

## MINUTES

### BOARD OF DIRECTORS November 16–17, 2017

#### **114. Harvey Action**

The following action was proposed by Chief Financial Officer (CFO) Wulf on August 31, 2017 and received the electronic consent of the Governance Committee. The Board of Directors adopted the resolution by e-mail (unanimous approval, with unanimous participation) on September 2, 2017.

#### Background

In February 2016, the board adopted a policy allowing the CFO to set a uniform support rate intended to be applied to “all charitable gifts, grants and bequests including district pledge receipts.” This rate, set at 12% for FY2018, is used exclusively to provide for Mission Advancement fund development expense.

Hurricane Harvey was not, obviously, anticipated as a source of FY2018 receipts. Such events, while not “predictable” parts of the budget, typically generate a large outpouring of gifts for the mercy and recovery work of the Synod. There is still a cost of conducting a response appeal and a significant cost to processing donations and to conducting donor care, but the uniform support rate, if applied to a hoped-for Harvey-related response, *may* exceed the associated cost. It was noted that Synod’s uniform support rate, while reasonable and within applicable guidelines, is higher than that claimed by other relief agencies. A concern is that this may impair giving to Synod’s relief effort, reducing the amount of good Synod can do for our involved district(s), congregations, and communities.

CFO Wulf therefore proposed the following modification to board policies, creating a special support rate applied to gifts resulting from appeals issued in response to a specific natural disaster (not part of the anticipated revenue and spending plan). He anticipated that this support rate would be set at 6%, cautioning, however, that the lower rate could—if giving shifts from other categories to specific natural disaster receipts, or if giving is not at the level anticipated—result in Mission Advancement (MA) costs consuming more of Synod’s unrestricted, undesignated revenues. (Last year, MA required \$2.5 million in unrestricted, undesignated resources, beyond the \$1.6 million budgeted, due to lower-than-expected gift receipts.)

CFO Wulf brought the following proposal to the board, which was adopted on September 2, 2017, by a unanimous electronic vote, with all members participating.

*Resolved*, That Board of Directors policies 4.2.9–4.2.9.2 be amended as follows (additions underlined):

[In carrying out these responsibilities, the Chief Financial Officer shall:]

- 4.2.9 Set an effective and equitable support rate (percentage) applicable to all charitable gifts (except as otherwise specified in Board Policy 4.2.10), grants and bequests, including district pledge receipts.
  - 4.2.9.1 Such rate shall be at or below the limit of ‘prudent’ as defined by donor advocacy groups such as: the Better Business Bureau’s Wise Giving Alliance, Charity Navigator and GuideStar, but which is sufficient to fund the Mission Advancement unit as they provide fund-raising and donor care services.
  - 4.2.9.2 In determining the annual support rate, the Chief Financial Officer shall take into account actual Mission Advancement expenditures as a percentage of all audited Synod expenditures over the three most recently completed fiscal years.
- 4.2.10 Set an effective and equitable “specific natural disaster response” support rate (percentage) applicable to gifts resulting from appeals issued in response to a specific natural disaster (such as are not accounted for in the anticipated revenue and spending plan). Such rate is not to exceed the general support rate as defined in Board Policy 4.2.9.

### **115. Call to Order / Opening Devotion**

With all members present, Chairman Michael Kumm called the board to order for its scheduled meeting on Thursday, November 16, 2017, in connection with the Lutheran Church Extension Fund (LCEF) Fall Conference, at the Sheraton New Orleans. Chairman Kumm called on the Rev. Dr. Steve Schave, director of LCMS Urban & Inner-City Mission and of LCMS Church Planting (both under the LCMS Office of National Mission), to offer morning devotions, which he did on the theme of “love and good deeds” from Hebrews 10:23–25. On Friday, he began the board’s day with a devotion on John 14:25–31.

### **116. Adoption of Agenda**

The meeting agenda (pp. 9–10/483 of the printed board docket, attached to the protocol copy of the minutes) was adopted as presented.

### **117. Consent Agenda**

The meeting’s consent agenda (p. 11/483) was moved, amended to remove of the report of the Chief Financial Officer (to be treated during his report time), and adopted as follows:

WHEREAS, The Board of Directors has adopted a policy allowing for the use of a consent agenda; and

WHEREAS, The Board policy reads

3.6.2 Consent Agenda

- 3.6.2.1 The Board makes use of a consent agenda to expedite the conduct of routine business during board meetings in order to allocate meeting time to education and discussion of substantive issues.
- 3.6.2.2 The consent agenda should consist of routine matters that require board action. Typically, these items include approval of minutes, acceptance of officer and other written reports (excluding the quarterly financial/budget report), and acceptance of routine or non-controversial action items.
- 3.6.2.3 The board chair shall be responsible to approve the proposed consent agenda for each meeting upon recommendation of the Chief Administrative Officer. The consent agenda shall be distributed with the meeting docket no less than one week prior to the meeting. The consent agenda will be presented to the board for adoption as soon as practicable after the opening devotion on the first day of the meeting.
- 3.6.2.4 Any item which appears on the consent agenda may be removed from the consent agenda by a member of the Board. Items removed from the Consent Agenda will be considered at another time during the meeting as determined by the Chairman. The remaining items will be voted on by a single motion. The approved motion will be recorded in the minutes, including a listing of all items appearing on the consent agenda.

therefore, be it

*Resolved*, That the Board of Directors herewith accepts this consent agenda which includes the following:

- Officer Reports
  - Report of the LCMS President
  - Report of the 1<sup>st</sup> Vice President
  - Report of the LCMS Secretary
  - ~~Report of the Chief Financial Officer~~
  - Report of the Chief Mission Officer
- Administrative Services Reports
  - Information Technology
  - Building Operations – Facilities
  - IC Services (Mail Room – Copy Center)
- Human Resources (Confidential)
- Financial Services Reports
  - Accounting
  - Internal Audit
- Board of Directors Committee Reports
  - Governance Committee
  - Personnel Committee
- Action Items
  - Approval of August 24–26, 2017 Minutes

and be it further

*Resolved*, That the minutes of this meeting will reflect the acceptance of the reports and other items as listed above.

## **118. President Harrison – State of the Synod**

President Harrison extended upon his written report (pp. 12–15/483), reporting a calm meeting of the Council of Presidents (Nov. 14–16). Disaster giving has been very significant. Some improvement in Synod’s financial condition is indicated by an approximately \$0.5 million reduction in the accumulated unrestricted, undesignated fund deficit; savings, nonetheless, continue to be sought. Chief Administrative Officer (CAO) Frank Simek brings great talent and has already proven a quick learner; he is doing a fantastic job, and will be a great blessing. Studies exploring the capacities of International Center building and operational support units, as well as potential synergies with corporate entities, are well underway.

Demographic studies will be the core of presentations to the Lutheran Church Extension Fund and the district conventions. The studies attempt to “provide a handle on” Synod’s expected decline of 500,000 members over the next decade or decade and a half—as “boomers” move through the church, and as the millennial generation has the lowest church attendance of any generation in American history. Even conversions at an unprecedented rate will not begin to erase this decline. Considering the LCMS as a “mission infrastructure,” the numbers indicate trends set in motion years ago and reaching years out. A decrease in birth rate by half between 1956 and the 1970s or 1980s, and its halving again since, is having a significant impact on Synod populations, as two-thirds of our membership are “born” into the LCMS. The demographers consulted expect a bottom to be hit, and for numbers then to rebound somewhat. We need to consider these demographic realities together as a Synod to make a strategic plan. Along these lines, demographers are now identifying locales where the LCMS, strategically speaking, ought to have an increased presence in years ahead.

