

**MINUTES  
BOARD OF DIRECTORS**

**Hilton St. Louis Airport  
May 17, 2019**

**260. Call to Order**

Chairman Kumm called the board's May meeting to order with all other board members present except for First Vice-President Herbert Mueller, James Carter, and Josemon Hoem. Also in attendance were Chief Administrative Officer Frank Simek, Chief Financial Officer Jerald Wulf, Chief Mission Officer Kevin Robson, General Counsel Sherri Strand, and Matt Buesching of Thompson Coburn.

Chairman Kumm called upon the Rev. Michael Meyer, Manager, LCMS Disaster Response, to offer opening devotions, which he did on the basis of Luke 11:1-13.

**261. Adoption of Agenda**

The meeting agenda (p. 8/246 of the printed board docket, attached to the protocol copy of the minutes) was moved and adopted.

**262. Consent Agenda**

The meeting's consent agenda (pp. 9-10/246) was moved 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)
  - Operations Support Services
    - Facilities Management
    - Information Technology
- Financial Services Reports
  - Accounting
  - Internal Audit
  - Risk Management
- Board of Directors Committee Reports

- Governance Committee
  - Personnel Committee
  - Action Items
- and be it further
- Approval of February 15, 2019, Minutes
  - Approval of April 8, 2019, Internet Conference Minutes

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

### **263. President Harrison's Report**

Chairman Kumm called upon President Harrison to extend upon his written report (pp. 27–31/246). Harrison directed the board's attention to 2 Cor. 12, noting that Paul's thorn was given by God, that he might "be beaten as Jesus was" (noting, in the Greek, the same word for the mocking soldiers, and Luther's "*mit Fäusten schlage*") "lest [he] should be exalted too much." Paul asked three times that it be taken away, but the Lord's reply was: "My grace is sufficient for you; my strength is made perfect in your weakness." This, Harrison noted, is First Vice-President Herb Mueller's "theme verse" of late; shortly after returning from the April Council of Presidents meeting, Mueller was diagnosed with a brain tumor. He is presently recovering from surgery last Wednesday and awaiting word on future treatment. Harrison related that Mueller is in good spirits and sent regrets for his absence, noting his sincere appreciation for the "quality of the team at the International Center," for prayers at the time of his surgery, and his being honored to work with President Harrison. Mueller is "convinced that the Lord is in control and that 2 Cor. 12 is his text," and his desire is "that Jesus be glorified through his weakness and illness." Mueller's written note was shared with the board.

Harrison reported progress on the colloquy program for licensed lay deacons initiated by 2016 Res. 13-02A and led by First Vice-President Mueller. Reflecting the very significant progress made on this topic in the triennium now drawing to a close, the Council of Presidents has come to unanimous agreement that "if a man is to be doing the work of ministry, that man ought to be called and ordained." The process led by Mueller has to date colloquized 120 lay deacons, largely to the specific ministry pastor roster, with much celebration across the Synod.

The President also commented on his trip to Concordia International School Shanghai—in particular, on the school's difficulties with President Allan Yung of the Lutheran Church—Hong Kong Synod (LCHKS) and the organization of Concordia schools he oversees, of which LCMS international schools are not a part. These difficulties have precipitated some public disagreement between the LCMS and LCHKS leadership, which has come to focus on LCMS property transactions in Hong Kong. LCMS leadership has invited further conversation and remains hopeful for resolution of these issues.

Harrison noted the "great additions" of new district presidents that the 2018 district conventions made to the council. In April's meeting, the council passed four unanimous resolutions:

- "To Thank God for Herb Mueller's Excellent Service to the Lord and His Church as Pastor, District President, and First Vice-President of the LCMS"
- "To Affirm the Vigorous Efforts and Continued Vigilance of the LCMS to Protect Children from Abuse"
- "To Encourage the Church to Rejoice in Our God-Given Unity and Continually Strive to Strengthen Our Collegiality"
- A "Resolution re. Hong Kong" (noting the public disagreement with LCHKS' Yung and affirming "that the LCMS Board of Directors and President Harrison have acted honorably and with integrity in the matter of the handling of properties in Hong Kong.")

Harrison noted his visit with Chief Mission Officer Kevin Robson to Chaiyi, Taiwan, to visit the new Asia region offices of the Office of International Mission. Harrison reported that in his meeting with regional directors and missionaries, he found a "great spirit, a great team, a great facility courtesy of our partner church body." Harrison met with other regional partners, including representatives of the Synod's

international schools. Concordia International School Shanghai is a “great endeavor,” doing very well in challenging circumstances. The President also visited Concordia International School in Hanoi to see the new addition approved by the board in November 2017, now nearing completion. In his and Robson’s interaction with the international schools, Harrison noted an ongoing emphasis on maintaining high Lutheran representation among high-level staff. The schools, he reiterated, are owned by the Synod, “and Synod has expectations,” which are being expressed in a “kind but firm way.”

