



SEVENTH-DAY ADVENTIST CHURCH

South Pacific Division

24 May 2012

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Dear Gentlemen,

In response to your letter dated May 1, I will give you another explanation on the ACFI situation as I can see in past letters you may not have understood things because of the way things operate in the SPD and Australia. It will be easier to respond in point form so I will do that:

1. In the SPD the church operates a pooled cash facility. All denominational entities deposit into an account and funds are then invested. These denominational funds held at the SPD are available on 24 hour call basis so the investment strategy has to reflect that. Up to 15% of this pool of money is available to be loaned to church entities for things like school and church building loans with the loan guaranteed by both the Conference and Union.
 - a. It is not mandatory that church entities borrow from the SPD investment facility. Most do so for convenience, no fees and lower interest rates.
 - b. If there is not enough provision within the 15% then entities have no choice but to seek external funding.
 - c. A Conference had borrowed from ACFI for its school system. In Australia schools are not operated by local churches but by the Conference. That loan was refinanced by the SPD investment facility and repaid in full to ACFI. If the Conference applied normally for an internal loan it would have been granted if there was capacity to do so.
2. ACFI was not a church entity and had a different investment mix to the SPD. It made direct loans to companies in addition to many other investment types.
 - a. JPG had obtained a loan to purchase additional land for the Cooranbong Joint Venture. ACFI had a mortgage on the land. That land was contributed to the JV and registered in the churches name. The church had 100% ownership of that JV land with a mortgage on it for the ACFI loan.
3. For both loans they could have been left owing as a debt to ACFI and repaid over the long term according to the loan schedule. At that time the Division was under a lot of pressure to just take over ACFI and absorb the investment losses. The cost of company administration is high and depositors wanted to avoid that cost and thought the investment cycle and banking guarantee issue could stabilise investments and the run on funds that was a risk to ACFI. Many church members and leaders pressured the

Division to do what it could – at least something. Over 1,000 members were depositors with many retired church workers. They did so because ACFI had been set up to support Avondale College.

- a. The SPD Investment fund refinanced these loans and that provided the initial liquidity to assist ACFI depositors. Many depositors and retirees were in a tough position as several financial institutions had frozen their funds. Their social welfare payments had been reduced by the expected income that was now not coming by way of interest payments.
- b. The loans were taken over from ACFI at full face value which represented the 20c in the dollar that is referred to. ACFI to date has paid back about 50% of the amount due to depositors. ACFI is trying to get other debtors to refinance to speed the wind up process along but that is proving difficult in the current banking climate. The risk is the longer it takes the more the administrator will take in fees for managing the process.

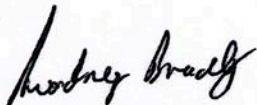
Hopefully putting the above in point form assists with explaining a bit more clearly the ACFI situation. This was a matter that was made public at the time to SPD members. Most were understanding of the situation and understood what the GFC had done and were appreciative that the Division had done what it could to assist. In your letter you are still equating a mortgage to a loan. I have spoken with some people more familiar with the USA financial systems and I can now understand how you jump to that conclusion. As there are still issues with secured creditors I will not be drawn any further to comment on this other than to say again that full reports and information has been provided to the governing boards.

The SPD is structured very differently to other Divisions as the majority of the churches activity is non tithe and institutional income with the SPD a central part of the legal and financial function. Reports on how tithe is used by the Division is disclosed. As an example I will share a recent report of how the Division uses the portion of tithe it receives. The Division receives as a share of tithe \$9.6m out of a total Division Tithe of about \$100m. Under SPD policy, that tithe can be used for a range of specified areas. This Division is the only staff that pays for its own Missionaries – for other Divisions the GC pays that cost. The total of what tithe can be used for totals \$21.2m – the difference of \$11.6m is financed from other sources which is not member giving. You will notice on the list that the cost of operating the Division office does not come from tithe – that is unique in the World Church.

Division's Use of Tithe	
Expenditure	Amount \$
Division Publishing Department	750,516
Record	623,685
Adventist Media Network	2,586,286
Avondale College	3,633,800
Union Conference Equalisation Fund	246,288
Expatriate Staff	8,106,505
Operating appropriations to the Mission Field	4,304,822
General Conference 1% of tithe	951,133
Total	\$21,203,035

I know that this letter will not answer all of your questions but hopefully it has explained better the ACFI questions you had. I hope that giving you extra information on the use of title by the Division gives some insights into the SPD and how it operates that you would not be aware of since you are not a member in this Division.

Regards

A handwritten signature in black ink that reads "Rodney Brady". The signature is written in a cursive style with a large initial 'R'.

Rodney Brady
Chief Financial Officer
South Pacific Division