

THE COLLAPSE OF A NONPROFIT ORGANIZATION: WITHOUT WALLS INTERNATIONAL CHURCH

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CASE DESCRIPTION

The case discusses the circumstances that may have contributed to the fall of one of the largest mega church in the country. The case provides students with the opportunity to use data analysis and critical thinking skills and is more appropriate at the senior or graduate level. It can be used in various accounting courses including government and nonprofit accounting, the nonprofit portion of the advanced accounting class, and as one of several cases in an advanced auditing class. The case is designed to be taught in one class hour and is expected to require approximately two hours of outside preparation by students. The events described in this case are based on a real world situation as reported in various newspaper sources. However, while the names of the organizations and principal individuals are real, the identities of other individuals involved are disguised.

CASE SYNOPSIS

\$29 million! This was the mortgage debt load of Without Walls International Church, one of the fastest growing megachurches in the country. At its apex, the church had a membership of approximately 22,000 spread across its two campuses. Unable to service its debt, the church was forced into bankruptcy by creditors which resulted in the sale of its prized locations and a downsizing and re-launch of the organization.

The case discusses some of the factors that might have contributed to the church's 'fall from grace'. These include an untimely expansion of church facilities, the lavish lifestyle of the pastor and family members, the failing health of the pastor and his daughter, a divorce, and a US Senate investigation of the church's finances.

The case demonstrates the challenges faced by nonprofit organizations to meet financial obligations at a time of declining contributions. The case also illustrates the importance of separating personal and professional interests and in creating effective corporate governance practices to ensure that the organization's mission and objectives are achieved.

INTRODUCTION

\$29 million!! This number echoed through the sanctuary as members grappled with the mortgage loan balance owed by their beloved church to its lender. It was also the reason for the current meeting as the group pondered the impending bankruptcy filing and the future of Without Walls International Church or WWIC. How could this happen to WWIC? After all, it once boasted approximately 22,000 members and was among the fastest growing congregation in the country.

There were so many questions on the members' minds. The most urgent ones - how could this happen to us? Where were the checks and balances? Did we place our trust in the wrong individuals? Only divine intervention would save the church, and with the pending bankruptcy, that time had passed.

So what happened at WWIC? Did they ignore the many warning signs? For instance, the electricity at one of the church location was disconnected due to nonpayment twice in a short period of time. Also, confluence of issues including a divorce, the jet setting lifestyle of the leaders, the minister's addiction to prescription drugs, and the federal government's inquiry into the church finances, all had an impact on WWIC. Let's open the veil to learn more about the challenges faced by WWIC during its existence.

THE ORGANIZATION

South Tampa Christian Center was formed in 1991 by Randy White and his wife Paula, with only five members. While his dream to preach the gospel was now realized, the financial support was minimal and so the church struggled financially. In fact, it was unable to pay the minister a salary for the first two years and so he lived on government assistance and other support. For the first seven years, the church changed its location three times before it secured a location in the west shore area of Tampa, Florida. This was seen as a new beginning and the church changed its name to Without Walls International Church (WWIC). Before building its sanctuary, church services were held in an outdoor tent with 5,000 attendees per week and an additional 10,000 ministered to through 230 outreach programs.

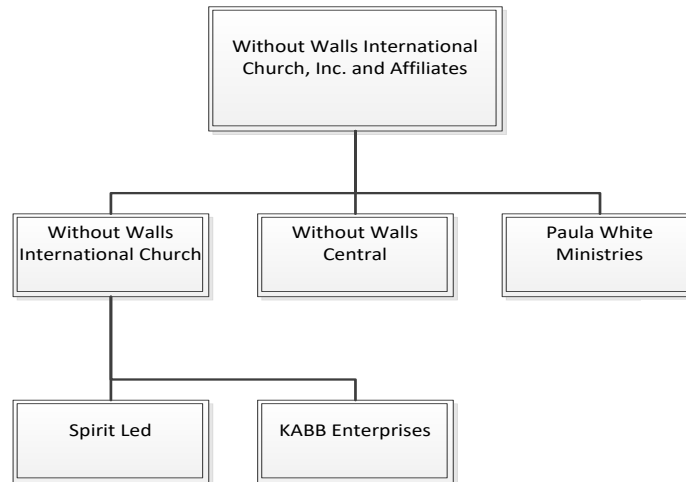
WWIC expanded to Lakeland, Florida in 2002 by first renting the property used by Carpenter Home Church, a former mega-church. This facility was purchased outright in 2005 for \$8 million, and renamed Without Wall Central. This was a major expansion for WWIC and an integral part of its future growth since this new location would allow it to accommodate an additional 9,600 people in the main auditorium.