Looking toward the budget presented later in the meeting, President Harrison concluded by noting that staff has, in his impression, done a fantastic job on the budget, trying to live within the means with which Synod has been entrusted.

#### **264. Financial Report**

Chief Financial Officer (CFO) Jerald Wulf extended upon his written report (pp. 47–50/246) and that of the Accounting Department (pp. 83–101/246).

This year has required implementation of new generally-accepted accounting principles (GAAP), which are to be fully implemented in the June 2019 and year-end statements. This required review of documentation for all permanently and temporarily restricted funds. Analysis is now complete of the over 400 individual funds, some of which had been overlooked in years past as funding for expenditures within their designation. Common cost accounting has changed: of expenses previously treated as “general and administrative (G&A),” only Human Resources and Accounting costs cannot be allocated to business units; everything else is allocated on the basis of use, where possible, or another reasonable basis. After significant study, a new approach, compatible with the new GAAP, has been taken. One consequence is a significant reduction in common costs allocated to the units, a change that will render FY19 statements not directly comparable with those for FY18 and prior years. The FY19 budget involves more direct charging of services to units that use them, rather than a more general, headcount-based allocation.

CFO Wulf updated the board from the April 30, 2019, monthly operations reports (March financials had been published in the board docket). Cash and cash equivalents on hand total \$25.8 million (M). The quick ratio (excluding a significant restricted gift of approximately \$5.8M recently received by the Synod for specific international mission work) is over \$5/\$1, with the program spending ratio increased to 76% and the cost of fundraising at \$0.135 per dollar raised.

Unrestricted budget variances, factoring in the effect of common cost allocations, included the Office of International Mission (OIM), \$869 thousand (k) over budget (\$173k of which reflects post-typhoon property repair expense in Hong Kong, an amount to be recouped from property sale proceeds). The resulting \$696k deficit compares favorably to a \$954k OIM deficit in April 2018. The Office of National Mission (ONM) is \$167k in deficit. Both OIM and ONM deficits, and a \$996k deficit in Mission Advancement, reflect slower than anticipated revenue. Legal is in deficit by \$105k, but excess expenses relate to the sale of property and will be reimbursed by proceeds. Communications is under its unrestricted budget by \$359k on the year, as is Information Technology, by \$89k, and Operational Services, by \$491k.

Discussion noted that cash and net assets have been significantly increased—and will continue to be increased—by the sale of real property, by a dividend, and by a repayment, all related to overseas operations. CFO Wulf briefly reviewed accounting considerations involved in classification of related assets when in operational use, when held for sale, and when sales are realized, as well as the effects of depreciation and market appreciation.

#### **265. Chief Mission Officer Report**

Chief Mission Officer (CMO) Kevin Robson extended upon his written report (pp. 51–74/246). He reported much work in the mission offices, Communications, Pastoral Education, and Mission Advancement on budget preparation, as well as staff completing significant tasks in preparation for the LCMS convention and for the Synod’s presence at the Lutheran Women’s Missionary League convention and LCMS Youth

Gathering—all of which come in quick succession. The International Center “is humming,” and Robson is “proud of the work the staff is doing.”

A major piece of work in addition to already-underway Witness and Outreach Ministry and *re: Vitality* efforts is the new focus on *Making Disciples for Life*, led by the Office for National Mission at the behest of the Office of the President. Underscoring the importance of member retention, Robson explained that the intent is to take a multifaceted approach to address the needs of congregations and districts for resources to “evangelize the lost, retain the faithful, strengthen congregations, and plant churches.” Planned is the provision of research, field-tested strategies, and the work of leading theologians and other experts in a readily accessible resource center, using the latest in interactive technology. Many resources are already developed and simply need to be made accessible; others will be newly created based on the expressed needs of congregations and districts and coordinated with other programs in a “customer-oriented approach.” This new focus is being suggested to the 2019 convention as a way of shaping the Synod’s triennial emphasis.

