

**MINUTES
BOARD OF DIRECTORS**

**Houston Marriott Marquis – Houston, Texas
November 21, 2019**

19. Joint Meeting with the Council of Presidents

The board joined the Council of Presidents for breakfast, for the office of Matins led (on the basis of 2 Cor. 7:1) by President Jamison Hardy of the English District, and for a brief joint session. At the joint session, Michigan District President David Maier, chairman of the Council of Presidents, and board chairman Michael Kumm addressed the group with introductions and updates from their respective bodies. Topics of discussion included:

- Chairman Maier shared, for the council, the designation of a “what’s next” committee by the council and President of the Synod to consider how difficult-to-serve congregations and populations will be served in the future, given especially that district training programs for licensed lay deacons (engaging in Word and Sacrament ministry) have been concluded on the timetable set forth by 2016 Res. 13-02A (*Proceedings*, 236–38).
- In its November meeting, the council discussed immigration issues and service of immigrant communities, including some of the complexities of immigration law and work authorization requirements.
- In its February meeting in Santa Fe, New Mexico, the council will take up its task of placement and the topic of strengthening marriages, caring for the fallen and victimized, and understanding sexuality in the contemporary setting. Maier noted appreciatively that the Lutheran Church Extension Fund, LCMS Foundation, and Concordia Plan Services have contributed to the council’s February retreats, now to occur in a retreat setting (outside St. Louis) only in the non-convention year of the triennial cycle. Also in the non-convention year, the council will meet with the joint seminary faculties in August, in lieu of its September meeting.
- Chairman Kumm introduced Chief Administrative Officer (and soon-to-be acting Chief Financial Officer, upon retirement of Jerald Wulf at the end of January) Frank Simek to present a brief report on Synod finances.
- CAO Simek noted the impact of the recently concluded sale of properties in Hong Kong and transition of the Asia region International Mission office to Taiwan, where costs are lower and a suitable facility was offered by a partner church for Synod’s use. A dividend of approx. \$4 million (M) was also received from the Concordia International School in Shanghai, and Concordia International School Hanoi repaid a loan to the Synod having to do with its start-up expenses. The principal action undertaken by the board with this income has been the retirement of the Concordia University System historical debt, resulting in a significant annual savings to the Synod in debt service. Almost \$7M, in addition, has been set aside in a board-designated fund for future use, not intended to be used for day-to-day operational expenses.
- As of the end of September, corporate Synod’s net unrestricted assets were favorable by almost \$6.7M. The continued decline in unrestricted gifts remains a challenging trend, for national Synod as well as for its districts.
- Corporate Synod has also been performing a number of third-party assessments to evaluate and improve the efficiency of its various support departments. These have resulted in some significant reductions in expense budgets, but it was noted that these decreases will not continue to compound in subsequent years. Low-hanging fruits have been addressed, but the bigger challenge of addressing the decrease in unrestricted giving remains. Employment costs are over 60% of total costs. If unrestricted giving continues to decrease, decisions about programs will have to be made.
- The Chief Financial Officer position has been advertised. Chairman Kumm spoke appreciatively of the service of outgoing CFO Jerald Wulf. District presidents were encouraged to take a hard look

at the talents in their districts and congregations and to submit nominations, with nominations due Dec. 6 (the board subsequently extended this deadline to Dec. 31).

The board and council also reviewed an analysis, previously distributed by the Secretary, of the Synod's division into its five geographic regions (pp. 227–29/276). Having reviewed the analysis, which showed no increase in the small disparity among the existing regions, the board and council, acting jointly, unanimously adopted the following:

WHEREAS, Bylaw 3.12.1 assigns to the Board of Directors and Council of Presidents, acting jointly, the responsibility to designate the five geographic regions that serve as the basis of regional representation (vice-presidents, members of the Boards for National and International Mission and five lay members of the Board of Directors); and

WHEREAS, Such designation shall take place 24 months prior to conventions of the Synod and shall “take into consideration geographical and number of congregations information in the interest of fair representation;

WHEREAS, The LCMS Department of Rosters and Statistics has, on the basis of SY2018 parochial report data, presented an analysis (attached) indicating that:

- the distribution of congregations across the regions remains stable, within reasonable limits;
- the number of communicant (and baptized) members in each region, while not a representation factor required by bylaw, runs counter to the small skew in congregation counts, suggesting that correcting the small skew in congregational counts (each region is within 1.4% of having 20% of Synod congregations) would result in a greater imbalance in per-communicant representation;
- there exists no apparent means of adjusting boundaries to more precisely even the number of congregations in each region, without partitioning a geographical district or districts, or violating other significant geographical considerations; and
- the Synod is well-accustomed to the regions as they exist, which were last adjusted in preparation for the 2013 convention;

and

WHEREAS, The recommendation of the LCMS Department of Rosters and Statistics and Office of the Secretary is that region designation not be adjusted at this time; therefore be it

Resolved, That the Board of Directors and Council of Presidents of The Lutheran Church—Missouri Synod, acting jointly, designate the five geographic regions used in determining regional representation for certain nominations and elections to remain unchanged for the 2022 convention of The Lutheran Church—Missouri Synod from those designated for the 2013–2019 conventions.

20. Call to Order

The joint session with the Council of Presidents having concluded, Chairman Michael Kumm called the board's own November meeting to order with all members present except for President Harrison and First Vice-President Lange, who were with the concurrent Council of Presidents meeting and joined later in the day. (The Great Lakes regional lay seat formerly held by James Carter, who resigned as of August 31, 2019, remained vacant, to be filled in the course of this meeting). Also in attendance were Chief Administrative Officer (CAO) Frank Simek, Chief Financial Officer (CFO) Jerald Wulf, Chief Mission Officer (CMO) Kevin Robson, and General Counsel Matt Buesching of Thompson Coburn.

