MINUTES
BOARD OF DIRECTORS
May 18–19, 2018

165. Call to Order and Opening Devotions

Chairman Michael Kumm called the board's May meeting to order, with all board members present except for Keith Frndak and Christian Preus. (To be noted also is the April 17 resignation of the Rev. Eric I. Ekong from the board. The resulting vacancy is to be filled by the Board of Directors in August, under the procedure of Bylaw 3.2.5.) Also in attendance were Chief Administrative Officer Frank Simek, Chief Financial Officer Jerald Wulf, Chief Mission Officer Kevin Robson, and General Counsel Sherri Strand. At the outset on Friday and Saturday, Chairman Kumm called upon the Rev. Dr. Jon Vieker, Senior Assistant to the President, to offer his opening devotion on the readings and hymns of Pentecost: on Friday, from John 14:15–17, 25–27 and *LSB* 498, *Come, Holy Ghost, Creator Blest*, Acts 2:1–13, and *LSB* 503, *O Day Full of Grace*; and on Saturday, from Romans 8:18–30 and *LSB* 497, *Come, Holy Ghost, God and Lord*; John 3:1–17 and *LSB* 795, *Voices Raised to You We Offer*.

166. Adoption of Agenda

The meeting agenda (pp. 10–11/345 of the printed board docket, attached to the protocol copy of the minutes) was moved and adopted as distributed.

167. Consent Agenda

The meeting's consent agenda (pp. 12–13/345) was moved 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 accept this consent agenda which includes the following:

- Officer Reports
  - Report of the LCMS President
  - Report of the First Vice-President
  - Report of the Secretary
  - Report of the Chief Administrative Officer
  - Report of the Chief Mission Officer
- Administrative Services Reports
  - Building Operations – Facilities
  - Human Resources (Confidential)
  - Information Technology
  - Mail/Copy Center
- Financial Services Reports
  - Accounting
  - Internal Audit

- Risk Management
- Board of Directors Committee Reports
  - Governance Committee
  - Personnel Committee
- Action Items
  - Approval of Feb. 16–17, 2018, Minutes
  - Asia Region Bank Account Signatories (pp. 37–39/345)

and be it further

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

168. <u>President Harrison's Report</u>

Chairman Kumm called upon President Harrison to extend upon his written report (pp. 41–44/345). President Harrison noted his attendance thus far at ten district conventions (with one attended, in President Harrison's absence, by First Vice-President Herb Mueller) and fifteen remaining for him to attend. Resolutions before the district conventions, past and upcoming, reflect a prevailing calm in the Synod. Two issues addressed by the 2016 LCMS Convention continue to receive occasional attention: the matter of the right of the Synod President to consider appeals for action in certain ecclesiastical supervisory situations (2016 Res. 12-14) and that of licensed lay deacons (2016 Res. 13-02A).

First Vice-President Mueller, who has been coordinating the lay deacon colloquy, noted that work is proceeding as laid out by Res. 13-02A, to ensure that those men doing pastoral work as lay deacons (regularly preaching and presiding), presently about 225 men in total, are colloquized and recognized as specific ministry pastors (SMP) on the roster of the Synod. These men are required, by July 1, to have made a decision about whether they will: (a) move forward with SMP colloquy; (b) pursue some other route toward ordination; or (c) cease regularly preaching and presiding, unless their congregations are granted an exception. Congregations may apply to the Council of Presidents, under limited circumstances, for an exception, so as to continue to be served by a licensed lay deacon. "We are not in the business of ending ministries," Mueller noted, "but of recognizing ministries for what they are." Noted, too, was that not all those known as "lay deacons" are preaching and presiding. Districts may continue to train laypersons under this title for service in other assisting roles (besides preaching and presiding). While getting everyone to the point of completely accurate conversation about what the convention has directed has proven to be a lingering challenge, Mueller continues to work with districts, deacons, and congregations, moving forward together as appropriate in each case, under the convention's direction.

President Harrison shared a document his office is distributing to the districts, introducing the "Joy:fully Lutheran" theme of the 67th Synod Convention, to be held in July 2019 in Tampa, Florida. The document, taking as its theme verse 1 Thessalonians 5:16–24, lays out the essentially *joyful* nature of our Lutheran confession of the Gospel, takes a frank, myth-busting look at some of the challenges facing our Synod, and outlines some hopeful ways forward.

Reporting on the recent round of spring pastoral candidate placements, Harrison reported that vacancy numbers are elevated, and that 29 calls of candidates remained unfilled. Enrollment at the seminary and in other church worker programs continue to indicate a shrinking pool and challenges ahead on that front.

In President Harrison's estimation, two financial numbers are significant action items:

- "Internal borrowing" (referring to corporate Synod's accumulated unrestricted, undesignated net asset deficit, hereafter simply "deficit") was zero in 1998. At June 30, 2010, just before Harrison took office, it had stood at $15.5 million (M). It was gradually reduced to a year-end low of $5.8M on June 30, 2014, but then trended upward again (though never reaching the 2010 level) as the Synod more fully implemented the convention directive to double the number of career missionaries deployed overseas. Fiscal and operational management initiatives have the deficit trending downward again, at $11.4M as of April 30, 2018. Additional significant steps are being taken by Synod leadership to accelerate its reduction toward zero.

- The historic Concordia University System (CUS) debt has been decreased by steady payments from $22 million in 2010 to $13.9 million. Servicing this debt costs $1.4 million a year in unrestricted, undesignated resources that could be profitably applied *anywhere else* in the budget.

On the ecumenical front, more opportunities are set before the Synod than there are resources to pursue fully and at once. Talks with Madagascar are moving forward. Twelve to fourteen church bodies are presently in the application process for membership in the International Lutheran Council (ILC), the worldwide association of established confessional Lutheran church bodies of which the LCMS is a member.

We are pleased, Harrison noted, that the Rev. Bob Zagore, long-term pastor in Traverse City, MI, has agreed to serve as Executive Director of the ONM: He is an exceptional but humble man, and we expect great things.

169. Financial Report

Prefacing his regular report, Chief Financial Officer (CFO) Jerry Wulf reported the opening of a bank account in Belize, associated with the LCMS corporate entity in that country, to facilitate construction authorized by the board. He also noted a discussion with the Lutheran Church Extension Fund (LCEF) as to why the LCMS and Concordia University System continue, by policy, to extend letters of credit to seminaries, colleges, and universities, when LCEF is the lender and conducts its own evaluations of debt capacity.

Turning to the regular financial report, released after assembly of the board docket, CFO Wulf noted, as of April 30:

- Synod has $8 million (M) in cash and equivalents on hand and $21M in investments, compared to $205 thousand (K) and $19M, respectively, at the start of the fiscal year on June 30, 2017, indicating significantly improved liquidity.
- Synod's unrestricted, undesignated net asset deficit is down (improved) to $11.4M from $13.6M on June 30.
- Year-to-date gifts and grants received (a category excluding district pledges, bequests, and contributed services) are, at $37.3M, increased by $11.4M compared to this time last year.
- Collectively, all units are underspending the budget by $11.1M, with revenue running $10.6M behind projections.

Wulf explained that the bulk of both the underspending and the revenue shortfall relate to Office of International Mission (OIM) "Level 2" projects, which have been included in the budget in recent years *in case* funding would materialize. Where funding has not materialized, the projects are not undertaken. The FY19 budget plan being presented eliminates Level 2 projects likely to be unfunded, with the intention of improving the correlation of budgeted and actual revenue and expenditure. This is with the proviso that the budget can be supplemented to accommodate projects for which unexpected designated funding might arrive.

Chief Mission Officer (CMO) Kevin Robson noted that a $1.8M deficit in the OIM budget line as of March 31 resulted from year-to-date revenue deficiencies of $900K in bequests and $1.8M in other restricted income, offset by $900K in reduced expenditure (administrative support and Level 1 projects have been trimmed). Any shortfall in restricted revenue hits Synod's unrestricted bottom line. Robson noted positively that an increase in *undesignated* gifts to the Synod (to be noted in the Mission Advancement report) helps counteract the shortfall in designated gifts, as undesignated gifts to the Synod flow to the budget lines where they are most needed. CFO Wulf, pointing out that timing complicates revenue/expense evaluation, noted that restricted gifts that arrived in April have reduced the OIM deficit from $1.8M on March 31 to $954K as of April 30.

CMO Robson noted an area of particular interest: the network-supported missionary (NSM) fund account, containing funds raised to support direct expenses of missionaries and their families. While designated funding for general OIM expenses, including indirect and administrative support of these missionaries, lags, giving to the NSM account itself is running ahead of expenses by approximately $2.4M on the year. Individual network performance is carefully monitored; some missionaries whose support has consistently underperformed have had to be pulled back from the field—but the news on NSM is overwhelmingly good.