In discussion, it was noted that demographic “inevitable” ought not deter us from reaching out creatively to populations that *are growing* outside our congregational boundaries. We need to embrace the reality of the people around us, who need to hear the Gospel and be part of our churches. Though church planting has proved challenging in a culture not at all inclined toward regular church attendance, it can be done, given financial resources and, more importantly, a solid core of seriously invested individuals. Typical backdoor losses at the time of confirmation—and Concordia college campuses with few students from our congregations—indicate that retaining our kids needs to be a significant priority. In that vein, campus ministries may present a key opportunity. The church needs encouragement (and to note that the Holy Spirit can do as he wills) as well as the dose of reality.

President Harrison responded that the demographic presentation is not an excuse not to spend the effort on evangelism. Speaking of ways forward, he noted that retention is the “low hanging fruit,” with the loss of half of the baptized before confirmation, and half again from confirmation to adulthood. After that point, the retention rate is somewhat higher than 59%. Congregations need help with specific things that can be done consistently through life to promote retention, and Synod is partnering with Concordia Publishing House on this. Harrison also noted hopefully that *Every One His Witness*,<sup>TM</sup> just released, is the first significant Lutheran adult evangelism effort, perhaps, in decades—perhaps unique in the history of the LCMS.

Shifting to supervision topics, President Harrison noted that the Concordia University Portland (CUP) Board of Regents has unanimously adopted new policies, requiring reorganization of all student clubs and events to align with the mission of the campus, including its Lutheran identity. The president is grateful that *all* Concordia University System colleges and universities have adopted the Lutheran Identity Statement (2016 Res. 7-01A). Other topics, briefly noted:

- President Harrison will visit 25 district conventions this cycle, with a few ecclesiastical supervision issues swirling about.
- A good spirit prevails in the International Center despite challenges.
- The newly revised Synod Catechism explanation, now in print, will prove an excellent resource due to its wealth of Scripture; its didactic organization, grouped around central thoughts; and its inclusion of practical life questions as entrées to the doctrine of the faith.

- An LCMS study of millennials, especially of those who have left the church, is expected to be very illuminating.
- Reformation celebrations have been invigorating, including the President’s public discussion with the Roman Catholic archbishop in Chicago and festivities at the International Lutheran Society of Wittenberg, which included Chairman Kumm and Bishop Voigt of the *Selbständige Evangelisch-Luthersiche Kirche*.

The process of identifying a new Executive Director for the Office of National Mission (ONM) is proceeding on schedule and according to bylaw. Information on fifteen applicants is being gathered and vetted. Candidates will be interviewed online prior to Christmas, with the Board for National Mission to determine a final slate in February, with concurrence of the President. Online interviews will be prior to Christmas, with a final slate determined, with the President’s concurrence, by the Board for National Mission in February. From that slate, the President will appoint the new ONM Executive Director (Bylaw 3.3.1.3 [e]).

### **119. Concordia Plan Services Visit**

Fred Kraegel, Chairman of the Board of Directors of Concordia Plan Services (CPS), and Jim Sanft, CPS President, joined the board to offer a report on the Synod’s retirement and health plans. Kraegel noted that the retirement plans are, by accepted standards, either substantially or fully funded—a standout characteristic in an era of generally underfunded plans. Concordia health plans are also exceptionally well-funded, with a \$100 million reserve. Their strength is such that two months of premium rebates were extended to participants in FY 2016. A focus on health and wellness is hoped to improve member health and reduce shared expenses long term.

President Sanft noted the proposal before the board (pp. 351–365/483, as reflected in action item A below) to complete a project begun in May: the merger into the Concordia Retirement Plan of the old Pension Plan for Pastors and Teachers (established in 1937 and frozen since the mid-1960s, with about 2,475 remaining members, all in pay status). While a seamless transition for members, with no disruption in timing or amount of deposits, this consolidation will save approximately \$30,000 annually in administrative overhead.

Sanft also offered an update on developments in Washington, D.C., touching on the Affordable Care Act (ACA), Tax Reform, and activities of the Church Alliance and the American Benefits Council, two industry organizations with which CPS works. Despite single-party control of both houses and the White House, “repeal and replace” of ACA has proved to be dead on arrival, and no alternative solution has yet emerged as probable. In a positive October development, new preventive services regulations offer plan-level religious and moral exemptions, rendering all ministries in the entire Concordia Health Plan (CHP) exempt from the contraceptive services mandate. Though legal challenges to these new regulations have begun, CHP is strongly positioned, having retained its grandfathered plans.

Tax reform proposals are changing rapidly, with Church Alliance (as part of a broader coalition) successful so far in protecting retirement benefits from additional taxation, which would have included SECA for church workers. Issues of interest to Concordia Plans participants remain, including deductibility of moving and adoption expenses as well as employer-provided educational assistance.

Looking toward the future, Sanft noted that Concordia Retirement Plan (CRP) membership is stable. Contrary to popular belief, it is a lay-worker driven population (two-thirds of 31,300 full-time enrollees are lay members, providing the economic engine and younger actuarial demographic for CHP). Lutheran education puts the LCMS on a much stronger platform, from an employee benefit and trust perspective. The number of workers enrolled at stand-alone churches has declined approximately 30% in the last decade, but gains in the number of workers enrolled in schools or churches with schools, especially in the West-Southwest and Great Lakes regions, have made up for church-alone related losses. Positive factors include schools’ alternative funding (including school vouchers) and organizational models (such as Recognized

Service Organization affiliation), as well as increases in Concordia University System employee enrollment.

CHP's mission to serve the ministries of the Synod means that it does not, like many insurance companies, improve its actuarial standing by driving "riskier" populations from its participant pool. Nonetheless, a larger, younger, healthier pool is better for the plans. Increased regulatory pressures for ministries are challenging participation of some employers. The plans may also be impacted, positively or negatively, by expansion or contraction of the pool due to any changes in Synod's definitions or relationships with potential participating employers. Within the Concordia Plans—working on actuarial, not theological motivations—there is a desire to expand service offerings "close to the LCMS" in new categories and models of ministry, to the maximum latitude allowed in Synod Bylaws. CPS plans to leverage the strength of this growing segment to continue better to support the core traditional ministries of the Synod (congregations and parish schools).

Discussion noted that 4% or sub-4% cost increases annually are typical for CHP, which is exceptional performance in the industry. We are starting, Sanft underscored, to reap a dividend from member wellness efforts. Wrapping up the discussion, Chairman Kumm and the LCMS Board of Directors thanked Chairman Kraegel for his lengthy and exceptionally capable term of service, soon drawing to a term-limited close, on the Concordia Plan Services Board of Directors.

## **120. Financial Report**

Chief Financial Officer Jerry Wulf extended upon his written report (pp. 20–22/483) and those of the financial services area (pp. 32–89/483). Since July 1, over \$5 million in disaster response gifts, including more than \$3 million related to hurricanes, have improved Synod's cash position substantially. Mission Advancement's major annual appeal has begun to report results, and the majority of gifts are unrestricted. This, too, is good news for Synod's bottom line.