21. Adoption of Agenda

The meeting agenda (p. 8/276 of the printed board docket, attached to the protocol copy of the minutes) was moved and adopted. Noted also was an electronic action taken by the board on November 6, 2019, to

appoint five member delegates and an alternate to the LCMS Foundation, an action deferred from the board's September meeting.

22. Consent Agenda

The meeting's consent agenda (pp. 9–10/276) was moved together with the regular agenda and adopted:

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 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
 - Human Resources (Confidential)
 - Information Technology
 - Operations Support Services –
Facilities Management
- Financial Services Reports
 - Accounting
 - Internal Audit
 - Risk Management
- Board of Directors Committee Reports
 - Governance Committee
 - Personnel Committee
- Action Items
 - Approval of September 12–13, 2019, Minutes

and be it further

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

23. Chief Mission Officer Report

Chairman Kumm called upon Chief Mission Officer (CMO) Kevin Robson to extend upon his written report (pp. 40–59/276). CMO Robson commented on developments since assembly of the written report:

Making Disciples for Life, the adopted triennial emphasis (2019 Res. 4-03A, *Proceedings*, pp. 134–35), will be coming into more obvious public view in coming months. A proof-of-concept conference will take place in St. Louis, Jan. 9–11. The mission boards have been working on tools to help congregations, circuits, and districts participate more fully in adjustment of Synod mission priorities through the triennial cycle.

These priorities are reflected in the ends policies of the mission boards but have not yet had as much “visibility” in the broader Synod as has been desired.

CMO Robson updated the board on the Synod’s international schools:

- Unrest in Hong Kong (HK) is beginning to impact operations at Hong Kong International School (HKIS). All HK school systems were shut on Thursday in expectation of unrest; HKIS shut down Weds. in anticipation of the public order; it reopened Tuesday. HKIS is fortunately somewhat removed from mass transit facilities at which unrest has tended to occur, but there is a concern for a negative impact on enrollment—though not yet materialized—with expatriates relocating elsewhere.
- The Board for International Mission (BIM) sent a letter to the HKIS board of managers, conveying the BIM’s recent evaluations and preferred option to call a new head of school, accompanied by a number of conditional premises for issuance of the call, including a public commitment to Lutheran identity, teaching and practice; installation of LCMS missionaries as campus pastors; and a commitment to financially and functionally support a new LCMS position to liaise, coordinate, and provide advocacy for the Synod’s international schools. A response is awaited.
- Concordia International School—Shanghai (CISS) is engaged in a head-of-school search, with Mary Scott repatriating at the end of this year. This process is proceeding quite well in close coordination with the Board for and Office of International Mission. A call may be extended as soon as January or February.
- Another item of business likely coming to the board in February is a proposal from CISS and its corporate parent, LCMS Holdings, Ltd. (Hong Kong), to modify the CISS campus master plan to provide for a major multi-million-dollar expansion. A complete case statement, including an optimal plan to finance the project out of the school’s operations and/or currently existing cash reserves, is under development.
- A line of credit has been requested to support Concordia International School—Hanoi. CMO Robson visited Hanoi for the dedication of the campus’ phase two expansion, which will allow for a fairly substantial increase in enrollment. Operations in Hanoi continue to go well.

The Office of Pastoral Formation has consulted with the Council of Presidents on the student church worker recruitment initiative it is tasked with leading (2019 Res. 6-01, *Proceedings*, pp. 157–58), now in research phase, funded by Schwan Foundation and LCMS funds. Ten focus groups have been concluded by the consultant. An outward-facing public campaign, including provision of resources and tools, will then be undertaken, to encourage—from baptism on—consideration of service in the church.

The Pastoral Formation Committee also met yesterday, especially taking up the recommendations of 2016 Res. 13-03 (*Proceedings*, pp. 238–39) for future training of church workers. Enhancement of the Specific Ministry Pastor (SMP) Program is a priority item (2019 Res. 6-03A, *Proceedings*, pp. 159–60). Finally, CMO Robson noted, as involving the Board of Directors, a proposal to assemble a summit meeting on optimal fundraising for the seminaries, in response to the assignment of Ov. 8-05, “To Optimize the Stewardship of Gifts to Our Seminaries” (*Workbook*, p. 480), to the boards of regents for the seminaries and to the board of directors by Omnibus A (*Proceedings*, pp. 229–31).

24. Financial Report

With President Harrison joining the board, Chief Financial Officer (CFO) Jerald Wulf extended upon his written report (pp. 36–39/276) and that of the LCMS Accounting Department (pp. 68–85/276).

CFO Wulf noted that “all standard financial ratios are in good shape.” At Sept. 30, Synod had 72 days cash on hand, (\$18.1M, of which \$1.4M belonged to related entities), or 66 days of “own cash and cash equivalents.” Ross Stroh, executive director of LCMS Accounting, and CFO Wulf have begun a process to

transition excess cash beyond 30 days into an interest-bearing account. Synod's quick ratio stands at \$3 in assets per \$1 in liabilities; a year ago, only \$0.70 in "quick" assets were available per \$1 in liabilities.

CFO Wulf noted that recent changes to generally accepted accounting principles have modified the technical definition of a "program," by which is meant a service that Synod provides for other entities or its members ("program" expenditures are to be differentiated from "management and general" expenditures). Under the old model, some ecclesiastical services were not considered programs; under the new model, these outward-facing services meet the standard. Synod's program service ratio, considered by some donors, has therefore increased from 72%, a year ago, to 84.6%. Cost of fundraising, in a typically slow period, stands at \$0.19 per dollar raised; at year end, if LCMS Mission Advancement estimates bear out, this should finish between \$0.10–12. Corporate Synod's investments at the LCMS Foundation have increased, including funds designated for future purposes. Wulf noted that some board-designated funds have not been drawn upon in many years; these funds should be evaluated for reallocation by the board.