Wulf noted that, as the result of new Generally-Accepted Accounting Principles (GAAP) released for non-profits by the Financial Accounting Standards Board (FASB), LCMS Financial and Accounting Services is developing a new financial reporting model, with 6 of 18 steps planned to be completed in June. Work toward the new requirements will, by the end of FY19, change the look of the financial statements. This may impact comparability year-to-year. In particular, Wulf commented that the LCMS has not historically defined "programs" as generally as GAAP does, to include all "activities that result in goods and services being distributed to beneficiaries, customers or members that fulfill the purposes or mission for which the not-for-profit exists." LCMS reporting has historically taken a narrower view, excluding as "administrative" much work of officers, offices, commissions, etc. that *does* fulfill the mission purpose of the Synod, as expressed in its Constitution, Bylaws, and resolutions (including triennial priorities), for and on behalf of congregations. The new FASB GAAP will improve Synod's underreporting of its program spending rate, giving an accurate picture of Synod's efficiency in putting dollars donated to meaningful "program" work.

President Harrison, noting that Synod financials are "unknown and impenetrable" to average people (non-accountants), demanded an *easy-to-understand* report that can go in the *Reporter* or *Witness*. Historically, he noted, "overseas mission is always the chief deficit culprit." "We have 17 people in the [international mission] office, and used to have 60. We are taking care of 400 people around the world, missionaries and families. People who understand the opportunities and the challenges will meet the Synod's needs." The network support model for direct expenses of the missionaries themselves is working well; it is the financial backing for the support network needed to keep them in the field and keep them properly cared for that always lags. A clear expression of this need, Harrison noted, and of the deficit Synod has amassed largely in meeting it the past few years, would rouse congregations and individuals to help.

Chairman Kumm noted that the accounting assessment, to get underway this summer, will open up opportunities for clearer reporting. Board member Ed Everts noted, for the Audit Committee, that the inclusion of OIM Level 2 projects in the regular budget has muddied the financial waters. Historical consolidation of overseas assets, which have significant limitations on use, into Synod's financial statements has also distorted our asset position. Wulf noted that implementation of the new FASB GAAP standards, having more stringent liquidity requirements at the end of FY19, will again align well with our need for greater clarity.

Everts noted that Synod's financial reports are organized in terms of audit categories, but that this organization of the material does not support operational decision-making or digestion by the Synod as a whole. Two formats of reporting on the same data are needed—one to satisfy GAAP requirements, made for accountants, and one to support effective decision-making by the board and by the congregations, districts, and individual donors of the Synod. Others noted that without comprehensive and comprehensible (by non-accountants) financial reporting from the Synod, external individuals and organizations have been "invited" to offer public assessments of Synod's financial position that, while understandable, are highly inaccurate, misleading, or even untrue.

170. <u>Audit Committee Report</u>

With Audit Committee Chair Frndak absent, Ed Everts reported that the committee had discussed the annual review of the Chief Financial Officer (CFO) with Val Rhoden-Kimbrough, Executive Director of LCMS Human Resources. The committee also reviewed:

- the Chief Administrative Officer (CAO)'s proposal for items to be required in college and university capital proposals for approval by the board

- the FY19 Mission and Ministry and Capital Budget proposals
- the longevity of certain board designated funds, which have been held long-term without expenditure for intended purposes
- the budget for LCMS Internal Audit and audit activities for internal agencies, with assignments given to its director, Joann Spotanski
- the board policy manual section (5.3) having to do with its work, recommending no changes
- Generally-Accepted Accounting Principles (GAAP) required by the Financial Accounting Standards Board (FASB) to be implemented by the end of FY19 as a condition of the issuance of an unqualified audit.

171. Legal Report

It was moved and carried to enter executive session for the first part of General Counsel Sherri Strand's legal report. All non-board-members but CAO Simek were excused, along with board member Gloria Edwards, due to her conflict of interest.

171X. Executive Session I: Legal Report

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172. Mission Advancement

Having returned from executive session, the board welcomed Mark Hofman, Executive Director of LCMS Mission Advancement, to extend upon his unit's written report (pp. 77–78/345). Hofman noted that, as of March 31, his unit has spent $4.2 million (M), which is $30 thousand (K) over budget due to the impact of increased disaster giving. The unit has drawn $1.9M in unrestricted funds, $829K more than budgeted. This is due to restricted revenue that is—while significantly increased relative to last year and the six-year rolling average—still below budgeted program expectations, and thus insufficient to cover Advancement expenditures under the allocation strategy adopted by the board.

Hofman surveyed Mission Advancement's strategy, highlighting intentions to know and understand donors *well*, to achieve impeccable levels of trust, to facilitate *well* each contributor's philanthropic response, to pursue professional excellence, and to work in a manner worthy of the Savior. Joyful—or "Joy:fully Lutheran"—contributors are more likely to repeat their giving. Hofman noted, "we work to maximize [the donors'] *joy* with each gift." Hofman, who is driving LCMS Mission Advancement to become the standard for transparency and accountability, noted the recent external, objective Better Business Bureau recognition of the LCMS as an accredited charity.

The response has been positive. Growing contributor trust is reflected in increased unrestricted contributions to the Synod, apart from worship offerings, and in "where-needed-most" giving to the mission offices. Contributors who wish to direct their donation opportunities more specifically are, of course, afforded that opportunity. The LCMS Mercy and World Relief / Human Care constituencies are growing again after a period of "brand confusion." There has been a tremendous outpouring of support for LCMS disaster work, accompanied by an increase in mid-level giving and an increase in active contributor count, the latter up from 32K in FY16 and 33K in FY17 to 47K in FY18. Hofman shared a number of vignettes about recent, joyful donors and their contributions.

Hofman also reported progress toward annual (FY18) goals:

- The goal of $891K in unrestricted (non-district, non-bequest) contributions was met in December, and this category now totals $1.27M—a reflection of growing trust in the Synod to utilize donations wisely where most needed.
- Gifts to International Mission Network Supported Missionaries (NSM) are at $12.6M, the highest amount on record.

- Non-NSM Gifts to International Mission are at $5.8M against a year-to-date expectation of $7.9M. The $5.8M is, Hofman noted, significantly higher than the $3.5–4.7M raised year-to-date in FY14–17. National Mission gifts, too, are below expectation at $943K ($1.7M expected), but above the FY14–17 average.
- Giving to disaster relief has topped $10M on a year-to-date expectation of $1.8M, and there does not seem to have been apparent negative impact on other giving areas.
- The Lutheran Center for Religious Liberty has received $926K in support against a year-to-date expectation of $601K and a total annual goal of $700K.
- The annual restricted revenue goal for the Joint Seminary Fund was reached in April, counting donations intended for one specific seminary or the other.
- An annual goal to secure $400K for the Global Seminary Initiative's international student scholarships component was completed in November, the result of a collaborative campaign by the LCMS and both seminaries.

Hofman noted that headcount in his area is down to 44.8 from 50.8 in FY17 and 66 in FY12, and that Synod now has just four full-time Synod-wide major gift officers/gift planning counselors. This is compared to over 50 in the early 2000s, who at the time worked either for Synod entities or the LCMS Foundation. Collaboration with the Foundation, LWML, and Office of the President, in particular, has been helpful to the work, and more board-level interaction with his unit might be desirable.

Unit challenges include future staffing of fundraising professionals, the pipeline being "dry" in a strongly competitive market for available talent. Fundraising was not developed intentionally or systematically in the Synod, but used to plug widening gaps in the congregation-district funding model; it falls to Mission Advancement to develop a coherent model that works well for all constituents and stakeholders. External pressures such as tax law changes can reduce incentives for charitable giving. Donor and stakeholder expectations of low-to-zero overhead in non-profit operations (which can lead to underinvestment in infrastructure and drive an organization into the "nonprofit starvation cycle") must be acknowledged and addressed. Opportunities, too, are present as the unit moves through an end-to-end process review and redesign, now underway; makes better use of technology to strengthen relationships and partnerships; utilizes cleaner constituent data; and demonstrates a sincere appreciation of contributors for who they are as human beings, not for what they donate. As noted earlier in the report, while much room for improvement still likes ahead, there are many evident opportunities for rejoicing at the generosity of people both in the Synod and outside of it, and at the capacities and cohesiveness of the Mission Advancement team.

In discussion, a board member noted congratulations are in order on the performance indicated, and also an opportunity to enter more intentionally into the social media space to engage younger generations of donors. It was also noted that revenue projection remains a serious challenge. In some areas there are reliable trendlines; elsewhere, not. Hofman noted that gift revenue expectations included in previous budgets have not always been based on objective data, and that Mission Advancement also receives and raises significant dollars that do not, in the end, hit corporate Synod's own bottom line.

173. <u>Fiscal Year 2018–2019 (FY19) Budget Presentation</u>

Chief Financial Officer Jerry Wulf was called upon to deliver the FY19 (July 1, 2018–June 30, 2019) budget presentation. He noted a few points at the outset:

- Total FY19 budgeted expenditures are below the FY18 budgeted level by approximately $8 million (M).
- Budgets for the board and officers, Communications, Common Services and Mission Advancement all support program activities. Shrinking these elements "to devote more to programs" would, in fact, negatively impact Synod's ability to fulfill its objectives, including program work.
- The FY19 proposal is a conservative budget, using a 3-year average of unrestricted and restricted revenue (including bequests).

- The proposal aims to align the budget with Synod's triennial mission goals and emphases.

Wulf reviewed the budget development, adoption, and implementation phases, noting that in the budget development phase, cost centers have difficulty identifying activities that can be ceased. In the monitoring phase, accounting can work with units to reduce cost, but only incrementally.