Noting the September 30 Operations Report, Wulf pointed out (p. 63/483) that, compared to the end of FY17 (June 30, 2017), the accumulated deficit in undesignated, unrestricted funds has improved (decreased) by over \$500,000. For this time of year, an improvement in this category is significant, and reflects careful control of spending. A large increase in accounts receivable in April and declining since reflects Synod's payment for insurance premiums and subsequent reimbursement by related entities. Wulf noted, with regard to district receipts, that twenty of the districts are meeting or exceeding mathematical expectations for this point in the fiscal year; fifteen are lagging expectations, with two making no remittances since July (p. 7/249 of the supplemental board docket, attached to the protocol copy of the minutes).

CFO Wulf presented a chart indicating trends in Synod's total net assets, unrestricted, temporarily and permanently restricted. Unrestricted, undesignated net assets (pp. 10–11/249) reflect Synod's capacity for flexibility. This deficit improved in fiscal years 2010–2015, owing to Synod's leaner reorganization, conservative revenue estimation, a more relational fund development approach, realistic project budgeting, and better restricted revenue estimation. It has worsened in the last two fiscal years, partly due to political and economic fluctuations, and partly due to a significant expansion in Synod's overseas and domestic mission work, which has sometimes outpaced specifically applicable designated giving. When designated funds have not been available, flexible undesignated funds have had to fill the gap.

The present \$13 million deficit in unrestricted, undesignated funds indicates no flexibility, no operating capital, without borrowing from board-designated and temporarily restricted funds. Board designation reduces the amount of flexibility available. Under accounting changes coming in FY19, only the *total* unrestricted amount will be reported due to a change in financial standards, with board designation of funds relegated to a note.

Looking toward the budget process, CFO Wulf noted his plan (pp. 8–9/249) to budget up to \$2 million in revenue each budget year to address the accumulated unrestricted, undesignated net asset deficit, until that

deficit is eliminated. In keeping with this plan, discussions will be had with unit executives to identify programs that are most important and to prepare for budgetary cutbacks, generally, of up to 20%. In discussion, the board expressed an unwillingness to continue to pass budgets that result in a shortage of operating cash, and a desire that any plan coming from the board should receive the focused attention of the Audit Committee.

### **121. Audit Committee Report**

Audit Committee Chairman Frndak reported on the committee's meeting of November 15, highlighting items from its agenda and the report of the Internal Audit Department (pp. 90–92/483). Brown Smith Wallace, LLC, provided the committee with its audit report (pp. 144–191/249), noting long-term declines in revenue and increases in spending. Corporate Synod's cash position is down, largely due to \$7.9 million withdrawn by seminaries (consisting of seminary funds on deposit with the Synod). Concerns of note for the audit committee included:

- A \$1.87 million drop in LCMS Holdings financials due to decline in the Chinese yuan relative to the United States dollar
- Of the total net assets indicated in the consolidated audit of the LCMS and subsidiaries (\$88 million unrestricted, undesignated), only \$4.5 million “belongs” to corporate Synod
- National Housing Support Corporation revenue and expenditure trends
- Suggestions regarding information technology, including security and disaster recovery mechanisms, especially related to the threat of data breaches
- Impact of new and pending audit rules for non-profit corporations

The Audit Committee noted that it approved the audit and is pleased that the auditors will present directly to the board. Concern was expressed regarding a report from Concordia University System indicating that a system school has a significantly higher level of indebtedness than previously understood. It was also reported that Internal Audit is fully staffed and has received the vast majority of district audits, and that CFO Wulf discussed with the committee his efforts to balance the budget. The seminaries are reported to be strong financially but weak in enrollment. The committee suggested a full formal review of investment policy, which has been in place, possibly, for decades, and has accounted for present prime rates. The committee is also, as customary, reviewing the engagement of Synod's auditors.

Committee Chairman Frndak noted that approximately a \$2 million budgeted annual repayment of the accumulated unrestricted, undesignated funds, from his perspective, would address a significant issue facing the Synod over 6–7 years.

### **122. Joint Session and Lunch with Council of Presidents**

Chairman Hennings opened the joint meeting of the Council of Presidents with the Board of Directors, and Chairman Kumm introduced CAO Frank Simek. Kumm also noted comments regarding his quotation that we “cannot afford to do Synod the way that we've been doing Synod the past fifty years.” He noted that this is not with reference to worship styles, etc., or any ecclesiastical supervisory matters, which fall outside the purview of the Board of Directors, but to the way in which Synod carries out the administrative and corporate side of the Synod. The Board of Directors is working hard to try to trim the budget, to keep revenues and expenditures in proper proportion, to do the most we can with the dollars we get so that districts and congregations in the field will benefit maximally. Cooperation with the corporate entities of Synod is being fully explored.

### **Disaster Response**

President Hennings offered a report from the Texas District on Hurricane Harvey relief, indicating the generosity of God's people. Approximately \$1.8 million has been received by the Texas District (\$0.3

million online, \$0.2 million from the Synod, \$1.0 million from churches and individuals, and the remainder from foundations, Recognized Service Organizations, and other districts). Approximately \$3.1 million in assistance has been requested. \$1.0 million has been disbursed from funds received in response to those requests, \$0.8 million is available to be used, and \$2.3 million in requests remain to be matched with resources potentially to be received.

Chairman Kumm introduced CFO Jerry Wulf and Ross Stroh, Executive Director of LCMS Financial and Accounting Services, to present a report on hurricane relief. Approximately \$5.5 million in disaster-related gifts have been received since August 21. Of that amount, \$0.3 million has been spent in donor care costs and \$1.5 million has been disbursed or committed in aid. \$1.2 million in disbursement is Harvey-related, of which 90% consists of grants to Texas congregations, the Texas District, and Recognized Service Organizations, and 10%, of relief supplies provided and work done by Synod itself.

CMO Robson noted the effort by LCMS Disaster Relief (DR) to respond rapidly to grant requests from the district, as the focus transitions from building recovery capacity toward provision of materials and long-term care for professional church workers. Hurricane Harvey has received the largest response, but DR is looking toward at least a \$0.5 million response to Hurricane Maria in Puerto Rico. Robson noted that at the time of the presentation, total net hurricane-related giving exceeded \$6 million and that another six-figure gift had just been received.

President Hennings commented on the remarkable pace of recovery in many areas, accomplished in a tremendous cooperative effort. Congregations have spearheaded many of these initiatives in coordination with their communities. The district is serving in supportive roles, focusing on areas where these efforts are not as possible, and helping congregations that are addressing areas that have been “forgotten.” Board Member Kurt Senske, also Chief Executive Officer of Upbring (formerly, Lutheran Social Services of the South) reflected on this report in New Orleans, where the Lutheran response to Hurricane Katrina is remembered as a key contribution to the recovery of East New Orleans. Upbring is looking to use Federal Emergency Management Agency (FEMA) response dollars, in partnership with LCMS Disaster Response and Texas District, to serve “the least of these” living in homes “left behind” thus far in the recovery effort.

