

UNITED METHODISTS

OF GREATER NEW JERSEY

January 2021 Special Annual Conference Session Frequently Asked Questions

What is the reason for calling this Special Session?

To review and approve a new 2021 consolidated budget to address a \$6 million budget shortfall and review and approve healthcare billing from \$15,000 to \$16,500. GNJ is committed to being transparent and address the issues that led to the budget shortfall.

What precipitated this need for budget changes?

During a comprehensive review of the accounts by the new CFO/Treasurer Rob Zuckerman, it became apparent that for several years, churches were underbilled for health and property insurance. Reserve funds and property sales were being used to subsidize billings and general church apportionments. These practices depleted GNJ's reserves by as much as \$10 million, and the practices are no longer sustainable.

How much were churches being underbilled?

Healthcare insurance in 2021 was approved to be billed to churches at \$15,000 per policy, when in reality the health insurance program costs \$23,000 per policy. In a review of just the last six years, the gap in active clergy/lay employee healthcare insurance billings averages \$1.6 million per year.

How was this \$6 million shortfall created?

Congregations were to be billed \$12 million for benefit and property insurance when the program costs are closer to \$15 million, which led to \$3 million of the \$6 million shortfall. Then, unrealized shared services income and other income led to the remaining \$3 million.

What are Shared Services?

"Shared Services" are the cost of services to be paid to GNJ from billing programs and services provided to mission partners. Shared services are staff time, accounting services, office space, fundraising, etc.

Why was this shortfall not discovered sooner?

Three groups—Board of Trustees, Board of Pensions and CFA oversee GNJ finances and they receive partial information or incomplete information about the whole of GNJ finances.

Also, the difference between reported and actual reserve balances were recorded in accounting documents kept by the treasurer as being backed by GNJ property or internal loans. Current GNJ leadership indicated that the reporting of the use and accounting of reserves was not accurate. An independent team comprised of church, nonprofit, and business accounting leaders including a forensic auditor and a lawyer will review these accounting documents and any actions that led to this discrepancy in the finances of GNJ and report to the 2021 May Annual Conference Session. In order for the team to do a comprehensive and accurate review, GNJ must not speculate nor make accusations about the rationale or the actions that created the discrepancy in GNJ's reserves and billings. Based on this independent team's report when it becomes available, further actions will be taken as appropriate.

Detailed actions have been set up to ensure that there is proper oversight, so this does not happen again.



What is being done to address these errors?

There will be a full investigation by an independent group into what occurred and how it occurred. This review and report, which is scheduled to be completed by March 10, will be presented at the May 2021 Annual Conference Session. The team consists of people with expertise in finance, personnel, the law, audits and non-profit organization. A retired annual conference treasurer from another conference will also be a member of the team.

The following is also being done:

- Discuss with the auditor appropriate separation of duties and rewrite job descriptions and procedures as necessary.
- Assess computer system capabilities, upgrades to more recent versions and provide additional training to staff in use of the software.
- Develop and begin to implement a new chart of accounts. New chart of accounts completed by February 15. Develop management budgets and each staff member and GNJ organization is to manage to their budget.
- Develop a delegation of authority procedure for making financial decisions.
- Any inter-department or organization borrowing is to be reported to CFA with a timeline for repayment. CFA is to monitor any interdepartmental and organization borrowing until it is repaid within a year.
- Board reports will be simplified and/or more clearly explained for individual boards to have a holistic view of GNJ's financial position.

Will local churches be held responsible for shortfall retroactively?

No, GNJ has assumed responsibility for this shortfall. If approved on Jan. 22, clergy and lay employee healthcare billing will increase from \$15,000 to \$16,500. The actual cost to GNJ of the program is \$23,000 per policy. The remainder will be recouped over a five-year period. Also, the administrative and uncollectable billing expenses of 5% and 7%, respectively, will be added to all billings.

A five-year billing plan will be developed so that over time, congregations will be billed for actual costs of benefit and insurance programs. During the transition, GNJ will subsidize congregations' billings.

Does this mean that my church's healthcare or pension benefits have lapsed or have been compromised?

No. All clergy and lay employee pensions and healthcare and congregations' property insurance are paid in full. No one's benefits have been compromised nor will they ever be.

Will GNJ work with my church to work these new expenses into my budget?