Turning to the FY19 budget proposal, Wulf noted that the FY18 operating budget was $77M, on which we are expecting to be $18.7M underspent at year end. The FY19 proposed operating budget totals $69M.

The proposed budget reduces domestic headcount (excluding those internationally deployed) by 14 relative to FY18, to 221 positions (124 in programs, 63 in services, 29 related to Synod officers and executives, and 5 to Synod commissions). This figure (measured at Dec. 1) was 275 in 2010 (pre-restructuring), fell to 225 by 2012, rose as high as 254 in 2016, and has been declining again since. Reduction of 14 positions (most already vacant) results in a savings of approximately $1.4M in FY19.

Historically, Wulf noted, budgeting has assumed that the Office of International Mission (OIM) will be able to raise all the restricted resources it needs for direct and indirect support of missionaries, but Synod's unrestricted funds have wound up picking up a substantial part of the tab every year. "No matter the budget, OIM tends to spend $2.5M in unrestricted funds," largely attributable to the "Level 1" background work necessary to keep missionaries and families in the field and cared for, to provide administrative support, theological education, etc. Fundraising for these needs has always lagged gifts for the direct costs of the missionaries and their families, despite hopes each year that designated funds might be raised for these purposes. The FY19 budget takes a more realistic view, based on the historical *spending* of unrestricted monies rather than on historical *hopes* for designated funds, budgeting $2.1M in unrestricted funds for OIM (a $1.45M increase from FY18). This means unrestricted funds had to be allocated from other units—but also means OIM will be much more likely to operate within budget in FY19. The budget as a whole is also more likely, therefore, to substantially reduce the accumulated unrestricted, undesignated asset deficit.

Wulf noted that applicable restricted funds are, by Generally-Accepted Accounting Principles (GAAP) for non-profits, always spent before unrestricted. Should sufficient restricted dollars be received to fund more of the OIM budget, unrestricted dollars would be liberated for other purposes, or to reduce the accumulated deficit.

<u>Operating (Mission and Ministry) Budget</u>

Ross Stroh, Executive Director of LCMS Financial and Accounting Services, next presented an executive summary of the FY19 operating (mission & ministry) budget, relative to FY18:

- Budgeted expenditures are down $7.9M. Decreases: International Mission, $6.7M ($6.5M reflects Level 2 plans removed from the budget, with the note that they can be supplemented should designated funding materialize); National Mission, $1.2M (1/3 unrestricted and 2/3 restricted, the Lutheran Center for Religious Liberty having become its own entity); Other program areas, $209 thousand (K); Synod officers and administration, $104K. Increases: Ecclesiastical services and commissions, $11K; grants to related entities, $20K; general and administrative, $105K (a technical accounting increase; actual expenditure in these areas is down $257K).
- The budget includes a contingency line of $500K; if unspent, this will reduce the accumulated undesignated, unrestricted net asset deficit.
- The common services allocation is increased from $30.7K to $31K per head due to decreased headcount (total decrease in common service units is $257K).

Stroh then presented details of the <u>support budget</u> (projected revenue). Of a total of $69.9M in support expected in FY19, $48.0M is restricted by donors for specific purposes and $21.9M is unrestricted revenue, which can be applied anywhere it is needed. The unrestricted revenue includes $13.8M pledged by districts, $2.4M from the 2009 sale of KFUO-FM to Gateway Communications (two expected payments remaining, in FY20 and FY21), $2.3M in unrestricted bequests (based on a 3-year average), $1.2M in unrestricted contributions through LCMS Mission Advancement, and $2.2M in special support, special gift activities, and from other sources. (The FY19 budget includes, as a result of the increased allotment to OIM, an increase of $1.1M in *budgeted* dependency on unrestricted revenue.)

District intentions for the year Feb. 1, 2018–Jan. 31, 2019 are down $408K from the previous year, with 6 districts increasing by a total of $58K and 15 decreasing by a total of $466K, 14 remaining the same. Stroh noted that districts share between 3% and 38% of their unrestricted receipts with the Synod.

The FY19 expense budget (inclusive of all planned, uncapitalized expenditure, including those "Level 2" projects likely, but not certain, to be funded) of $69.1M, includes:

- $35.4M in personnel, including international missionaries. The budget as presented included a salary increase pool of 0% and no bonus pool (this was later amended) and reflects a 4% estimated increase in the cost of health benefits, 0% for retirement and disability.
- $11.9M in LCMS Operations—International Mission
- $4.5M related to Synod seminaries, universities, and colleges (including $1.4M, paid with unrestricted funds, to service the historic Concordia University System debt to the Lutheran Church Extension Fund)
- $3.1M for partner churches
- $2.9M in travel expenses
- $1.9M in LCMS Operations—National Mission
- $852K in U.S. church worker and congregation support
- $185K for pan-Lutheran organizations
- $8.3M in other expenses (including $1.85M in property and insurance costs, legal and external audit fees, and depreciation, all drawn on unrestricted funds)

Stroh noted that service of the CUS debt and the other unavoidable commitments noted under "other expenses" total $3.2M, or 15% of Synod's total unrestricted revenue.

Stroh next presented the operating budget by major cost center, comparing to FY18 budget levels:

in thousands (K)	FY19 Bud. Expense	FY19 Revenue			FY18 Bud. Expense
		Mat'ls & Svcs.	Restricted	Unrestricted	
Programs (OIM,ONM,other)	52,959	1,680	42,088	9,191	8,174
Grants to related entities	2,822	-	130	2,692	2,677
Ecclesiastical services	3,686	87	1,094	2,505	2,437
Officers and administration	4,679	53	461	4,165	4,216
General and administrative	4,978	2,414	23	2,541	2,654
Total	**$ 69,124**	**$ 4,234**	**$ 43,796**	**$ 21,094**	**$ 20,158**

Stroh noted that the unrestricted request is up $936K from FY18, reflecting the $1.45M increase in International Mission, only partially absorbed by reductions in other cost centers. Stroh summarized plans in various cost centers:

- **Office of International Mission (OIM):** $29.6M expense (incl. $3.4M for "Level 2" projects, initiated if funds are raised), funded with $27.4M restricted funds (incl. $1.1M Mercy Funds and $13.7 NSM & GEO missionaries) and $2.2M unrestricted (up $1.45M from $733K in FY18). OIM will focus on core strengths: speaking of Jesus, planting congregations and forming pastors, and doing mercy work. OIM will also focus on strengthening missionary well-being and field operations support.
- **Pastoral Education:** $2.8M expense (including $600K in seminary subsidies, plus $1.3M distributed to seminaries through the Joint Seminary Fund, and $234K in scholarships), funded with $102K in materials & services (M&S), $1.6M in restricted funds, and $1.1M in unrestricted.
- **Office of National Mission (ONM):** $9.2M expense, funded with $916K M&S, $7.8M in restricted funds, and $532K in unrestricted (down from $922K in FY18). ONM will focus on

strengthening and revitalizing congregations and schools, working a new national missionary model with districts, the National Youth Gathering (July 2019), onboarding a new executive director, and maximizing operational efficiency in the ONM organizational structure.

- **Communications:** $4.4M in expense, funded with $441K M&S, $48K restricted, and $3.9M unrestricted ($973K of which is to be released from board-designated KFUO-FM funds). Communications will focus on enhanced and more efficient video production with refurbished facilities, permeating the Synod with the "Joy:fully Lutheran" campaign, and coverage of the Synod convention and Youth Gathering, the LWML convention, Life March, and more.
- **KFUO:** $1.4M in expense, funded with $199K in M&S, $1.1M restricted, and $48K unrestricted (to be released from board-designated KFUO-FM funds, down from $81K in FY18).
- **Mission Advancement:** $5.6M in expense, funded with $23K M&S, $4.1M restricted, and $1.4M unrestricted (down $29K from FY18). Mission Advancement is funded by the February 2016 board-approved, charitable gift support rate formula, as amended in September 2017 to deal with specific disaster responses.
- **Grants to Related Entities:** $2.8M in expense, funded with $130K restricted and $2.7M unrestricted. No change in support for Concordia University System or the National Housing Support Corporation; support for Concordia Historical Institute is increased $15K from FY18. Synod continues to service all historic CUS debt (principal and interest), estimated at $13.9M, at a rate of $1.4M annually.
- **Ecclesiastical Services and Commissions:** $3.7M in expense, funded with $87K M&S, $1.1M restricted, and $2.5M unrestricted (up $67K from FY18, including increases of $20K for CTCR, $52K for Rosters, $2K for Conflict resolution, and $4K for other commissions and decreases of $6K for Church Relations and $5K for convention committees and task forces).
- **Constitutional Officers and Administration:** $4.6M in expense, funded with $53.5K M&S, $461K restricted, and $4.2M unrestricted (down $51K from FY18, including increases of $37K for the CFO's accounting assessment, $33K for the Council of Presidents, and $7K for the Secretary, and decreases of $25K for the President and Praesidium and $129K for the Chief Administrative Officer and Board of Directors).
- **General and Administrative:** $5.0M in expense, funded with $2.4M M&S, $23K restricted, and $2.5M unrestricted (down $113K from FY18, including decreases of $32K in Accounting, 8K in External Audit, $46K in Human Resources, and $221K in Information Technology, and increases of 10K in Internal Audit, $7K in state & federal reporting, $21K in property & insurance, and $21K in operational services).