Wulf finally noted that groundwork has been laid for integrating Office of International Mission regions into central Synod accounting, and that Synod's Operations Team has a plan to bring this to fruition.

25. President Harrison's Report

Chairman Kumm next called upon President Matthew Harrison to extend upon his written report (pp. 25–28/276). President Harrison noted a very good spirit on the council, with "good consensus work" and relationships developing positively in many areas since the contention of the convention. Post-convention months have involved many long-deferred visitations, especially of partners in northern Europe. Courageous Scandinavian partners continue to plant churches despite a lack of support, or even antagonism, from state churches. Harrison noted many great leaders among these partners and in the Baltics, and especially Baltic leaders' public engagement and national leadership in religious freedom issues. The seminary in Latvia, an educational institution recognized by the European Union, is working to offer orthodox Lutheran extension classes throughout Europe. Harrison also visited Synod's partner in Germany and noted SELK's and LCMS's participation in the ongoing Lutheran-Roman Catholic dialogues.

President Harrison noted, domestically, that the Concordia University System is filling a number of presidential vacancies: Dr. Michael Thomas has been called to Concordia University, Irvine. Dr. Russell Dawn has "hit the ground running" at Concordia University Chicago. Dr. Brian Friedrich is soon moving to Concordia University, St. Paul, from Concordia University, Nebraska, which is as a result beginning its own search process.

26. Audit Committee Report

Audit Committee Chairman Keith Frndak presented the report of his committee, which met the evening before. Synod's external auditor, Brown Smith Wallace (BSW), presented the report on the consolidated audit of LCMS and subsidiaries, including the LCMS National Housing Support Corporation, Concordia Plan Services, and LCMS Holdings. Frndak presented a brief summary:

- Jim Ehlers of LCMS Accounting presented the financials. The audit is a clean one, with an unqualified opinion.
- Consolidated net worth increased \$23–24M, reflecting principally the transactions noted above.
- 55–60% of consolidated unrestricted net assets are attributable to LCMS Holdings.
- Some money is still being held for losses related to Selma wind-down. The LCMS National Housing Support Corporation is also in wind-down mode.
- BSW worked with a Hong Kong partner to perform the LCMS Holdings portion of the audit; some late reporting may be due to Hong Kong unrest.
- Janet Ramey, lead for BSW, noted long-standing (decade or decades old) board-designated funds that should be evaluated for repurposing. Synod's level of cash available to make short-term payments might be positively addressed by reallocating these assets.

- The audit committee proposed extending by a two-year period Synod’s relationship with Brown Smith Wallace.

Audit Chairman Frndak also noted, with regard to Internal Audit operations, a few remaining “stressors” in its review of Office of International Missions operations in Latin America, with further cooperation needed on some accounting issues. These are, however, likely not material.

A report received from the Concordia University System focused on financial challenges at Concordia University, Portland, and Concordia College—New York (Bronxville, N. Y.), resulting in requests of the board at this meeting for debt restructuring for Portland and a loan authorization for Bronxville, secured by interest in its property. Both requests have been approved and recommended by the Concordia University System board.

The Audit Committee has decided to hold its audit committee meetings at 3:30 p.m. on the afternoon prior to each board meeting, to enable meeting in person.

CMO Kevin Robson inquired whether the bulk of very significant LCMS Holdings assets might better be managed directly by corporate Synod than by the LCMS Holdings board, an idea noted in brief discussion as worthy of consideration, given the high proportion of LCMS assets held through LCMS Holdings.

27. Legal Report

The board entered executive session, with CAO Simek and Attorney Buesching present, to hear the report of legal counsel (pp. 94–115/276).

28X. Executive Session I: Legal Report

28. Personnel Committee Report

The board returned from executive session and Personnel Committee Chairman Larry Harrington presented the report of his committee. He noted that 2019 convention’s bylaw changes (2019 Res. 7-01A, *Proceedings*, pp. 165–69) have authorized the board to appoint two members to the Concordia University System Board of Directors (in place of the formerly-serving Chief Financial Officer).

A call for nominations will soon be issued, emphasizing financial and higher education administration skill sets. Nominations for Chief Financial Officer are currently being accepted, with slow response and a deadline of Dec. 6. The committee requested an extension of the close of nominations. After discussion, the board unanimously consented to an extension of the deadline to Dec. 31.

In discussion, it was noted that a search for essentially a “kingdom of the left hand” function is being conducted by a standard nominating process and not being conducted in the proactive manner of search typically successful in the kingdom of the left filling its offices. It was noted that the broader Synod—especially those persons who would best understand the function of a Chief Financial Officer, or know potential candidates—might not even notice the process being conducted. On the other hand, a “head-hunter” process might not be easily adaptable to an LCMS-internal search.

The task of designating representatives to agency boards has become a more involved project, which may involve exploring details of possible approaches using board members or International Center executives, possibly extending to the suggestion of additional bylaw changes to the 2022 convention of the Synod.

Personnel Chairman Harrington presented the two vacancy positions presently awaiting the board’s action:

Vacancy Appointment: LCMS Board for National Mission, Layperson, Central Region

The resignation of Mr. Ernest E. Garbe necessitated the board’s making an appointment (pp. 118–19/276 and pp. 158–313/313 in this meeting’s appointment book), by the process specified in Bylaw 3.2.5 and as further defined in its Policy 5.7.2.2, to fill the resulting vacancy position on the LCMS Board for National Mission, in the layperson seat representing the Central region, for the remainder of the 2016–2022 term (less than one-half term).