WWIC included two additional entities – KABB Enterprises and Sprit Led; however, very little information is available for these entities. KABB was a Florida LLC organized for 'any and all lawful businesses', per its articles of organization. Spirit Led was also a LLC, but it was organized in the State of Delaware.

Paula White Ministries (PWM), the media ministry, was established in 2001. Its primary goal was to transform lives, heal hearts, and win souls worldwide. It received financial support through partnerships with worldwide viewers and from sales of ministry related products through television, direct mail, website, and speaking engagements.

The organization structure of WWIC is depicted below:

Organization Chart Related Entities



Governance

WWIC was led by an 18 member board which determined the salaries, pension plan, and housing allowances for the ministry. Board members include the pastor, his wife, a son, and two close associates. However, while the organization conducted regular board meetings, (mostly virtual meeting via phone conference); all decisions were made by the Whites and the chief executive officers, including financial decision and selection of board members. The board did not appear to have formal committees such as compensation or audit, to oversee operations. Communication with the board occurred after decisions were made regarding the operations of the organization. This was inconsistent the articles of incorporations which noted that the Whites would co-manage the operations with the board members.

WWIC grew to be one of the top five largest church organizations in America. During its expansion into Lakeland, Florida, Pastor White served as the Chairmen of the Board, President, CEO and senior pastor, while his wife served as Vice President, Secretary, reverend, and pastor until 2008 (when WWC face foreclosure for the first time). From 2004 to 2008, the Chief Financial Officer roles was occupied by three individuals Zach Caramel, George Raspberry (who resigned in 2008 due to the limited involvement of the board in church operations), and Nora Cranberry (unlike other executive officers she was included in the Whites decision making). All employees were required to sign confidential agreements preventing them from discussing anything relating to the organization.

The Whites and by extension WWIC practiced conversion teaching or “prosperity gospel. This is the belief that God’s blessings are often tied to material blessing. Former church members noted that WWIC placed too much emphasis on money such as multiple tithes and offering collections in services.

Financial Information

As a religious organization, WWIC's revenue is derived from members' contribution. The most recent audited financial statements (as of December 31, 2006) showed total revenue received of \$39.9 million in 2006, 90% of which was from tithes and offerings. The revenue represented an approximate 42% increase from the prior year. Total expenses were \$35 million and \$28 million for the years 2006 and 2005 respectively. As expected, most of the revenue was used to support the various programs and the category "Churches, Church growth, and Evangelism" received the largest share. WWIC reported unrestricted cash of \$8.2 million at the end of 2006, and total assets and liabilities of \$39.2 million and \$29.7 million respectively. Excerpts from the audited financial statement are provided as Appendix A.

Compensation and Other Expenses

Religious leaders' compensation often includes salaries and additional benefits such as housing and vehicle allowance, and other benefits. The most recent audited financial statement of WWIC reported management and general expenses of approximately \$5.3 million. The pastor and his wife were reportedly paid approximately \$5 million in total compensation per the Senate report (discussed later).

The couple received housing allowance of \$713,779 and \$803,120 in 2005 and 2006 respectively. They owned an 8,072 square feet home in Tampa's Bayshore area. The home was purchased in 2002 and approximately \$2 million was borrowed to finance the acquisition. The property renovation included an in-ground concrete pool and a spa. The home had a market value of \$2.7 million in 2008. The couple also purchased a \$3.5 million condo in Manhattan's Trump Tower. This property was partially acquired with a \$2.6 million loan.