Yes. GNJ will work with churches to set up payment plans that are customized to your specific church. Each congregation with health insurance will review a phased billing plan for their congregation and respond with a congregational plan by March 1, 2021. A guide will be provided to assist congregations in their planning and reporting.



How will this balancing of the budget be achieved?

This will be done in the following ways:

- First, GNJ will reduce personnel costs by \$1 million by not hiring open positions and laying off staff. This will create 13 open positions. Additional spending within GNJ will also be reduced.
- Second, GNJ mission partners, A Future with Hope, Next Gen and Stewardship Foundation will pay \$195,000 for shared services.
- The Centenary Fund will contribute an additional \$120K toward 2021 retiree health expenses.
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Does this impact A Future with Hope, Centenary Fund, Next Gen and the Stewardship Foundation?

GNJ mission partners, A Future with Hope, Centenary Fund, Next Gen and the Stewardship Foundation (including congregational investments) are independent nonprofit corporations that operate with separate boards, and their reserve funds are separately invested and are at the levels reported.

Will there be additional information given at the Annual Conference in May?

Yes. A fuller plan and policies will be brought to the May 2021 Annual Conference Session concerning reserves and financial management. Leading up to the conference, current benefit and property insurance programs will be reviewed to identify \$3 million in savings. This will be recommended to the May 2021 annual conference session for the 2022 consolidated budget.

Additional details can be found in this [GNJ Financial Report](#).

What are the cash balances of our various conference reserve funds? What are the account balances on the books when agency uses of these funds are accounted for? What were those same numbers in 2012?

As of October, the cash balance of investments was \$7.5 million while reserve funds were listed as \$20.5 million; a full report of reserve fund recommended balances and reserve policies will be recommended to the May 2021 Annual Conference Session.

To date, there has been research to 2014 balances. The goal is to go back to 2005.

Hasn't it been the well-known practice of CF&A, Pensions, and Trustees to take actions to pay current expenses by utilizing accounts that included reserve funds?

No. The three bodies that oversee financial matters of GNJ – Board of Trustees, Board of Pensions and CFA received different reports and communications about reserves. Current Board of Pension and Board of Trustees members indicate that they were aware reserves were being used but thought it was their own reserves, **not designated program ministry reserves and not to the extent of \$3 million a year**.

Won't any study show that we have not billed as much as we have spent, and that this has been the practice for years as part of supporting our local church ministry?

Current leadership was unaware that benefit programs were supplemented by \$3 million a year and that designated program ministry funds such as the Harvest Mission Fund and new property sales were being used to pay the \$3 million that were not paid by congregations.



For years our “leadership” has received financial reports at each meeting, and they have taken steps to do exactly what is being described to us, so how can “leadership” including CF&A, Pensions, Trustees, the bishop, the cabinet – and the annual conference members - now need to be informed as to how they have operated for years?

While the leadership was receiving reports for years, the reports provided figures that were not cash balances, but rather included as much as \$10 million of internal loans/property. GNJ leadership was not aware of these loans, and clearly GNJ has no source of income to pay them back over the next five or even 10 years. These were internal records kept and not shared with GNJ leadership.

How does adjusting the budget and adopted new billing practices impact the retiree health insurance supplement program, which receives funding from redirecting pre-1982 Wespath balances, the Centenary Fund and the 2% contribution by pastors and other sources?

The retiree health benefit cost is \$2.9 million in 2021. \$650,000 is budgeted from the Centenary Fund. Wespath has shared with GNJ that there will be no redirected pre-82 funds in 2021 and 2022. This means the remaining funds will come from the GNJ shared ministry budget or 31% of the GNJ portion of the shared ministry budget. The newly presented 2021 budget is a consolidated budget that is a balanced budget and ensures the retiree health insurance will be paid.

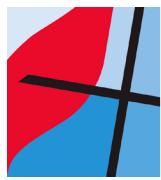
Why do we need Bishop Schol to appoint an undefined “team” which is without a stated scope of authority or direction, and which has been neither authorized nor even requested by the annual conference, instead of asking the duly elected Treasurer, CF&A, Trustees and Pension officials to study the situation in order to make recommendations for future actions?

To work to regain the trust, the leadership believed an independent team would be most appropriate. The team has the support of the Board of Pension, Board of Trustees, CFA and Cabinet. The members of the team were recommended by elected members and the cabinet. It is believed team members should not be current staff, past elected leaders or those presently serving in leadership so that the team could have an unbiased look at the issues and practices. The team has two tasks.

