



SEVENTH-DAY ADVENTIST CHURCH

South Pacific Division

3 March 2012

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Dear Gentlemen,

I have been travelling out of the office for the last three weeks so have not had the opportunity to respond to your letter regarding correspondence dating back to December 13 and today when I was about to respond to that I have received your letter dated March 13. Not being a constituent of the South Pacific Division (SPD) or resident of Australia you will find it difficult to appreciate the differences in the way the SPD is structured and operates compared to the North American Division. The SPD has a huge institutional base that is closely intertwined with the Division itself which makes its operations much more complex and extensive than receiving and disbursing tithes and offerings such as the NAD. I suspect based on the correspondence to date our perspectives are likely to remain different and will not be resolved by an exchange of correspondence.

I need to state again that things were reviewed by Grant Thornton, an independent audit firm. They confirmed that for commercial reasons specific details should not be placed in the public domain at this time. On a confidential basis full disclosure has been given to the governing Board plus the full Division Executive Committee. This is the group appointed by this Divisions membership to oversee the things and ensure there is accountability and policies have been followed. This dynamic at times frustrates people who do not serve on the Division Committee as while most of what is dealt with is shared publicly at times there are some matters where that is not possible. In this case it has been well known by many members that the Division has entered into or taken over other denominational interests in several joint ventures with JPG, some contributed the land that the church owned – all on a secured basis with mortgages in place to secure those interests. All the Joint Ventures have been structured to protect the church from the development risk. You are speculating on what is in place but again I need to state that I cannot be drawn into given you specific information at this time other than by way of letting you know what is already in the public arena.

I will respond in point form to what I am able to from your letter on December 13:

1. I am not able to give you the detailed information on the securities requested other than to state that the churches interest in the Joint Ventures is protected by those mortgages.
2. The loan purchased from ACFI is an unusual transaction and I have explained the details of that in an earlier letter. The church purchased the denominational loans plus the JPG loan at full face value and created no loss to depositors of ACFI. The Division operates a major cash management facility (difficult to explain as the USA banking system is so different) and uses a portion of those funds to lend to churches, schools and other denominational entities. So it was not irregular to refinance those loans

although there was no obligation to do so. However by doing so gave the depositors an almost immediate 20c in the dollar repayment. If those loans were left in place and repaid according to the loan schedule that may delay up to 10 years the amounts being repaid to depositors and further increase the cost of administration..

The Division was placed under considerable pressure by many distressed ACFI depositors to take over the ACFI portfolio and operations, along with its losses, so that depositors (nearly all were members) could receive an immediate and full repayment of their money. This occurred during the start of the GFC and you will remember the panic and fear that people had. The Division could not do that and to this day we are being criticised by a small group of depositors for not doing that. On the other hand there are many that understand the church cannot take over an individual's investment losses but appreciate that the church did what it could within the constraints that it operates.

3. The Joint Ventures have been signed with a normal confidentiality clause that prevents me divulging too many details. The church is risk adverse and that is why a Joint Venture was preferred over the church undertaking the development work. As a general principle the JV partners responsibility is to seek finance and is the one exposed to the risk. JPG has many more projects than just the JV's we are involved with so the administrator's reports and comments should not be read as specific to the JV's. The Joint Ventures have not incurred losses on the debts dealt with in the administration process. The administrator himself said that the administration was brought about by a couple of banks that wanted to withdraw funding and the GFC not being conducive to refinancing. The issue in the administration process was no longer term profitability but immediate liquidity. At the Administration meeting the Administrator told creditors he thought the underlying business had a profitable future and the issue was bank refinancing in an environment that banks did not want to lend. The other creditors were more willing to keep things operating as they knew the environment and financing issues brought about by the GFC.
4. None of the Board to my knowledge has any personal financial dealings with Keith Johnson. All directors have to sign an annual conflict of interest statement and none have declared any conflicts with regards to JPG or Keith Johnson. None are mortgage holders and none were revealed anywhere in the administration process. Keith Johnson has been a real estate agent for many years in the Sydney & Cooranbong areas so his firm may have helped some with the buying and selling of a house. Baseless rumours have been circulated that Keith Johnson has given blocks of land to key people but that is incorrect.

This answers some but not all of your questions. The situation is one that the church has to protect its interests in a commercial environment. I am at a point that I do not think I will be able to assist you with much more information. We have provided you with the independent audit report plus some additional information. In time that situation will probably change and more information can be made available.

Regards



Rodney Brady
Chief Financial Officer
South Pacific Division