CFO Wulf noted for Synod's Operations Team that budget planning began with the intention of planning (unreleased) expenditures at a level $2M below expected (unrestricted) revenues, to reduce the accumulated deficit. Adopting a realistic unrestricted request for the Office of International Mission (increasing the demand on unrestricted dollars by $1.45M) was selected as the more prudent approach. This measure should significantly increase the likelihood of ending FY19 at or under the budgeted level of undesignated revenue applied. Even taking this into account, FY19 planned expenditures are less than expected revenues by $774K[1]. The FY19 expense budget also includes a $500K contingency line. The unrestricted, undesignated net asset deficit is therefore, barring contingencies, planned to be reduced by $1.3M over the course of FY19. Pains were also taken to conservatively estimate revenues and to accurately estimate expenditure. (While revenues have been conservatively estimated, Mission Advancement has not reduced fundraising goals.) Additional savings may be obtained after adoption of the budget (certain costs may not materialize as high as expected, and new efficiencies are being sought in information technology, building management, and accounting areas), and these would further aid deficit reduction.

[1] The budget was later amended to add $244K in expense to provide a 2% salary raise pool for employees other than officers and grades 1–7 (generally, for those below director level), reducing this figure and the following "$1.3M" by that amount.

With the presentation concluded, the mission and ministry budget proposal of the Chief Financial Officer was moved and seconded. Discussion emphasized the board's insistence on reducing the accumulated unrestricted, undesignated net asset deficit. In response, CFO Wulf underscored the planned surplus of $774,810 to be applied to the deficit, along with what remains of the $500,000 contingency budget line, and what results from other efficiencies eagerly being sought. The inclusion of a historically realistic undesignated fund request for the Office of International Mission also directly targets the chief culprit that turned previous balanced budgets toward deficit growth.

Val Rhoden-Kimbrough, Executive Director of LCMS Human Resources, joined the board to address a question about salary. A board member suggested that with a tight labor market in St. Louis and with the allied entities planning pay increases for their staff, it may be important to provide in the budget for employee raises.

It was moved and carried, after discussion, to amend the proposed FY19 budget to add $244,000 (in unrestricted impact) to provide a 2% increase for all employees excluding officers and grades 1–7 (excluding employees, generally, at the director level or higher). It was noted that this increase might be offset by one or more of the potential areas of savings noted above, and so might not, in the end, reduce this budget's ability to reduce the accumulated deficit.

The main motion as amended carried without dissenting vote:

Resolved, That the 2018/2019 (FY19) Mission and Ministry Operating Budget be amended to include $244,000 (unrestricted impact) for a 2% salary increase for all employees excluding officers and grades 1–7.

Resolved, That the Board of Directors approve the 2018/2019 (FY19) Mission and Ministry Operating Budget, as amended, as follows:

Total Spending Plan	$ 69,124,298	+ *244,000*	=	$ 69,368,298
Total Revenue	$ 69,899,108			$ 69,899,108
Surplus (Deficit)	$ 774,810	– *244,000*	=	$ 530,810

and be it further

Resolved, That the Board of Directors allow non-material deviations to be made by the Chief Financial Officer to set final budget consistent with the intentions of a surplus/balanced budget.

Capital Budget

CFO Wulf turned to the capital budget. A number of items are carried over as unrealized plans from the FY18 capital budget. Capital items are reflected in the operating budget, through the item's useful life, as a depreciation charge. The FY19 total depreciation charge is budgeted at $732,506.

Discussion noted video production and storage facilities planned for LCMS Communications and the planned KFUO FM translator. The latter, to be paid for out of board-designated communications funds, will extend the radio station's range with a lower-power frequency-modulated transmitter.

CFO Wulf noted that expenditures will not be carried out unless revenues are available to cover the planned expenditures. It was moved and adopted:

WHEREAS, Board of Directors policy requires all synod departments to submit their requests for capital items as a separate annual budget for approval. The CFO has identified the source of funding to be general corporate cash or capital debt, as necessary. Departments and other corporate entities are charged for the capital acquisitions over the economic life of the asset via depreciation. The capitalization level is $5,000. All items with a purchase price above $5,000 and a useful life of longer than one year or an aggregate amount above $5,000 when purchased together are capitalized. Now, therefore, be it

Resolved, That the Board of Directors approve the FY 2018/2019 Capital Budget request totaling $1,746,624 as indicated below, with funding provided by corporate cash, capital debt (when authorized by the BOD), restricted funding, and/or through allocations to other corporate users, subject to adequate funds being available, as determined by the Chief Financial Officer.

Operational Services		
Document Folder		$7,700
Canon lmagePress C750 (printer)		$50,000
A/C chiller		$46,740
Passenger Van		$42,000
Replace Security Card System		$62,398
Dock Lift		$6,855
Uninterruptable Power Supply (UPS)		$11,841
Resurfacing Parking Lot		$93,480
Conference Room (Room 426/427) - Furniture only		$9,977
Elevator Repairs		$51,102
Sidewalk Barrier		$7,541
The FMB has standing approval for a $164,000 capital contingency budget to be used for unplanned emergencies		$102,205
Operational Services	**Subtotal**	**$491,839**
Information Technology		
Personal Computers		$210,000
Printers/Scanners		$5,870
Infrastructure Upgrades/Replacements		$91,840
Information Technology	**Subtotal**	**$307,710**
KFUO		
Wide Orbit upgrade project		$40,000
Broadcast Bionics		$13,200
Telos VOiP over IP phone system		$20,000
KFUO Revitalization plan and FM translator		$200,000
KFUO	**Subtotal**	**$273,200**
Communications		
Studio renovations		$75,470
Storage cabinets for video		$41,805
Camera bodies for photo journalist		$6,600
Communications	**Subtotal**	**$123,875**
Office of International Mission		
Sri Lanka: construction of a building to include a church, offices, hostel for housing students, preschool, classroom, and library space		$350,000
Dominican Republic: purchase land for future construction of housing for professors and students at the seminary		$200,000
OIM	**Subtotal**	**$550,000**
	TOTAL	**$1,746,624**

174. 2019 Synod Convention Budget

Chief Administrative Officer and convention manager Frank Simek presented the 2019 Synod Convention Budget (pp. 289–297/345) to the board for approval. Total budgeted revenue of $2,236,237 includes a district levy of $2,186,237 and projected exhibit income of $50,000. Major expenses include $542 thousand (K) for travel and lodging; $436K, printing and mailing; $293K, personnel; $239K, hospitality; $211K, contract labor; and $191K, audio-visual and equipment. It is estimated that remaining funding from the 2016 convention surplus will be sufficient to cover expenses related to task forces that may be created by the 2019 convention. Considering a variety of factors, including venues, convention lengths, inflation, and occasional carryovers from one convention to the next, the proposed budget falls well into line with the several previous. Approval of the convention budget, expenditures related to which will be included in the FY20 Synod budget, is necessary at this time to allow communication of the levy to the districts in September.

It was moved and adopted:

> WHEREAS, Bylaw 3.1.9 (d)(1) requires the Board of Directors to approve the convention budgets submitted by the manager of the convention. Accordingly, the Board is being asked to adopt the following resolution, approving the convention budget for the 2019 LCMS Convention; now, therefore be it
>
> *Resolved*, That the Board of Directors approves the 2019 Convention budget totaling $2,236,237; and be it further
>
> *Resolved*, That the total district levy of $2,186,237 be used to calculate each district's portion of the convention expense; and be it finally
>
> *Resolved*, That the executive director of LCMS Accounting calculate the district levy as outlined in Bylaw 3.1.9 (d)(1) and notify the district treasurers of their district assessments no later than September 1, 2018.

175. Governance Committee

With committee chairman Christian Preus unavailable, committee member Gloria Edwards reported for the Governance Committee (pp. 125–150/345).

A request was received from the Board of Directors of Concordia Publishing House (CPH), questioning the application of the charitable gift support rate (LCMS BOD Policy 4.2.9) to the distribution of CPH surplus funds to the Synod under Bylaw 3.6.3 (e). CMO Robson noted that charitable organizations that receive gifts generally note that a fee is assessed to all gifts to cover the cost of engaging with and communicating to donors. Synod's gift support rate is a forthright means of reflecting these costs, which are an unavoidable reality. The CPH request was slated to be addressed under action items.

The committee also reviewed a draft document, to be considered by the Audit Committee in May, indicating what materials would be required to be submitted with capital project requests from the Concordia University System. After a joint committee conference, the proposal is to come before the board in August.

The committee plans, in its July meeting, to review the budget development guidelines proposed by CFO Wulf at the board's February meeting.

The committee recommended a few routine corrections and updates to board policies. It was moved and approved:

> WHEREAS, The Governance Committee has, in its meeting of April 19, 2018, reviewed Board of Directors Policy Sections 5.1–5.5 and the annual policy review, monitoring, and action calendar; and
>
> WHEREAS, The committee has recommended changes to policy sections 5.2 and 5.4, and the calendar, as indicated on pp. 131–149 and 154–155/345; therefore be it
>
> *Resolved*, That the Board of Directors approve the noted changes to its policy manual as recommended by the governance committee.