1. Identify how and why designated ministry program reserves were spent down to \$10 million, particularly when only 5% was to be drawn from the funds a year and recommend any policies and procedures to ensure this does not occur again.
2. Review actions and activities to see if any policies and laws were not followed, and if so to recommend any actions that should be taken.

Looking at the 2020 Pre-Conference Workbook, the report for Health Insurance appears to say that for 2019, \$4,142,897 was received from billings, \$711,795 was received from DS and Staff Premiums, \$61,105 from the 2% contributions, \$948,385 from Incapacity with 127 and \$1,440,361 transfer from 127 subsidy for a total of \$7,304,543. The \$7,336,809 disbursed was covered using the surplus from the previous year leaving a net balance of zero. This appears to be similar to the previous years with small negative and positive balances from year to year keeping a rough balance. Are these 2019 numbers correct? Can we see a balance sheet for 2020? Has there been some change in the nature or amount of the 127 Subsidy?

Let us allow the independent team to review all financials and summarize their findings at the May Annual Conference.



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Looking at the 2020 Pre-Conference Workbook, the report for Property & Liability Insurance for 2019 appears to say there was a Balance Forward of \$570,079 at the beginning of the year, Receipts of \$3,905,473, Disbursements of \$4,170,723 and an Ending Balance of \$304,829. 2018 was a better year. Are these 2019 numbers correct? Can we get a balance sheet for 2020? How are the larger shortfall amounts that are reported being calculated?

Let us allow the independent team to review all financials and summarize their findings at the May Annual Conference.

Concerns are raised in the presentation about the Harvest Mission Fund and the Disciple Fund. Would it be possible to get a statement of transactions for the past few years?

We will allow the independent team to review all financials and summarize their findings at the May Annual Conference.

Concerns are raised in the presentation about property sales. It would appear that the requirement in the Book of Discipline 2512.6 for a full report of properties held by the Conference and transactions involving those properties be presented to Conference has not been met for the last few years. Would it be possible to get a report covering the last five years?

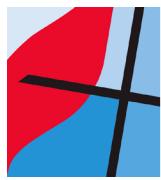
Yes – not sure of the exact window they will review, but this will be part of the work of the independent team.

The Journey to Hope legislation appeared to erase all past-due balances for some churches (2020 Pre-Conference Journal, page 26, lines 30-37. It also appeared to reduce Shared Ministries and billings for some churches (page 27, lines 20-28). Some of those targeted churches obviously face systemic challenges but are also in communities with a median income above \$55,000. Other churches in communities with a median income below \$55,000 may not be able to meet the diversity criteria in the legislation but face financial challenges. The current policy of the Conference even after modifications at the 2020 Annual Conference had been that any past-due balances for billables from a church that is closed would be paid off out of the proceeds of the sale. Considering the Report from Conference, would it be better stewardship to restore that policy for all churches across the Conference? Is the plan to reduce Shared Ministries and billables for some churches in 2023 still sustainable in light of the conditions presented in the Report from Conference?

The JOH legislation provides for the forbearance of past due billings for the approved churches and proceeds from the sale of property if one of these churches closes, would be reviewed by the board of trustees and the cabinet to determine how the funds will be used. The selection process is not just based on median income, as you noted; the criteria of selecting applicable JOH churches includes median income, assets of the congregation and whether or not the congregation reflects the community and is engaged with the community.

A policy was adopted by the Uniting Conference to create a target for surplus of 12% of the budget (then only Shared Ministries) with a circuit-breaker requiring action if the surplus fell to 8%. A few years ago, those targets were removed. At the 2020 Annual Conference, it was reported that we had no surplus. Considering the severe economic pressures from the pandemic, that was not a surprise. Would it be wise now to restore those earlier targets perhaps as an amendment to Action #3 listed on page 7 of the GNJ Financial Report? If not, why not?

As outlined in the report, policies regarding the purpose and usage of ALL GNJ reserve funds will be reviewed, revised and approved at the May Annual Conference.



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The budget amount apportioned to local churches has included a factor for uncollected amounts for Shared Ministries. Hasn't that been done all along for Property Insurance and Health Insurance?

No.

If a 5% administrative charge is being added to billables does that mean those expenses are being taken out of the budget funded by Shared Ministries?

