

CONSIDERATIONS...Disaffiliation is more than just a “vote.”

“BIG PICTURE” CONSIDERATIONS:

Issue	Considerations	Potentially Required Actions
<p>Is the Local Church legally organized as an unincorporated association, trust or non-profit corporation? Are there any “sister” entities that are operated by the Local Church but are legally distinct?</p> <p>Will the Local Church join with another denomination, become a non-denominational church, or disband altogether?</p> <p>Once a choice is made and required actions are determined, can they be accomplished within the UMC-imposed time constraints?</p>	<p>In order to comply with requirements of the Disaffiliation Agreement, Local Church may need to restructure by changing its name to remove references to the UMC by amending its existing governing documents or creating a new entity through which to operate Local Church post-disaffiliation.</p> <p>There will be compliance considerations for each of the potentially required actions listed in the next column, at the local, state, and/or federal levels.</p> <p>The required analysis, decision-making, and follow-up actions may be intensely fact-based, complex, time-consuming and/or costly.</p>	<p>1) Amend or terminate existing entity or entities → determine all legally required steps for amendment or dissolution as required by both state law and the organization’s governing documents; if dissolving, commence “winding up” process.</p> <p>2) Conduct due diligence on any new denomination the Local Church may decide to join.</p> <p>3) Create and file amended or new Articles of Organization (as applicable) with Secretary of State.</p> <p>4) Cease using UMC group tax exemption → obtain new federal tax ID number and apply for appropriate exemptions: (a) property; (b) sales and use; and (c) income tax. Note that to qualify for Federal exemption from income tax as a “church,” any new denomination Local Church may create or affiliate with must meet certain requirements such as: having a recognized creed and form of worship, definite and distinct ecclesiastical government, a formal code of doctrine and discipline, organization of ordained ministers, established places of worship, regular congregations, and regular services</p> <p>Application with the IRS for Federal income tax exemption is not required for a church to be treated as tax exempt, but may be required for other purposes, such as apply for certain grants.</p> <p>5) Determine and document new leadership and governance structure.</p> <p>6) Create or amend governing documents (by-laws or trust agreement); properly document all organizational meetings and decisions.</p> <p>7) Cease use of UMC signage, insignia, materials → “rebrand” Local Church in all aspects. <i>See “Rebranding” Issue on separate page for additional detail.</i></p>

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CONSIDERATIONS REGARDING OWNERSHIP OF REAL AND PERSONAL PROPERTY:

Issue	Considerations	Potentially Required Actions
<p>Who is the title owner of real and personal property of the Local Church?</p> <p>(Property is generally held “in trust” for The United Methodist Church and subject to the provisions of its <i>Discipline</i>.)</p>	<p>Property not properly accounted for and “released” from trust through disaffiliation process may be “lost” by the Local Church (become property of UMC).</p>	<ol style="list-style-type: none"> 1) Inventory all real and personal property (include location, brief description, tax ID/parcel number). 2) Gather/obtain physical documents of title, mortgage, deeds to secure debt, leases, security agreements, etc. pertaining to property. 3) Determine whether any property is encumbered or subject to the rights of any third parties; if so, Local Church may need to obtain consent of third parties and meet third party requirement(s) for consent. Failure to obtain consents/meet requirements could result in default under applicable contract terms. With respect to debt, lender will assess financial security of Local Church post-disaffiliation. 4) Obtain records related to insurance coverage and determine whether transfer of the property will impact insurance policies; if so, Local Church may need to secure replacement insurance. 5) If the Local Church has a cemetery or columbarium, must comply with UMC requirements for documenting a plan to maintain the property and provide continuing access for family members and loved ones, as well as complying with any local or state regulations. 6) Assuming transfers can be completed considering the above, must complete all required transactions/transfers prior to disaffiliation date, and provide documentation of same to UMC.

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OVERVIEW OF FINANCIAL CONSIDERATIONS:

Issue	Considerations	Potentially Required Actions
<p>Does the Local Church have the financial resources to meet its obligations under the disaffiliation agreement <i>and</i> to fully assume any financial responsibilities that were previously shared with or borne solely by UMC?</p> <p>Do any contracts that Local Church has entered into contain “change in control” restrictions that could be violated due to changes resulting from disaffiliation?</p>	<p>The Local Church may need to complete a detailed audit in order to understand its financial picture.</p> <p>The Local Church’s options for meeting financial obligations may be limited or constrained by UMC policies and procedures. (Some of these are still evolving.)</p> <p>The Local Church’s options may also be limited or constrained by a lack of resources independent from UMC.</p> <p>If the Local Church is a party to litigation unrelated to disaffiliation, the nature of the litigation may create barriers to disaffiliation.</p>	<ol style="list-style-type: none"> 1) Compile and review financial statements for at least two most recent fiscal years → create a budget as appropriate based on status as an independent church or as if affiliated with new denomination. 2) Identify all bank accounts, how titled, and who is authorized on each account → open new bank accounts as needed, ensure no “old” and “new” funds are commingled, ensure all accounting is clear and detailed. 3) Identify all outstanding debts, loans and liabilities, including terms and due dates. (Obtain and review all documentation. Do not overlook transfer or assignment fees or other similar expenses as required by applicable contracts, including leases, deeds to secure debt, and loan agreements.) <i>See additional page on potential financial impacts.</i> 4) Determine whether any ongoing or anticipated litigation is likely to result in additional legal or financial obligations. 5) Determine whether liabilities can be satisfied or transferred to new entity/entities, and any potential legal or financial consequences. 6) Identify any new financial obligations arising out of disaffiliation. (Obtain documentation related to those obligations from UMC¹ or third parties.)