#### Program Budget Summary and Synod Finances

CFO Wulf and Executive Director Stroh offered a presentation on the FY18 LCMS Program Budget Summary (pp. 8–28/249). They noted that while the bulk of the budget is funded with donor-restricted gifts, the bulk of unrestricted income comes from congregations through the districts. In FY18, 8 districts increased intentions by a total of \$77,888, 12 remained the same, and 14 decreased by a total of \$414,656, for an overall decrease in district intentions of \$336,768 (2.3%) to \$14,339,750.

Examining long-term trends from 1976–2014, giving to congregations has grown from \$352 million to \$1.347 billion. Amounts passed on to district and Synod have not kept up. In 1976, 16.6 cents of each dollar given to congregations was passed on to the districts, with 6.1 cents of that going on to the Synod. In 2014, only 8.8 cents of each dollar was passed on to the districts, with 1.1 cents going on to the Synod. Considering inflation, the \$26 million passed on from districts to Synod in 1981 had a purchasing power of \$70 million in 2015 dollars, representing some *five times* the \$14 million Synod received from the districts in 2015. Restricted giving by donors, inherently less flexible and historically more volatile, now makes up more than two-thirds of the total program budget of Synod. In an encouraging development, however, *unrestricted* giving by individual donors is increasing over \$1 million annually.

Using a series of slides, Stroh detailed decreases in major program areas, relative to FY17, in the \$77 million FY18 Operating Budget of corporate Synod. CFO Wulf explained Synod’s accumulated deficit in unrestricted, undesignated net assets, which decreased from a high of \$17 million between 2010 and 2015, rebounding to \$13 million in the last two fiscal years. This deficit is accounted against board designated funds (approximately \$8.5 million) and Synod’s fixed (capital) assets (approximately \$9.3 million). Discussion noted the audited financial statement of LCMS and Subsidiaries, especially the significant role

of LCMS Holdings, which holds property related to Synod's international schools in Hong Kong, Shanghai, and Hanoi. Fluctuations in currency valuation can induce significant changes in consolidated net assets.

#### Update from the chairmen

Chairman Hennings presented an update from the Council of Presidents. The council is prepared to roll out an approach to Licensed Lay Deacon Colloquy according to the 2016 convention's resolutions. It spends a significant amount of time reviewing its policies and training new members of the council (typically 6–9 each triennium) to see that important issues of ecclesiastical supervision and district administration do not “slip between the cracks.” Chairman Hennings noted that the council has moved profitably in a direction of honest and open conversation on issues that arise. The number of seminary graduates continues to decline, with only 80 likely to be placed this year and 100 vicars going out. This will not meet the needs of the Synod—an area of attention, he suggested, for the Board of Directors.

Chairman Kumm noted that the board has been working on bringing LCMS and the synodwide corporate entities back into a closer working relationship, to partner effectively on things that can be done in common. The entity executives are thanked for their willingness to work on bringing the family closer. In the board's August retreat, the board considered its own work and the work of the board's three committees and related policies, under the Constitution and Bylaws of the Synod. This is all being re-envisioned to improve the board's effectiveness and efficiency in the governance of corporate Synod and its supervision and oversight of Synod agencies. The board works collegially with a broad spectrum of knowledge and experience, and is able to reach most conclusions by consensus.

Discussion noted the business strengths of the new CAO, and suggested that in the future COP and BOD might, in future joint meetings, deal more intentionally with a focused topic of present concern in the Synod. This needs to be an open channel of communication, especially as the budget the board develops relies heavily on conversations at the district and synod levels. Chairman Hennings suggested, as his chairmanship draws to a close, with Chairman Kumm's assent, that the future COP chairman and the BOD chairman should coordinate intentionally on these matters.

Chairman Hennings suggested formation of a working group, involving the Council of Presidents, the Board of Directors, and the Office of the President, to consider the projected demographic decline in the Synod and its impact on planning for the future, both at the district and Synod levels.

#### **123. Audit Presentation**

CFO Jerry Wulf introduced Janet Ramey and Frank Megargel of Brown Smith Wallace, LLC, to present the LCMS and Consolidated Entities audit for the year ended June 30, 2017, along with LCMS accountants Ross Stroh and Jim Ehlers, who helped to assemble material for the audit. The audit report was approved Nov. 15 by the audit committee of the Board of Directors.

Janet Ramey noted the inclusion of a number of consolidated entities, including Concordia Plan Services, LCMS National Housing Support Corporation (NHSC), and LCMS Holdings, Ltd., Hong Kong (relating to Synod's international schools in Hong Kong, Shanghai, and Hanoi). Brown Smith Wallace is extending an unconditional opinion on LCMS Corporate and LCMS and Consolidated Entities, noting that a different auditor is responsible for the audit of LCMS Holdings.

Ramey noted (p. 179/249) the detail on the individual consolidated entities, that of the total assets of \$239.8 million, only \$87.4 million are held by Synod corporate. LCMS Holdings has a positive net undesignated equity of \$43.7 million (much of which is of limited availability to corporate Synod), while corporate Synod and NHSC have *negative* net undesignated equities of \$13.6 million and \$0.8 million, respectively.

Ramey noted no difficulties in performing the audit, no disagreements with management, no need to consult with other accountants, and no independence issues encountered. There were no adjustments required in the consolidated report that had impact on the changes in net assets at June 30, 2017. (NHSC's separate audit required eight correcting adjusting journal entries.) No material weaknesses in internal control were

uncovered in the audit process. Recommendations included implementing a monthly reconciliation of payroll bank accounts; ensuring proper authorization of disbursements, in line with Synod's disbursement policy (10% of disbursements sampled were, while appropriate, not approved in accordance with policy, and thresholds may require evaluation); and establishing and testing, at least annually, a disaster recovery plan for Synod IT that extends beyond the core general ledger system. Prior year recommendations dealing with the impact of increased autonomy between LCMS related organizations were noted along with management progress in addressing them.

Ramey noted changes coming (effective for Synod's fiscal year ending June 30, 2019) to the FASB Financial Statements for Not-For-Profit Entities, regarding reporting of availability and liquidity of operational resources. Increased disclosures will be required, enabling "not-for-profit organizations to "tell their financial story" in a clearer way. LCMS financial statements will be required to convey resources available to meet the next financial year's obligations. Nonliquidity and restrictions will need to be disclosed. A deficit condition will have to be explained with policies put in place to handle that deficit.

In an analysis of five years of financials for Synod, Inc., Ramey pointed out an equity of \$67.1 million in 2017, consisting of \$9.4 million in land, buildings, and equipment; \$8.5 million in board designated funds; \$30.1 million in temporarily donor restricted funds; and \$32.6 million in permanently restricted funds. The result is a *deficit* in *liquid* equity of \$13.6 million. In 2015, 2016, and 2017, a negative change in net assets has been observed. A consistent decline in revenues (most obvious in district revenue) has not been reversed or met with a corresponding reduction in expenditure. Ramey advised reduction of expenditure to a sustainable level in consideration of revenue. Revenue in religious organizations is "a tough avenue" in a very tough economic situation, and tax reforms presently being contemplated may have uncertain effects. LCMS Holdings holds a great deal of equity, but this is not readily accessible for expenditure.

Discussion noted NHSC, for which expenditure is outpacing revenue at "a drastically increasing rate." NHSC has a \$543k deficit in equity, after \$300k was borrowed from a designated loan fund.

Chairman Kumm thanked Brown Smith Wallace, LLC, for their audit and for presenting in person to the board.

