

1 **BLUE RIBBON COMMITTEE**
2 **ON 2008 AND 2009 PAYMENTS TO WORLD SERVICE FUND**

3 Eastern Pennsylvania Conference
4 The United Methodist Church
5 March 28, 2010
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9 MISSION:

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11 - Evaluate the use of \$375,000 of restricted funds to pay our World Service Fund
12 commitments in 2007 and 2008, and
13 - Recommend a plan of action to the 2010 Annual Conference
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16 SUMMARY OF THE ISSUES:
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18 In 2007 and 2008, the Eastern Pennsylvania Conference of the United Methodist Church
19 celebrated paying its General Church Apportionments at 100%. The World Service Fund
20 connects the local church to a long list of Christian mission and ministry throughout the
21 denomination in the work of the general church boards and agencies and other national and
22 international programs. The World Service Fund is the essential core of United Methodist
23 outreach. It empowers United Methodist evangelistic efforts, stimulate Bible study and spiritual
24 commitment, encourage church growth and discipleship, and help God's children everywhere.
25 The other apportionments to the denomination support critical administrative and missional
26 costs.
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28 In 2007 and 2008, for first time in many years all of our conference obligations were paid
29 in full. In addition, the Conference paid pension, medical insurance, and property/ liability
30 insurance amounts unpaid by some local churches, as was an annual practice. In the same years,
31 a surplus was received from the churches on Direct Bill items (2007) and Property and Liability
32 Insurance (2008). It was part of this surplus that was used to pay the General Church
33 apportionments. These funds *actually* totaled \$400,106.67 over a two year period, and were
34 authorized by C.F.A. on recommendation of a cross section of our Conference Leaders
35 including, but not limited to: two bishops, two Conference Directors of Administrative
36 Ministries/Treasurers, CCFA, and others.
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38 The surplus in each of these funds was due to extraordinary events:

- 39 1. The 2007 Direct Bill surplus was due to the re-amortization of our Pre-1982
40 Unfunded Pension Liability by the General Board of Pensions and Health Benefits.
41 The result was a lower annual payment than the Conference had planned and billed
42 local churches for.
43 2. The 2008 Property and Liability Insurance surplus was due to a new contract with a
44 new insurance carrier that resulted in significant savings in premium costs.
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46 Early in 2008, several local church pastors questioned the transfer and engaged
47 conference leaders in discussion. While several issues were raised, the fundamental concern
48 seems to center around the propriety of using direct bill and property/liability funds to pay the
49 General Church apportionments without the awareness and approval of the full Annual
50 Conference. The pastors believed those funds to be from restricted accounts and therefore should
51 not be used for any other purpose than what was designated. Through the fall of 2008 and the
52 spring of 2009, a broad based discussion began. It now included the propriety of another transfer
53 of funds from Property and Liability funds to pay the General Church apportionments at 100%.

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55 The opinions of the Conference attorney and the Conference auditors were not of one
56 mind on these transfers. The Conference attorney was asked to give his opinion and concluded
57 that, in general, these kinds of transfers were inappropriate. However, our Conference Audit
58 Reports referred to the Property and Liability Insurance fund as “unrestricted” and the Direct Bill
59 as “temporarily restricted.”

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61 Further complicating the issue was that some Conference Leaders were referring to the
62 transfers as “reimbursements.” For many years, Administrative Reserve funds had been used to
63 fund shortages in the Direct Bill and Property Liability Insurance funds, created by some local
64 churches failing to meet their obligations.

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66 At the direction of the 2009 Annual Conference, Bishop Johnson appointed a Blue
67 Ribbon Committee to review these issues. The Blue Ribbon Committee met throughout the fall
68 and winter of 2009-2010 reviewing the CCFA minutes, conference emails, the opinion of the
69 conference attorney, the conference audit and many other items.

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71 In evaluating the use of the \$400,106.67 of Direct Bill and Property and Liability funds to
72 pay our General Church commitments in 2007 and 2008, the Blue Ribbon Committee made the
73 following findings.