The vehicle allowance benefit was not disclosed but the pastor owned a late model Mercedes-Benz and a 2007 Bentley convertible. Family members played various unidentified roles in the organization. The wife's son, and the pastor's son, daughter, and father, were on the organization's payroll. They received total compensation of \$420,000, \$560,000, \$700,000, and \$1,075,000, for the years 2004-2007. After the couple's divorced, the pastor's girlfriend and his parents were added to the payroll and received undisclosed retroactive back pay.

The ministry owned a 1969 Grumman Gulfstream I aircraft which was purchased for \$1.2 million in 2006. The jet was leased to other individuals when not in used by WWIC. The minister and his wife occasionally chartered jets for personal use and charged them to the ministry. One such trip involved at least three former professional athletes who traveled with couple to Las Vegas to watch a boxing match, The tickets to the event costs alone cost between \$17,000-\$18,000. The trip's costs were paid for using the WWIC's credit cards.

The organization's credit card and checking account were used to pay for personal items such as gas, meals, and clothing. There was no evidence of any reimbursement made to the organization. Such expenses included charges that were initially paid by the Reverend's two travel companions or "bodyguards". They would then request reimbursement from WWIC. As long as there were receipts, WWIC paid for reimbursement of the expenses. Others expenses paid by WWIC included the pastor's \$24,000 credit card bill of which \$11,000 was for personal items; and as the plastic surgery expenses for one of the church's pastors

CHURCH OPERATIONS

In 2004, WWIC reported a congregation size of 20,000, which made the church the seventh largest in the United States. WWIC began to expand its operations by buying property in central Florida for \$8 million in 2005, renaming the facility Without Walls Central or WWC. However, WWIC struggled to attract a large congregation to its facilities.

2007 was a pivotal year for the organization and perhaps marked the beginning of its decline. It started simple enough when the pastor and his wife agreed on a divorce. Rev White became WWIC's senior pastor while his wife departed to focus on her flourishing televangelist and book career. However, WWIC experienced a decline in church membership and contributions since approximately 50% of the congregation left the ministry.

This same year, the IRS began investigating the church (specifically PWM) for misuse of funds and tax-exempt status. This was followed by a Senate investigation for possible misuse of its nonprofit status especially as it related to executive compensation, real and personal assets, and other general expenses paid or received since 2004. The investigation led to a schism within the organization with staff members complaining to the media of the couple's focus on money and fame, which led to more members leaving the organization.

Things turned even more personal for the minister as his eldest daughter was diagnosed with brain cancer in 2007 and succumbed to the disease in 2008. The death of a child can have a profound impact on a parent and the minister was no different – he spiraled into depression. The news of his best friend going to prison for life, and that one his children was molested by a staff member, might have been contributing factors. He even stopped preaching and became addicted to pain medication. In 2009, he took a leave of absence from WWIC citing stress-related health problems. His son and stepson managed the ministry while his ex-wife Paula stepped in as WWIC's senior pastor.

In 2008, the organization defaulted on a \$1 million loan due to its creditor, Evangelical Christian Credit Union or ECCU, which prompted the credit union to file foreclosure proceedings. Subsequent to this action he parties were able to reach a loan modification. The organization responded by announcing that both its WWC location and its original Tampa sanctuaries were on the market.

2011 started on a high note for WWIC when in January 2011, the US Senate resolved its three-year investigation with no penalties or evidence of wrongdoing. (The IRS investigation was also resolved without penalties) However, the report released by the investigating senator noted that WWIC provided incomplete responses throughout the investigation citing constitutional protections and concerns about confidentiality. Instead, the investigation relied on public records and information provided by third parties.