#### **124. Action Items**

Chairman Kumm brought a variety of action items from the prepared board docket:

##### **(A) Proposed Merger of the Pension Plan for Pastor and Teachers into the Concordia Retirement Plan**

Noting the above presentation by Concordia Plan Services, it was moved and adopted:

*Resolved*, Effective December 31, 2017, (PPPT Merger Date), the Pension Plan for Pastors and Teachers of The Lutheran Church—Missouri Synod (PPPT) shall be merged into the Concordia Retirement Plan (CRP) and the PPPT shall cease to exist as a separate plan.

*Resolved*, At the close of business on the PPPT Merger Date, the assets held in trust under the PPPT will be transferred to the trust fund of the CRP in a trust-to-trust transfer. Thereafter, the assets shall be commingled with and invested as a part of such trust with no distinction between former PPPT assets and CRP assets. Accordingly, as of the PPPT Merger Date, no assets will remain in the PPPT trust fund and it shall cease to exist.

*Resolved*, Upon the transfer of assets as contemplated herein, the CRP shall assume and become solely liable for all obligations of the PPPT and the CRP shall pay all benefits and other sums that would have become due and payable thereafter under the PPPT. This responsibility extends to, and includes, full responsibility for any "Supplemental Benefits" (as that term is defined in the PPPT) that may become payable after the PPPT Merger Date. It is intended that this plan of merger be in full compliance with Section 414(z) of the Internal Revenue Code of 1986 and that each PPPT participant and/or beneficiary shall, after the merger, receive benefits under the CRP that are

nonforfeitable and actuarially equivalent to the benefits such participant and/or beneficiary would receive immediately before the merger.

*Resolved*, That the CRP and PPPT shall be amended as described in Exhibits One and Two, which are attached to the protocol copy of the minutes (printed docket, pp. 354–365/483); and be it finally

*Resolved*, Concordia Plan Services is authorized and directed to take such further actions as may be necessary or appropriate to carry out the transactions contemplated herein.

**(B) Modification to BOD Policies 2.4.8.1–2.4.8.1.2.4 (Executive Sessions)**

A proposal of the Governance Committee was introduced (pp. 366–367/483). It was moved and seconded to amend the second sentence of the proposed Policy 2.4.8.1 to read, “As a standard practice, everyone is excused from the meeting except for voting members of the board, non-voting members of the board, and others as designated by the chairman.” After discussion, the amendment was adopted, and the amended resolution was then adopted by the board as follows:

WHEREAS, Board of Directors Policy 2.10.1.3.1 directs the Governance Committee to review policies of the board and to make recommendations for new or amended policies; and

WHEREAS, During the course of reviewing this section of the manual, the Chief Administrative Officer has solicited input and/or review from the members of the Governance Committee; and

WHEREAS, Board members are encouraged to provide comment and suggestions regarding these proposed changes and any other change they deem appropriate to raise for the board’s consideration during the review of these policy sections; therefore, be it

*Resolved*, The Board of Directors adopts the changes to The Lutheran Church—Missouri Synod Board of Directors’ Policy Manual, Section 2: BOD Self-Governance Policies, as indicated below; and be it further

*Resolved*, The Board also directs the table of contents, index and other references to be updated, as necessary.

2.4.8 Executive Session

2.4.8.1 An executive session of the Board is a closed portion of a meeting in which the proceedings are conducted in private. As a standard practice, everyone is excused from the meeting except for voting members of the board, ~~the non-voting members of the board, the Chief Administrative Officer, the Chief Financial Officer, and LCMS legal counsel~~ and others designated by the chairman. In certain circumstances, the board may elect to meet in executive session with only voting and non-voting members of the board.

...

2.4.8.1.2 Minutes of these sessions are kept by the Secretary however, since the activity is confidential, the minutes are not publicly released. The minutes published of the regular or special meeting during which the executive session was held would generally identify the topic discussed in executive session but not the details of the session. The following items shall be regarded as taking place in executive session.

2.4.8.1.2.1 All legal reports and discussion

2.4.8.1.2.2 All Human Resources reports and discussion

2.4.8.1.2.3 All requests for response from the Commission on Constitutional Matters.

2.4.8.1.2.4 And other matters identified by the Board.

**(C) Modification to BOD Policies 5.2.6.1–5.6.2.3 (Income Management – Fund Raising)**

The proposal of the Governance Committee was introduced (pp. 368–371/483), the intention of which is to bring policy into line with post-2010 bylaws and operating practices related to the restructuring of the Synod at that time. After a brief explanation of the proposed policy, refined over a number of Governance Committee meetings, the proposal was adopted as follows:

WHEREAS, Board of Directors Policy 2.10.1.3.1 directs the Governance Committee to review policies of the board and to make recommendations for new or amended policies; and

WHEREAS, During the course of reviewing this section of the manual, the Chief Administrative Officer has solicited input and/or review from the members of the Governance Committee; and

WHEREAS, Board members are encouraged to provide comment and suggestions regarding these proposed changes and any other change they deem appropriate to raise for the board's consideration during the review of these policy sections; therefore, be it

*Resolved,* The Board of Directors adopts the changes to The Lutheran Church—Missouri Synod Board of Directors' Policy Manual, Section 5: BOD Policies for Agencies of the Synod, as indicated below; and be it further

*Resolved,* The Board also directs the table of contents, index and other references to be updated, as necessary.

5.2.6 Income Management – Fund Raising

The Board believes that it is in the best interest of corporate Synod and its agencies to coordinate certain efforts in developing and administering the annual funding plans.

5.2.6.1 ~~All corporate Synod agencies will use the LCMS Foundation for all fundraising activities unless exceptions are granted by the LCMS Board of Directors. For those corporate Synod agencies using LCMS Foundation for all services: The Chief Mission Officer will supervise the fund-raising activity of the national office (2016 Bylaw 3.5.2.6) according to the policies set forth herein, specifying processes and procedures as necessary for proper coordination and facilitation of desired fund-raising outcomes for all corporate Synodmission and ministry functions.~~

5.2.6.1.1 ~~Each department and unit of corporate Synod agency shall submit to the LCMS Board of Directors and the LCMS Foundation any proposed Chief Mission Officer, for his review and approval, all plans for the annual funding of its mission and ministry that include fund-raising activities or otherwise involve revenue from charitable contributions (gifts, grants, bequests).~~

5.2.6.1.2 ~~An annual funding plan shall be developed by the LCMS Foundation in consultation with the respective corporate Synod agencies served for approval by the LCMS Board of Directors in the budget setting process. There shall be no fund raising by departments, units or employees of corporate Synod, unless first authorized by the Chief Mission Officer.~~

5.2.6.1.3 ~~Final decisions for implementing the funding plan shall be made by the LCMS Foundation.~~

5.2.6.1.4 ~~3~~ ~~Decisions on donor contacts and strategies shall be coordinated by the LCMS Foundation with agency approval. Donor and non-donor constituent lists records are the intellectual property of corporate Synod and are to be administered by the LCMS Foundation must not be sold, exchanged, used or transferred to other agencies, entities, corporations or individuals unless authorized by the Board of Directors.~~

5.2.6.1.5 ~~Advisory councils shall be utilized by the LCMS Foundation to provide oversight, input and balance to the funding of the agencies and ministries served.~~

