON SCIENTOLOGY (Continued)."

22. All certified interned public auditors (including those counted on the Active Field Auditors stat) are licensed with I-HELP, per RTC General Trademark Standards, Section A, Point 22.

23. All completions of auditor training courses are signed up on I-HELP licenses by Division 6 as per HCO PL 10 Sept 1990, Iss. III, "THE QUALITY OF DIVISION 6C, A DIVISION 6C CHECKLIST FOR QUALITY."

24. Any contract proposed has Legal Officer approval and approval of the board before signing, per HCO PL 3 Feb 66, "LEGAL, TAX, ACCOUNTANT AND SOLICITOR, MAIL AND LEGAL OFFICER" and HCO PL 28 Jan 65, "HOW TO MAINTAIN CREDIT STANDING AND SOLVENCY."

TRADEMARKS & COPYRIGHTS: IN OUT N/A

25. All promo is qualled (not stopped) to ensure standard trademark usage is in and outnesses are corrected with cramming, per HCO PL 15 Nov 1958, Iss. 1, "THE SUBSTANCE AND FIRST DUTY OF HCO."

26. All promo is qualled (not stopped) to ensure standard copyright usage is in and outnesses are corrected with cramming, per HCO PL 15 Nov 1958, Iss. 1, "THE SUBSTANCE AND FIRST DUTY OF HCO."

LOCAL LAWS & REGULATIONS: IN OUT N/A

27. The building complies with local fire regulations.

28. The building complies with local health and safety regulations.

29. The building is in a location that is properly zoned for its activities.

HCO: IN OUT N/A

30. All motor vehicles used by the org are registered, covered with license/tax and insurance, and meet all other requirements to be legally driven in accordance with the law.

TREASURY: IN OUT N/A

*31. Bank signatories on org accounts are qualified to be signatories and authorized by the board with a board minute done and on file.

32. The org is adequately covered by insurance that will protect the org and the value of its MEST. This minimally includes:

- a) theft
- b) fire and water damage
- c) injury to persons on the property (liability)
- d) other forms of property damage pertinent to the local area such as hurricane or earthquake insurance in areas prone to such.
- e) other necessary forms of insurance such as for transport of funds where this is cost-effective.

The insurance is in force and the org is in compliance with all points in the policy necessary to ensure that it will be covered in the event of a loss.

*33. The org is covered by Worker's Compensation insurance and is in compliance with all necessary regulations pertaining thereto, including posting of required notices and standard handling of claims administration when the need arises.

*34. Org audits are in PT, per FDD 113 DIV 3 INT, "DIVISIONAL SUMMARY OF FUNCTIONS FOR THE TREASURY DIVISION," in the DIVISIONAL SUMMARIES book.

*35. Org balance sheets are in PT, per FDD 113 DIV 3 INT, "DIVISIONAL SUMMARY OF FUNCTIONS FOR THE TREASURY DIVISION," in the DIVISIONAL SUMMARIES book.

36. Org rent or mortgage payments are in PT or agreement gotten on payments and no threat to the org.

37. Equipment lease payments are in PT or agreement gotten on payments and no threat to the org.

STAFF: IN OUT N/A

38. No criminals are hired or currently on staff.

*39. All org staff working for the organization after 6 November 1986 have filled out an I-9 Form (Immigration and Naturalization Service Form) showing that they are eligible for employment and these forms are kept on file by HCO.

*40. All foreign staff have a visa or work permit which authorizes them to work for the org.

41. All minors on staff are working in full conformance with all laws pertaining to the employment of minors, including meeting the necessary requirements for public education.

TECHNICAL:

IN OUT N/A

42. Every person starting the Purification Rundown has signed the most recent release form.

43. Every person starting the Purification Rundown has obtained medical approval from an informed and reliable medical practitioner who has checked blood pressure, kidneys and has checked for anemia and has filled out the most recent medical authorization form.

44. Every person starting the Purification Rundown has obtained the necessary recommendations regarding vitamins and minerals used on the rundown.

45. Claims for refunds and repayments are standardly handled on org lines per policy. (To count this rudiment in, claims must not be Type C and must be handled within 6 weeks of receipt.)

46. There are no illegal PCs on auditing lines, per HCO PL 6 December 1976RB, "ILLEGAL PCS, ACCEPTANCE OF - HIGH CRIME P/L."

47. The Dianetics registration signs are prominently displayed in the org.

TAX COMPLIANCE RUDS:

IN OUT N/A

*48. All required tax filings are in PT, with no backlog of undone filings existing, and backed up by defensible records which match what is reported to the government on the tax filing.

*49. All required tax payments are in PT, and there is no backlog.

*50. The corporation and its agents refrain from participation or intervention in any political campaign on behalf of or in opposition to any candidate for political office. (Note: candidate's forums or voter education activities which do not show favoritism to any particular candidate are ok.)

*51. W-4 forms have been obtained from all newly hired staff and are updated whenever required. (Consult IRS Circular E [Employer's Tax Guide] if there are any questions.)

- *52. Payroll is computed standardly each week with state and federal withholding taken out weekly. (See IRS Circular E and appropriate publication of your state tax agency.)
- *53. Sales tax is properly computed & collected on all transactions where this is required.
- *54. Invoicing of sales tax is properly done so that the purchase price and sales tax collected are both clearly shown.
- *55. Money is set aside weekly to pay taxes in accordance with local law (sales tax, VAT, etc.) and is held onto until due to be paid and is then paid over to the appropriate tax agency, it is never used for anything else.
- *56. The 941E (federal payroll tax quarterly return) is filed quarterly within 30 days after the end of the calendar quarter and the exact amounts as indicated on the 941E are paid.
- *57. The state payroll tax report is filed when due.
- *58. W-2s (the IRS form which states how much each employee earned for the year) are made out and distributed to all employees by January 31st of the following year.
- *59. W-2s are filed by the Church corporation with the IRS with W-3 (the overall cover report form) by February 28th each year.
- *60. W-2s are filed with the state in accordance with the laws of your state.
- *61. In accordance with Int Fin ED 544 U.S., no FSM commissions are paid to any U.S. individual or mission without having that individual's or mission's social security number or tax ID number on file.
- *62. W-9s have been obtained and are on file for any other required individuals as described in the Tax Compliance Manual to whom the org made payments and to whom the org is required to give a Form 1099.
- *63. 1099s are given out to all required non-employees, including FSMS, who were paid \$600 or more by the org by 31 January of the following year.
- *64. Copies of 1099s are filed with the IRS with cover form 1096 by February 28th of each year.

LEGALLY REQUIRED DATES FOR YOUR ORG:

IN OUT N/A

65. List out all legally required rudiments for your org including filing dates for taxes, renewal dates for insurance, permits, etc. for the year and mark them as IN, OUT or N/A (not applicable). Use more space as needed.

66.

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~~~~~MODEL ARTICLES OF INCORPORATION~~~~~

ARTICLES OF INCORPORATION

OF

CHURCH OF SCIENTOLOGY OF \_\_\_\_\_

ARTICLE ONE

Name of the Corporation

The name of the corporation shall be Church of Scientology of

\_\_\_\_\_

ARTICLE TWO

Duration of the Corporation

The duration of the corporation shall be perpetual.

ARTICLE THREE

Purpose of the Corporation

The corporation is a religious corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Religious Corporation Law exclusively for religious purposes. Its purpose is to espouse, present, propagate, practice, ensure and maintain the purity and integrity of the religion of Scientology, as the same has been developed by L. Ron Hubbard to the end that any person wishing to, and participating in Scientology may derive the greatest possible good of the spiritual awareness of his Beingness, Doingness and Knowingness. More particularly, the corporation is formed for the purpose of providing a corporate organization through which and by means of which the operations and activities of a church, which as a church is subject to the ultimate ecclesiastical authority of the Church of Scientology International, a nonprofit religious corporation, and its respective successors in ecclesiastical authority, may be accomplished. More particularly, the corporation is formed for the accomplishment, without limitation, of the following more specific purposes:

- a. To serve as a means of promulgating and administering the religious faith of Scientology; and
- b. To regulate and conduct religious services, including worship services, for its parishioners; and
- c. To conduct religious and educational activities of various kinds; and
- d. To foster and enhance the spiritual welfare of its followers.