Work has also begun, under a grant from Schwan Foundation, on a multi-year marketing effort to dramatically increase enrollment in church work vocations. An outside contractor is being engaged to enter “a rigorous research phase,” analyzing what may be hindering students from enrolling in ecclesial vocational trajectories. The intent is to engage parents and households, “lifting up” church work vocations among even the very youngest. We usually speak of these vocations, Robson noted, “in deficit language,” in terms of sacrifice and hardship, which may discourage especially “the best and brightest” from enrolling. Robson noted coordination with the Concordia University System to uplift and enhance the Synod’s college- and university-level church worker preparation programs.

Turning to his March trip to visit staff and sites in Asia, mentioned in President Harrison’s report, CMO Robson noted that a letter of intent has been signed with a major developer to provide operating services to a school to be constructed in a major city in Asia with no governmental restrictions on religion. This will be a Kindergarten–12<sup>th</sup> Grade school, a “fantastic facility,” at zero capital expense to the Synod. Synod will control choices in curriculum, administration, teaching, key staffing decisions, head of school, and faculty. There is a potential for significant unrestricted revenue to return to Synod in the form of management fees. A congregation is to be planted “inside the school from day one.” Staffing is the challenge. The assembly of definitive agreements is underway, with strong participation by the Chief Mission and Administrative Officers and leadership of Concordia International School Shanghai.

In closing, Robson reported that, in a recent strategic planning meeting with the heads of the schools, there was agreement by all involved to make efforts toward increased Lutheran identity at all schools, with training of all faculty in the Lutheran Christian faith. There has been “good movement and commitment from all three heads of school.”

#### **266. Hong Kong Property Transactions**

It was moved and carried to enter executive session with the Chief Financial Officer and Chief Mission Officer present, as well as attorneys Strand and Buesching, to hear a report by Chief Administrative Officer Frank Simek on property transactions in Hong Kong and for the board to take an action necessary to conclude one of the transactions.

---

#### **266X. Executive Session IA: Hong Kong Property Transactions**

---

#### **267. Legal and International Legal Report**

The board continued in executive session, with CMO and CFO excused, for General Counsel Sherri Strand’s legal report.

---

## **267X. Executive Session IB: Legal and International Legal Report**

---

### **268. Audit Committee Report**

The board having returned from executive session, Audit Committee Chair Keith Frndak reported for his committee, which met May 7 by conference call with CFO Wulf, CAO Simek, Joann Spotanski, Ross Stroh, and Brown Smith Wallace (BSW).

BSW reported on its study of Internal Audit (IA), comprised currently of 6 positions, 4 full-time auditors, all ranked as supervisors, extremely competent and well-educated. BSW noted an unusually high percentage of time is spent on external audits, including 13 districts, plus internal control work for Concordia Plan Services and others. BSW's observations were as follow: (1) IA's main focus should be on internal audits; (2) charges for external work aren't covering costs and should be addressed; (3) IA should continue to report directly to the board through the Audit Committee; and (4) IA attributes a high percentage of time and cost to administration (56%, relative to a normal 35–40%). Audit Committee, discussing the report, noted the department's size and skill level and Synod's increasing need for business analytics.

Audit Committee also received a report on a review of Office of International Mission financial systems in Latin America. A focus will be on increasing internal controls, systems and structure, in high-risk areas. More financial functions may be brought back to the US and be handled electronically. Noted was that the organizational chart in Latin America is still developing.

Audit Committee also received a report from CFO Wulf on budget development, with the FY20 budget planned to increase relative to FY19 by \$12M, largely due to the National Youth Gathering and 2019 convention. Net those increases, the budget is down, relative to FY19, by \$1.1M.

Frndak noted that the board and its Audit Committee had again requested quarterly updates from Concordia University System but, again, did not receive requested information.

### **269. Fiscal Year 2019/2020 (FY20) Budget Presentation**

Chief Financial Officer (CFO) Jerry Wulf and Ross Stroh, Executive Director of LCMS Accounting and Financial Services, presented the proposed July 1, 2019—June 30, 2020 (FY20) operating budget (pp. 204–239/246).

#### **Fiscal Year 2019/2020 (FY20) Operating Budget**

CFO Wulf began the budget presentation, underscoring that general and administrative (G&A) or “common cost” allocation has changed due to the new GAAP standards being implemented, and that (non-allocable) management and general (M&G) expense will include only Human Resources and Accounting. Wulf also noted that the definition of “program expenditure” for accounting purposes has changed, and a review of corporate Synod activities outside the traditional “program areas” has revealed many activities that nonetheless further the collective constitutional, bylaw, and triennial purposes of the Synod for and on behalf of its members. These are rightly accounted as *program* expenditures, even though we don't think of them as “programs.” Wulf also noted that the proposed budget does not include any funds from Synod property transactions in Hong Kong.