- 5.2.6.1.64 Regular performance reports for corporate Synod fund raising shall be provided ~~to the agencies and~~ by the Chief Mission Officer to the Synod Board of Directors.
- 5.2.6.2 ~~For any corporate Synod agency not using LCMS Foundation for Principal Gift Contact and Support [Level 1] service:~~ Agencies seeking to use corporate Synod fund-raising support services (and accompanying fund-raising communications services) must first obtain written agreement from the Chief Mission Officer.
- 5.2.6.2.1 ~~Each corporate Synod agency shall submit to the LCMS Board of Directors any proposed plans for the annual funding of its mission and ministry.~~
- 5.2.6.2.2 ~~Decisions on donor contacts and strategies shall be the responsibility of the corporate Synod agency. Donor lists are the property of Corporate Synod and are to be administered by the LCMS Foundation.~~
- 5.2.6.3 The following functions or activities established by the ~~LCMS~~ Synod national convention will be fully funded through the Synod budget process using unrestricted income or assessments. These activities will not have the need to ~~develop their own~~ raise funds or ~~be authorized to~~ accept restricted funds except as approved by the Board of Directors or by action of the Synod national convention: ~~CCM Commission on Constitutional Matters;~~ Doctrinal Review; ~~CTCR Commission on Theology and Church Relations;~~ national ecclesiastical supervisory ~~on~~ activities; ~~doctrinal review; meetings and events of the Synod; Praesidium activities, COP Council of Presidents or meetings, BOD Board of Directors meetings;~~ national conflict resolution activities; ~~and the Synod national convention; employment costs (salary/benefits/etc.) of elected officers and support staff.~~

It was noted in the discussion that Governance Committee is taking a “bigger picture” view of policy review, delaying work on smaller details, but it was felt important to align this policy with bylaws and practices.

#### (D) LCMS Foundation Bylaw Change Request

The LCMS Foundation proposed a change to Article I, Section I of its bylaws, to change the specification of the number of member-appointed trustees from exactly “seven” to “at least seven,” to correspond to the specification of LCMS Bylaw 3.6.5.2.1, “at least seven” (pp. 372–376/483). In its review of the proposal during its November 10–11 meeting, the Commission on Constitutional Matters indicated that, due to LCMS Bylaw 3.6.1.3 (a), “A minimum of one-third of the voting members of every governing board shall be elected by the Synod in convention as described in these Bylaws,” and in light of other considerations, it would accept a change to Article I, Section I of the LCMS Foundation Bylaws as follows:

The Board of Trustees of the Foundation shall be composed of the President of The Lutheran Church—Missouri Synod (the “Synod”) or his designated representative, the Chairman of the Board for National Mission, or his/her representative from that Board, ~~two~~ Trustees (one ordained minister and one layperson as specified in the Bylaws of the Synod) to be elected by the Synod in convention, and at least seven Trustees elected appointed by the Members. The number of Trustees appointed by the Members shall not exceed twice the number of Trustees elected by the Synod in convention (including the President of the Synod and Chairman of the Board for National Mission).

This modification, being amenable to the President and Chairman of the Board of the LCMS Foundation, was presented for the approval of the LCMS Board of Directors as required by LCMS Bylaw 3.6.1.7 (a). It was moved and adopted:

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approve the change to the LCMS Foundation Bylaws (Article I, Section I) suggested by the Foundation in the form approved by the Commission on Constitutional Matters.

(E) Concordia University System Council of Members Bylaw Revisions

The Spring 2013 triennial meeting of the Concordia University System (CUS) Council of Members (COM) adopted revisions to CUS bylaws. These revisions were subsequently submitted for review and approval to the Commission on Constitutional Matters (CCM), which recommended additional changes to the bylaws. These were reviewed and acted upon at the first opportunity, being adopted as revised by the CCM in the next triennial meeting of the CUS COM in April of 2016. The CCM, in turn, accepted the April 2016 changes at their May 2016 meeting. CUS has therefore now submitted the same document (pp. 378–387/483) for action by the LCMS BOD.

It was moved and adopted:

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approve the revisions to the bylaws of the Concordia University System (CUS), as adopted by its members in April 2016 and approved by the Commission on Constitutional Matters in May 2016.

(F) Concordia College New York Infrastructure Request

Concordia College New York (CCNY) experienced a failure in the power cable that feeds a portion of their campus following storms earlier this year. The antiquated system was repaired at the time to keep campus lights on. Considering it necessary to replace this system to avert a future incident, CCNY requested permission to complete this project, as added to the Interim Master Plan approved by the CUS Board earlier this year.

At the same time, CCNY requested permission to take action on an item in the approved Interim Master plan to convert the heating system in Romoser and Rippe Residence Halls, allowing for the addition of air conditioning in these two residence halls. It is anticipated that these renovations will result in cost savings on energy expenses. Student recruitment may also be aided by the ability to offer air conditioned dorms.

Funding is being sought for the project from LCEF in the amount of \$3.3 million. \$0.3 million will be for the replacement of the power lines. \$3.0 million is for the dorm projects (\$1.5 million each). Further information was provided in the board docket (pp. 398–445/483). With the project having received the approval of both the CCNY Board of Regents and the Board of Directors of Concordia University System, the President of Concordia University System presented it to the LCMS Board of Directors for approval. It was moved and seconded:

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approves the additions of these projects to the Concordia College New York Interim Campus Master Plan; and be it further

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approves of Concordia College New York proceeding with replacing the underground electrical cables and the heating and cooling renovations/installations in the Romoser and Rippe Residence Halls, as presented; and be it finally

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approves of Concordia College New York seeking funding for these projects in the amount of \$3.3 million at current rates from the Lutheran Church Extension Fund.

Discussion noted that proposals such as this one need to have a thorough and accurate balance sheet of institutions looking to extend their indebtedness. The proposal notes total long-term debt of \$12.8 million. It was noted that rather than simply “approving” actions the board might better, in the future,

express its “approval” as “declining to exercise its reserve power to block a loan.” It was also noted that the BOD needs to be able to understand that CUS has thoroughly evaluated and approved financials submitted by requesting boards of regents before these proposals come to the BOD for approval. This area of concern was assigned to the Governance Committee. The question was called, and the motion was adopted as proposed.

(G) Concordia University Chicago Property Purchase Request

Concordia University Chicago has requested permission to purchase two properties that are adjacent to the existing campus. These properties would create space for additional residences for students and the potential land on which to construct a new residence hall at some point in the future. Some of this property was previously owned by the university and was sold. This is a chance to regain this property for the university at an advantageous price. Concordia Chicago has provided a detailed background description (pp. 446–456/483).

With approval granted by the CUS Board of Directors, the President of Concordia University System brought the item for approval by the LCMS Board of Directors. It was moved and adopted:

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approves the proposed purchase of the property at 7221-7227 Thomas Street in River Forest, Illinois (a 2-story 8-flat), and the property at 1037-1039 Bonnie Brae in River Forest, Illinois (a duplex), by Concordia University Chicago; and be it further

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approves the purchase price of \$1,565,000 approved by the Executive Committee of the Concordia University Board of Regents; and be it further

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approves this as a cash purchase with any bank financing considered later by the university be presented to the Concordia University System Board of Directors and the Board of Directors of The Lutheran Church—Missouri Synod for approval before it is borrowed; and be it further

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod affirms that this project is consistent with the approved Campus Master Plan of Concordia University Chicago and encourages Concordia University Chicago to formally update its plan with this property included and present the revised plan for approval; and be it finally

*Resolved*, That the properties be appropriately deeded following the purchase so as to include a clause demonstrating the reversionary interest of The Lutheran Church—Missouri Synod in these properties as components of the campus of Concordia University Chicago.