#### ARTICLE FOUR

##### Power of the Corporation and Limitations Thereon

In the conduct of its activities and the accomplishment of its purposes, the corporation shall have, shall enjoy and may exercise, to their fullest extent, all powers which nonprofit corporations are permitted by law to have and to enjoy; PROVIDED HOWEVER, that:

- a. The property of the corporation is irrevocably dedicated to religious purposes, and no part of the income or assets of the corporation shall ever inure to the benefit of any private party or individual; and
- b. No substantial part of the activities of the corporation shall be devoted to attempts to influence legislation, by propaganda or otherwise, and the corporation shall not participate or intervene, directly or indirectly, in any political campaign on behalf of or in opposition to any candidate for public office; and



c. The corporation shall not carry on any activities not permitted to be carried on by an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, or successor statutes of similar import; and

d. The corporation shall not carry on any activities not permitted to be carried on by a corporation described in Section 170(c)(2), contributions to which are deductible under Section 170(a) of the Internal Revenue Code of 1986, or successor statutes of similar import.

#### ARTICLE FIVE

##### Number of Directors of the Corporation

The number of the corporation's Directors may not be increased above five (5) or decreased below three (3) with the exact number of directors to be fixed, within the limits specified, by approval of the board in the manner provided in the bylaws.

#### ARTICLE SIX

##### No Members of the Corporation

This corporation shall have no members.

#### ARTICLE SEVEN

##### Disposition of the Corporation's Assets Upon Dissolution

Upon the winding up and dissolution of the corporation and after payment or adequate provision is made for its debts and obligations, the corporation's remaining assets shall be distributed to one or more organizations which are described in Section 501(c)(3) of the Internal Revenue Code and which are organized exclusively for purposes of the religion of Scientology as founded by L.Ron Hubbard.

#### ARTICLE EIGHT

##### Amendment of the Corporation's Articles of incorporation

Notwithstanding any provision of the law permitting their amendment upon the affirmative act of less than all of the corporation's incumbent directors, the articles of incorporation of this corporation may be amended only upon both the unanimous vote of the Directors and the Trustees of the corporation then incumbent.