CFO Wulf reviewed the budget process, planning for which begins in earnest with staffing requests in January, following a review, the September previous, within program units of how activities impact the objectives and priorities established by the convention. Activities no longer aligned have been ceased. Wulf thanked staff for input in the FY20 budget development process.

The goal is a conservative budget, supporting activities in alignment with mission goals and emphases, using a 3-year average of unrestricted and restricted revenue. Extensive conversation has taken place with Mission Advancement to estimate revenue realistically and conservatively, and both revenue and expenditure have been reviewed in detail by the Operations Team. There is, nonetheless, little control possible over legal requirements, legal and dispute resolution costs, and donor response.

CFO Wulf placed the present budget in historical context. Budgets (excluding triennial convention and youth gathering expenses) increased steadily from \$72M in 2014 to \$85M in 2017 but spending remained flat at approx. \$63–65M. Where there have been revenue shortages, total expenditures have generally been well controlled.

Considering personnel, the projected Dec. 1, 2019, headcount (employees, not full-time equivalents) is 232, up from 220 in 2018, but markedly down, relative to 2015, in the services area (decreasing from 69 to 47). Increased count relative to 2018 is in programs, with plans to call a director for Life (Mercy fund has been rebuilt to \$2.5M from near 0 a year ago), a director for Family and Health, a Director of International School Relations, etc., some positions funded by anticipated restricted funds. There are 24 fewer positions (FTE) in FY20 compared to the FY19 budget.

Stroh continued with the presentation. In macro terms, proposed FY20 budgeted expenditure shows an increase of \$12.1M relative to FY19, largely due to youth gathering (\$9.7M) and convention (\$2.2M), which are triennial expenses (net of these, proposed FY20 projected unrestricted revenue applied to budget is decreased \$740k relative to FY19). The budget also reflects an increase in contingency from \$500k to \$1M (related to potential transition costs, depending on elections), the 3% salary increase (no bonus pool) authorized by the board (at a cost of \$757k), and a 6.5% increase in Concordia Plans health costs (no increase in retirement / disability). (A board member briefly noted the generally increasing costs of family health care as a proportion of total workforce expense.) The budget as proposed would improve Synod's unrestricted net asset position on the fiscal year by \$213,045.

Noting major shifts, Stroh pointed out that the reallocation of general and administrative costs means that service units will show a marked increase, although actual spending in these areas is down; program areas, especially the Office of International Mission (OIM), will show significant decreases. Another large decrease in OIM is related to the elimination of “Level 2” projects from the budget—those designated to proceed only should funding become available. (These could later be amended into the budget, should circumstances permit.) Pastoral Education shows an increase and Church Relations, a decrease, because of the assumption of the Global Seminary Initiative by the former.

On the revenue side, FY20 projected unrestricted revenue applied to the budget is down \$740k, largely due to a continued decrease in district intentions (a 4.8% decrease relative to FY19, following 2.8% and 3.0% decreases the years before). Five districts increased intentions by a total of \$57k; 18 decreased by a total of \$727k, reflecting, depending on the district, 2.2–38% of unrestricted district support passed on to the Synod), for a total district intention of \$13,083k. Other significant sources of unrestricted income include the KFUE-FM payment (\$2.4M; the last payment of approximately \$2.7M is expected in FY21); unrestricted bequests projected at \$1.5M (budgeted significantly below the 3–5 year average); Mission Advancement unrestricted gifts from living donors of \$1.62M, special gifts \$1.42M, special support \$911k. Total unrestricted revenue applied to the FY20 budget is estimated at \$21.2M.

Chairman Kumm noted a change in unrestricted bequests, which seem to be declining, suggesting that the LCMS Foundation and Mission Advancement may have to be consulted on the trends and contributors. Frndak expressed a concern that current giving among the “greatest generation” has been significant, but that there may be less in the way of estate planning that sometimes assumed. The Foundation indicates that it continues to see encouraging results.

Stroh presented a tabular summary (p. 220/246) of operating budget expenditures compared to FY19 (the latter, adjusted to reflect present G&A allocation for comparability), pointing out that most of the \$554k

increase in unrestricted budgeted expenditure is due to the convention-transition-related \$500k increase in contingency funds.