176. Legal Report (Cont.)

The board again entered executive session to hear the remainder of General Counsel Sherri Strand's legal report, with all attending board members present and all guests excused.

176X. Executive Session II: Legal Report (Cont.)

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177. <u>Personnel Committee</u>

Committee chair Kathy Schulz offered the report of the board's Personnel Committee, noting the new process put in place for the handling of Concordia Plan Services nominees. The committee also noted the reviews of the Chief Administrative Officer and Chief Financial Officer, to be presented during the Human Resources report. The committee presented its recommendations for three sets of appointments:

(A) <u>Appointment of LCEF Members-At-Large</u>

It was moved by the committee and adopted:

WHEREAS, The LCMS Board of Directors Policy Manual 5.7.2.1 directs that appointments for the Lutheran Church Extension Fund—Missouri Synod be made annually, at the May meeting of the LCMS Board of Directors; and

WHEREAS, The Lutheran Church Extension Fund has informed the LCMS Office of the Secretary that it will be necessary for the LCMS Board of Directors to make appointments for four (4) members-at-large positions (term Nov. 1, 2018–Oct. 31, 2021), and has provided a description of the responsibilities and desired qualifications of these at-large members, included with this nomination information; and

WHEREAS, The LCMS Office of the Secretary and the LCMS Department of Human Resources have solicited nominations and compiled information on all nominees and eligible incumbents; and

WHEREAS, The Personnel Committee of the Board of Directors, having evaluated all submitted nominations, biographical sketches, and confidential evaluations, in its meeting of April 24 made the following recommendation:

<u>Regular Appointments</u>
1. Mr. Richard Boyer
2. Rev. Ronald Carnicom
3. Rev. Rexford Umbenhaur, III
4. Mr. Marc Higgins

<u>Alternates</u>:
1. Mr. Stanton G. Ullerich
2. Mr. Larry Zehnder

therefore be it

Resolved, That the LCMS Board of Directors accept the recommendation of the Personnel Committee, making appointments as indicated above to fill the four at-large member positions, and the 2-3 at-large alternate positions for the Lutheran Church Extension Fund; and be it finally

Resolved, That the Secretary notify those appointed and thank the other nominees, on behalf of the board, who allowed their names to be considered.

(B) <u>Appointment of Board of Directors—Concordia Plan Services and Board of Trustees—Concordia Plans</u>

It was moved by the committee and adopted:

WHEREAS, The LCMS Board of Directors Policy Manual 5.7.2.1 directs that appointments for the Board of Directors—Concordia Plan Services and Board of Trustees—Concordia Plans be made annually, at the May meeting of the LCMS Board of Directors; and

WHEREAS, The Concordia Plan Services has informed the LCMS Office of the Secretary that it will be necessary for the LCMS Board of Directors to make appointments for five positions: four (4) layperson positions (term September 1, 2018–2021) and one (1) minister of religion—ordained position (term September 1, 2018–2021) on its Board of Directors, and has provided a description of the responsibilities and desired qualifications of board members, included with this nomination information; and

WHEREAS, The LCMS Office of the Secretary and Concordia Plan Services have solicited nominations and compiled information on all nominees and eligible incumbents; and

WHEREAS, The Personnel Committee of the Board of Directors, having evaluated all submitted nominations, biographical sketches, and confidential evaluations, in its meeting of April 24 made the following recommendation:

Minister of Religion—Ordained:
1. Rev. Kory B. Boster

Layperson:
1. Mr. Robert P. Lesko
2. Mr. Scott A. Seefeld
3. Mr. Jon Boeche
4. Mr. Henry C. Eickelberg

therefore be it

Resolved, That the LCMS Board of Directors accept the recommendation of the Personnel Committee, making appointments as indicated above to fill one minister of religion—ordained and four layperson positions on the Board of Directors—Concordia Plan Services and Board of Trustees—Concordia Plans; and be it finally

Resolved, That the Secretary notify those appointed and thank the other nominees, on behalf of the board, who allowed their names to be considered.

(C) Vacancy appointment of LCMS Board for International Mission Individual Member positions

It was moved by the committee and adopted:

WHEREAS, The LCMS Board of Directors Policy Manual 5.7.2.2 directs that appointments for midterm vacancies in positions initially filled by election at the synod convention shall follow the process outlined in the LCMS Handbook (Bylaw 3.2.5 and 3.12); and

WHEREAS, The LCMS Chief Mission Officer has informed the LCMS Office of the Secretary that due to two resignations, it will be necessary for the LCMS Board of Directors to make appointments for two positions on the LCMS Board for International Mission: (1) individual member (ordained/commissioned) position in the Central Region (for the remainder of the term 2016–2022), and (1) individual member (ordained/commissioned) position in the West-Southwest Region (for the remainder of the term 2016–2022); and

WHEREAS, The LCMS Chief Mission Officer has provided a description of the responsibilities and desired qualifications of these members, included with this nomination information; and

WHEREAS, The LCMS Office of the Secretary and the LCMS Department of Human Resources have solicited nominations and compiled information on all nominees and eligible incumbents; and

WHEREAS, The Bylaw 3.2.5 Committee, having evaluated all submitted nominations, biographical sketches, and confidential evaluations, in its meeting of March 23 has provided its list of candidates for each position; and

WHEREAS, The LCMS Board of Directors Policy Manual 5.7.2.2.2 states that the slate of candidates provided by the Bylaw 3.2.5 Committee shall be provided to the board in its entirety and shall not be modified (floor nominations are not allowed under Bylaw 3.2.5 [d]): and

WHEREAS, The Personnel Committee of the Board of Directors, having evaluated all submitted nominations, biographical sketches, and confidential evaluations of these candidates, in its meeting of April 24 made the following recommendation:

Individual (Ordained/Commissioned) Central Region (1):
1. Rev. Carl E. Rockrohr

Individual (Ordained/Commissioned) West-Southwest Region (1):
1. Rev. Magdiel U. Fajardo

therefore be it

Resolved, That the LCMS Board of Directors accept the recommendation of the Personnel Committee, making appointments as indicated above to fill the two individual member positions, one in the Central region, and one in the West-Southwest region; and be it finally

Resolved, That the Secretary notify those appointed and thank the other nominees, on behalf of the board, who allowed their names to be considered.

178. Concordia Plan Services

The board welcomed James Sanft, President and Chief Executive Officer of Concordia Plan Services (CPS); as well as Fred Kraegel, CPS Board Chairman; Ann Stillman, CPS Counsel; and Rev. Roger Paavola, since 2010, the President's appointed representative on the CPS board. It was moved and carried to enter executive session with board's guests and the members of the Operations Team.

178X. Executive Session III(A): Concordia Plan Services

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179. LCMS Human Resources Report

Continuing in executive session, the board excused its guests and staff and welcomed Val Rhoden-Kimbrough, Executive Director of LCMS Human Resources, to offer her department's report.

179X. Executive Session III(B): LCMS Human Resources Report

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180. LCMS Foundation

Having returned from executive session, the board welcomed LCMS Foundation President David Fiedler to share a report on the activities of the LCMS Foundation, celebrating its 60th anniversary in service of all the Church's entities. He shared a letter from LCMS President John Behnken at the Foundation's incorporation in 1958, in which he described the Foundation as "Synod's organization." The Foundation provides planned giving services for LCMS members and ministries, offers investment management services, assists ministries in receiving non-cash gifts, and promotes planned giving generally across the Synod.

In the past year, the Foundation distributed over $37M in realized gifts to approximately 900 LCMS ministry organizations. In FY17, the Foundation helped LCMS donors create gift plans worth approximately $178M in future support to LCMS organizations. The Foundation currently manages over $800M in assets; $438M are investments, with the remainder being trusts, endowments, donor-advised funds, gift annuities, etc. For corporate Synod specifically, $63M are under management, $16M in endowments owned by others, $20M in endowments owned by the Synod and $26M in other assets managed for the Synod.

In terms of governance, 60 member delegates (likened to shareholders, but broadly representing the Foundation's constituent organizations) meet annually to provide broad guidance. More direct supervision is by a board of trustees, consisting of 7 trustees appointed by the members, 2 elected by the convention, the LCMS President (or designee), the chair of the Board for National Mission (or designee) and the LCMS Chief Financial Officer.

Gift planning staff includes approximately 20 full-time Foundation gift planners and 30 associate gift planners, who work for other organizations but receive Foundation training and support. Gift planning involves a four-part process of discovery of intentions, design of a plan, summary of the gift plan, and implementation. 38 partnership agreements (with districts, colleges, universities, congregations, schools, RSOs, and other agencies and entities) help fund the Foundation's work.

Demographic realities make this a critical time. Aging membership means givers exiting our congregations and not necessarily being replaced. We need, Fiedler noted, to seize the opportunity to utilize planned giving among LCMS members to help provide for the future financial health of LCMS organizations.

Fiedler summarized the strengths and weaknesses of the Foundation, as well as opportunities and threats. A strong mission and solid financial condition are positives, as are strong partnerships, including a joint investment program with Concordia Plan Services that provides more than $400,000 in savings to LCMS ministries invested with the Foundation. The Foundation still struggles to reach everywhere and everyone in the Synod with a clear picture of its work and with gift planning counselors. Prolonged financial downturn, always a risk, is also hard on any foundation. Counselors are a challenge to fund (and hard to replace), even in partnership, since the results of their work in planned gifts typically is not realized for 15-20 years. This is a time of significant wealth transfer and technology extends reach—yet, many competitors offer estate planning without the church's needs in mind, and some organizations struggling for viability may not be able to prioritize investment in a partnership with the Foundation.