The LCMS Office of the Secretary sent out a call for nominations on August 30, 2019, requesting response by October 14, 2019, and, assisted by the LCMS Department of Human Resources, compiled information on all nominees, including the slate of candidates from the previous convention. This information was submitted, in its entirety, to the Standing Committee on Nominations (“Bylaw 3.2.5 Committee”), to the Personnel Committee, and to the Board of Directors for inclusion in the board appointments book.

The Standing Committee on Nominations (“Bylaw 3.2.5 Committee”) evaluated all submitted nominations, biographical sketches, and confidential evaluations and has presented the board with the required slate of three to five candidates.

The chairman of the Board for National Mission requested to review and offer feedback on the list of candidates for the vacancy appointment to his board. This will be accommodated in this instance, with the appointment to be deferred to the board’s February meeting, but will be reviewed, with regard to policy and future practice, by the Personnel Committee and the Secretary.

Vacancy Appointment: LCMS Board of Directors, Layperson, Great Lakes Region

The resignation of Mr. James W. Carter necessitated the board’s making an appointment (pp. 116–17/276 and pp. 1–157/313 in the appointment book), by the process specified in Bylaw 3.2.5 and as further defined in its Policy 5.7.2.2, to fill the resulting vacancy on the LCMS Board of Directors, in the layperson seat representing the Great Lakes region, for the remainder of the 2016–2022 term (less than one-half term).

The LCMS Office of the Secretary sent out a call for nominations on August 30, 2019, requesting response by October 14, 2019, and, assisted by the LCMS Department of Human Resources, compiled information on all nominees, including the slate of candidates from the previous convention. This information was submitted, in its entirety, to the Standing Committee on Nominations (“Bylaw 3.2.5 Committee”), to the Personnel Committee, and to the Board of Directors for inclusion in the board appointments book.

The Standing Committee on Nominations (“Bylaw 3.2.5 Committee”), having evaluated all submitted nominations, biographical sketches, and confidential evaluations, having been charged to select a slate of no fewer than three and no more than five candidates, presented the following slate to the board.

The Personnel Committee reviewed the candidates and other consenting nominees, recommending especially Dr. Dale Gust and Mr. Thomas Nelson. The former was included in the list of candidates selected by the Standing Committee on Nominations; the latter was not. It was moved and carried to add Mr. Nelson to the slate, using the power recently granted to the board in Bylaw 3.2.5 (d) to amend the slate of candidates using the names of other consenting nominees. The slate, as thus expanded, was put to the board:

* Ducharme, Willard C. — Huntington Woods, Mich. (MI) *Gust, Dale D. — Mt. Pleasant, Mich. (MI) ** <u>Nelson, Thomas — Belvidere, Ill. (NI)</u> Stathakis, Rick H. — Shelby Twp., Mich. (MI) Winter, Dennis D. — Hubbard, Iowa (IE)
* <i>from the 2016 Convention Slate of Candidates</i>
** <i>added by the board pursuant to Bylaw 3.2.5 (d) from the list of consenting nominees</i>

In an electronic vote of one ballot, the board elected:

Mr. Thomas Nelson — Belvidere, Ill. (NI)

The Secretary was directed, in accordance with policies, to notify the appointee and to thank the others who allowed their names to stand in the nomination process.

Chairman Kumm noted his resignation, effective Dec. 1, as chairman of the International Lutheran Society of Wittenberg (ILSW) board of supervisors to devote more time to his family, in consideration of the considerable time required by service as LCMS board chairman. Kumm was appointed in 2011 to the composite board of ILSW, now consisting of representatives of the LCMS, the Selbständige Evangelisch-Lutherische Kirche (SELK), and International Lutheran Council (ILC). The board will need to appoint a successor. He noted that fundraising for the Old Latin School's managing director position remains a challenge for the partners.

29. Audit Presentation

Janet Ramey, Frank Megargel, and Thomas Hill of Brown Smith Wallace, accompanied by Ross Stroh and Jim Ehlers of LCMS Accounting and Financial Services, joined the board for the presentation of the FY2018–19 consolidated audit of the LCMS and related entities (pp. 254–76/276). Janet Ramey began the presentation of “communications to those charged with governance,” a summary digest of an in-depth discussion of the audit with the board's Audit Committee.

Entities represented in the consolidated statements include The Lutheran Church—Missouri Synod, the Lutheran Center for Religious Liberty, the LCMS National Housing Support Corporation (dissolving), Concordia Plan Services, and LCMS Holdings (which includes Concordia International School—Shanghai and Concordia International School—Hanoi). An unmodified opinion has been issued on the financial statements as of June 30, 2019. Moore (formerly Moore Stevens), a Hong Kong firm, audited LCMS Holdings and is responsible for that portion of the unmodified opinion. Ramey noted minor reclassifications in LCMS Holdings statements that do not impact the bottom-line financial positions represented in the draft report. Supplementals indicate the positions of the constituent companies.

No internal control issues (material weaknesses) were identified. Auditors and management have discussed since February the implementation of changes in generally accepted accounting practices for not-for-profits. One advisory comment was noted, and no concerns arose in a review of information technology controls.

Changes due to ASU2016-14 (which rendered FY2019 not directly comparable with FY2018) included that: a statement of functional expense, previously indicated as supplemental information, is newly required; three categories of assets have become only two: with and without donor restrictions; and three new required disclosures have been incorporated, dealing with liquidity and availability of resources, endowment accumulated earnings, and expense allocation methodology.

After noting the respective roles of management and auditors, Ramey noted good ongoing dialogue with no difficulties in performing audit work, no disagreements with management, no consultation with other accountants, and no independence issues.