<i>In thousands (k)</i>	Total Expense	Materials & Services	Restricted	Unrestricted Request	FY19 Approved
Programs	60,591	10,138	44,016	6,437	6,962
Grants to Related Entities	2,566		155	2,411	2,485
Ecclesiastical Services	2,792	93	407	2,292	2,273
Officers & Administration	7,284	2,269	505	4,510	3,990
General & Administrative	8,193	1,939	21	6,233	5,619
<b>TOTAL</b>	<b>\$81,426</b>	<b>\$14,439</b>	<b>\$45,104</b>	<b>\$21,883</b> ↑ 554	<b>\$21,329</b>

Stroh also noted the proportions of total expense (\$81.4M) and of unrestricted fund allocation (\$21.9M) due to major areas of expenditure (p. 221/246). In terms of the unrestricted fund allocation, programs are down \$525k and general & admin up \$614k due to accounting changes; officer and administrative expense is up \$520k, largely due to the \$500k contingency increase. Ecclesiastical services increased their allocation of unrestricted funds by \$19k and grants decreased \$74k. Budgeted commitments (unavoidable expenditures) of \$3.154M, or 14.9% of revenue, include \$1.44M due to LCEF (principal and interest) to service CUS debt, \$478k prop & ins., \$580k legal, \$80k external audit, and \$574k in depreciation.

Functionally, 53.4% of total expenditure is on personnel, 7.0% on travel (significantly increased in a convention and youth gathering year). Grants to partner churches, Synod colleges, universities and Seminaries, pan-Lutheran organization, church worker support, and other related entities amount to 26.6%. other expenses, also increase due to triennial events, amounted to the remaining 13.1%.

Stroh next summarized budget plans and priorities in various cost centers:

- **International Mission (OIM):** \$26.7M expense, funded with \$26.6M in restricted funds (including \$1.6M in Mercy funds and \$13.5M in network-supported model [NSM] and globally-engaged outreach [GEO] missionary support) and \$94k unrestricted (the latter, down from \$1.41M in FY19, more in line with FY18 request). OIM is concentrating on missionary retention, safety and security; improved interface between the International Center and regional offices; improved seminary relationships; and improved coordination with Church Relations and global partners and emerging partners.
- **Pastoral Education (PE):** \$3.47M expense, funded with \$102k materials and services, \$2.16M restricted funds, and \$1.21M unrestricted (up from \$1.08M in FY19). Includes \$601k in seminary direct subsidies, \$109k in scholarships, and \$1.3M in Joint Seminary Fund development efforts. PE foci include church worker recruitment, enriching and expanding the Post-Seminary Applied Learning and Support (PALS) Program, the Global Seminary Initiative (GSI) (formerly under Church Relations / Office of the President), and the ongoing *Preach the Word* program.
- **National Mission (ONM):** \$9.30M expense, funded with \$638k matls. & svcs., \$8.03M restricted funds (incl. \$1.6M in Mercy funds), and \$633k unrestricted (down from \$634k in FY19; incl. \$253k board-designated). ONM is concentrating on district and stakeholder forums, fostering mutual conversation and understanding and partnerships in ministry; *Making Disciples for Life*; and church worker wellness.
- **Communications (COMMs):** \$3.06M expense, funded with \$445k matls. & svcs., \$32k restricted, and \$2.58M unrestricted (down from \$2.61M in FY19; incl. \$953k board-designated, innovative communications funds, same as FY19). High points of the COMMs plans include 360-degree mobile video capacities, an enhanced Instagram presence, and the determination to continue “serving ministry clients in the most compelling and dynamic ways possible.”
- **National Youth Gathering:** \$9.71M expense, funded with \$8.79M matls. & svcs., \$150k restricted, and \$766k unrestricted (triennial expense; incl. \$567k board-designated). Expenses are under control, but registrations are lower than anticipated.