¹ *Known costs related to disaffiliation (non-negotiable):* (1) unpaid apportionments for 12 months prior to disaffiliation date; (2) additional 12 months of apportionments; (3) pro rata share of Annual Conference’s unfunded pension obligations; and (4) other payments related to conference-provided benefits direct billed to Local Church for benefits provided prior to disaffiliation date.

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ADDITIONAL EMPLOYEMENT RELATED CONSIDERATIONS:

Issue	Considerations	Potentially Required Actions
<p>What are the staffing needs of the Local Church post-disaffiliation?</p> <p>Will Local Church need to sponsor new benefit plans for employees?</p> <p>What other employment-related functions are currently served wholly or primarily by UMC? Can these be met by the Local Church independently?</p>	<p>Can Local Church continue to operate if staffing needs cannot be met for some period, or if Local Church cannot meet employer obligations to employees?</p>	<ol style="list-style-type: none"> 1) For each person who works at or for the Local Church, determine who is the actual employer. Review all written employment contracts. Assess potential impact of disaffiliation on staff retention and identify potential need for replacing staff in key positions. 2) Calculate costs relating to employment and retirement (salaries, benefits, insurance, workspace and infrastructure, professional training resources) and ensure that all costs are reflected in new budget. 3) Determine whether any vendors or outside contractors or consultants can or should be brought “in house” and/or whether any “in house” employees are doing work that can or should be done by outside vendors/contractors or volunteers. 4) Draft, renegotiate and execute new agreements with employees, vendors and contractors as needed. (Could result in higher salaries, additional benefits or non-compete provisions.) 5) Create employee handbook for new entity that addresses new risk profile, changed governance, and all policies and procedures affected by disaffiliation. 6) Develop new “safe sanctuary” training materials and support. Create an implementation plan.
<p>Will the Local Church need to find/hire new clergy?</p> <p>Can the Local Church function with lay leaders only for a period of time if needed?</p>	<p>The decision of a clergy member whether to stay with UMC is separate from the decision of the Local Church regarding disaffiliation.</p>	<ol style="list-style-type: none"> 1) If current clergy is remaining with UMC, Local Church will need to recruit and hire new clergy (if independent) or work with new denomination as required to replace clergy. 2) Determine impact to community resulting from loss of clergy. Are there any clerical functions that can be temporarily fulfilled by volunteers and/or lay leaders? Create a plan to “fills the gaps.”

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ADDITIONAL POTENTIAL FINANCIAL IMPACT CONSIDERATIONS :

Issue	Considerations	Potentially Required Actions
Will Local Church have a significantly different financial “profile” post-disaffiliation?	Local Church may not be able to financially withstand impacts of disaffiliation.	<p>1) Identify and evaluate the impact of potential disruptions due to disaffiliation. (This may include participation by volunteers, change in leadership, loss of funding including pending or unused grant money, or other issues.)</p> <p>2) Assess current systems and processes for managing budget, membership rolls, accounting and any other function currently submitted to the conference or managed/maintained by the conference → develop and/or purchase new systems for continuation of same.</p> <p>3) Determine impact on budget relating to insurance and other projected costs for the following:</p> <ul style="list-style-type: none"> • Diligence on any new denomination Local Church is joining; • Pending litigation; • Potential future litigation (conduct risk-assessment); • Compliance with licensing and other requirements for childcare and/or school programs if applicable; • Obtaining and maintaining tax-exempt status; • Re-applying and/or re-qualifying for any loans that are not able to be transferred to new entity during disaffiliation; • Building maintenance and upkeep needs (present and future); • Costs to maintain and upgrade newly-acquired technology; • Existing government easements, zoning issues, and other potential real property issues.
Does Local Church hold restricted funds? If so, do any restrictions specifically reference UMC?	Local Church may not be able to retain all currently available funds.	<p>1) Determine whether funds held for “UMC purposes” may be retained → if not, transfer as appropriate to Annual Conference or return to donor/donor’s family (or both).</p> <p>2) Assess impact of disaffiliation on giving. Incorporate accurate projections in new budget → may need to organize and conduct a giving campaign to build up new funds to replace any that were not retained during disaffiliation.</p>

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ADDITIONAL POTENTIAL FINANCIAL IMPACT CONSIDERATIONS :

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Will continuation of any of Local Church’s missions or community programs be impacted by disaffiliation?	If Local Church wants to continue a particular mission/program it may need to create new structure (independent from UMC).	1) Evaluate and analyze each mission/program with respect to any support (funding or otherwise) Local Church receives directly from UMC, or obligations Local Church has to UMC. 2) Determine which missions(s)/program(s) will be continued independently by Local Church and create a continuation plan to address all disruptions/impacts identified. 3) Conduct due diligence with respect to substitute mission groups, affiliations, or programs.
Rebranding of Local Church post-disaffiliation. What intellectual property is owned by Local Church and what is owned by UMC?	If not properly included in disaffiliation agreement and related transfers, intellectual property of Local Church may be “lost.” Can the Local Church bear the cost of rebranding?	1) Conduct intellectual property audit → determine what intellectual property is owned by Local Church, and whether it can be transferred to new entity; determine what intellectual property belongs to UMC and must be replaced. 2) Replacement costs will likely include: building signs and logos, all printed communications, website, other publications (music, discipleship materials, children’s materials), hymnals, bibles, paraments. 3) Consider filing for/obtaining trademark protection for new intellectual property.
Does Local Church run a childcare facility?	Licensure may be lost or require modification	Apply for and obtain new license or modify existing license, as applicable
Does the Local Church have the capacity to deliver records as required by UMC?	Local Church may need to hire outside party to comply with record delivery.	1) Inventory records and archives in possession of Local Church and/or church membership. 2) Evaluate time and cost involved in properly preserving, packing and delivering records as required by UMC (including whether church staff or members have technological skills to digitize records if needed).