Executed at \_\_\_\_\_ on \_\_\_\_\_

Incorporator \_\_\_\_\_

CRA, Futhamucka

Dyslexic Mexican Jumping Being

~~~~~MODEL CORPORATE BYLAWS~~~~~

BYLAWS OF

CHURCH OF SCIENTOLOGY OF _____

(A Nonprofit Religious Corporation formed and operated pursuant to the laws of the State of California.)

PREAMBLE

The Church of Scientology of _____ (as "the corporation"), an association of persons having incorporated for religious purposes under the laws of the State of _____ as the same relate to Nonprofit Religious Corporations, does by these Bylaws prescribe the manner in which and the officers and agents by whom the purposes of its incorporation shall be accomplished. (hereinafter referred to

ARTICLE I

The Church

The corporation shall accomplish its purposes through and by means of the operations and activities of a Church known as the Church of Scientology of _____. The Church is and shall be one of the many churches within and without the United States which have been and will be organized for the purposes of the religion of Scientology all bound together as elements of one international and hierarchical church by voluntary and self-determined agreement upon and adherence to the following:

1. The goals, tenets, doctrines, codes, Creed, policies and practices set forth in the Scriptures (as hereinafter defined), and
2. Recognition of the ecclesiastical authority of the hierarchy of the Mother Church; and
3. Governance in ecclesiastical matters by said hierarchy.

The Trustees, Directors, Officers and agents of the corporation shall be bound by and shall observe the foregoing to the end that the operations and activities of this corporation shall support and maintain the Church as a Church of Scientology in good standing with the Mother Church; subject, however, at all times and in every respect to the paramount requirement of observance of and compliance with all applicable laws, and the provisions of the Articles and of these Bylaws.

ARTICLE II

Definition of Terms

As they are used in these Bylaws:

- a. "Articles" shall mean the Articles of Incorporation of this corporation filed on _____ as may be amended from time to time;
- b. "Bylaws" shall mean the code of rules prescribed herein, which are subordinate in authority to the corporation's Articles and which are to be used, adopted and recognized for the regulation and management of the affairs of the corporation;
- c. "Religion of Scientology" and "Scientology" shall mean the religious doctrines, beliefs, tenets, practices, applied religious philosophy and technology as developed by L. Ron Hubbard;
- d. "Scriptures" shall mean the writings and recorded spoken words of L. Ron Hubbard with respect to Scientology and organizations formed for the purposes thereof;
- e. "Mother Church" and "hierarchy of the Mother Church" shall mean the ecclesiastical hierarchy presently organized and operating under the aegis of the Church of Scientology International, a nonprofit religious corporation, and its respective successors in ecclesiastical authority, and shall not mean or be construed to mean or refer to mean said nonprofit religious corporation;
- f. "Notice" shall mean written notice actually received by the prescribed recipient not less than three (3) days prior to the event of which notice is given, written notice actually delivered to the prescribed recipient not less than three (3) days prior to the event of which notice is given, or written notice mailed to the prescribed recipient of the notice, by first class mail, not less than five (5) days prior to the event of which notice is given;

g. "Mailed" shall mean deposited in the United States mail, postage prepaid, addressed according to the records of the corporation;

h. Unless the context in which they are used clearly requires otherwise, terms denoting number shall include both the singular and the plural, and terms denoting gender shall include all of the masculine, the feminine and the neuter.

ARTICLE III

Purpose

The corporation shall espouse, present, propagate, practice, ensure and maintain the purity and integrity of the religion of Scientology as the same has been developed by L. Ron Hubbard to the end that any person desiring participation, or participating in Scientology may derive the greatest possible good of increased awareness as an immortal spirit.

It is the belief of the Church that Scientology is the organization of the fundamentals of existence into axioms and workable technologies in the tradition of the exact sciences for resolving problems of life and thought and for the freedom of the human spirit. That he who asks a question is closest to the answer, that every question contains its own answer, and further that every problem contains its own solution, and that the technologies of Scientology are of such a nature that a person with a question or a problem may be spiritually assisted or guided to the end that the person is able to answer his own questions and resolve his own problems. Scientology Technology is a body of truths and methods of application developed by L. Ron Hubbard from his observations and research, which when correctly applied can reveal the soul of man, extend his knowledge of the Infinite Being to him and make known what is knowable about God.

Believing that man's best evidence of God is the God he finds within himself, and trusting with enduring faith that the Author of the Universe intended life to thrive within it, the corporation is founded with the following general goals:

a. Establishment of a religious body and entity to promote, protect, administer and encourage the religion of Scientology and its goals;

b. Foundation, construction and use of a Church, establishments, tutorial schools, parsonages, centers of training and other centers for the teaching, dissemination and administration of the religion of Scientology, which aspires to the religious and ethical guidance and

improvement of the individual character, and also to better and clarify the human spirit;

c. Publication and distribution of religious literature and other sectarian aids in order to propagate and disseminate Scientology;

d. Establishment of religious cultural centers; and

c. Minister to the spiritual needs of the parishioners and congregants of the Church through the conduct of services, both group and individual.

ARTICLE IV

Creed

The Church subscribes, and its object is and purposes are that all of Mankind may subscribe to and practice the following creed:

WE OF THE CHURCH BELIEVE:

That all men of whatever race, color or creed were created with equal rights;

That all men have inalienable rights to their own religious practices and their performance;

That all men have inalienable rights to their own lives;

That all men have inalienable rights to their sanity;

That all men have inalienable rights to their own defense;

That all men have inalienable rights to conceive, choose, assist or support their own organizations, churches and governments;

That all men have inalienable rights to think freely, to talk freely, to write freely their own opinions and to counter or utter or write upon the opinions of others;

That all men have inalienable rights to the creation of their own kind;

That the souls of men have the rights of men;

That the study of the mind and the healing of mentally caused ills should not be alienated from religion or condoned in non-religious fields;

And that no agency less than God has the power to suspend or set aside these rights, overtly or covertly.

AND WE OF THE CHURCH BELIEVE:

That man is basically good;

That he is seeking to survive;

That his survival depends upon himself and upon his fellows and his attainment of brotherhood with the Universe.

AND WE OF THE CHURCH BELIEVE THAT THE LAWS OF GOD FORBID MAN:

To destroy his own kind;
To destroy the sanity of another;
To destroy or enslave another's soul;
To destroy or reduce the survival of one's companions or one's group.

AND WE OF THE CHURCH BELIEVE:

That the spirit can be saved and that the spirit alone may save or heal the body.

ARTICLE V Membership

Section 1. Classification. The corporation shall have no members. It shall instead have parishioners who shall not be entitled to vote.

Section 2. Purpose of Affiliation. The Church believes that a person participating in the spiritual exercises of the Church may profit to such an extent that the person may become aware of his spiritual nature, capable of self-determination, self-discipline and a realization of his creative abilities; thus ordinary problems of life should be easily resolved or be of little or no concern. Therefore, such a person would be better able to contribute to the welfare of his fellow man, Society and the Nation. Such a state of Beingness of Mankind is the goal of the Church.

The Church further believes that man's attainment of advanced levels of spiritual awareness frees the spirit from the mind and body giving the spirit immortality. This in turn will increase life and livingness while diminishing the influence of death or death-like factors which act as stops and distractions to life.

During the term of affiliation with the Church, the parishioners shall agree to abide by the Creed, the Auditor's Code and the Scientology Code of Honor.

ARTICLE VI Trustees

Section 1. Purpose. The sole purpose of the Board of Trustees shall be to elect Directors of the corporation. In furtherance of this purpose the Trustees may remove a Director who fails to meet the qualifications of a Director or who conducts himself in a manner which is contrary to the provisions of Articles I through IV of these Bylaws and the survival

of Scientology. In addition, the Trustees shall have the power to change the number of Trustees, as provided in Section 2 below.

Section 2. Number of Trustees. The authorized number of Trustees shall be three (3) until changed by a bylaw amending this Section 2 duly adopted by the unanimous vote of the Trustees; provided however that the Trustees shall not have the power to reduce the number of Trustees below three (3) or increase the number above seven (7).

Section 3. Qualifications. In order to serve as Trustees of the corporation whether as initial Trustees or successor Trustees, and in order to continue to serve as a Trustee of the corporation, Trustees shall be persons who possess and continue to possess, the following qualities and attributes. That is to say, a person may serve and continue to serve, as Trustee of the corporation only so long as he is and remains:

- a. Well-versed in the Scriptures;
- b. Well-versed in the Scientology Ethics and justice System;
- c. A proven Scientology executive, as evidenced by statistics;
- d. A duly ordained minister of Scientology in good standing with the Mother Church; and
- e. Has attained the age of majority.

Section 4. Election. The initial Trustees of the corporation shall be elected at the meeting next following the meeting of the Board of Directors adopting these Bylaws. The Trustees shall have lifetime tenure, subject, however, to termination as provided in Section 7.

Section 5. Vacancies. A vacancy in the Board of Trustees shall be deemed to exist in case of the death, resignation or termination of any Trustee as provided in Section 7.

a. Vacancies in the Board of Trustees may be filled by a majority of the remaining Trustees, though less than a quorum, or by a sole remaining Trustee.

b. In the event the Board of Trustees is unable to fill vacancies because of the death or disqualification of the entire Board of Trustees or sole remaining Trustee, then that person holding the senior ecclesiastical post in this Church shall (and only in this unlikely event and only as a singular circumstance) appoint individuals to fill all vacancies on the Board of Trustees, who must themselves meet the qualifications of a Trustee as provided in Section 3.

Section 6. Voting and Other Rights. Each Trustee shall be entitled to one vote. Each Trustee shall have access at all times to the books and records of the corporation.

Section 7. Termination as Trustee.

a. A person's post as Trustee shall terminate at his death or upon receipt by at least one other Trustee of a written notice of his resignation.

b. Pursuant to the Scientology ethics and justice System, a person's post as Trustee may be terminated for actions deemed contrary to the provisions of Articles I through IV of these Bylaws, by the unanimous vote of the other Trustees.

c. A person's post as Trustee shall automatically terminate if he or she at any time fails to meet the qualifications for Trustee which are stated in paragraphs (a), (b) and (c) of Section 3 of this Article.

Section 8. Meetings of Trustees.

a. Annual Meeting. A meeting of the Trustees shall be held on the first day of June of each year at 8:00 p.m. at the principal office of the corporation. No notice of the annual meeting need be given if it is held at such time and at such place. The time and place of the annual meeting may be changed by vote or written consent of a majority of the Trustees, and notice of any such change shall be given to each Trustee. If proper notice is given of any such change in the time or place of the annual meeting, notice need not be given of subsequent annual meetings held at the same time and place.

b. Agenda at Annual Meeting. At the annual meeting of Trustees, consideration shall be given only to the following matters:

i. Election or removal of Directors.

ii. Election or removal of Trustees.

By such act the Trustees hereby delegate the responsibility of handling the day-to-day affairs of the corporation as provided in these Bylaws to the Directors of the corporation.

c. Call of Meetings. A special meeting of the Trustees may be called by any Trustee.

d. Notice of Meetings. When required, notice of a meeting of the Trustees shall be given to each Trustee in writing. A notice of meeting need not specify the purpose of the meeting.

e. Waiver of Notice. The transactions at any meeting of the Trustees, however called, however noticed, and wherever held, are as valid as though taken at a meeting duly held after regular call and notice if a quorum is present, and if, either before or after the meeting, each of the Trustees who was absent signs a written waiver of notice and consent to the holding of such meeting. A Trustee shall be deemed to have waived notice and consented to the holding of a meeting, if he votes to approve the minutes of that meeting. All written waivers and consents shall be filed with the minutes of meetings of the Trustees. Notice of a meeting shall also be deemed given to any Trustee who attends a meeting without protesting, before or at its commencement, the lack of proper notice to him.

f. Quorum. A quorum for any meeting of the Trustees shall be a majority of the total number of the Trustees.

g. Minutes. The Trustees shall cause minutes of their meetings to be kept and to be maintained with other records of the Trustees in a secure place.

h. Adjournment. A majority of the Trustees present, whether or not a quorum is present, may adjourn any meeting of the Trustees to another time and place. Notice of the time and place of holding an adjourned meeting need not be given to absent Trustees if the time and place are fixed at the meeting adjourned.

i. Use of Conference Telephones. The Trustees may meet through the use of conference telephone facilities or similar communications equipment, so long as all Trustees participating in the meeting can hear and address one another.

j. Action without Meeting. Any action required or permitted to be taken by the Trustees may be taken without a meeting if all Trustees consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the Trustees. Such written consent or consents shall be filed with the minutes of proceedings of the Trustees.

ARTICLE VII

Board of Directors

Section 1. Function and Authority of the Board.

a. Generally. The activities and affairs of the corporation shall be managed and conducted, and all corporate powers shall be exercised, by or under the direction of a Board of Directors, consisting of three (3) natural persons. The authorized number of directors may be changed by a bylaw amending this Section 1(a) duly adopted by the unanimous vote of the Directors, provided, however, that the Directors shall not have the power to reduce the number of Directors below three (3) or increase the number above five (5). The Directors in general shall have all applicable powers conferred, permitted or authorized by law as directors of a nonprofit religious corporation, including the power to purchase, lease, encumber by mortgage or deed of trust, sell, pledge and convey property of the corporation and to borrow funds for the use and benefit of the corporation. Each Director shall have access at all times to the books and records of the corporation,

b. Particular Functions. More particularly, and without limiting its power and authority in general, the Board of Directors may, in its sole discretion:

i. Borrow money and incur indebtedness on behalf of the corporation, and cause to be executed and delivered therefore in the corporate name, promissory notes, bonds, deeds of trust, mortgages, pledges or other evidences of debt and securities therefor;

ii. Make and perform such contracts as are necessary or convenient to attain or further the purposes and objects of the corporation, as set forth in the Articles and in these Bylaws;

iii. Delegate to the corporation's officers, or to other agents, regular and special duties of the Board of Directors, the delegation of which is permitted by law and consistent with the Articles;

iv. Publish and disseminate books, periodicals, pamphlets, tracts, sermons, films, tapes and pictures in furtherance of the purposes of the corporation; and

v. Change the principal office of the corporation from one location to another, and establish and locate subsidiary offices of the corporation.

c. Special Duty of the Board. It shall be a special duty of the Board of Directors to assure:

i. That no part of the net earnings of the corporation inure to the benefit of any person;

- ii. That no substantial part of the activities of the corporation are directed to influencing legislation by propaganda or otherwise;
- iii. That the corporation and its agents refrain from participation or intervention in any political campaign on behalf of or in opposition to any candidate for public office;
- iv. That the property, assets and net income of the corporation remain irrevocably dedicated to charitable and religious purposes; and
- v. That, upon the dissolution or winding up of the corporation and after payment or adequate provision is made for its debts and obligations, the corporation's remaining assets shall be distributed to one or more organizations which are described in Section 501(c)(3) of the Internal Revenue Code and which are organized exclusively for purposes of the religion of Scientology as founded by L. Ron Hubbard.

Section 2. Election and Tenure of Directors.

a. Election. Directors shall be elected by majority vote of the Trustees of the corporation. The Trustees shall elect one of the Directors as Chairman of the Board. Trustees may not cumulate votes in electing Directors. Regular elections of Directors shall be held at the annual meeting of the Trustees. Special elections may be held as necessary to fill vacancies on the Board of Directors. Directors may not be elected from among the Trustees. Directors shall hold office for one year or until the next annual meeting of the Trustees, whichever period is shorter. Directors may be re-elected.

b. Compensation. Directors shall receive no compensation for their service as Directors, but shall be entitled to reimbursement for expenses incurred on behalf of the corporation, whether or not such expenses are incurred in their capacities as Directors.

c. Qualifications. In order to serve as a Director and in order to continue to serve as a Director, each Director shall be a person who possesses and continues to possess the following qualities and attributes. That is to say, a person may serve and continue to serve as a Director only so long as he is and remains:

- i. Well-versed in the Scriptures;
- ii. Well-versed in the Scientology Ethics and justice system;
- iii. A proven Scientology executive, as evidenced by statistics;

iv. A duly ordained minister of Scientology in good standing with the Mother Church;

v. Has attained the age of majority.

d. Removal. Upon an affirmative vote of a majority of the Trustees, a director may be removed, on the following grounds:

i. Failure to continue to meet the qualifications set forth in subparagraphs (i) through (iv) of subsection (c) above;

ii. Failure to exercise the duties of a Director in pursuance of the goals, aims and purposes of the corporation, the Church and Scientology, as set forth in Articles I through IV of these Bylaws.

Section 3. Meetings of Directors

a. Call of Special Meetings. Special meetings of the Board of Directors may be called by the Chairman, or by any two Directors, or by the President.

b. Notice. Notice of all special meetings of the Board of Directors, or of an annual meeting to be held at a time or place other than a time or place fixed by resolution of the Board of Directors, shall be given to each Director.

c. Waiver of Notice. Transactions of any meeting of the Board, however called, however noticed, and wherever held, are as valid as though adopted at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the Directors not present signs a written waiver of notice and consent to the holding of such meeting. A Director shall be deemed to have waived notice and consented to the holding of a meeting if he votes to approve the minutes thereof. All such waivers or consents shall be filed with the minutes of meetings of the Board of Directors. Notice of a meeting shall also be deemed given to any Director who attends a meeting without protesting, before or at its commencement, the lack of proper notice to him.

d. Quorum. A majority of the Directors authorized shall constitute a quorum of the Board of Directors for transaction of business or for taking of action which may be taken with less than unanimous consent of all Directors.

e. Minutes. The Directors shall designate one of their number or an officer of the corporation to keep minutes of their meetings.

f. Adjournment. A majority of the Directors present, whether or not a quorum is present, may adjourn any Directors' meeting to another time and place. Notice of the time and place of holding an adjourned meeting need not be given to absent Directors if the time and place be fixed at the meeting adjourned.

g. Regular, Annual and Special Meetings. Meetings of the Board of Directors shall be held no less often than annually. Meetings designated as annual meetings shall be held in the month of June of each year. Meetings other than annual meetings shall be called regular meetings or special meetings. The time and place of annual meetings may be fixed by unanimous resolution of the Board of Directors, and, once so fixed, shall not be subject to the notice requirements of subsection (b).

h. Use of Conference Telephones. Directors may meet through the use of conference telephone facilities or similar communications equipment, so long as all Directors participating in the meeting can hear and address one another.

i. Action without a Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all Directors consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the full Board. Such written consent or consents shall be filed with the minutes of the meetings of the Board of Directors.

ARTICLE VIII

Officers of the Corporation

Section 1. Required Officers. Officers of the corporation, as distinguished from ecclesiastical posts, shall be elected by majority vote of the Board of Directors, and shall include a President, a Secretary, and a Treasurer, each of whom shall serve at the pleasure of the Board. Each of said offices may be held by a person who is also a Director. The Board of Directors may elect the same person to the offices of Secretary and Treasurer.

Section 2. Optional Officers. The Board of Directors may elect one or more Vice Presidents, and one or more Assistant Secretaries and Assistant Treasurers and such other subordinate officers as the Board of Directors shall from time to time deem appropriate.

Section 3. Duties of Officers.

a. The President. Shall have general supervisory responsibility for the business affairs of the corporation. In addition, he shall perform all other acts and duties which the Board of Directors shall direct. The President shall be the Chief Executive Officer of the corporation, to whom other officers and their agents shall report and be responsible for the proper performance of their duties.

b. The Vice-President, if any, shall carry out such duties on behalf of the corporation as may be assigned to him by the Board of Directors or by the President. in the absence or disability of the President, the duties of the President shall be discharged by the Vice President.

c. The Treasurer shall be the Chief Financial Officer of the corporation and shall have custody of its corporate funds, books and financial records. The Treasurer shall have authority to receive and accept money, collect debts, open bank accounts, and make disbursements in the name of the corporation. The Treasurer shall keep or cause to be kept proper books of account reflecting all business done by the corporation and of all monies received and disbursed, and shall prepare or cause to be prepared financial statements at the request of the Board of Directors. The Treasurer shall deposit all money and other valuables in the name and to the credit of the corporation, with such depositories as may be designated by the Board of Directors. The Treasurer shall disburse funds of the corporation at the direction of the Board. The Treasurer shall, whenever requested to do so by the President or Board of Directors, account for all transactions engaged in or authorized by him as Treasurer.

d. The Assistant Treasurer, if any, shall carry out such duties on behalf of the corporation as may be assigned or delegated to him by the Board of Directors, by the President, or by the Treasurer, In the absence or disability of the Treasurer, the Assistant Treasurer shall discharge the duties of the Treasurer.

e. The Secretary shall keep or cause to be kept a book of minutes of all meetings of the Trustees and of the Board of Directors, and of the meetings of any committee for which the Board requires that minutes be kept. The Secretary shall keep or cause to be kept, at the principal office of the corporation, a copy of these Bylaws. The Secretary shall keep the seal of the corporation and shall attest all certificates or other legal documents requiring certification on behalf of the corporation.