Strategic emphases, with the goal of serving donors of the church and providing long-term resources to the church, include: building on ongoing partnerships in investment and gift planning, increasing awareness of the Foundation across the LCMS, and long-term funding and investment opportunities.

Discussion noted the historical industry-wide 20–30% rate of conversion of revocable gifts (the larger share of planned giving). The Foundation, Fiedler noted, has a major goal of verifying and validating revocable gifts once planned, as well as maintaining annual contact with planned donors to verify plans haven't changed and to strengthen ongoing connections. The board thanked President Fiedler and the Foundation for their cooperative approach with Synod, its agencies, entities and auxiliaries.

181. <u>Concordia International School—Shanghai Corporate Entity</u>

The board entered executive session, with Chief Mission Officer Kevin Robson, Chief Financial Officer Jerry Wulf and Assistant to the President Barb Below present, as well as guests Dr. Mary Scott, CISS Head of School; Curtiss Larson, CISS Assistant Head of School—Finance, Operations, and Strategy; and the Rev. Christopher Mizel, CISS Family Life Counselor, to consider creation of a new corporate entity related to Concordia International School—Shanghai.

181X. <u>Executive Session IV: Concordia International School—Shanghai Corporate Entity</u>

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182. <u>Cape Girardeau Bequest</u>

CAO Frank Simek introduced the matter of a property bequest offered to the Synod with conditions, these involving maintenance of a beatitude-themed trail on the property for twenty years (pp. 272–284/345). The board discussed options, intending to take the item up in order with its other actions.

183. <u>2022 Convention Location</u>

Chief Administrative Officer Frank Simek, who is by virtue of his office Synod's convention manager, presented a study (pp. 298–303/345) of three potential 2022 convention sites that are of historical significance to the foundation of the Synod (2022 will be the 175th anniversary of the Synod's founding): Chicago, Illinois; Cleveland, Ohio; and St. Louis, Missouri. Study by LCMS Travel and Meeting Planning has indicated that St. Louis offers the best and most cost-effective opportunity for 2022, and the convention manager and President concur in this recommendation.

184. Action Items

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

(A) Concordia University Chicago Loan Request and Debt Restructuring

Concordia University System brought an action item on behalf of Concordia University Chicago (pp. 223–235/364) regarding additional financing toward the completion of the upper floors of the campus' new five-story residence hall and involving the restructuring, under favorable terms, of campus indebtedness. It was moved and adopted:

> WHEREAS, The Concordia University System Board of Directors acting via electronic vote April 18–26, 2018 approved the following resolution:
>
> > WHEREAS, by prior Resolution, the Board of Directors of Concordia University System (the "CUS Board") has approved the following actions to be taken by Concordia University, Chicago ("CUC"):
> >
> > i) The construction of a new five-story residence hall (the "Residence Hall") and the build out of the first three floors of the Residence Hall (the construction of the Residence Hall and the build out of the first three floors being referred to as the "Initial Residence Hall Project") at a cost not to exceed $14,200,000;
> >
> > ii) The financing in an amount not to exceed $13,500,000 of the costs of the Initial Residence Hall Project;
> >
> > iii) The purchase of multi-family residential dwellings located immediately adjacent to the CUC campus at 7721–7727 Thomas Street (2-story 8-flat) and 1037–1039 Bonnie Brae (duplex) (collectively, the "Adjacent Properties") for an aggregate purchase price not to exceed $1,565,000 to be initially paid using CUC funds with any financing to be considered later; the title to such Adjacent Properties to be subject to a reversionary interest in The Lutheran Church- Missouri Synod; and
> >
> > WHEREAS, the Initial Residence Hall Project is now complete, CUC has experienced an extremely high demand for occupancy resulting in full occupancy of the Initial Residence Hall Project and CUC believes there will be a similarly high demand for occupancy of the fourth and fifth floors when completed; and
> >
> > WHEREAS, the contractor that constructed the Initial Residence Hall Project has provided CUC with a firm commitment of $3,200,000 for the build out of the fourth and fifth floors of the Residence Hall (the "Completion Project") provided the Completion Project can be undertaken during the Summer of 2018 in order to take advantage of economies of scale due to other residence hall renovations on the CUC campus to be performed during the Summer of 2018; and
> >
> > WHEREAS, being informed of (i) the high demand for occupancy of the Initial Residence Hall Project and anticipated similar high demand for the Completion Project, (ii) the possibility that Gross Hall (a 206 bed residence hall on the CUC campus opened in 1970) may have to be closed in the near future as the result of structural problems for which there may be no cost effective repair, (iii) the fact that the approval from the Village of River Forest for construction of the Residence Hall (including the Completion Project) will expire in April of 2019 and any construction after that date will first require receipt of a new approval from the Village of River Forest and (iv) the loss of the benefits of economy of scale if the Completion Project is not undertaken during the Summer of 2018 and anticipated future price increases, the CUC Board of Regents (the "CUC Board") has, subject to approval of the CUS Board and the Board of Directors of The Lutheran Church-Missouri Synod (the "LCMS Board"), approved the

Completion Project to be undertaken during the Summer of 2018 at a cost not to exceed $3,300,000 and the financing of up to $2,500,000 of the cost of the Completion Project (the "Completion Project Financing"); and

WHEREAS, the Adjacent Properties were purchased by CUC on November 30, 2017 using CUC's own cash and in order to restore the funds used by CUC to purchase the Adjacent Properties, the CUC Board has, subject to the approval of the CUS Board and the LCMS Board, approved the financing of $1,500,000 of the purchase price of the Adjacent Property (the "Adjacent Property Financing" and, together with the Completion Project Financing, the "Financing"); and

WHEREAS, CUC has received proposals from current and potential bank lenders with respect to both the Completion Project Financing and the refinancing of that portion of the existing debt of CUC not loaned by or through LCEF (the "Refinancing") each of which proposals would afford terms more favorable to CUC than the current terms and, as a result, the CUC Board has, subject to the approval of the CUS Board and the LCMS Board, approved the Refinancing on such terms as may be finally approved by the President and CFO, acting jointly; provided that upon conclusion of the Financing and the Refinancing, the amount of the indebtedness evidenced by the Financing and the Refinancing will not exceed by more than $4,000,000 the amount of the indebtedness refinanced by the Refinancing which was outstanding at December 31, 2017.

NOW, THEREFORE, be it *Resolved*, that the CUS Board takes the following actions:

1. Approves the Completion Project Financing (not to exceed $2,500,000) and the Adjacent Property Financing ($1,500,000).
2. Approves the Refinancing; provided that at the conclusion of the Financing and the Refinancing, the amount of the indebtedness evidenced by the Financing and the Refinancing will not exceed by more than $4,000,000 the amount of the indebtedness refinanced by the Refinancing which was outstanding at December 31, 2017.
3. Approves (i) the grant by CUC of security interests in its real property (including, but not limited to, the CUC campus, the President's house and the Adjacent Properties) and tangible and intangible personal property to secure the obligations of CUC with respect to the Financing and Refinancing and (ii) the delivery by LCMS of a subordination of its reversionary interests in such real property to the grant of such security interests.
4. Approves the grant by Concordia University Foundation, River Forest, Illinois of the guaranty of the indebtedness of CUC and the pledge of its assets to secure some portion or all of that guaranty.
5. Requests the LCMS Board to approve the actions of the CUS Board taken in this Resolution.

therefore be it:

Resolved, That the Board of Directors of The Lutheran Church—Missouri Synod approve the Completion Project Financing ($2,500,000) and the Adjacent Property Financing ($1,500,000); and be it further

Resolved, That the Board of Directors of The Lutheran Church—Missouri Synod approve the Refinancing; provided that at the conclusion of the Financing and the Refinancing, the amount of indebtedness evidenced by the Financing and the Refinancing will not exceed by more than $4,000,000 the amount of indebtedness refinanced by the Refinancing which was outstanding at December 3, 2017; and be it further

Resolved, That the Board of Directors of The Lutheran Church—Missouri Synod approve (i) the grant by CUC of security interests in its real property (including, but not limited to, the CUC campus, the President's house, and the Adjacent Properties) and tangible and intangible personal property to secure the obligations of CUC with respect to the Financing and Refinancing and (ii) the delivery by LCMS of a subordination of its reversionary interests in such real property to the grant of such security interests; and be it finally

Resolved, That the Board of Directors of the Lutheran Church—Missouri Synod approve the grant by Concordia University Foundation, River Forest, Illinois of the guaranty of the indebtedness of CUC and the pledge of its assets to secure some portion or all of that guaranty.