(H) Concordia Historical Institute Articles of Incorporation and Bylaws

The Board of Governors of Concordia Historical Institute has completed a review and revision of its Articles of Incorporation and Bylaws, in part for operational clarity, and in part, to bring them into full compliance with Synod’s bylaws dealing with synodwide corporate entities (pp. 457–464/483). The revision has received the approval of the Commission on Constitutional Matters and has been adopted by the Members of the Institute, pending approval of the Board of Directors of the Synod. It was moved and adopted:

*Resolved*, That the Board of Directors approve the Articles of Incorporation and Bylaws of Concordia Historical Institute (CHI) as already approved by the Commission on Constitutional Matters and adopted, contingent on this board’s approval, by the CHI Members on November 9, 2017.

(I) Concordia Seminary, St. Louis: Renovation of Cotta Hall, Restoration of Faculty Homes, and Sale of Homes on San Bonita Avenue

Concordia Seminary, St. Louis, brought three resolutions implementing various elements of its Campus Master Plan and Strategic Plan for approval by the Board of Directors. The following three resolutions were, together, moved and adopted:

WHEREAS, Concordia Seminary currently owns a 12-unit apartment building on San Bonita Ave., commonly known as Cotta Hall; and

WHEREAS, The Campus Master Plan and Strategic Plan for Concordia Seminary anticipate leveraging excess real estate of the seminary to generate income; and

WHEREAS, Cotta Hall, adjacent to the main campus, has been used for that purpose for the past 10 years, having been rented to Fontbonne University; and

WHEREAS, That lease expires in July 2018 and Fontbonne has indicated it will not renew the lease; and

WHEREAS, The building is in a condition where even minimal rents are not likely to be achieved without significant upgrades; and

WHEREAS, The San Bonita neighborhood has undergone significant revitalization and properly renovated, high market rents can be achieved; and

WHEREAS, The location of this property is such that it, and a vacant lot across Concordia Lane, flank one of 4 entrances to Concordia Seminary, and it is therefore, strategically important to preserve; and

WHEREAS, The Concordia Seminary Board of Regents, on September 28, 2017, did resolve:

The Board of Regents authorizes renovation of Cotta Hall for an approximate amount of \$500,000. The Board of Regents also directs its own Chairman and President Meyer to request approval of this project from the Board of Directors of The Lutheran Church—Missouri Synod in compliance with the conditional approval if its Campus Master Plan.

therefore be it

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approves the renovation of Cotta Hall, to be funded by Concordia Seminary without debt.

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WHEREAS, The Campus Master Plan for Concordia Seminary anticipate the renovation of historic faculty houses for use by both faculty families and single students, though no specific allocation between those two uses has been specified; and

WHEREAS, The seminary administration has acquired a bid proposal for the complete renovation of the historic Faculty Houses of approximately \$300,000 apiece; and

WHEREAS, An analysis of this expenditure, assuming modest rental rates for faculty and published dormitory rates for single students, is that the seminary could achieve an approximate return of 4% on newly invested funds; and

WHEREAS, Concordia Seminary is capable of these renovations with the use of current cash on hand; both funds restricted for capital and unrestricted funds as well; and

WHEREAS, The Concordia Seminary Board of Regents, on September 28, 2017, did resolve:

The Board of Regents authorizes renovation of the historic Faculty Houses for an approximate amount of \$300,000 per home. The Board of Regents also directs its own Chairman and President Meyer to request approval of this project from the Board of

Directors of The Lutheran Church—Missouri Synod in compliance with the conditional approval if its Campus Master Plan.

therefore be it

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approves the renovation of the historic faculty homes.

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WHEREAS, Concordia Seminary currently owns 2-family homes at both 6417–19 San Bonita and 6425–27 San Bonita; and

WHEREAS, Each building is habitable and code-compliant, but in need of renovation; and

WHEREAS, The neighborhood has undergone significant revitalization and property values have increased significantly; and

WHEREAS, These properties serve no strategic purpose for Concordia Seminary either in regard to location or housing stock; and

WHEREAS, The Campus Master Plan does not anticipate their use now or in the future, and

WHEREAS, The Concordia Seminary Board of Regents, on September 28, 2017, did resolve:

The Board of Regents authorizes the sale of 6417–19 San Bonita Ave., St. Louis, MO and 6425–27 San Bonita Ave., St. Louis, MO. Seminary administration is directed to market these properties through a reputable broker and exclude the above referenced potential purchaser from any commissions payable. The Board of Regents authorize President Dale Meyer and Executive Vice President Michael Louis to execute any such documents required to complete this sale. The Board of Regents also directs its own Chairman and President Meyer to request approval of this project from the Board of Directors of The Lutheran Church—Missouri Synod in compliance with the conditional approval if its Campus Master Plan.

therefore be it

*Resolved*, That the Board of Directors of The Lutheran Church—Missouri Synod approves the sale of 6419–17 and 6425–27 San Bonita Ave. St. Louis, MO 63105 and directs its officers to execute any such documents required to complete this sale.

### **125. Executive Session – Legal Report and Concordia University System Update**

It was moved and approved to enter executive session with the CMO, CAO, CFO, and Kim Schave present to hear the report of Attorney Sherri Strand, legal counsel. After presentation of the legal report, Kim Schave was excused and Gerhard Munding, Chair, Dean Wenthe, CEO, and Paul Philp, of Concordia University System joined the board for discussion of matters related to Concordia University System schools. Board member Gloria Edwards recused herself from the entire session.

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### **125X. Executive Session I(A): Legal Report**

### **125XX. Executive Session I(B): Concordia University System Update**

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The board returned from executive session to adjourn for the day.

## **126. Joint Dinner with Concordia Plan Services, Lutheran Church Extension Fund, and Lutheran Church—Missouri Synod Foundation Boards**

The board retired to a joint dinner with the boards of Concordia Plan Services, the Lutheran Church Extension Fund, and the LCMS Foundation, at which members discussed what enhanced cooperation and coordination might be expected between corporate Synod and related entities in the next five years.

## **127. Board Appointments**

The board reconvened on Friday, again with all members present. Personnel Committee Chair Kathy Schulz presented the report of the Personnel Committee, involving two appointments (pp. 139–243/483).

### **Lutheran Church Extension Fund (LCEF) Board of Directors (Bylaw 3.2.5 Vacancy Appointment)**

The Office of the Secretary was informed on August 2, 2017, that a vacancy existed on the LCEF Board of Directors, in the 2016 convention-elected lay seat previously held by Mr. Chris A. Anderson. Nominations were gathered and processed by the “Bylaw 3.2.5” committee of the 2016 Committee for Convention Nominations. From eight nominees, four candidates were selected for the consideration of the Personnel Committee. Personnel Committee Chair Kathy Schulz brought the recommendation of the committee, that

David Worthington of Fayetteville, Georgia (Florida-Georgia District)

be appointed to the Board of Directors of the Lutheran Church Extension Fund. Mr. Worthington was elected in one ballot to the remainder of the unexpired term.