f. The Assistant Secretary, if any, shall carry out such duties on behalf of the corporation as may be assigned or delegated to him by the Board of Directors, by the President, or by the Secretary.

Section 4. Execution of Contracts. Contracts, instruments of conveyance or encumbrance, or other obligations of the corporation may be executed and delivered on behalf of the corporation by any two (2) officers of the corporation unless the Board of Directors provides otherwise by general or special resolution.

ARTICLE IX

Liability of Directors and Officers. Directors, Officers, Trustees and other agents of the corporation, and the property of such persons, shall not be subject to or chargeable with payment of corporation debts or obligations.

ARTICLE X

Ordination of Ministers and Religious Orders

Section 1. Ordination. The Church shall have full power and authority to ordain ministers, who shall be empowered to perform marriage ceremonies, administer the confessional, bury the dead, baptize, practice spiritual healing, give spiritual healing, give spiritual advice, and minister to the spiritual needs of congregations and parishioners; to revoke such other degrees and certificates of attainment or qualification as may be appropriate.

Section 2. Code of Conduct. This Church shall ask and require from its ordained ministers conformity with the following minister's code (known as the "Scientology Auditor's Code"), relating to the spiritual ministrations to, and guidance of, all parishioners and/or confessants:

I HEREBY PROMISE AS AN AUDITOR TO FOLLOW THE AUDITOR'S CODE.

1. I promise not to evaluate for the preclear or tell him what he should think about his case in session.
2. I promise not to invalidate the preclear's case or gains in or out of session.
3. I promise to administer only standard tech to a preclear in the standard way.
4. I promise to keep all auditing appointments once made.
5. I promise not to process a preclear who has not had sufficient rest and who is physically tired.
6. I promise not to process a preclear who is improperly fed or hungry.
7. I promise not to permit a frequent change of auditors.
8. I promise not to sympathize with a preclear but to be effective.
9. I promise not to let the preclear end session on his own determinism but to finish off those cycles I have begun.

10. I promise never to walk off from a preclear in session.
11. I promise never to get angry with a preclear in session.
12. I promise to run every major case action to a floating needle.
13. I promise never to run any one action beyond its floating needle.
14. I promise to grant beingness to the preclear in session.
15. I promise not to mix the processes of Scientology with other practices except when the preclear is physically ill and only medical means will serve.
16. I promise to maintain communication with the preclear and not to cut his communication or permit him to overrun in session.
17. I promise not to enter comments, expressions or enturbulance into a session that distract a preclear from his case.
18. I promise to continue to give the preclear the process or auditing command when needed in the session.
19. I promise not to let a preclear run a wrongly understood command.
20. I promise not to explain, justify or make excuses in session for any auditor mistakes whether real or imagined.
21. I promise to estimate the current case state of a preclear only by standard case supervision data and not to diverge because of some i imagined difference in the case.
22. I promise never to use the secrets of a preclear divulged in session for punishment or personal gain.
23. I promise to never faisify worksheets of sessions.
24. I promise to see that any donation received for processing is refunded following the policies of the Claims Verification Board, if the preclear is dissatisfied and demands it within three months after the processing, the only condition being that he may not again be processed or trained.
25. I promise not to advocate Dianetics or Scientology only to cure illness or only to treat the insane, knowing well they were intended for spiritual gain.
26. I promise to cooperate fully with the authorized organizations of Dianetics and Scientology in safeguarding the ethical use and practice of those subjects.
27. I promise to refuse to permit any being to be physically injured, violently damaged, operated on or killed in the name of "mental treatment."
28. I promise not to permit sexual liberties or violations of patients.
29. I promise to refuse to admit to the ranks of practitioners any being who is insane.

Section 3. Religious Orders. The Church may establish and maintain religious orders, the purposes of which shall be the carrying out of the religious and administrative activities of this Church and corporation. The specific functions and duties of such religious orders, and of the members of such orders, shall be as determined and as signed by the

Board of Directors in accordance with the Scriptures, and consistent with the purposes for religious orders herein stated.

Acceptance of persons into the religious orders of the Church shall be governed by the applicable Scriptures. Persons seeking acceptance into a religious order of this Church shall enter into a covenant expressing the individual's desire and intent to devote himself to accomplish the goals and purposes of this Church and the Religion of Scientology. All members of the religious order shall agree to abide by the policies of this Corporation, the Scriptures, the Articles, and these Bylaws.

Section 4. Terminations. Membership, affiliation, charters, ordinations, certifications, or other special dispensations, or recognitions, shall terminate, by direction of the Board of Directors, for the following causes:

- a. Death,
- b. Resignation,
- c. Actions deemed contrary to the principles, purposes, aims, code, ecclesiastical letters, policies, covenants, agreements, the Bylaws of this corporation and Scientology.

Section 5. Return of Property. Upon any termination pursuant to Section 4 of this Article X, then the person whose status has been terminated shall be required immediately to return to the corporation or Church any and all real and personal property issued to such person by this corporation or Church.

Section 6. Discretion of Directors. Pursuant to the Scriptures, particularly the ethics and justice system of Scientology, membership in a Religious Order, ordination, or affiliation may be denied or revoked for cause deemed to be sufficient by the Directors in their sole discretion.

ARTICLE XI

Principal Office

The corporation's principal office shall be located at such place, within or without the State of California, as a majority of the Board of Directors may, in its discretion, determine from time to time.

ARTICLE XII

Seal

The corporation shall have a seal, the form of which shall be determined and adopted by the Board of Directors.

ARTICLE XIII

Amendments

Unless otherwise provided in these Bylaws, these Bylaws may be amended or repealed and new Bylaws adopted by unanimous vote of the Board of Directors; provided that amended Bylaws or new Bylaws do not jeopardize the tax-exempt status of this corporation, do not alter the purposes of this corporation or the qualifications required of its Trustees and Directors, and do not contravene the Scriptures.

CERTIFICATION

We the undersigned, do hereby certify:

- 1. That we are the Directors of Church of Scientology of _____, a nonprofit religious corporation incorporated under the laws of the State of _____, and,
- 2. That the foregoing Bylaws constitute the Revised Bylaws of said corporation, as duly adopted at a meeting of the Directors of said corporation, held on the day of _____

IN WITNESS THEREOF, we have hereunto subscribed our names this day of 19__.

Director

Director

Director

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BOARD MINUTES & CONSENTS

HOW TO WRITE BOARD MINUTES & CONSENTS

The two types of board action are actual I meetings for which minutes are written or unanimous written consents which each member signs.

If the Board wishes to discuss the matter, then a meeting may be held. The Bylaws require that three days notice be given of any meeting. This requirement can be waived by having all directors sign a waiver of notice. For simplicity's sake, the waiver of notice can be written into the minutes of the meeting. A quorum of 2/3 of the Board may conduct a board meeting but all directors must sign the waiver of notice.

The following are examples of some of the things the Board of Directors must approve either by a meeting or by unanimous written consent;

- a. Purchase or sale of land and buildings;
- b. Acquisition of major assets (such as a new printing press, motor vehicles or other major equipment);
- c. A move of the Org to a new location;
- d. Opening bank accounts;
- e. Amending corporate documents;
- f. Starting and ending a lawsuit;
- g. Election of corporate officers, i.e., the President, Secretary, Treasurer and their assistants;
- h. Any requests for loans or grants from the organization;
- i. Any requests for loans or grants by the organization;
- j. Any large unusual expenditures;
- k. implementing of parsonage allowance.

The above items are given as examples and are by no means a complete list. If you understand the purpose and function of the Board of Directors as given in the Bylaws, you will be able to think with the subject and understand when minutes should be done. As local rules concerning Board minutes may vary, you should consult with your Legal Officer, the appropriate OSA Network staff member or your org's attorney as needed.

The Bylaws require that annual meetings be held by the Trustees and Directors. These are normally done on 1 June for the Trustees and between 1 June and 30 June for the Directors. The Trustees meeting is to elect Directors for the coming year. The Directors meeting elects officers and takes up any other necessary business. Like all other affairs of the corporation, these may also be done by unanimous written consent.

There are some points to keep in mind when writing minutes or consents:

1) The writer must have all data and fully understand the transaction. This can be done by debriefing those who are proposing it and obtaining copies of all CSWS, brochures and proposals of the company we are dealing with, etc.;

2) Understand that the minutes create a record which could be reviewed by any number of publics at an unspecified time in the future. Sometimes, they are reviewed by staff who are trying to determine exactly what was decided. At other times they may be reviewed by government agencies trying to verify that the corporation is operating in accordance with its stated religious purposes. In court proceedings, they are sometimes demanded by opposing counsel who will be trying to weaken the corporation's credibility in any way possible. Thus it is important that they be very clear. It is also important that they reflect the corporation's purposes;

3) In accordance with the above, it is important that minutes and consents be written in standard, formal English. Avoid Scientology terminology and slang.

#### FORMAT FOR MINUTES AND UNANIMOUS WRITTEN CONSENTS

HCO PL 12 March 1966 "BOARD MINUTES" gives the correct format for Board minutes.

This policy applies to both minutes of meetings and unanimous written consents.

Immediately following you will find sample minutes for several circumstances, including election and removal of trustees, directors and officers, and purchase of a major asset.

In addition, a copy of any document approved by the Board would normally be attached to the minute. For example, if the purpose of a unanimous written consent is to give approval of a contract, then a copy of the contract would be attached to the consent. The copy

attached should not be the original signed document, but an unsigned copy.

## THE BOARD BOOK

A vital part of maintaining corporate integrity lies in carefully preserving the valuable documents of the corporation in an orderly manner.

The board book is the most important valuable document of the corporation, because it contains a running record of the activities of the corporation. Board minutes, when complete, are placed in the board book.

The board book consists of one or more ring binders in which Board minutes and consents of the Board of Directors and Trustees are filed in chronological order from the earliest to the latest. The Director and Trustee minutes are not kept separately but are filed chronologically as they occur. The most recent minute should be on top. Appointments by the Mission Holder would also be placed in a mission's board book in the same sequence.

Some stationery stores sell binders specifically for this purpose, but any good quality, sturdy ring binder may be used.

In addition to the minutes, the board book must also contain the Articles of Incorporation and Bylaws of the corporation. These are kept in a separate section of the board book.

If the Articles and Bylaws have ever been revised, then all versions are included in the book with the latest on top.

Only actions of the Directors and Trustees are to be kept in the board book.

It is the responsibility of the Secretary of the corporation to ensure the board book is kept up to date at all times.