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77 **FINDINGS:**

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79 1. We find that the Conference needs to have written policies and procedures for the
80 management of conference funds. C.F.A. believed they were acting within their
81 discretion in transferring the funds, and they were acting with integrity. It was not clear to
82 those involved who has the authority to transfer monies from “unrestricted” and
83 “temporarily restricted” funds.
- 84 2. There is no written policy regarding any transfer of “unrestricted” and “temporarily
85 restricted” funds to pay for other obligations. Without specific policy, Conference leaders
86 and agencies make decisions based on their best judgment at the time.
- 87 3. The controversy and study about these decisions by EPA Conference C.F.A. have raised
88 our awareness about the authority of C.F.A. decision-making between sessions of Annual
89 Conference. For instance,

- 90 a. *The Book of Discipline* gives C.F.A. the authority to make adjustments between
91 sessions of the Annual Conference only to the budget adopted by the Annual
92 Conference.
- 93 b. Funds outside the adopted budget may require approval by other entities,
94 including the Annual Conference session.
- 95 4. Some conferences (e.g., EPA) exclude selected expenses (pensions, medical insurance,
96 Worker’s Compensation, etc.) from the apportioned budget and “direct-bill” those
97 expenses to local churches, thus creating Conference-restricted funds. Other conferences
98 (e.g., Baltimore-Washington) include those same expenses in the apportioned budget,
99 thus avoiding creating Conference-restricted funds for those monies. Both Bishop
100 Matthews and Bishop Johnson came to the EPA Conference from the Baltimore-
101 Washington Conference.
- 102 5. When C.F.A. made decisions to pay General Church apportionments at 100% in 2007
103 and 2008, there was a lack of communication and differences in understanding among
104 C.F.A., the Board of Pensions, the Conference Attorney, and our auditors.
- 105 6. The 2007 and 2008 Audits did not identify any issues regarding the transfer of Direct Bill
106 (2007) and Property and Liability (2008) monies for payment of the General Church
107 apportionments.
- 108 7. C.F.A. did not know that Judicial Council Decision 614 “made clear that any funds in the
109 nature of employee benefits including a Conference Group Insurance Program were not
110 subject to C.F.A. administration.” (Robert B. Shoemaker, Jr., letter of May 7, 2009)
- 111 8. C.F.A. does not have a system for training new C.F.A. members or the Conference
112 Director of Administrative Ministries/Treasurer about existing financial policies.
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115 RECOMMENDATIONS:

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- 117 1. The Annual Conference ratifies and approves the transfer of Direct Bill monies (2007)
118 and Property and Liability monies (2008) to pay the General Church apportionments.
- 119 2. The Annual Conference directs C.F.A. and the EPA Conference Director of
120 Administrative Ministries/Treasurer to identify all donor-restricted and Conference-
121 restricted funds and their purposes and create a written policy for managing those funds,
122 including a process for decision-making about transfer of fund balances for other uses.
123 The policy should designate whether any “restricted,” “unrestricted,” or “temporarily
124 restricted” funds may be used to help pay for other obligations. The policy should report
125 which entity has authority to make decisions about each fund. This policy shall be
126 recommended for approval to the Annual Conference no later than the 2011 Annual
127 Conference session.
- 128 3. C.F.A. will report end-of-year balances on all “unrestricted,” “temporarily restricted,” and
129 “restricted” funds every year to the Annual Conference.
- 130 4. Questions about inter-fund transfers should be reviewed with the Conference Attorney. .
131 There are Disciplinary provisions and Judicial Council issues, as well as accounting
132 practices, that would strengthen C.F.A. discussions and decisions.
- 133 5. C.F.A. and/or the Director of Administrative Ministries/Treasurer shall immediately
134 contact Conference Legal Counsel for an opinion should there be a question regarding the

- 135 use of restricted funds, Disciplinary issues, or any other area of concern or question
136 arising from C.F.A. meetings.
137 6. The Annual Conference sets a goal for payment of 100% of General Church
138 apportionments by no later than the close of the 2013 Conference Budget year and directs
139 C.F.A. to create a plan of education and funding to meet that goal.
140 7. C.F.A. shall provide annual training and quadrennial training for new C.F.A. members
141 and new staff persons.
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145 Members of the *Blue Ribbon Committee on 2008 and 2009 Payments to World Service Fund*:

- 146 The Rev. Tracy Bass
147 The Rev. Thomas Haugh
148 The Rev. Greg Holston
149 Mr. David Koch
150 The Rev. Kent Kroehler, chair
151 The Rev. Steven Morton
152 The Rev. Lillian Smith
153 The Rev. Dorothy Watson Tatem