No adjusting journal entries were required that impacted the consolidated bottom line; a few necessary reclassifications relate to exchanges between companies (which eliminate upon consolidation):

- Reclassification of \$2.1M of the \$4.05M received from Holdings dividend as reduction of related-party debt rather than dividend income.
- Reclassification of \$1.45M of the Low-Income Housing Fund as a transfer rather than as income.
- An allowance was recorded for \$1.045M due from the National Housing Support Corporation

- Reclassification of \$317k of prepaid and accounts payable for an invoice paid after year-end

Ramey highlighted notes regarding significant accounting policies, management judgment and accounting estimates, and sensitive disclosures. She recommended action on a “sufficient deficiency,” escalating a repeat finding that one of the sampled disbursements was not authorized in accordance with established policy.

Ramey finally highlighted accounting practice changes coming to bear in future financial years: ASU 2016-02, regarding multi-year leases, will need to be addressed for FY2022. ASU2018-08 will provide guidance (not expected to significantly impact the LCMS) for treatment of grants and similar contracts with government agencies, effective FY2020. ASU2014-09, dealing with revenue from contracts with customers, will apply to revenue recognition for use of building resources by non-consolidated entities. This will be effective FY2020.

Thomas Hill presented the financial analysis of corporate Synod (without consolidated entities). He noted an increase in total net assets of \$21.6M principally due to sale of Hong Kong properties (and the above-noted CISS dividend). Fundraising and general and administrative expenses indicate an increase due to a change in allocation of expenses rather than an increase of activity. A total undesignated deficit of \$16.2M reflects a -22% operating reserve with respect to \$73.2M in operating expenses. The total reserve including board-designated funds stands at positive \$3.5M, a 5% reserve (including board-designated funds) relative to \$73.2M in operating expenses (as compared to -7% in FY18). Hill noted that board’s release of some long-term unutilized board designated funds could help offset the unrestricted net asset deficit.

Looking at income trends, an increase in donor-restricted and decrease in unrestricted income reflects a general trend among non-profits. Hill noted especially the continued decline in district revenue performance.

Hill noted that analysis of Synod’s functional expense ratio (which were not recalculated to new standards for previous years) falls in line with expectations at a program service ratio of 77.3%. Cost of fundraising was noted as also in line with expectations for charitable organizations.

Board members noted that the unrestricted net asset deficit is more than fully offset by board-designated funds alone, and not by any donor-designated funds.

Ramey noted that a general decline in donations has been observed across the non-profit sector due to changes in tax benefits of non-profit donations, a factor expected to impact the coming year more than the one past. Potential donors now better understand the implications of changes in deductibility, having filed once under the new rules. Donor education, including the possibility of donor-advised funds and gifting of appreciated assets, may help reduce impact on giving.

30. Governance Committee Report

First Vice-President Peter Lange joined the board, the meeting of the Council of Presidents having concluded. Governance Committee Chairman Christian Preus presented the report of his committee (pp. 90–91/276), noting that the convention disrupted the committee’s normal cycle of policy review. The committee reviewed 2019 convention actions assigned to, or impacting, the board in some fashion:

- Res. 7-01A: To Amend Bylaws related to Structure and Governance of the Concordia University System – Assigned to the Personnel Committee (work underway), with Governance to consider any policy changes suggested as a result.
- Res. 9-09: To Amend Bylaws to Change the Board of Director’s Means of Representation on Synodwide Corporate Entities Boards of Directors – Assigned to the Personnel Committee (work underway), with Governance to consider any policy changes suggested as a result.
- Res. 9-02: To Amend Various Bylaws to Address Practical Considerations [C] – The Commission on Handbook has addressed the language of Bylaw 3.2.5 as it impacts the board.

- Res. 7-03: To Direct a Collaborative Process to Propose a New Governance Plan. – A committee has been formed and will be meeting Saturday morning and having a joint meeting with the Concordia University System institution presidents and board chairs on Friday. Preus, chair, will report progress at subsequent board meetings. He welcomed input from other board members in a “huge and challenging project.” Asked whether there was a chance of completing something before the next convention, Preus noted that he was more optimistic than in the previous two triennial task forces, with necessities of action becoming more apparent. Expenses may be shared with LCEF. An outside consultant may be useful.
- Res. 4-06A: To Amend Bylaw Section 6.2 to Revitalize Synod’s Recognized Service Organization Program (and Res. 4-07). – The mission boards and offices will be developing policies of their own. Secretary Sias is working with the LCMS Recognized Service Organization Office and LCMS Schools to implement the new structure. This will be done gradually. The board will respond to forthcoming requests for changes to its related policies.
- Res. 8-02: To Encourage a Synodwide 1.1.1 Funding Model for Defined Mission Outcomes – A recommendation is expected from the Chief Mission Officer, for board adoption.
- Res. 9-06: To Add Bylaw 3.3.4.10 to Clarify Access by the Board of Directors to Information of Synod Agencies – The Audit Committee should look at this first and then Governance, to determine if a policy is necessary.
- Res. 9-04A: To Amend Bylaw 3.1.8 to No Longer Require Publication of Delegate Mailing Addresses – Secretary Sias may bring policy suggestions to the board related to implementation and other aspects of protection of personally identifiable information within the board’s area of responsibility.
- Res. 6-01: To Support and Participate in the Comprehensive Church Worker Recruitment Initiative – No action needed by the Governance Committee.
- Omnibus A (Referred for Consideration of appropriate action)
 - Ov. 4-22: To Study How to Amend the Practice of Issuing Calls to Positions Not in the Direct Service of the Proclamation of the Gospel and the Administration of the Sacraments (also to OTP and COP) – The committee considered this adequately referred to the President and Council of Presidents, not a matter for the board.
 - Ov. 4-23: To Provide Clergy for Word and Sacrament Ministry by Designating Synod Positions to Be Filled with Qualified Laity (also to OTP and COP) – The committee considered this adequately referred to the President and Council of Presidents, not a matter for the board, unless such should refer it again to the board.
 - Ov. 5-05: To Revise Paragraph 3(a) of the Operating Agreement Between the Lutheran Church—Canada and The Lutheran Church—Missouri Synod (also to OTP) – The church relations matter is the President’s work; the board will entertain such action as that work directs.
 - Ov. 8-05: To Optimize the Stewardship of Gifts to Our Seminaries (also to Sem BORs) – The committee considered this adequately referred to the seminary boards of regents, until and unless they have a proposal for this board.
 - Ov. 8-11: To Exercise Financial Restraint in Salaries of Synod and District Executives and Staff – This is referred to the Personnel Committee. Should a policy be needed, the Governance Committee should be advised.