~~~~~ EXAMPLE ~~~~~

RESOLUTION
ADOPTED BY UNANIMOUS WRITTEN CONSENT
OF THE TRUSTEES OF
CHURCH OF SCIENTOLOGY OF _____

We, the undersigned, being all of the Trustees of Church of Scientology of _____, a nonprofit religious corporation, do by this written consent take the following action and adopt the following resolution.

WHEREAS, A vacancy exists among the Board of Directors following the resignation of Joe Smith; and

WHEREAS, Pete Jones meets all of the qualifications to serve as a member of the Board, now therefore be it

RESOLVED: That Pete Jones is hereby elected to the Board of Directors of the corporation replacing Joe Smith to serve until his successor is duly elected and qualified.

This consent is executed pursuant to the Bylaws of the corporation which authorize the taking of action by unanimous written consent without a meeting.

Dated: _____

Dated: _____

Dated: _____

~~~~~ EXAMPLE ~~~~~

RESOLUTION  
ADOPTED BY UNANIMOUS WRITTEN CONSENT  
OF THE TRUSTEES OF  
CHURCH OF SCIENTOLOGY OF \_\_\_\_\_

We, the undersigned, being all of the Trustees of Church of Scientology of \_\_\_\_\_, a nonprofit religious corporation, do by this written consent take the following action and adopt the following resolutions.

WHEREAS, the Bylaws of the corporation call for the holding of the annual meeting of the Trustees on June 1st; and

WHEREAS, the Trustees wish to accomplish the business of this year's annual meeting through this unanimous written consent, now therefore be it

RESOLVED; That this consent serve in place of this year's annual meeting of Trustees.

RESOLVED FURTHER: That \_\_\_\_\_ and \_\_\_\_\_  
are hereby re-elected to the Board of Directors for the coming year  
to serve until their successors are duly elected and qualified.

RESOLVED FURTHER: That \_\_\_\_\_ is hereby  
designated Chairman of the Board.

This consent is executed pursuant to the Bylaws of the corporation  
which authorize the taking of action by unanimous written consent  
without a meeting.

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

~~~~~ EXAMPLE ~~~~~

RESOLUTION
ADOPTED BY UNANIMOUS WRITTEN CONSENT
OF THE BOARD OF DIRECTORS OF
CHURCH OF SCIENTOLOGY OF _____

We, the undersigned, being all of the Directors of Church of
Scientology of _____, a nonprofit religious
corporation, do by this written consent take the following action and
adopt the following resolution.

WHEREAS, a vacancy exists in the position of Secretary following the
resignation of Susan Smith; now therefore be it

RESOLVED: That Jane Jones is hereby elected to the position of
Secretary of the corporation replacing Susan Smith.

This consent is executed pursuant to the Bylaws of the corporation
which authorize the taking of action by unanimous written consent
without a meeting.

Dated: _____

Dated: _____

Dated: _____

~~~~~ EXAMPLE ~~~~~

RESOLUTIONS  
ADOPTED BY UNANIMOUS WRITTEN CONSENT  
OF THE BOARD OF DIRECTORS OF  
CHURCH OF SCIENTOLOGY OF \_\_\_\_\_

We, the undersigned, being all of the Directors of Church of Scientology of \_\_\_\_\_, a nonprofit religious corporation, do by this written consent take the following action and adopt the following resolutions.

WHEREAS, Church of Scientology of \_\_\_\_\_ was established to provide religious services to the parishioners in this area and assist them on the path to spiritual freedom,

WHEREAS, over the years of its existence, the Church has acquired the names of over 40,000 parishioners and other persons interested in the religion in its files;

WHEREAS, providing regular information to these individuals about the religion of Scientology is a vital part of the Church's religious activities;

WHEREAS, in order to regularly communicate to its parishioners, the Church is in need of updated addressograph equipment; and

WHEREAS, after reviewing quotes from various suppliers, it has been determined that Jones & Company can provide the equipment that best meets the Church's needs at the best possible price, now therefore be it

RESOLVED: That this corporation shall purchase the Address 2000 machine from Jones & Company for \$ 5,000.

RESOLVED FURTHER: That the officers of the corporation are hereby authorized and directed to take all necessary actions and execute all necessary documents on behalf of the corporation to complete the foregoing transaction, specifically including the execution of a Contract of Sale with Jones & Company.

This consent is executed pursuant to the Bylaws of the corporation which authorize the taking of action by unanimous written consent without a meeting.

Dated: \_\_\_\_\_



Dated: \_\_\_\_\_

~~~~~

SCIENTOLOGY MISSIONS INTERNATIONAL
EXECUTIVE DIRECTIVE NO. 977
MISSION STAFF
COMPENSATION
SYSTEMS

Ref:

LRH ED 254 INT Staff Pay
HCO PL 6 Mar 66 Rewards & Penalties, How to Handle
Personnel and Ethics Matters
HCO PL 19 Mar 71RA Bean Theory, Finance as a Commodity
HCO PL 26 Nov 65 Financial Planning

(NOT INCLUDE IN SCAN)

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PAYROLL & EMPLOYMENT TAXES

PAYROLL TAXES

The U.S. tax laws require that all employers withhold taxes from their employees, pay over employment taxes to the IRS unless an exemption applies and also report to the IRS the amount of salary paid to each employee. The IRS also requires that organizations report amounts paid to certain non-employees. Most states have similar requirements. Having tax exempt status does not relieve an organization of these responsibilities.