Billables were never part of the Shared Ministry budget presented and approved by the Annual Conference; that was part of the issue that is being corrected in this new, proposed budget, which included Shared Ministry and Billing with all related income and expenses.

Is a 93% target for billables realistic since the 2019 Receipts Comparison (2020 Pre-Conference Journal page 114) appears to show that some of the collection percentages were less than 93% even before the pandemic and economic dislocation?

We believe more focus, combined with “right sizing” billings for JOH churches will improve our collection rate. Further improvement is critical to our path forward, and all churches must have a plan to get to 100% payments.

While understanding the financial distress that led to the proposal to not fill two vacant District Superintendent positions and that the composition of the Conference may significantly change over the next year or two, it would seem to be equitable (especially for those of us in the Southern and Northern Regions) to reallocate district lines. Perhaps three "super-districts" made up of the larger churches in each region and then five districts for the rest of us? Or some other re-apportionment?

Once we get past the immediate challenge of adopting a revised 2021 plan, we will begin “scenario planning” for 2022 through 2025.

Please explain the statement: Add administrative and uncollectable billing expenses of 5% and 7% respectively to all billings.

The 5% is for administrative costs (what we consider shared services), that the Board of Pensions and trustees gives to GNJ for the costs associated with running the benefits and insurance programs. Administrative service costs include staff, building, equipment, accounting, communications, etc. GNJ has two methods for assessing churches, 1) billing and 2) shared ministry apportionments. Some have asked why the administrative costs are not included in the shared ministry apportionment. It is because all churches do not use benefit programs. For instance, of the 520 churches, less than 300 use health insurance because they have a full-time pastor and that requires the pastor receives health insurance.

The 7% is the uncollected balance of billings to churches that are not paid, assuming 93% of the amount is paid. Over the next two years, the goal is to have this lowered to 2%.

The two expenses are to be added to the premium costs when calculating the amounts billed to local churches.



Has consideration been given to changing the retiree health insurance coverage from a Supplemental Plan to an Advantage Plan? What about active clergy - is the current plan an HMO/PPO/EPO or traditional plan? Would switching be more cost effective?

The Board of Pensions and Board of Trustees will review all of the programs to find costs savings. The recommendation is to find \$3 million in cost savings while maintaining good benefit and insurance programs. This will be a significant savings to the congregations. Your question will be shared with the Board of Pensions.

Questions from the 8:30 a.m. Information Sessions on Jan. 12

The projections into the future, do they take into account disaffected churches leaving the annual conference?

The projections are conservative but do not take into account specific churches leaving the annual conference. We anticipate that we will revisit the projections from year to year due to any new and emerging experiences. Finance leadership will continue to update GNJ each year on progress and necessary changes.

How was this allowed to happen given the levels of accountability that we believed were in place?

Three different agencies oversee three aspects of GNJ's budgets and spending: Board of Pensions oversees pensions and benefits, Board of Trustees oversees property assets and invested reserve funds and Council on Finance and Administration oversees shared ministry budgeting. Each reports directly to the annual conference session, and each had a partial picture of the whole and believed their decisions were appropriate with the information they had.

Additionally, the reporting of invested reserves was reported at the "nominal value" of the reserve rather than the cash investment remaining. Reserves were being spent at a much greater amount than the three groups understood. These draws on reserves were being recorded by the treasurer in accounting documents used by the treasurer of how much was owed to these funds by which groups.

Clearly there was a breakdown in communication and processes. This will be fully reviewed by an independent team who will report to the May Annual Conference Session about what and how things occurred and any actions required.

Regarding Health Insurance costs: \$23000 per policy is a very large amount. How much of that is actually paid for premiums vs GNJ admin, and how much is paid to cover uncollected amounts?

Approximately \$21,100 = premium cost, \$1,500 = uncollectable; \$750 = Admin. (we rounded our report to \$23,000)

Regarding Health Care Benefits: Most of us have lived through various times of reduction of benefits in health care benefits covered by our insurance plans as a means to manage the cost of premiums. When were the benefits last evaluated and adjusted to increase deductibles, copays, etc.?

Benefit programs are evaluated by the Board of Pensions each year.

Regarding Health Care Insurance: Do the amounts we are discussing include health insurance for retired clergy?