### **China Evangelical Lutheran Church – Legal Corporation (CELC-LC) Board of Directors and Supervisors**

Personnel Committee Chair Kathy Schulz next brought a joint recommendation by the President of the Synod, the Chief Mission Officer, Church Relations, and the Office of International Mission, for the appointment of nine voting directors and three non-voting supervisors for the China Evangelical Lutheran Church – Legal Corporation (CELC-LC). This appointment has previously been handled by mission authorities and the Chief Administrative Officer, but is now being handled by the Board of Directors. The committee moved the recommended slate (p. 349–350/483) as follows:

#### **Nine Voting Directors of the CELC-LC (terms 2018–2021):**

Rev. Roy Askins, Rev. Charles Ferry, Rev. Roger James, Rev. Michael Paul, Rev. Kevin Robson,  
Mr. Frank Simek, Mr. Darin Storkson, Mr. Fred Voigtmann, and Rev. Chris Yang

#### **Three Non-Voting Supervisors of the CELC-LC (terms 2018–2021):**

Mr. Curtiss Larson, Rev. President Andrew Miao (CELC), Rev. Carl Hanson

The slate was adopted as presented.

## **128. Governance Committee Report**

Governance Committee Chairman Christian Preus reported nothing to add to the printed report (pp. 93–138/483), beyond the report of the task force to be delivered later in the meeting.

## **129. Concordia University System Institutional Viability**

Board member Larry Harrington introduced a resolution related to the viability of Concordia University System institutions. It was moved and approved to enter executive session with Synod’s legal counsel, CMO, CAO, and CFO present. Early in the session, board member Gloria Edwards was recused.

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## **129X. Executive Session II: Concordia University System Institutional Viability**

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The board having returned from executive session, the resolution was withdrawn from further consideration.

**130. Concordia International School – Hanoi (CISH), Concordia International School – Shanghai (CISS)**

The board welcomed guests Steve Winkelmann, Head of School, CISH; Dr. Mary Scott, Head of School, CISS; and Curtiss Larson, Assistant Head of School—Finance, Operations, and Strategy, CISS. It was moved and carried to enter executive session with Synod’s legal counsel, CAO, CFO, CMO, Darin Storkson of LCMS Church Relations, and the noted guests, to discuss business proposals offered by each school.

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**130X. Executive Session III(A): Concordia International School – Hanoi (CISH)**

**130XX. Executive Session III(B): Concordia International School – Shanghai (CISS)**

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**131. Overseas Properties of the Synod**

The board resumed its meeting in executive session, with Synod’s legal counsel, CAO, CFO, and CMO, and Darin Storkson, Assistant Director of LCMS Church Relations (with other guests excused), to discuss overseas properties of the Synod.

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**131X. Executive Session III(C): Overseas Properties of the Synod**

**131XX. Executive Session III(D): Concordia International School – Hanoi (CISH)**

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The board returned from executive session.

**132. Board Policy Task Force Update**

Eric Ekong, chairman of the BOD Policy Task Force, highlighted elements of the BOD Policy Task Force Report (pp. 468–471/483). The task force met twice by e-meeting and circulated documents. The group indicated that it intends to hand over more minor policy changes, suggested by the August board retreat and compiled in a working policy manual draft, to the Governance Committee for handling, as necessary and appropriate, through its normal processes.

The task force will proceed to draft a new Section 1, that will, beginning from the Objectives of the Synod and the triennial priorities, express the board’s understanding of “ends” to be achieved by corporate Synod and its agencies. These ends, developed over time, would serve to focus and prioritize the work of Synod and its agencies, and to focus the reporting to the board and convention on that work. The task force intends to develop in detail selected “slices” of board-staff linkage and executive limitations policies (Sections 3 and 4) dealing with the budget process and with the board’s relation to reporting agencies, over which the board exercises an oversight role. These will establish expectations for the communications the board expects to inform its appropriate level of decision-making.

What is proposed will be, Governance Committee Chairman Preus noted, a substantial amount of work, but will make our policy manual more functional going forward. The chairman expressed gratefulness for the work done so far.

### **133. Concordia International School – Shanghai (CISS)**

A board member asked for reconsideration of the CISS proposal. The board agreed to the reconsideration and voted to move into executive session, with legal counsel, CMO, CAO, CFO, and Darin Storkson again present.

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### **133X. Executive Session IV: Concordia International School – Shanghai (CISS)**

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### **134. Finances & Expenditure Reductions / Restrictions**

CFO Wulf again brought to the board's attention his proposed policy for repayment of the accumulated deficit in unrestricted undesignated funds (see agenda item 120 above; pp. 8–9/249).

Chairman Kumm moved that unit executives be told to budget for 20% lower revenues in FY19 than are received in FY18. With the motion seconded, Kumm noted that initiative needs to be taken and that this would amount to a \$16 million reduction in budget, correcting for the accumulated deficit in unrestricted, undesignated funds and restoring a cushion of operating cash. The desire would be to prompt strategic planning and prioritization of program goals and objectives in the face of reduced revenues.

Discussion noted the distinction between unrestricted and restricted funding. The board was cautioned that a 20% total reduction in expense budget for those units funded primarily with restricted funds will not translate into a 20% total reduction in the undesignated, unrestricted bottom line. The Office of International Mission budget is \$36.3 million with only \$0.7 million intended to be sourced from undesignated unrestricted revenue. The Office of National Mission budget is \$10.4 million with only \$1.0 million budgeted to be covered by undesignated, unrestricted funds. One result of a 20% across-the-board reduction would be pulling of a number of missionaries off the field. Staffs at the International Center have already been significantly reduced.

It was suggested that the board could work with management to craft a \$4 million budget reduction challenge instead of a \$16 million one. It was proposed as an alternative that staff could be asked to return to the February meeting with a plan, which the board would then evaluate. Discussion questioned what the board's expectations would be. An improvement in financial health over the next several years would seem to require a positive bottom line, not overbudgeting, and managing property and administrative costs.

With discussion concluded, the motion failed. A board member noted, however, that it should be communicated to management that this motion failed *at this time*, indicating that the chairman's resolution might be revisited, and that it is best that cuts be made over time, by attrition, to avoid—as much as possible—injurious impacts on employees.

The board was asked whether it wished to move its May 16–17, 2019, board meeting to May 29–30, 2019, to coincide with convention floor committee meetings. This proposal was moved and seconded. When noted, however, that some members were unable to attend at the later time, the motion and second were withdrawn, and the meeting left as originally scheduled. Members available to attend both the board meeting and floor committee weekend should do so.

### **135. February Meeting Topic**

Chairman Kumm noted that budget preparation will be a central focus of the Board's February 16–17, 2018, meeting. It was requested that the Rev. Dr. Gregory Seltz, executive director of the new Lutheran Center for Religious Liberty, might present to the board. President Harrison agreed to explore the possibility.

### **136. Committee / Officer / Board Time**

No issues were identified for further discussion.

**137. Meeting Review**

It was moved and carried that the board move into executive session to review the meeting, in keeping with BOD Policy 2.7.1.11.

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**137X. Executive Session V: Meeting Review**

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**138. Adjournment**

Upon return from executive session, with the board's business concluded, Chairman Kumm adjourned the meeting.

John W. Sias, *Secretary*