31. Concordia College—New York (Bronxville, N.Y.) Loan Authorization

Concordia College—New York (CCNY) President John Nunes, Board of Regents Chairman Joe Carlin, and new Chief Administrative Officer Mark Wahlers joined the board, as well as Concordia University System (CUS) Board Chairman Gerhard Mundinger and President Dean Wenthe. CCNY Chief Academic Officer Stephanie Squires and interim Chief Financial Officer Ted Francavilla also joined by teleconference. With these guests and the LCMS Operations Team present, as well as LCMS counsel Matt

Buesching, it was moved and carried to enter executive session to discuss CCNY's request for authorization of a loan.

32X. Executive Session IIA: Concordia College—New York (Bronxville, N.Y.) Loan Authorization

32. Concordia University, Portland (Portland, Ore.), Debt Restructuring Authorization

With CCNY guests excused, the board continued in executive session. The board welcomed Concordia University, Portland (CUP), Interim President Johnnie Driessner, Interim Chief Financial Officer Richard Dowdy, and Board Chairman Chuck Gerken. The topic of discussion was CUP's request for authorization of debt restructuring.

33X. Executive Session IIB: Concordia University, Portland (Portland, Ore.), Debt Restructuring Authorization

33. Recognition of retiring Chief Financial Officer Jerald Wulf

The board having returned from executive session, Chairman Kumm recognized his long-time friend and fellow servant Jerald Wulf, retiring at the end of January, at his last formal meeting with the board. Kumm noted Wulf to have proven "an extremely faithful Lutheran Christian man, husband, father, grandfather, servant of the Church," who dedicated himself to service in several offices at the congregational level, as treasurer of the South Dakota District, and then as Chief Financial Officer of Synod. Kumm presented Wulf with a commemorative plaque representing the board's and the Synod's thankfulness for Wulf's service.

Wulf spoke gratefully of his opportunity to serve the church and to work with the great staff at the IC. He humbly commented that he "hoped his service has been a blessing to the church." He recalled that the net unrestricted, undesignated asset deficit stood at -\$17M when he started, "so we are in somewhat better shape now"—progress, he noted, again with characteristic humility, that was "the work of many." "Thank you," he concluded, "for the opportunity to serve."

34. Action Items

Chairman Kumm presented to the board the remaining action items scheduled for the present meeting.

(A) Property Transfer to Trinity Lutheran Church for the Deaf, Pittsburgh, Pennsylvania

CAO Frank Simek presented an action item to transfer to a congregation property held in the name of the Synod (p. 120/276). It was moved and adopted:

WHEREAS, The Lutheran Church—Missouri Synod (LCMS) has a practice of purchasing property for deaf ministry and transferring such property to the local congregation once established; and

WHEREAS, The LCMS purchased three adjacent parcels of land in Pittsburgh, PA (the Properties) in 1962 and 1966 to establish Trinity Lutheran Church of the Deaf (Trinity) located at 409 Swissvale Avenue, Pittsburgh, PA; and

WHEREAS, The LCMS Board of Directors resolution for the 1966 purchase included the condition that Trinity pay off a loan which it owed to the LCMS; and

WHEREAS, In January 1977, with the support of the Board of Trustees of the Eastern District, the LCMS Board of Directors passed a resolution authorizing the Treasurer of the Synod to transfer the Properties in accordance with "normal procedures"; and

WHEREAS, For indeterminate reasons, the transfer of the Properties contemplated under the 1977 LCMS Board of Directors resolution did not occur; and

WHEREAS, Trinity has requested that the LCMS transfer the Properties to Trinity. Trinity has informed the LCMS that Trinity then intends to sell the Properties to Western Pennsylvania School for the Deaf (School) located across the street from Trinity. Trinity has further informed the LCMS that it intends to make the sale contingent upon Trinity conducting church services for students of the School. Trinity has also informed the LCMS that the sale proceeds to be obtained from the School for the sale of the Properties will be used by Trinity for future worship needs; and

WHEREAS, In the opinion of the Chief Financial Officer, Trinity has paid off the loan referenced in the 1966 LCMS Board of Directors resolution. In addition, the Chief Financial Officer has determined that the Properties are not recorded in the Synod's financial accounts; and

WHEREAS, The LCMS, through its legal counsel, has obtained a title insurance commitment from First American Title Insurance Company which identifies the LCMS as the fee simple owner of the Properties; therefore be it

Resolved, The LCMS Board of Directors authorize the Chief Administrative Officer and outside legal counsel to transfer the Properties to Trinity Lutheran Church of the Deaf without further conditions.

