

# THE COLLAPSE OF A NONPROFIT ORGANIZATION: WITHOUT WALLS INTERNATIONAL CHURCH

## TEACHING NOTE

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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 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.*

## INSTRUCTORS' NOTES

### Recommendations for Teaching Approaches

The objective of the case is to help students understand the importance of corporate governance in nonprofit organizations; especially the fiduciary responsibilities of board members. Instructors also have the option of using the financial statements provided to help students perform data analysis to identify trends.

Students may need to supplement classroom discussions by researching the fiduciary duties of nonprofit boards. A good resource for such information is the Association of Governing Boards (at [www. https://www.agb.org/briefs/fiduciary-duties](https://www.agb.org/briefs/fiduciary-duties))

This case is flexible and could be used in a number of courses. For instance, it is ideal for a discrete government and nonprofit accounting class or the nonprofit portion of the advanced accounting class. It could also be used as one of the cases in a graduate auditing course, and in a management course on leadership.

The corporate governance portion of the case is best completed in groups either as an in-class or out-of-class graded assignment. The group size, grading scale and assigned points are at the specific instructor's discretion. If the case is used as an in-class activity, the students should read the case prior to attending class and the discussion questions should be answered in class. It should take approximately one hour to complete the discussion and no advanced preparation time other than reading the case, is required by the instructor.

The data analysis portion should be done individually as an out of class assignment. Excel templates and suggested solutions are available from the lead author for classroom usage.

### Learning Outcomes

Students should be able to:

1. Understand the importance of corporate governance principles in nonprofit organizations, especially the fiduciary duties of board members.
2. (Optional) Perform a financial analysis of a religious organizations, and use the results to identify performance trends.

### Case Implementation and Effectiveness

The case was tested in a graduate auditing class in spring 2017 (n=20). The students found the case interesting, easy to read, and thought it was appropriate for classroom use. The students were generous with their feedback. Among the respondents was a student who reminded us that "family and business need to be separated." Another student echoed those sentiments by commenting that "this is why family shouldn't go into business with each other. Family relationship can lead to scandals and fraud." In commenting on the organization, one student noted that the case is simply "the typical behavior of a megachurch." Other organizational comments included "the Board was ineffective" and that "There was no accountability."

Students also focused on the compensation received by the family, with one commenting that "The housing allowance was too much. Especially since they don't pay income tax on it."

The students enjoyed the opportunity to focus on data analysis with one mentioning that "The data analytics was interesting to do rather than discussion questions." However, one also

noted that “It was an interesting assignment; it would have been more effective if there was benchmarks to compare the numbers to.”

## DISCUSSION QUESTIONS AND ANSWERS

### Part I: Governance

**Note: Instructors may wish to review students to the fiduciary duties of nonprofit boards (<https://www.agb.org/briefs/fiduciary-duties>) for information on the duties of care, loyalty, and obedience.**

***Q1. Do you think that the board of WWIC satisfied its Duty of Care or not? What examples would you cite in support of your conclusion?***

[**Authors’ Note:** One of the guiding legal principles that governs the fiduciary responsibility that board members of a non-profit organization must fulfill is known as the *duty of due care*. This responsibility requires that a person (in this case, a board member of a non-profit organization) must make decisions and take actions toward others and the public in a vigilant, cautious, attentive, and prudent manner such as a reasonable person in similar circumstances might be expected to behave. In fulfilling the responsibilities of a board member, this generally requires that they must provide oversight and utilize any and all assets of the organization (including financial, human, facilities and equipment, and good will) for activities that advance the effectiveness and sustainability of the non-profit organization.]

One example of poor governance practices that indicate a lack of due care might include the fact that financial decisions were made by a small group of people (Randy and Paula White, the CFO and possibly a couple of other chief executives) and that the board was only notified after the fact. Another example of poor governance practices that might be mentioned is the lack of standing committees with responsibility for determining compensation, auditing financials, and more involvement in strategic planning and setting operational parameters. Students may also mention that at least one CFO and board member resigned and cited their lack of involvement in operational decisions and oversight as their reason for resigning.

Additionally, the testimony and complaints of employees who were involved in the operations might be seen as evidence that the duty of care was not upheld. Finally, students may point to the organization defaulted on numerous loans and ultimately failed to satisfy its financial obligations. Evidence that suggests that the board was meeting its duty of care might include the fact that the financial statements of WWIC were subjected to an audit by a CPA firm. Additionally, while two separate external investigations into the organization’s operational and financial practices (one by the IRS and another by the Senate), neither investigation resulted in any formal findings or penalties.

Finally, arguments that the board did not satisfy its duty of care may be countered by arguments that the issues that ultimately led to the collapse of WWIC were tied to the personal failings and issues faced by its pastors (the divorce of Randy and Paula, the death of Randy’s daughter, Randy’s struggle with depression and substance abuse) which resulted in a significant reduction in their effectiveness as the leaders of the organization – factors which the board could not have anticipated or prevented, thus mitigating their responsibility for the ultimate outcomes.

***Q2. Do you think the board of WWIC satisfied its Duty of Loyalty? What examples/evidence would you cite in support of your position?***

[Authors' Note: The second legal principle that governs the fiduciary responsibilities of board members for non-profit organizations is known as the *duty of loyalty*. This principle primarily addresses the fiduciary responsibility of a the members of a non-profit's board and requires that board members make decisions that are in the best interest of the non-profit corporation, and not in their own self-interest as board members]

The Duty of Loyalty in this case may result in an interesting classroom discussion. Factors that may be cited as an indication that the Duty of Loyalty was not met by the board of WWIC and its governance practices might include the fact that the process for appointing board members was controlled by Randy and Paula White, who seemed to have a habit of appointing their close personal associates and even family members.