A vital point of tax compliance is therefore that the organization correctly collects and forwards taxes and also correctly calculates and reports the amounts paid to employees and non-employees. This section will tell you how to do this.

Every employer must have an Employer Identification Number, which is a nine digit number with a hyphen after the second digit--for example 12-3456789. This number goes on all forms filed by the employer and acts as his "account number" with the IRS.

Every employee must have a Social Security Number, which is a nine digit number arranged with hyphens after the third and fifth digits,

e.g. 123-45-6789. This number must go on all forms filed about the employee.

For payroll taxes and payroll reporting in the U.S., the types of payments that are included are:

Staff pay, whether salaried or per a unit system;

Sea Org allowances;

Staff book commissions, reg commissions and any other type of commissions paid to staff of that organization;

Staff bonuses and cash awards;

The cost of street clothes (not uniforms) purchased by the organization for the individual, as these can also serve for personal use.

Generally, the types of payments that are excluded from payroll tax calculations and payroll reporting are:

Parsonage, which is payment by a church expressly designated for the housing of an ordained minister working in a ministerial capacity and is non-taxable to the minister (see additional data on parsonage in the section of the manual describing parsonage allowance);

The value of room and board provided to Sea Org members and to all church employees if located on church premises and for the benefit of the Church;

The value of child care provided for children of Sea Org members, whether they are cared for in Sea Org facilities or not;

The value of medical and dental expenses for Sea Org members;

Room, board, child care and medical care can be excluded only if provided to all employees on a nondiscriminatory basis;

Travel and other post expenses provided for any staff member, as long as the staff member provides bills/receipts to document these expenses so that the org has full accounting for these funds as org expenses.

Not all states require payroll withholding taxes and those that do will have different tax rates, different types of forms and possibly

different reporting periods or methods. It is up to the Director of Special Affairs and the applicable Treasury terminals in each org or mission to determine the requirements of their state and to handle accordingly. Assistance may be requested of the Tax Compliance Section OSA INT where needed.

The remainder of this section will give you some basic stable data to assist you in the handling of payroll taxes.

As above, all employers, whether tax exempt or not, are required to withhold income tax on wages and pay it to the IRS for each employee. The purpose of the system is to ensure that all income tax is paid in advance so it will not be unpaid at the end of the year.

How much income tax is to be withheld depends on various factors, including how much the employee earns, marital status, number of dependents, etc. The IRS Form W4 is a worksheet to assist the employee in determining how much federal income tax is to be deducted from each employee's wages. Every Treasury Division needs to obtain a supply of these forms each year and have each staff member fill one out. The forms are then placed in the individuals' payroll folders in Treasury and referred to when preparing payroll. This is to be done for all staff at the start of the year and each time a new staff member is hired. A sample W-4 form can be seen immediately following this write-up.

The amount of Federal Income Tax to be withheld is found in a government publication called "Circular E, Employer's Tax Guide," which is issued annually (or more frequently) with updated tax rates. This manual contains tables giving the applicable tax rates for each marital status, frequency of payroll period (weekly, monthly, etc.), and number of withholding allowances as calculated on the W-4 form.

Once deducted, the Federal Income Tax must be paid to the IRS. The most common method of payment is by the org issuing a check for the total income tax for the week and "depositing" it at their local bank using a special coupon form called a Form 8109, which tells the bank and the IRS that the money is coming from that org and to which payroll period it applies. (In this case, depositing the taxes does not refer to depositing it in an org bank account such as the Reserve Payment Account. It means depositing it in a bank which is an authorized depository for such deposits for the IRS.) A sample Form 8109 follows the sample W-4 form.

These deposits are due at specified times.

The IRS is supposed to notify the employer how often he must deposit, such as weekly or monthly. If you do not receive a notice from the IRS, your Treasury Division can follow the deposit rules given in the Circular E, but the safest method is to just deposit weekly immediately after each payroll. Regardless of whether the IRS issues the proper notification or not, failure to pay timely will result in the assessment of penalties and interest. Thus, it is best to just deposit this on a weekly basis.

Every employer is required to file a payroll tax return quarterly, which reports the total payroll paid out by the organization and the total income taxes withheld and deposited. The quarterly form for an exempt organization which has elected out of the Federal Insurance Contributions Act (FICA) as described below is called Form 941E. Organizations which did not elect out of FICA file a Form 941. Note: These forms are filed by the corporation so if there are multiple orgs or missions in a corporation, their figures must be consolidated into one corporate total for filing. Sample Forms 941 and 941E can be seen following samples of Forms W-4 and 8109.

In order to prepare and file the 941 and 941E form, a payroll audit must be done to summarize these figures for the quarter and ensure they reconcile to the original financial records. The DSA and concerned Treasury Division staff need to be hatted on how the payroll audit is done and how to fill out the form.

The quarterly Forms 941 or 941E are due one month after the end of each quarter.

There are no extensions available. The schedule is:

| Quarter     | From-To              | 941(E) due |
|-------------|----------------------|------------|
| 1st quarter | 1 January - 31 March | 30 April   |
| 2nd quarter | 1 April - 30 June    | 31 July    |
| 3rd quarter | 1 July -30 Sept.     | 31 October |
| 4th quarter | 1 Oct. -31 Dec.      | 31 January |

A copy of the signed form as filed must be retained for the corporation's records. A copy is also to be sent to the Tax Compliance Section.

At the end of each year, the annual payroll and tax totals must be summarized and reported for each individual employee on Form W-2. All W-2 forms for the year are filed with a cover form called Form W-3. W-2 forms are to be distributed to staff by 31 January for the payroll of the prior year, giving them plenty of time to file their

own personal tax returns which will be due by 15 April. The copy to go to the government must be filed by 28 February. The month of February is then available for handling any queries or corrections needed before filing them. A sample W-2 form can be seen following the samples of Forms W-4, 8109, 941 and 941E.

All forms filed should be mailed by certified mail, return receipt requested, and copies must be kept of all forms filed in the corporate valuable documents files of the organization.

An org can receive notices from the IRS and be assessed penalties and interest for the following types of errors:

Late deposit or failure to deposit income tax withheld;

Use of incorrect forms for depositing income tax;

Incorrectly filling out a Form 8109 (the form for depositing income tax);

Late or non-filing of Form 941 or 941E;

Late or non-filing of Forms W-2;

and Missing social security numbers on W-2 forms.

The IRS has an extensive system for tracking payroll tax returns and they use a large staff and computer system to enforce it. Any notices received from the IRS must be handled rapidly and within any deadline set on the notices.

Therefore it is vital that the DSA and Treasury personnel or anyone handling this accounting function for the organization be fully hatted on how to do all these functions accurately and in a timely manner and that they do them to avoid such difficulties and added unnecessary expense.

If you run into any situation in this area with which you need assistance, contact the Accountancy Compliance In Charge in the Tax Compliance Section OSA INT.

FEDERAL INSURANCE

?CONTREBLMON? ACT (FICA)

Employers are required to pay 15.3 percent of the employee's wages as FICA taxes which cover social security. Half of this is withheld from the employee's pay and the other half is contributed by the employer.

In 1984, churches were given the option of electing out of the FICA system and all Class V orgs and many missions did so.

Any organizations which did not elect out of FICA are required to pay this tax and also file Form 941 rather than 941E as described above.

A more detailed issue describing the computation and handling of FICA will be issued separately.