- **KFUO Radio:** \$1.03M expense, funded with \$162k matls. & svcs., \$821k restricted, and \$48k unrestricted (same as FY19; board-designated funds, depreciation on the KFUO studio).
- **Mission Advancement (MADV):** \$7.28M expense, funded with \$6.18M restricted (provided according to Feb. 2016 board-approved funding formula) and \$1.10M unrestricted funds (down from \$1.17M in FY19). MADV will be concentrating on strengthening its grants proposed/grants received program, recruiting new donors to exceed replacement rate, building a pipeline of contributors from first gift to final (estate) giving, and strengthening its connection to OIM to correct underfunding of OIM projects/administration. A brief discussion treated the measurement of MADV’s effectiveness, the return on this investment.
- **Grants to Related Entities:** \$2.57M expense, funded with \$155k restricted and \$2.411 unrestricted funds (down from \$2.49M in FY19). This area continues to service all historic CUS debt (est. at \$12.9M), principal and interest, at \$1.44M annually. Support for CUS decreased \$74k; no change in support for Concordia Historical Institute.
- **Ecclesiastical Services and Commissions:** \$2.79M expense, funded with \$93k matls. & svcs., \$407k restricted, and \$2.29M restricted funds (up from \$2.27M in FY19). CTCR increased \$35k; Conflict Resolution is holding a triennial training at a cost of \$75k; Church Relations decreased \$76k; Convention Committees and Task Forces increased \$42k; Roster Maintenance decreased \$54k; and other commissions decreased \$4k.
- **Constitutional Officers and Administration:** \$7.28M expense, funded with \$2.27M matls. & svcs., \$505k restricted, and \$4.51M unrestricted funds (up from \$3.99M in FY19). President and Vice-Presidents increased 40k and Secretary, \$21k, CFO and BOD/CAO decreased by \$28k and \$20k, respectively. The Council of Presidents increased \$3k, CMO/BIM/BIM by \$4k, and the contingency line, already noted, by \$500k. The bulk of increases are due to known and potential executive transition costs due to convention elections. This expense center includes creation of an Executive Director of International Schools Operations position, to be funded by the international schools. Discussion questioned the Council of Presidents budget (\$198k unrestricted, plus \$25k in gifts from LCEF and CPS), chiefly travel and meeting expense. Chairman Kumm suggested the council could “lead the way” in “saving mom and pop dollars,” noting this as an example of the sort of “drilling down” the board has to do to impact the budget bottom line.
- **General and Administrative:** \$8.19M expense, funded with \$1.94M matls. & svcs., \$21k restricted, and \$6.23M unrestricted funds (up from \$5.62M in FY19). Decreases include Information Technology, \$554k and Accounting / Tax, \$70k. Increases: Internal Audit, \$51k; External Audit, \$3k; Legal, \$40k; Property & Insurance, \$70k; Human Resources, \$51k; and Operational Services, \$26k. Increase is due to change in generally-accepted accounting practices (GAAP) for this Fiscal Year; functional expenditure in several of these areas has been reduced by restructuring (in Information Technology by \$554k, in Accounting, by \$70k, both net of salary increases). Other increases are salary- and benefit-related.

CFO Wulf returned to summarize the final operating budget proposal:

**Fiscal Year 2019/2020 Operating Budget**

Total spending plan	\$81,426,698
Total revenue (source of funding), incl:	
\$45,104k restricted	
\$14,439k matl. & svcs.	
\$22,097k unrestricted	81,639,743
Surplus	\$213,045

Fiscal Year 2019/2020 (FY20) Capital Budget

CFO Wulf next reviewed the criteria for capitalization. The 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. The capital budget is funded as depreciation, charged through the budget. The FY20 capital budget was proposed as follows:

<b>Fiscal Year 2019/2020 Capital Budget</b>		
Office of International Mission	Sri Lanka: Construction of a building serving as church, offices, hostel, preschool, classroom, library space (carried over from FY19, awaiting suitable conditions)	\$350,000
Information Technology	PC/Mac purchases, network & desktop printers/scanners; projects and infrastructure	279,925
KFUO Radio	Interactive programming production software and hardware, improved voice-over-IP, revitalization and FM translator	233,200
Facilities	Conference room upgrades; mail services equipment contingency; A/C chiller; printer; café, parking lot, elevator, and landscape improvements; flooring; skylight and roof repairs; \$164k capital contingency budget for emergencies*	491,892
<b>Total</b>		<b>\$1,355,017</b>

*\*prepared through Facilities Management Board, with CPS and FND representation.*

Adoption of the budgets was deferred until the handling of action items below.

**270. Strategy to Support Budgets**

With Vice-Chairman Everts assuming the chair, Chairman Kumm introduced a motion produced out of reflection on his nine years of hearing budget proposals and the desire that the board, in accordance with its bylaw responsibilities, be able to assess the strategic planning underlying budget planning done by corporate Synod departments. He likened this to the “strategic master plans” used to guide long-term the activities of separately incorporated Synod agencies. Kumm emphasized this is not a line-item veto measure; the board should know and be able to explain why the budgetary choices that are being made, are being made.

In discussion it was noted that at some point, a “stewardship report card,” by which the leadership of the Synod would rate stewardship and effectiveness, would also be helpful. CMO Robson, speaking for the mission offices, noted the existence of detailed operating plans, guided by convention-adopted priorities and the mission board “ends policies” that exegete Synod objectives and triennial priorities into sought outcomes. The offices have strategic plans, of which their annual objectives are a part. Pastoral Education and Communications could share similar information.

