



MUHAMMAD SUBUH FOUNDATION

Rationale for MSF “Writing off” the MSF Loan to YMS for Bapak’s Big House

October 17, 2011

On Sunday July 3, 2011 a “Settlement Agreement” was signed between MSF and YMS, with the WSA as witness, which replaced the previous MSF-YMS Loan Agreement for Bapak’s ‘Big House’ in Wisma Subud, Cilandak. Among other things, this Settlement Agreement “wrote-off” the MSF loan to YMS.

As it is anticipated that some Subud members may ask questions about why this loan was written-off, this MSF document has been prepared to explain the rationale for this Settlement Agreement.

Background:

When Bapak passed away, the Big House was put on the market. A group of Subud members took the initiative and bought the house so that it could remain in Subud’s hands. As foreigners or foreign entities were not allowed to own property in Indonesia at that time, Yayasan Muhammad Subuh (YMS) was set up in Indonesia to hold and manage this asset on behalf of donors. It was common practice in those days to document a “loan” as a form of guarantee for the foreign investment. Therefore, in order to provide the donors with appropriate acknowledgement and assurance that the property would remain an asset of the Subud association, WSA assumed the responsibility of looking after this investment of Subud members by creating a Loan Agreement between WSA and YMS on September 11, 1989.

The Loan Agreement had a nominal principal amount of \$275,000 (Rp 500 million) which related to the value of the investment/property. The “Loan Agreement” in effect provided a kind of legal structure that gave WSA some protection for the investment, even though such a “loan” never took place. The so-called ‘loan’ was entered/put in the books of YMS, and eventually that of MSF, when transferred from WSA to MSF, only as a way of guarantee for the value of the investment. YMS never actually received any “loan funds”.

The Muhammad Subuh Foundation was established in 1991 to, among other aims, “hold in custody and manage for the WSA certain valuable assets” (Point 3. of MSF’s Articles of Incorporation), and a Memorandum of Understanding between MSF and YMS regarding this Big House “loan” was signed in February 1997 (and updated on November 28, 2009).

In 1997/98, following the strong devaluation of the Rupiah, MSF in its own books amended the value of the loan asset from \$275,000 to the original Rupiah amount of Rp.500 million, which today gives it a value of \$60- 70,000. This was necessary so that YMS did not appear to be technically bankrupt to Indonesian authorities, as the YMS liabilities would have exceeded its assets. In effect WSA/MSF alone have assumed the currency rate loss - but not the appreciation of the land and the house.

During the 13th World Congress in January 2010 in Christchurch, New Zealand, Ibu Rahayu and YMS asked to meet with the Muhammad Subud Foundation Board of Trustees. At that time, Ibu Rahayu and the YMS Board members identified a number of concerns they had with the MSF-YMS Loan Agreement for Bapak’s Big House. Their primary concern was that at some point in the future, with a change in trustees and a fading awareness over time of the history and context of this Loan Agreement, that YMS would be asked to “pay back” this large “loan” amount to MSF. They were also concerned about the extremely high interest rates of 25% that would be charged to YMS under certain circumstances as is provided for in the Loan Agreement. As mentioned earlier, YMS never received any such loan funds from the WSA or MSF for the purchase of Bapak’s Big House and this “loan” was simply a way to formally account for the original foreign investment.

Ibu Rahayu and the YMS Board were also concerned that the Loan Agreement terms were too restrictive and that there needed to be a new agreement drawn up that allows for more flexibility in how YMS manages Bapak’s house and more clearly sets out that the loan is not intended to be paid back to MSF. Under the current loan agreement YMS is not allowed to rent or lease out Bapak’s house, but such renting out is currently being done and the income generated from these rentals is crucial to YMS being able to sustainably operate and maintain Bapak’s house. The requested new agreement also should allow YMS to renovate Bapak’s house as needed.

Rationale for New Settlement Agreement and its Key Aspects

1. The original Loan Agreement was primarily created as a means of

preventing YMS from selling Bapak's Big House without the consent of the WSA – who represented the true owners of the property: the whole international Subud community/membership. At the time the Indonesian laws did not allow for foreign ownership or other means of protecting the sale of Bapak's Big House without WSA's consent. The situation has now changed. YMS is now a partner of MSF and has a signed Memorandum of Understanding (MoU) with MSF regarding all YMS assets (i.e. Bapak's Big House and the Wisma Subud property known as the "Archives House" and the plots of land that both buildings are built on). This MoU states that YMS cannot sell or place a lien on Bapak's Big House without the written permission of MSF. Also, the MSF Chairperson is a member of the YMS Board of Patrons together with Ibu Rahayu and Ibu Yati or is represented by a trustee living in Indonesia and according to Indonesian law, only Patrons are allowed to sell/mortgage the assets of the foundation, or take loans. Further, the 'loan' represents today a small percentage of the value of the house. The new Settlement Agreement makes no mention of any "loan" arrangements and thus avoids the risk of any misunderstanding in the future where YMS is wrongly asked to repay a nonexistent loan.

2. To allow YMS to rent out the Big House so that they can self-sufficiently generate the funds necessary to maintain and operate the Big House. The new Settlement Agreement allows for this.
3. To allow YMS to renovate the Big House as needed. The new Settlement Agreement allows for this.

Steps Taken to Review and Approve this new Settlement Agreement

On June 21, 2011 the YMS and MSF Boards and the WSA Executive met at Adi Puri to review the draft Settlement Agreement. Ibu Rahayu was too ill to attend. She asked that Raymond Lee attend on her behalf.

The new Settlement Agreement was examined section by section. This draft agreement was the result of considerable work done since the World Congress in New Zealand to address the inadequate 1989 WSA-YMS Loan Agreement.

During the meeting a few revisions were made and a conditional agreement was reached on the draft Settlement Agreement. An Indonesian lawyer was also further consulted regarding this revised draft and to confirm the documentation.

On June 29, 2011 during the Foundation's meeting in Rungan Sari the trustees approved the following resolution:

On a motion duly presented and seconded, it was unanimously agreed:

RESOLVED that the Board of Trustees approve, as they hereby do, that the MSF write-off the MSF loan to YMS of Rp 507,650,000 to YMS (\$57,000 USD) from the MSF book of accounts as and when the Settlement Agreement between MSF and YMS (draft enclosed) has been completed.

This resolution was also approved by the WSC on June 29, 2011 during the WSC Meeting in Rungan Sari.

It was agreed that the writing off of the YMS loan is in effect simply correcting a misleading situation. The write-off represents a book loss of \$57,000 USD which will be clearly explained in a note in the financial statement for 2011.

Finalization of the new Settlement Agreement

On July 3, 2011 at Adi Puri the new Chair of MSF, Bachtiar Lorot, and Ibu Sutinah signed the new Settlement Agreement.