**STATE WITHHOLDING AND OTHER PAYROLL TAXES**

Most states have withholding taxes and other taxes based on payroll which are similar to federal taxes. The specific tax rates and reporting requirements vary from state to state. It is your responsibility to know and follow your state's laws.

Each state generally publishes a booklet similar to Circular E and you should obtain a copy of this as it will answer most of your basic questions.

The Tax Compliance Section can help you resolve any questions you may have.

~~~~~SAMPLE IRS AND TAX  
FORMS~~~~~

(NOT INCLUDE IN SCAN & GETUM FROM YOUR IRS AGENT)

~~~~~ EXAMPLE ~~~~~

**RESOLUTION  
ADOPTED BY UNANIMOUS WRITTEN CONSENT  
OF THE BOARD OF DIRECTORS OF  
CHURCH OF SCIENTOLOGY OF \_\_\_\_\_,**

a nonprofit, religious corporation, do by this written consent take the following action and adopt the following resolution.

WHEREAS, Section 107 of the Internal Revenue Code permits a Minister of the Church to exclude from gross income the rental value of a home furnished to him or her as part of his or her compensation, and a

church-designated allowance paid to him or her as part of his or her compensation to the extent used by him or her for actual expenses incurred in maintaining a church-owned parsonage;

NOW THEREFORE, BE IT RESOLVED, that in accordance with Section 107 of the Internal Revenue Code, the following list sets forth the name of the minister, the amount per month which is designated by this Board to be a Parsonage Allowance, and (if applicable) the address of the church-owned parsonage in which the minister is permitted by this Board to reside with no rent or other fee required for such occupancy and use:

Rev. Joe Smith    \$150-00  
Rev. Sally Jones   \$150.00

This consent is executed pursuant to the Bylaws of the corporation which authorize the taking of action by unanimous written consent without a meeting,

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

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INDEPENDENT CONTRACTORS & FORMS 1099

As described earlier in this manual, an independent contractor is someone who is in business for himself or herself, selling his or her services to the public. He or she will have more than one client, and will generally determine his or her own hours of work and how he or she will produce the product or provide the service.

1099 forms must be filed with the IRS and state agencies annually to report payments made to independent contractors for any services performed where the annual total is \$600 or more. A sample 1099 form can be seen immediately following this write-up.

Generally, only payments to individuals and partnerships, but not to corporations, must be reported on Form 1099, The one exception is that payments to medical and dental practitioners must be reported on Forms 1099 whether they are corporations or not. This includes doctors and dentists, as well as hospitals, clinics, etc. It includes payments for medical supplies, medicines, vitamins, etc.,

only when paid to them as part of the bill for medical treatment, not when paid to pharmacies or stores where there is no service and only a purchase of medicines, vitamins or other medical supplies, etc.

Some examples of types of payments for services that must be reported on 1099s are FSM commissions (not Service Completion Awards), book commissions (not to staff of your org as these are payroll, reported on W-2 forms), attorneys, accountants, designers, musicians, photographers, construction workers, printers, medical and dental practitioners whether corporations or not, mailing houses, repairmen, public relations professionals, consultants, rent/hire/lease of equipment and rent of space (see below for exception).

Payments for rent of a space (office, warehouse, berthing, etc.) only need to be reported on a Form 1099 if the payee is not a corporation and also not a real estate agent or broker and if the payments are over \$600 for the year.

For the most part, a Form 1099 need not be filed for purchases of tangible items. There are a few exceptions in this area. Payments for parts (where the payment for the parts is included with the payment for the repair service) must be reported because the obligation to furnish parts is incidental to repairing the item. The same rule applies to printing or designing where you receive a tangible product in the end but the production of it is a service.

Every Form 1099 filed must contain the Social Security Number or Employer Identification Number of the recipient, as well as their correct name spelling and correct address.

Form W-9 is used to collect such information from recipients (correct name spelling, address and tax identification number). Treasury Division and Division 6, as well as the DSA and other areas within the organization utilizing the services of different types of independent contractors, must work together to ensure that either a W-9 form is filled out by each such individual or the information is otherwise obtained and recorded permanently, so it will be available for annual 1099 preparation. This data should be updated in org records whenever there is a change in name or address.

No payments may be made to an independent contractor without first having a Form W-9 on file. Forms 1099 must be filed on a corporate basis, i.e., on behalf of the corporation. Therefore payments from all organizations within a corporation need to be consolidated before preparing the 1099s so that each recipient receives only one Form

1099 from each corporation and only one \$600 threshold applies to the whole corporation.

Forms 1099 are to be distributed to the recipients by 31 January each year, and filed with the IRS and with the applicable state agency by 28 February. The month of February is then available for handling any queries or corrections before filing them.

As with payroll, there are usually state reporting requirements with respect to independent contractors. It is your responsibility to contact the appropriate state government agency, learn what these are and follow them.

Concerned Treasury staff and the DSA of the organization must be hatted on the more detailed separate hatting issues covering the preparation of Forms 1099, the need for collecting tax identification numbers and the handling of payments to foreign individuals.

The IRS utilizes a detailed system for tracking Forms 1099 and cross-checking them against individuals' personal income tax returns. So it is important that they be filed accurately and in a timely manner. Penalties can be issued for filing Forms 1099 without Social Security Numbers or Employer identification Numbers, late or non-filing of Forms 1099 or for errors in preparation of Forms 1099.

Immediately following the sample 1099 form is a sample Form W-9.

~~~~~ EXAMPLE ~~~~~

MORE IRS FORMS SAMPLES D 1099 and W-9

(NOT INCLUDE IN SCAN)

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PREPARATION OF FORM 1-9

The 1-9 form, a sample of which immediately follows this write-up, is to be filled out as described below.

Section 1 is filled out by the staff member.

1) The staff member enters the personal information at the top of the form.

2) The staff member ticks the applicable box indicating the basis for being eligible to work (either a U.S. citizen or an alien with the appropriate type of visa).

Section 2 is handled by HCO in liaison as necessary with the Legal Officer or DSA. An HCO terminal (usually the Recruiter) must inspect appropriate documentary evidence that the person is validly authorized to work in the United States.

If the individual is an American citizen, an HCO staff member may verify the information and sign the form on behalf of the Church. If the individual is not a citizen, the form must be reviewed and signed by the DSA or Legal Officer who may only sign the form if the person has a visa specifically authorizing the individual to work. This type of visa will explicitly state that employment is authorized. The only valid visas authorizing someone in the United States to work at a church of Scientology are the R visa which is for religious worker, the green card and the employment authorization card. The Immigration Officer OSA INT or A/Legal Aide of your Continental OSA Office may be contacted if there are any questions.

No one may be a staff member at any church or mission of Scientology who does not have a valid visa authorizing them to work. In the United States, this is evidenced by a filled out and executed I-9.

The original I-9 is to be kept in a special file for these in the Legal Officer's valuable documents file. The Legal Officer must have them as the INS has the right to inspect to verify that an organization is not employing illegal aliens. A copy is to be kept in the individual's personnel file in HCO.

Frequently, the person's work authorization expires at a certain date. This date must be noted by the Legal Officer both in the space indicated in the I-9 and in a log. Well prior to that date, the Legal Officer in coordination with HCO must ensure that the individual takes the necessary steps to renew his visa. When renewed, the Legal Officer is to fill out Section 3 of the I-9 form.

No one whose work authorization has expired may continue to work at any church or mission.

At any time that a foreign staff member is recruited, the Legal Officer must send a report to the A/Legal Aide OSA Cent with a copy to Immigration Officer OSA INT which includes the following information:

- 1) The person's name,
- 2) Nationality;
- 3) Visa type;
- 4) Date of visa;
- 5) Date of expiration,
- 6) Anything else which seems relevant.

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EMPLOYMENT ELIGIBILITY VERIFICATION FORM

(NOT INCLUDE IN SCAN)

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CRA, Futhamucka

Dyslexic Mexican Jumping Being

CRA, Futhamucka

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