Additionally, WWIC employed numerous members of Randy and Paula white (sons, daughter, and parents). The salaries and benefits paid directly to Randy and Paula exceeded 15% of the total expenses of the organization. Employees also reported that numerous other personal expenses were paid for by the organization (travel expenses, clothing, etc.). Counter-arguments might center on the fact that WWIC was "built" on the preaching of prosperity gospel – that God's blessings to believers are often in the form of material blessings.

As pastors of WWIC, Randy and Paula were THE representatives of the organization and exemplified these outcomes. The financial support for them and their lavish lifestyle was evidence of the truth of prosperity gospel, and thus some may argue this was directly aligned with the mission of the organization. The Lord was simply blessing for their belief and service and they were the personification of his blessings.

***Q3. Do you think that the WWIC board satisfied its duty of obedience? What evidence is presented in the case that suggests that the board fulfilled the duty of obedience? What evidence is presented that suggests that the board may not have fulfilled this responsibility?***

[Authors' Note: A third legal principle that governs the responsibility of non-profit board members is known as the *duty of obedience*. This principle requires that board members ensure that an organization is abiding by all applicable laws and regulations, and conducts its business in accordance with accepted ethical practices. In addition, the duty of obedience is intended to ensure that the activities of the non-profit organization adhere and advance the mission defined by its charter.]

Discussions of this question will most likely center around the fact that two separate investigations into the operational and financial practices of WWIC were launched – one by the IRS, and another by the US Senate. Arguments that the board satisfied these requirements will likely center on the fact that no formal findings or penalties were issued from either of these investigations. Arguments that the board failed to meet the duty of obedience will likely point to the testimony of employees and ex-board members. Additionally, while it is true that the investigations did not yield any formal penalties, there was enough evidence of questionable practices to merit the investigations at enormous cost to the organization, both financial and in terms of a loss of its reputation with its congregants and the general public.

***Q4. Given the discussion in questions 1-3 above, how might have the actions of the board and its members contributed to the collapse of WWIC? What recommendations and changes would you suggest for the board that might have prevented the collapse?***

Given the personal issues of Randy and Paula White, it may be difficult to “prove” conclusively that the board of WWIC failed to meet its fiduciary responsibilities and its legal duties. However, there is plenty of evidence that demonstrates that there are many areas in which the board could have improved its governance practices.

One change that might have made a significant difference in the functioning of the board is to alter how board members are appointed to the board, opening the nomination process for potential board members to all members of the board. All board members, including Randy and Paula White, would be able to nominate potential new board members, but no member would be added to the board without a formal vote by all of the members.

Another common practice is to institute term limits for board members, resulting in a continual renewal of the directors on the board. The case does not mention if board members were required to disclose any potential conflicts of interest. If this was not done, then it should be adopted, with board members reporting on an annual basis. The policy that requires disclosure of any real or potential conflicts of interest should include a requirement for all management and board members to avoid situations where there might be a perceived conflict of interest, reporting/divulging any engagements that might present a conflict of interest, and, if necessary, recusing themselves from any decisions or votes where they might have such a conflict of interest so as to avoid any appearance of acting in a manner that might be construed as fiscally irresponsible.

Additionally, the board might consider policies that prohibit the hiring of immediate family members of the board into organizational positions. For example, typical best practices do allow for management of a non-profit organization to make operational expenditures within the bounds of an established budget that was approved by the board, with board approval required only when expenditures deviated from the approved budget. Significant financial decisions may not be made by a select group of individuals without review and approval of the overall board. The case mentions that there were no standing committees in place to provide specific oversight for auditing activities, compensation, operations, etc. Such committees are not required, and are often not in place for smaller non-profit organizations, but the use of such committees is recommended as best practice, particularly when non-profits reach the size of WWIC (with nearly \$40 million in income).

## **Part II: Data Analysis [Optional]**

- 1. Using the financial statements provided in Appendix A, perform a financial analysis of the entity. Your analysis should include both horizontal and vertical analysis; and ratio analysis including liquidity and credit ratios.***

Note to Instructor: Excel templates and suggested solutions are available from the lead author for classroom usage.

## 2. *Did the analysis predict the financial challenges facing the organization?*

Students' responses might vary so instructors should use this opportunity to guide students through the class discussion

### EPILOGUE

The Tampa facility was sold to developers in 2014. The developers plan on building multifamily units on the 13 acre site. In February 2015, the former Without Walls Central property in Lakeland, FL was purchased by others investors. The sale of both properties allowed WWIC to satisfy its obligations and is now debt-free.

WWIC has downsized and is the ministry is now in a permanent location closed to its previous building in the west shore area of Tampa. Reverend White continues as its senior pastor and WWIC embraced its initial outreach mission. Inspired by the death of his daughter, he started the Kristen Renee Foundation in her memory. The foundation's goals are to fund to cure for brain cancer, to help the poor, and to provide relief in times of disaster,

His former wife is no longer affiliated with WWIC. She has moved forward and is now the senior pastor of a non-denominational, multi-cultural congregation in Florida. She also hosts her own weekly television shows. PMW continues as a separate entity from WWIC and continues to provide medical care and ministerial training on a global level.

### DISCLAIMER

This critical incident and teaching note were prepared by the authors and are 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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