(B) Acceptance of FY19 Audited Financial Statements

The report of Brown Smith Wallace on corporate Synod's FY19 audit having been received earlier in the meeting, it was moved and carried (p. 121/276):

WHEREAS, The Audit Committee of the Board of Directors met with representatives of Brown Smith Wallace and management to discuss the audited consolidated financial statements of The Lutheran Church—Missouri Synod for the year ended June 30, 2019, and made inquiries of them regarding the audit; and

WHEREAS, The Audit Committee received a summary of the required communications from representatives of Brown Smith Wallace in accordance with generally accepted auditing standards; and

WHEREAS, The auditors' opinion on the financial statements, dated November 20, 2019, is unmodified; and

WHEREAS, The auditors did not identify any material weaknesses in internal control during this audit; and

WHEREAS, The Audit Committee unanimously approved the audit report for presentation to the board, therefore be it

Resolved, The Board of Directors accepts the Audited Consolidated Financial Statements of The Lutheran Church—Missouri Synod for the year ended June 30, 2019, contingent on the incorporation of the changes indicated in the auditors' presentation.

(C) Concordia International School Hanoi (CISH) Loan Authorization

Chief Mission Officer Kevin Robson presented the board with a request from Concordia International School Hanoi (CISH) for authorization to obtain a loan to cover an anticipated cash flow shortfall for the 2019–20 academic year, as precipitated by construction overages and changes in Vietnamese tax practices (pp. 247–53/276). Robson noted the business *pro formas* and balance sheet support CISH's ability to manage the line of credit. The line of credit is (over-)collateralized by LCMS Holdings ownership interests in CISH and Concordia International School in Shanghai, as with the previous loan. It was moved and adopted:

WHEREAS, The LCMS Board of Directors at its November 2017 and February 2018 meetings had previously authorized LCMS Holdings Vietnam (“Holdings VN”) to enter into a loan agreement for an amount not to exceed US\$9,150,000 for the building of “Phase 2” new educational space on the Concordia International School Hanoi (“CISH”) campus; and

WHEREAS, In August 2019 CISH completed the aforementioned “Phase 2” project, with this new expansion dedicated for regular school use as of September 2019; and

WHEREAS, Significant changes to Vietnam’s tax laws, implemented retroactively, coupled with an unforeseen spike in construction materials and design changes of the building, resulted in an overage which exceeded the aforementioned project budget amount, and these increased expenses in both construction costs and taxes owed are single one-time expenses which are detailed in the background rationale (Attachment 1) accompanying this Action Item; and

WHEREAS, On the 20th of September 2019 Holdings VN adopted a resolution (Attachment 2) authorizing the CISH Head of School to “work with all necessary parties to secure funding of the 3,000,000 USD to address the schools short term cash flow challenges. The Head of School is authorized to work with the Lutheran Church Extension Fund (LCEF) or another lending agency to insure Concordia’s financial stability”; and

WHEREAS, The CISH Head of School and Holdings VN have subsequently worked closely with the Lutheran Church Extension Fund to develop and reach conceptual agreement on a proposed US\$3,000,000 million short term revolving loan agreement to meet current CISH cash flow requirements, based on the financial plan outlined in a 10-year business proforma (Attachment 3); and

WHEREAS, The LCMS Holdings Ltd. (Hong Kong) Board of Directors has reviewed the background rationale, resolution and financial plan set forth in Attachments 1–3 and endorses the aforementioned Holdings VN resolution and the US\$3,000,000 short time revolving loan agreement being proposed by Holdings VN; therefore, be it

Resolved, That the LCMS Board of Directors hereby authorizes Holdings VN to enter into the proposed US\$3,000,000 short term revolving loan agreement with the Lutheran Church Extension Fund.

(D) Concordia College—New York (Bronxville, N.Y.) (CCNY) Loan Authorization

The board having heard the presentation of CCNY President John Nunes earlier in its meeting, the requested action (pp. 122–23/276) was moved. It was amended to add a final *whereas*, indicating that “CCNY has advised the LCMS Board of Directors that it intends to pay off its currently outstanding \$5.2M CUS line of credit with the proceeds of this loan.” Staff was directed, by board consensus, to require CUS to report quarterly on CCNY’s performance of the recovery plan. It was also noted that legal counsel, the Secretary and Chief Administrative Officer would review the form of Synod’s reversionary rights to CCNY property.

The resolution, as amended, carried:

WHEREAS, The Executive Committee of the Concordia University System Board of Directors adopted the following resolution in a teleconference on October 31, 2019:

WHEREAS, Concordia College—New York (CCNY) has experienced a financial challenge during Fiscal Year 2019; and

WHEREAS, CCNY has applied to the Lutheran Church Extension Fund (LCEF) for a \$7.5 million loan; and

WHEREAS, CCNY’s administration and board leadership has met with the leadership of the Concordia University System (CUS) and The Lutheran Church—Missouri Synod (LCMS) to request approval of this loan; and

WHEREAS, Mr. John Edson and Rev. Dr. Tom Ries have each independently evaluated the financial status of CCNY and its recovery plan and indicated a challenging, but possible future; and

WHEREAS, Upon the recommendation of the reports by the above-named individuals, CCNY has hired Dr. Mark Wahlers, formerly Provost at Concordia University Portland, to lead the recovery effort; therefore be it

Resolved, That the Executive Committee of the Concordia University System Board of Directors, acting in a specially called teleconference on Thursday, October 31, 2019, approves the request of Concordia College—New York to borrow \$7.5 million from the Lutheran Church Extension Fund; and be it further

Resolved, That the Executive Committee of CUS Board of Directors approves the loan terms from LCEF in President Bart Day's letter of July 23, 2019: an Interest Rate of LCEF Cost of Funds +2%, an 18-month disbursement period with interest only payments for 18 months followed by principal and interest payments fully amortized over 10 years, and secured by the real estate of Concordia College—New York; and be it further

Resolved, That the Executive Committee of the CUS Board report this action to the full CUS Board of Directors meeting on November 13, 2019; and be it finally