2011 quickly spiraled out of control and might be considered the lowest point in the pastor's life. In May 2011, he was arrested in downtown Tampa on possible DUI charges with a blood alcohol level of 0.09 (versus 0.08 state allowable limit). He was able to avoid persecution once the charge was reduced to reckless driving, and he spent approximately two months in a California rehabilitation center. He returned to a dwindled congregation of approximately 200 in 2012 with renewed energy and goals. He assumed the role of senior pastor while Paula left to become the succeeding pastor at another congregation. Among his goals was the addition of a new commercial kitchen to serve the poor, the creation of an after school program for at risk youth, and the housing of various programs such as an AA support group.

In August 2011, WWIC vacated the WWC location after the electricity was disconnected due to nonpayment, the second time in two years. The location had experienced declining

membership that was partially attributed to the continuous resignation of its various pastors. The church owed more than \$35,000 in code enforcement fines in addition to the \$13.5 million loan on the property (which includes two buildings on 80 acres).

Over the years, WWIC obtained four loans — worth \$29 million — from ECCU for both its Tampa campus and a Lakeland church. When the church stopped making payments on the loan, the credit union began foreclosure proceedings on the two properties in October 2012. With no options available, WWIC filed for Chapter 11 bankruptcy protection in March 2014 listing assets and liabilities of \$10 million and \$50 million respectively.

DISCLAIMER

This critical incident was prepared by the authors and is intended to be used for class discussion rather than determining either effective or ineffective handling of the situation. The events described in this case are based on a real-world situation as reported in various newspaper sources. Some action is fictionalized.

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Consolidated Statements of Activities

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Support and Revenue:		
Tithes and offerings	\$ 35,269,657	23,041,787
Product sales, net of cost of goods sold of \$2,753,164 and \$1,234,487 in 2006 and 2005 respectively	2,795,943	2,772,247
Conference and event revenues	1,208,597	1,696,259
Other income	<u>658,966</u>	<u>573,499</u>
Total support and revenue	<u>39,933,163</u>	<u>28,083,792</u>
Expenses:		
Program Services:		
Churches, church growth, and evangelism	18,600,406	15,304,493
Missions and outreach	8,721,375	6,943,942
Conferences and events	1,377,253	1,676,828
Supporting Services:		
Management and general	5,270,113	2,904,866
Fundraising	<u>1,297,672</u>	<u>1,171,688</u>
Total expenses	<u>35,266,819</u>	<u>28,001,817</u>
Increase in net assets before other changes	4,666,344	81,975
Other Changes:		
Insurance proceeds, net (note 2)	-	612,531
Loss on disposal of vehicle	(20,101)	(832)
Loss on disposal of airplane engine (note 6)	-	(132,775)
Loss on forgiveness of debt	<u>(105,723)</u>	<u>-</u>
Increase in net assets	4,540,520	560,899
Net assets at beginning of year	<u>5,093,730</u>	<u>4,532,831</u>
Net assets at end of year, as restated in 2005 (note 13)	<u>\$ 9,634,250</u>	<u>5,093,730</u>

See accompanying notes to combined financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase in net assets	\$ 4,540,520	560,899
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Loss on disposal of vehicle	20,101	832
Loss on disposal of airplane engines	-	132,775
Gain on involuntary conversion of building, net of repairs	-	(612,531)
Depreciation and amortization of property and equipment	1,863,052	1,374,017
Amortization of loan costs	171,546	123,235
Decrease (increase) in inventory	99,326	(317,061)
Increase in prepaid expenses and other assets	(601,994)	(458,390)
Increase (decrease) in accounts payable	(50,094)	207,451
Increase (decrease) in accrued expenses	751,699	(3,150)
Net cash provided by operating activities	<u>6,794,156</u>	<u>1,008,077</u>
Cash flows from investing activities (note 12):		
Proceeds from the sale of vehicle	-	19,000
Proceeds from involuntary conversion of building, net of repairs	-	987,631
Purchases of property and equipment	<u>(3,390,653)</u>	<u>(2,148,713)</u>
Net cash used in investing activities	<u>(3,390,653)</u>	<u>(1,142,082)</u>
Cash flows from financing activities (note 12):		
Net borrowings on short-term line of credit	251,116	263,858
Borrowings on long-term debt, net of decrease in restricted cash of \$31,000 for 2005.	4,106,276	331,026
Principal payments on long-term debt	(449,119)	(340,536)
Principal payments on capital lease obligations	<u>(1,555,401)</u>	<u>(278,659)</u>
Net cash provided by (used in) financing activities	<u>2,352,872</u>	<u>(24,311)</u>
Net increase (decrease) in cash	5,756,375	(158,316)
Cash at beginning of year	<u>2,451,336</u>	<u>2,609,652</u>
Cash at end of year	<u>\$ 8,207,711</u>	<u>2,451,336</u>