The \$23,000 referred to (proposed billing of \$16,500 for 2021) is only for active church participants. Retiree healthcare is funded through Shared Ministry and Centenary Fund contributions; not billed to churches.



Vasanth mentioned that the subsidy is being decreased. Is that the "127 Subsidy"? How much is that being decreased in 2021? Is that a continuing pattern? Respectfully, that information needs to be provided to Annual Conference for informed decisions regarding Health Insurance premium increases. Respectfully, the annual audits have different lines for "cash" and other types of assets that may not be as liquid.

The subsidy referred to is the cash associated with draws from program designated reserves such as the Harvest Mission Fund as well as subsidies from property sales.

The chart on page 8 of the GNJ Financial Report, January 8, 2021

(<https://www.gnjumc.org/content/uploads/2021/01/GNJ-Financial-Report-January-8-2021.pdf>) shows the decreasing subsidy over five years and the increase in billing payments by congregations. The chart on page 10 shows the decreasing property sales investment to help underwrite billings over the next five years.

Did we use all the PPP Loan funds received and will we apply for the 2nd round of PPP Loans?

Yes, all of the funds were used, and we plan to apply again for the second round of PPP funding if we qualify.

Will any of the Benevolence Budget or the \$400K budgeted for Drew to lower costs for 2021?

We anticipate all programs, mission and benevolence will be reduced. These reductions will be made by those who oversee these programs.

Will there be clear accountability as to how this happened?

The first action is to understand what occurred, how it occurred and if policies or procedures were not followed.

Already, the chairpersons of the Council on Finance and Administration, the Board of Trustees and the Board of Pensions along with member of the agencies, the CFO and the cabinet have identified some issues and concerns and appropriate actions. These are listed in the appendix of the [Financial report](#) to GNJ.

An independent team will review all matters and report to the annual conference. Their work is to review the financial policies and processes of GNJ and what led to the present financial concerns. They serve and their loyalty is to the mission of GNJ and no group or individual.

What role will any GNJ staff, cabinet and bishop have with the independent review team?

No staff, cabinet member or bishop will serve on the team. They may be requested to provide information or interviews but will not participate in discussion or decision making of the team.

Was shared ministry giving or spending part of the financial concerns?

There have been no concerns identified about shared ministry spending. Shared ministry giving and spending align with financial reports.

Was the depletion of reserves due to overspending to fund conference programs?

No. GNJ programs, mission and ministry are primarily funded from the shared ministry portion of the budget.

The billings for benefits and insurances are where the shortfalls in income for the expenses are that led to the spending down the reserves.

The GNJ shared ministry spending is actually less because we are apportioning and spending less for GNJ program ministry.



How can we be sure the issue with reserves and billings did not “bleed” into other portions of the budget or shared ministry budget?

In the next audit, the auditors will be asked to answer this question.

Will the independent review team limit their work to reserves and under billing, or will it be of all of GNJ financial structure?”

The independent team will look at all policies, procedures and processes related GNJ finances and systems.

Was any Miracles Everywhere campaign money not accounted for?

All money given to the Miracles Everywhere Campaign was reported to have been dispersed according donors' direction. This will be reviewed, and a complete financial accounting of Miracles Everywhere will be provided.

In the proposed budget there is a line named "Benevolence-Retiree Healthcare." What else is included in the numbers represented by this total?

It includes the amount GNJ is billed for retiree healthcare, which includes 523 policies for retirees over 65 years of age and 43 policies for retirees under 65 years of age. There are no other expenses except the amount billed for these policies.

Given the proposal and what we were told during the pre-conference information session, won't the retiree-healthcare be subject potential adjustment by a committee if it is considered as one of many benevolence items?

No. The only lines that “a committee” will consider are two line items.

- Congregational and Leadership Development: 1,297,776
- Mission, Justice and GNJ Agencies: 1,292,172

The second line item includes \$650,000 for A Journey of Hope equity grants for congregations in low income communities to assist with billings and shared ministries. These grants will also not be reduced. All other programs and line items will be considered for reductions.

If this line only represents retiree healthcare, isn't it a misleading title and if it involves other items, won't lumping "benevolence" and "retiree healthcare" risk losing sight of some causes?

No. The line item only includes the amount GNJ is billed for retiree healthcare, which includes 523 policies for retirees over 65 years of age and 43 policies for retirees under 65 years of age. There are no other expenses except the amount billed for these policies.