The resolution was amended to remove a final resolve that would have required a belated strategic plan to be delivered, by Aug. 1, for the FY20 budget.

It was also suggested, in discussion, that these strategic plans should be delivered to the board by its February meeting, to give the board the opportunity for review before the May budget adoption meeting. CFO Wulf noted that the strategic input would be helpful even earlier in the process, perhaps by the November meeting, given that budget development is underway in earnest in January. CMO Robson noted that a plan at an operational level would not be as useful that far in advance; at a higher, strategic level, the

offices already present regularly to their respective boards. Chairman Kumm suggested Robson’s input may be useful in bringing all these reports into alignment, for the purposes of both boards. A board member noted that strategic plans need to be financially realistic, relatively “budget-neutral.”

It was noted that the board’s Governance Committee can work on implementation, probably after September 1. The resolution was adopted as amended:

WHEREAS, The Synod places a high priority on mission programs in the U.S. and internationally. This priority is reflected in annual budgets, in which the combined spending for International and National Mission represent approximately 50% of the total budget; and

WHEREAS, The Board of Directors recognizes its obligation to be a good steward of Synod’s finances as it carries out its fiduciary responsibilities; and

WHEREAS, The budget and actual spending for programs, to accomplish the mission of the church, is the outcome of sound and consistent strategic and tactical plans that are implemented; and

WHEREAS, In Bylaw 3.3.4.5, “The Board of Directors shall allocate available funds to the boards, commissions, councils, offices, and departments of corporate Synod and hold them responsible therefor. …(a)(2) It shall have the right to request review of any action or policy of a mission board, commission, office, or council which primarily relates to business, property, and/or legal matters …(b)(1) The board shall establish policies and guidelines relating to the preparation of the annual budget.” And

WHEREAS, The Board of Directors desires to have a full understanding of the strategy and tactics to be implemented by all program executives when annual budgets are approved; therefore be it

*Resolved*, That all Executive Directors and Program Managers of Corporate Synod, to include the Office of the President (OTP), the Offices of the Chief Mission Officer (CMO), Chief Financial Officer (CFO), and Chief Administrative Officer (CAO), shall submit a detailed strategic plan from which their budget will be built. Executive directors and program managers, along with the officers (CMO, CFO, CAO, and OTP), shall present to the Board of Directors the strategy and tactics that will be implemented and supported by the budget request for the upcoming fiscal year. Such plans shall be delivered to the CAO, as staff for the Board of Directors, prior to the same Board of Director meeting at which the Chief Financial Officer submits the annual budget for approval; and be it further

*Resolved*, That the Governance Committee of the Board of Directors shall establish the appropriate elements and topics to be included in the strategic plans.

### **271. Application of Proceeds from Sale of Hong Kong Property**

With Chairman Kumm resuming the chair, the board began to address the allocation of proceeds resulting from the sale (accomplished and pending) of real estate in Hong Kong, as well as from a dividend received from Concordia International School in Shanghai and funds received, constituting the repayment of Synod’s startup funds for Concordia International School Hanoi. In a first step toward allocation of these proceeds, it was moved and adopted:

*Resolved*, That the Board of Directors hereby direct the Chief Financial Officer (CFO) to apply sufficient proceeds from the sale of properties in Hong Kong, a dividend received from Concordia International School Shanghai (CISS), and a loan repayment from Concordia International School Hanoi (CISH), when such are received, as follows (in thousands [k]):

Retire historic Concordia University System (CUS) Debt	\$10,196 k
Repay Synod’s obligations in Ann Arbor/Concordia Wisconsin consolidation	2,800 k

<u>Repay CUS line of credit for Concordia Alabama expenses</u>	2,200 k
Total (estimated) allocation at present	\$15,196 k

*Resolved*, That the Board of Directors direct the Audit Committee and Operations Team to develop a plan, for presentation to the board, for the application of remaining funds from sale proceeds, the dividend received from CISS, and the loan repayment from CISH, and be it further

*Resolved*, That the remainder of sale proceeds, the CISS dividend, and the CISH repayment be held in a prudent short-term investment as “net assets board-designated for future projects” until the board determines the final disposition of such funds; and be it finally

*Resolved*, That the CFO be authorized to amend the FY19 and/or FY20 operating budgets to effect the purpose expressed above.

The observation was made by board members that a significant portion of the debt Synod relieves by this measure was incurred “for reasons that should not have happened,” and that measures must soon be put in place to ensure that these circumstances do not recur. This board and the agencies of Synod, especially Concordia University System, need to have the discipline in the future to avoid accumulating such burdensome debts.