Resolved, That the Executive Committee of the CUS Board encourages the Board of Directors of The Lutheran Church—Missouri Synod to concur in its action to approve the loan request of CCNY and the terms offered by LCEF at its November 2019 meeting;

and

WHEREAS, CCNY has advised the LCMS Board of Directors that it intends to pay off its currently outstanding \$5.2M CUS line of credit with the proceeds of this loan; therefore be it

Resolved, That the Board of Directors of The Lutheran Church—Missouri Synod concur with the action of the Concordia University System Board of Directors Executive Committee and approve the request of Concordia College—New York to borrow \$7.5 million from the Lutheran Church Extension Fund; and be it further

Resolved, That the LCMS Board of Directors approve the loan terms from LCEF in President Bart Day's letter of July 23, 2019: an Interest Rate of LCEF Cost of Funds +2%, and 18-month disbursement period with interest only payments for 18 months followed by principal and interest payments fully amortized over 10 years, and secured by the real estate of Concordia College—New York.

(E) Concordia University, Portland (Portland, Ore.), (CUP) Debt Restructuring Authorization

The board having heard the presentation of CUP Interim President Johnnie Driessner earlier in its meeting, it was moved and carried (pp. 202–3/276):

WHEREAS, The Executive Committee of the Concordia University System Board of Directors approved the following resolution:

WHEREAS, Concordia University, Portland, (CUP) has experienced a financial challenge during fiscal year 2019 that resulted in the failure to meet a bond covenant with Key Bank; and

WHEREAS, The failure to meet this covenant has resulted in CUP being in default with Key Bank and also with the Lutheran Church Extension Fund due to an inter-lender agreement; and

WHEREAS, Key Bank is interested in selling the bonds that it presently is holding; and

WHEREAS, The Lutheran Church Extension Fund has indicated a willingness to purchase those bonds; and

WHEREAS, CUP has created a detailed financial recovery plan that includes numerous cost-saving contingency plans without a planned reduction in force; and

WHEREAS, CUP has engaged Mr. John Edson to complete a comprehensive analysis of their current financial situation; and

WHEREAS, CUP anticipates a full recovery; therefore be it

Resolved, That the Executive Committee of the Concordia University System Board of Directors acting in a specially called teleconference on Thursday, October 31, 2019, approves the request of Concordia University, Portland, to restructure its debt; and be it further

Resolved, That the Executive Committee of the CUS Board approves the request of CUP for the following actions:

1. That LCEF extend the supplemental Line of Credit, approved November 6, 2018 for \$4,000,000, for an additional 12-month period to November 2020,
2. That LCEF purchase/refund the Multnomah County Higher Education Revenue Bonds Series 1999 currently held by Key Government Finance, Inc., who has tendered the bonds to the University for purchase, the principal balance being \$5,230,000,
3. That LCEF provide a waiver of covenant requirements for the FY just ended 6/30/2019;

and be it further

Resolved, That the Executive Committee of the CUS Board report this action to the full CUS Board of Directors meeting on November 13, 2019; and be it finally

Resolved, That the Executive Committee of the CUS Board of Directors encourage the Board of Directors of The Lutheran Church—Missouri Synod to concur and approve the request of Concordia University Portland to restructure its debt and the associated three actions approved above;

therefore be it

Resolved, That Board of Directors of The Lutheran Church—Missouri Synod concur with the Executive Committee of the Concordia University System Board of Directors and approve the request of Concordia University, Portland, to restructure its debt; and be it finally

Resolved, That the Board of Directors of The LCMS approve the request of CUP for the following actions:

1. That LCEF extend the supplemental Line of Credit, approved November 6, 2018, for \$4,000,000, for an additional 12-month period to November 2020;
2. That LCEF purchase/refund the Multnomah County Higher Education Revenue Bonds Series 1999 currently held by Key Government Finance, Inc., who has tendered the bonds to the University for purchase, the principal balance being \$5,230,000; and
3. That LCEF provide a waiver of covenant requirements for the FY just ended 6/30/2019.

It was also moved and carried:

Resolved, that the chairman of the board inform the leadership of the Concordia University System and Concordia University, Portland, that it will not again approve any financial action for the benefit of the university until the university has substantively addressed the issues regarding the Gender and Sexuality Resource Center and brought its articles and bylaws back into conformity with the requirements of The Lutheran Church—Missouri Synod.

(F) February Board of Directors Meeting Date

It was moved and carried to reschedule the board's February meeting from Feb. 28–29, 2020, to Feb 7–8, 2020.

35. Correspondence from Concordia University System Institution Presidents

Kumm read a letter signed by the presidents of the Concordia University System institutions, thanking the board for “taking the bold step” of retiring the historic debt of the system. The presidents, acknowledging that “many of our schools would not be here today if the church, in the past, had not financially made possible the initial and ongoing expenses associated with our campuses,” and that “the historic debt allowed our schools to be what they are today—examples of Christ’s love in an ever-changing world that is in need of hope, a hope we are able to proclaim through faith in Jesus Christ,” noted that removing this burden “allows the church to look at new and exciting possibilities for the future.” They pledged themselves to “remaining faithful to our church, providing an excellent education, and remaining financially strong” and invoked the Lord’s blessing on “our work together for the good of His church and people.”

36. Topic for Future Board Meetings

The board briefly reviewed suggestions for future meeting topics, having been submitted by members of the board in a prior survey. The chairman noted that accommodating these topics might involve extending at least some meetings beyond one day. The board was asked to review the suggestions in detail and to consider not only the topics but also how they might best be incorporated into the board’s meeting schedule.

37. Meeting Review

The board entered executive session, with all non-members excused except for legal counsel, to review the meeting according to its policies.

38X. Executive Session III: Meeting Review

38. Adjournment

With the agenda concluded, Chairman Kumm adjourned the meeting.

John W. Sias, *Secretary*