See accompanying notes to combined financial statements.

Consolidated Schedule of Functional Expenses

Year ended December 31, 2006
(with comparative totals for 2005)

	Program Services				Supporting Services			Total	
	Churches, Church Growth and Evangelism	Missions and Outreach	Conferences and Events	Total	Management and General	Fundraising	Total	2006	2005
	Salaries	\$ 2,175,231	1,581,382	29,947	3,786,560	1,681,572	80,391	1,761,963	5,548,523
Housing allowances	176,624	220,780	-	397,404	476,885	8,831	485,716	883,120	713,779
Employee benefits	136,730	82,867	2,072	221,669	188,522	4,143	192,665	414,334	281,720
Payroll taxes	69,220	41,952	1,049	112,221	95,440	2,098	97,538	209,759	184,001
Total salaries and related expenses	2,557,805	1,926,981	33,068	4,517,854	2,442,419	95,463	2,537,882	7,055,736	6,363,864
Advertising and print media	1,493,153	168,760	206,126	1,868,039	-	163,822	163,822	2,031,861	1,230,746
Airtime	7,754,425	141,290	-	7,895,715	-	861,603	861,603	8,757,318	6,536,426
Bank charges	251,297	-	-	251,297	232,928	18,369	251,297	502,594	259,320
Building expense	73,313	36,656	-	109,969	74,634	-	74,634	184,603	144,036
Conferences and events	-	-	1,138,059	1,138,059	-	59,898	59,898	1,197,957	845,711
Contractual and professional fees	1,295,707	120,449	-	1,416,156	492,907	33,173	526,080	1,942,236	1,642,156
Equipment expense	185,916	84,495	-	270,411	168,991	-	168,991	439,402	339,346
Gifts	-	294,161	-	294,161	-	-	-	294,161	219,548
Insurance	214,520	79,851	-	294,371	90,663	-	90,663	385,034	156,421
Interest and financing costs	835,718	327,733	-	1,163,451	474,672	-	474,672	1,638,123	1,283,658
Missions, outreach, and benevolence	-	3,157,870	-	3,157,870	-	-	-	3,157,870	2,819,437
Postage and shipping	148,936	186,170	-	335,106	37,234	-	37,234	372,340	280,137
Repairs and maintenance	295,966	179,832	-	475,798	201,339	-	201,339	677,137	635,794
Supplies	245,426	23,367	-	268,793	136,639	9,040	145,679	414,472	448,168
Travel and transportation	1,687,476	1,211,804	-	2,899,280	-	33,582	33,582	2,932,862	2,417,212
Utilities and telephone	398,616	298,962	-	697,578	302,423	-	302,423	1,000,001	722,259
Website	55,378	35,847	-	91,225	5,121	2,376	7,497	98,722	24,402
Miscellaneous	89,455	40,227	-	129,682	20,110	-	20,110	149,792	135,924
Total expenses before depreciation and amortization	17,583,107	8,314,455	1,377,253	27,274,815	4,680,080	1,277,326	5,957,406	33,232,221	26,504,565
Depreciation and amortization	1,017,299	406,920	-	1,424,219	590,033	20,346	610,379	2,034,598	1,497,252
Total expenses	\$ 18,600,406	8,721,375	1,377,253	28,699,034	5,270,113	1,297,672	6,567,785	35,266,819	28,001,817