(B) Concordia University Nebraska Sale of Kolterman Apartments

Concordia University System brought an action item on behalf of Concordia University Nebraska (pp. 236––271/364) regarding the sale of a property that had not been included in the campus master plan. It was moved and adopted:

WHEREAS, The Concordia University System Board of Directors acting via electronic ballot April 18– 26, 2018 approved the following resolution:

WHEREAS, Concordia University Nebraska has requested permission to sell its off-campus apartment facility located at 1262 Kolterman Avenue in Seward, Nebraska; and

WHEREAS, the facility is difficult for campus personnel to monitor due to its location that is removed from the main campus; and

WHEREAS, the property is currently being rented at below market value and requires maintenance; and

WHEREAS, projects contained within the approved 2016 Campus Master Plan would be benefitted by the proceeds gained from the sale of this property; and

WHEREAS, a pending offer has been made to purchase the property at a price greater than the minimum price established by Concordia University Nebraska;

WHEREAS, the Office of the Chief Administrative Officer of the Synod has indicated that while the property was not in the Campus Master Plan the added step of adding its sale to the currently approved plan at this time will not be required; therefore be it

Resolved, That the Concordia University System Board of Directors acting by electronic ballot April 18-26, 2018 approves the planned sale by Concordia University Nebraska of the apartment facility located at 1262 Kolterman Avenue in Seward, Nebraska; and be it further

Resolved, That the Concordia University System Board of Directors approves the proposed minimum sale price of $225,000 for this property; and be it further

Resolved, That upon the necessary action of the Concordia University Nebraska Board of Regents the President and Executive Vice President Chief Financial Officer/Chief Operating Officer of the university be empowered to proceed with the negotiation, agreement, and sale of the property; and be it further

Resolved, That the Concordia University System Board of Directors approves the plan of Concordia University Nebraska to utilize the proceeds from the sale of this property for the Music Facility and Dunklau Center projects referenced in the background information and contained with the approved 2016 Campus Master Plan; and be it finally

Resolved, That the Concordia University System Board of Directors encourages the Board of Directors of The Lutheran Church—Missouri Synod to join it in approving the same for Concordia University Nebraska;

therefore be it

Resolved, That the Board of Directors of The Lutheran Church—Missouri Synod approve the planned sale by Concordia University Nebraska of the apartment facility located at 1262 Kolterman Avenue in Seward, Nebraska; and be it further

Resolved, That the Board of Directors of The Lutheran Church—Missouri Synod approve the proposed minimum sale price of $225,000 for this property; and be it further

Resolved, That upon the necessary action of the Concordia University Nebraska Board of Regents the President and Executive Vice President / Chief Financial Officer / Chief Operating Officer of the university be empowered to proceed with the negotiation, agreement, and sale of the property; and be it finally

Resolved, That the Board of Directors of The Lutheran Church—Missouri Synod approve the plan of Concordia University Nebraska to utilize the proceeds from the sale of this property for the Music Facility and Dunklau Center projects reference in the background information and contained within the approved 2016 Campus Master Plan.

(C) Cape Girardeau Bequest

With regard to the property request introduced above, it was moved and adopted:

WHEREAS, The Lutheran Church—Missouri Synod ("LCMS") is the beneficiary in a will to receive a parcel of land consisting of approximately 310 acres near Cape Girardeau, MO; and

WHEREAS, The bequest contains a condition of acceptance and a time restriction. The condition of acceptance being that the LCMS establish and maintain a hiking trail with the beatitudes posted at appropriate points along the trail. The time restriction being that the land may not be sold for 20 years; and

WHEREAS, The bequest has been evaluated by the Operations Team who recommends that the bequest be accepted; and

WHEREAS, The Board of Directors wishes to work with local LCMS congregations and area camps to best serve the area congregations and potential users; now, therefore, be it

Resolved, That the Board of Directors authorizes acceptance of the bequest; and be it further

Resolved, That the Board of Directors direct the Chief Administrative Officer to meet with area camps to explore opportunities to jointly co-exist and area LCMS congregation to evaluate opportunities to best serve the neighboring congregations; and be it further

Resolved, The Chief Administrative Officer shall present the results at the next board meeting for further action.

(D) 2022 Convention Location

The recommendation of the convention manager and of the President of the Synod was moved and adopted:

WHEREAS, Bylaw 3.1.9 (j)(1) stipulates that the President, in consultation with the convention manager shall decide upon the date of the Synod conventions. Such dates for the 2022 convention have been determined to be July 23–27, 2022; and

WHEREAS, Bylaw 3.1.9 (j)(2) stipulates that the Board of Directors of the Synod, in consultation with the convention manager, shall establish the sites of Synod conventions, giving preference to St. Louis when logistically and economically feasible; and

WHEREAS, The President has expressed an interest in holding the 2022 convention in St. Louis, MO, in part, because the city's historical significance to The Lutheran Church—Missouri Synod and in celebration of the Synod's 175th anniversary; and

WHEREAS, The convention manager has received indicative convention-related information from St. Louis, MO, Chicago, IL, and Cleveland, OH and has determined that St. Louis, MO offers the best overall package; now therefore be it

Resolved, That the Board of Directors approve that the 68th Regular Convention of The Lutheran Church—Missouri Synod be held in St. Louis, MO from July 23–27, 2022.

The board's determination remains contingent on staff acquiring acceptable pricing for hotels and convention-center services, and could be revisited if such do not materialize as expected.

(E) Authorization and Approval to Create a Legal Entity in the Country of Papua New Guinea

Rationale

Concordia Lutheran Professional Mission Services ("CLPMS") is a registered company in Papua New Guinea ("PNG"), established in October 1990 (See protocol minutes, Attachment 1: CLPMS Memorandum of Association and Articles of Association, pp. 307–313/345) by missionaries—acting autonomously, apart from effective LCMS control—for various purposes, among which were: providing visas and legal entries into country for LCMS missionaries and short-term mission teams from the US; purchasing and constructing land and buildings; banking; developing businesses (such as schools, health clinics, etc.) for LCMS missionaries to work in for the benefit of the Good News Lutheran Church and the people of PNG; hiring local staff; providing business loans; and hiring local legal counsel.

The LCMS does not have oversight of CLPMS and, at times, CLPMS staff and directors have acted contrary to LCMS policy and procedures. When visa and immigration legal issues have been raised in the past seven years that affect LCMS missionaries, PNG legal counsel informed the LCMS legal counsel that the LCMS has no legal standing to file with PNG courts regarding these matters.

The LCMS Office of International Mission (OIM) has been working with the CMO and CAO to standardize operations throughout all LCMS global regions and, where necessary and appropriate, to establish non-governmental organizations (NGOs) that are well-coordinated and overseen by the LCMS and that enable OIM to operate legally in foreign countries and that also comply with LCMS policies and procedures, thus ensuring continuity of operations and oversight through periods of LCMS change leadership and administration of field personnel and operations.

Specific to PNG, OIM has worked with the OIM Asia Region Director, OIM Asia Region Business Manager, current OIM PNG field missionaries, and the CMO and CAO to facilitate the establishment of a new NGO that enables OIM to operate in PNG effectively and without interruption.

It was moved and adopted:

WHEREAS, The Lutheran Church—Missouri Synod (the "LCMS" or the "Synod") has determined that it is desirable to establish a legal presence in Papua New Guinea ("PNG") in the form of a not-for-profit association (the "Association" or "Concordia International— Papua New Guinea, Inc.," "CIPNG") under the law of the Country of Papua New Guinea to better support and facilitate the work of the LCMS in PNG and Asia; and

WHEREAS, The Board of Directors of the LCMS (the "BOD") has the authority, pursuant to

Sections 5.8.4 and 5.8.5 of the LCMS Board of Directors Policy Manual (the "BOD Policy"), to approve new corporations as agencies of the Synod and to "authorize and approve the establishment of legal entities in foreign countries, as it deems necessary or appropriate, for the purpose of establishing, facilitating, and/or operating foreign missions;" and

WHEREAS, The Lutheran Church—Missouri Synod in Convention adopted Resolution 9-02A in 2016 establishing and revising certain requirements to be included in the governing documents of incorporated agencies, which Resolution allows that certain provisions may be altered or deleted with the approval of the BOD; and

WHEREAS, The Chief Administrative Officer of the LCMS, in coordination with the Chief Mission Officer of the LCMS and the Executive Director of the LCMS Office of International Mission, recommends to the BOD that the Association be established in PNG pursuant to the BOD Policy, with the wholly-owned LCMS entity "Concordia International Foundation" ("CIF") as its founding and permanent member; and

WHEREAS, The acting Chief Administrative Officer, on advice of legal counsel, has assured the BOD that such entity shall be a properly authorized, valid and operating legal entity in PNG and that its establishment will not violate the laws of PNG, as shall be evidenced by an opinion of local or special counsel engaged for the purpose of forming such entity, and that such opinion, as well as the governing documents of the entity in PNG, shall be reviewed and approved by the LCMS's general counsel to ensure compliance with the BOD Policy except as otherwise waived herein; and

WHEREAS, The Chief Administrative Officer has assured the BOD that the current draft of the Rules of the Association has been reviewed and approved—subject to further review, amendment and approval by local PNG counsel—by Synod's general counsel, verifying that the Synod through CIF retains majority control over the appointment or election of the members and/or executive directors who are responsible for the management of the corporation and that its stated purposes are in fulfillment of the foreign mission policies and purposes of CIF and the Synod; now, therefore be it

Resolved, That the Board of Directors of the LCMS does hereby pledge and agree as follows:

Section 1. Authorization and Approval of Establishment of a not-for-profit Association in PNG. The establishment of a not-for-profit Association pursuant to the laws of PNG, with LCMS entity "Concordia International Foundation" as its founding member (the "Founding Member"), to provide support to LCMS, CIF and LCMS- and CIF-affiliated staff in PNG and Asia in fulfillment of the foreign mission policies and purposes of the Synod, including the advancement of education, development, public welfare, religious, missionary and humanitarian purposes, as needed and as permitted under the law of PNG and the Association's governing documents, in compliance with the BOD Policy, is hereby authorized and approved.

Section 2. Authorization and Approval of Documents. In connection with the establishment of a not-for-profit Association in PNG pursuant to this Resolution, the execution and/or filing of the Rules, in substantially the form as the current draft (see protocol minutes, Attachment 2: Concordia International—Papua New Guinea Rules, pp. 314–329/345) attached as an exhibit to this Resolution and with such changes therein as may be approved by (a) the Commission on Constitutional Matters ("CCM") of the LCMS after its examination of the documents pursuant to Section 3.9.2.2.3 of the LCMS Bylaws, (b) the general counsel of the LCMS pursuant to the BOD Policy, and (c) such other employees of the LCMS as shall be charged with reviewing such documents for and on behalf of the LCMS, is hereby authorized and approved.

Section 3. Appointment of LCMS Representative and Authorization and Execution of Documents. The Lutheran Church—Missouri Synod herewith authorizes CIF to serve as the

Founding Member for CIPNG. The Chief Administrative Officer, the Secretary and the CIF Board of Directors are hereby authorized to execute and authenticate any documents necessary, if any, related to the establishment of CIPNG on behalf of the LCMS.

Section 4. Further Authority. The Chief Administrative Officer is hereby authorized and held responsible to engage officers, agents and employees of the LCMS and CIF to take such further action, and to approve and execute such other documents, certificates, powers of attorney and instruments as may be necessary or desirable to carry out and comply with the intent of this Resolution, including, but not limited to (a) the review by the CCM and the general counsel of the LCMS of the governing documents of the Association in the country of PNG, to verify compliance with the BOD Policy (subject to the exceptions set forth in Section 2, above), including that CIF directly or indirectly retains majority control over the appointment or election of the members and/or directors who are responsible for the management of the Association and that its stated purposes are in fulfillment of the LCMS and CIF foreign mission policies and purposes; (b) the filing of such documents with the appropriate governmental authorities in PNG; and (c) the filing of such additional documentation with the appropriate governmental authorities in PNG as shall be necessary for the Association to function in PNG, including applying for visas for LCMS, CIF and Association employees, seeking certain tax benefits, if applicable, for the entity and its employees, and such other matters as the management of the Association shall determine to be in its best interest, in compliance with the intent of this Resolution. The Founding Member is authorized to take such action as may be necessary or desirable to carry out and comply with the intent of this Resolution, including the creation of the Association.

Section 5. Repeal of Conflicting Resolutions. All prior resolutions of the BOD or any parts thereof in conflict with any or all of this Resolution are hereby deemed not applicable to the matters authorized in this Resolution to the extent of such conflict.

(F) Concordia International School—Shanghai Corporate Entity

Noting ongoing concerns with governance of Hong Kong International School, President Harrison spoke in favor of the resolution discussed in the related executive session. Chief Mission Officer (CMO) Robson noted the creation of a Director of International Schools Operations position, included in the FY19 budget, to be paid for by the international schools. This position, reporting to the CMO, would be a critical linkage between the President, Board of Directors, CMO, Board for International Mission, and the international schools. Interest was expressed in discussing the future possibility of the BOD also appointing a representative to attend the board meetings of the international schools.

It was moved and adopted:

WHEREAS, The Board of Directors ("Board") of The Lutheran Church—Missouri Synod ("LCMS") has been asked to grant its approval to the creation of a legal entity in a foreign country as required by Sections 5.8.5.1 and 5.8.5.2 of the Board Policies; and

WHEREAS, Concordia International School Shanghai ("CISS") was established in 1998 to operate an international school in Shanghai and CISS is wholly-owned by LCMS Holdings Limited, a Hong Kong company ("Holdings") and Holdings is wholly-owned by LCMS; and

WHEREAS, The Board of the LCMS, at its August 25–26, 2017 meeting, was informed that the LCMS Chief Administrative Officer ("CAO") and Chief Mission Officer ("CMO") had been advised by CISS and Shanghai legal counsel that there had been changes in applicable People's Republic of China ("PRC") law requiring that a business license be obtained in connection with the school operations of CISS and that the obtaining of such license required the school to be registered as a foreign People-Run Non-Enterprise Unit ("NEU") in order to comply with applicable PRC law and regulatory rulings; and

WHEREAS, The Board of the LCMS, by resolution in the same meeting, approved the creation of the NEU to be wholly owned and controlled by Holdings in connection with the activities of CISS and authorized the execution of legal documents and actions by the LCMS, Holdings and CISS for the establishment of the NEU and the conversion of CISS into the NEU; and

WHEREAS, Preparation of these legal documents continues to proceed toward execution and, following the NEU registration, CISS will be converted into the NEU in order to comply with applicable PRC law and regulatory rulings; and

WHEREAS, The CAO and CMO had also been advised by CISS and Shanghai legal counsel that CISS' new status as an NEU required under PRC law would strictly limit the operation of CISS to only serving expatriate children with international education from preschool through high school, and that CISS as an NEU could not engage in other activities outside of its services to provide such international education, nor could funds generated and retained by CISS as an NEU be used for other activities and operations; and

WHEREAS, The CISS Board of Directors, in discussions with the CAO, CMO, the LCMS Office of International Mission ("OIM") and Holdings, has expressed an ongoing desire to consider and possibly expand the scope of CISS mission initiatives, including but not limited to the following:

1. New educational programs for adults and children, including programs for PRC national citizens;
2. Establishment of consulting agreements, including agreements covering the provision of consulting services;
3. Establishment of new bilingual or international schools in the PRC; and/or
4. Conduct of any other lawful business in the PRC support of LCMS mission objectives; and

WHEREAS, The CAO and CMO have also been advised by CISS and Shanghai legal counsel that in order for CISS to evaluate and implement such initiatives (to be undertaken only if justified and with any and all additional required authorizations by the OIM, Holdings and the Board), the establishment of an additional new legal entity in the PRC, a Wholly Foreign-Owned Enterprise ("WFOE") is necessary and appropriate; and

WHEREAS, The CISS Board of Directors accordingly resolved at its June 5, 2017 meeting that it request Holdings to establish a WFOE in the Pudong free trade zone; and

WHEREAS, The WFOE will be wholly-owned and controlled by Holdings as the sole shareholder; and

WHEREAS, The WFOE would allow initiatives such as aforementioned to be kept separate from the core operations of CISS; and

WHEREAS, CISS and Shanghai legal counsel have advised that establishment of the WFOE would allow the movement of earnings from operations under initiatives such as aforementioned out of the PRC to Holdings as sole shareholder; and

WHEREAS, The legal fees, registered capital, and total investment to establish and maintain the WFOE will be borne by CISS; and

WHEREAS, The CMO, following due analysis and in coordination with the CAO, and an endorsing resolution adopted on October 27, 2017 by the Holdings Board of Directors, is recommending to the Board that it approve the establishment of a WFOE, as the CMO believes such action to be necessary and appropriate in order to evaluate and possibly implement new CISS mission initiatives in coordination with OIM Asia regional strategy; now, therefore, be it

Resolved, That the Board hereby approves the establishment of the WFOE to be owned and controlled by Holdings in connection with the activities of CISS operations, as currently based in Shanghai.

Resolved, That the Board hereby authorizes the execution of such legal documents and the taking of such actions by LCMS, Holdings, CISS and the NEU as are necessary or appropriate to comply with applicable laws relative to the establishment and operation for the WFOE.

Resolved, That the officers, agents and employees of LCMS, Holdings, CISS and the NEU are hereby authorized, empowered and directed to take or direct such further actions and to execute such documents as may be deemed by them to be necessary or appropriate to carry out the matters approved in this Resolution.

(G) Charitable Gift Assessment

A request (p. 285/345) was received from the Concordia Publishing House Board of Directors questioning application of Synod's charitable gift support rate to gifts distributed by CPH to the Synod from CPH surplus funds. It was moved and carried to enter executive session.

184X. Executive Session V(A): Charitable Gift Assessment

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185. Advance Designation of Hong Kong Property Proceeds

The board continued in executive session to discuss advance designation of proceeds expected from the disposition of three pieces of Synod property in Hong Kong.

185X. Executive Session V(B): Advance Designation of Hong Kong Property Proceeds

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186. Meeting Review

The board continued in executive session, with staff excused, to review the meeting according to its policies.

186X. Executive Session V(C): Meeting Review

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187. Adjournment

Upon return from executive session, with the board's business concluded, Chairman Kumm called on President Harrison to offer a closing devotion, which he did with the scriptural admonition (1 Thessalonians 5:16–24) to rejoice always, to pray always, in everything to give thanks, to hold on "to the good stuff" and to flee what is evil. Upon his prayer and benediction, adjournment was moved and carried.

John W. Sias, *Secretary*