**272. National Housing Support Corporation**

It was moved and carried that the board enter executive session, with all staff except for the CAO and attorneys excused, to discuss a matter related to the National Housing Support Corporation and the FY20 operating budget.

**272X. Executive Session IIA: National Housing Support Corporation**

**273. Chief Financial Officer and Chief Administrative Officer Annual Performance Reviews**

The board entered executive session with Val Rhoden-Kimbrough, Executive Director of LCMS Human Resources, and with the CFO, CAO, and CMO excused, to discuss officers’ annual performance reviews.

**273X. Executive Session IIB: Chief Financial Officer and Chief Administrative Officer Annual Performance Reviews**

The board returned from executive session.

**274. Personnel Committee Report and Action Items**

Personnel Committee Chair Kathy Schulz presented for her committee, which met by teleconference on April 30, delayed by Jim Carter’s unexpected surgery. She pointed out the committee’s recommendations for the various appointments to be made by the board, as indicated in the prepared docket (p. 140/246), noting the relative dearth of nominations and the committee’s resulting inability to fill slates with two candidates per position. After discussion with Governance Committee regarding board policy (which states “two candidates, if possible”, emphasizing *if possible*), Personnel Committee revised its recommendations to include at least one additional name wherever possible. These revisions were shared with the board.

Schulz reiterated that when calls for nominations go out, it is crucial for those eligible to submit nominations to do so. Personnel Committee shared ideas with Governance Committee for possible policy revision. A board member noted the volume and inconsistent relevance of information received on the candidates in the appointment packet and the approach needs revision. Schulz noted that she will be meeting with

Thompson Coburn to initiate a review of the Human Resources department, the first such review in about a decade.

Chairman Kumm introduced the three appointment action items presently before the board:

(A) Vacancy Appointment to Board of Regents—Concordia Seminary, St. Louis

Having already received the recommendation of the Personnel Committee, the board voted on the slate of nominees for appointment to the Concordia Seminary Board of Regents. It was subsequently moved 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 3.10.5.4 [b]); and

WHEREAS, The president of the Concordia Seminary has informed the LCMS Office of the Secretary that, due to the resignation of Rev. Dr. Harold L. Senkbeil, it will be necessary for the LCMS Board of Directors to make an appointment to fill the (1) one minister of religion—ordained position on the Concordia Seminary Board of Regents (for the remainder of the term Sept. 1, 2016–Aug. 31, 2022); and

WHEREAS, The LCMS Office of the Secretary and the LCMS Department of Human Resources have compiled information on all nominees and the slate of candidates from the previous convention; and

WHEREAS, The Bylaw 3.2.5 Committee, having evaluated all submitted nominations, biographical sketches, and confidential evaluations, has provided the following list of candidate names:

Minister of Religion—Ordained position (select 1):

Arnold, Tyler C.  
Thomas, Glen D.

Knippa, William B.  
Warmbier, Michael G.

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, having evaluated all submitted nominations, biographical sketches, and confidential evaluations of these candidates in its meeting of April 23, 2019, has made its recommendation to the board (LCMS BOD Policy Manual Section 5.7.2.1.4); and

WHEREAS, The LCMS Board of Directors, having received said recommendation, has from the slate presented by the Bylaw 3.2.5 Committee elected to appoint

Tyler C. Arnold

Therefore be it

*Resolved*, That the LCMS Board of Directors make the appointment as indicated above to fill the one vacant minister of religion—ordained position on the Board of Regents—Concordia Seminary, St. Louis; and be it finally

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

(B) Appointments to Board of Trustees—Concordia Plans / Board of Directors—Concordia Plan Services

The board adopted the recommendation of the Personnel Committee for the four laypersons to serve on the Board of Trustees—Concordia Plans / Board of Directors—Concordia Plan Services (out of five lay names

submitted). The board also voted on the slate of two ordained minister candidates for the one ordained position on the board. It was subsequently moved 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, 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 one (1) minister of religion—ordained position and four (4) layperson positions (September 1, 2019–2022) 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 sent out a call for nominations on January 4, 2019 for responses by Feb. 22, 2019; and

Whereas, The LCMS Office of the Secretary and Concordia Plan Services, with the assistance of the LCMS Human Resources, have compiled information on all nominees and/or incumbent nominees; and indicated that only one of the lay member incumbents have reached the end of their term limit; 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 23, 2019, made its recommendations:

Whereas the board followed the recommendation from the personnel committee for the laypersons and elected the minister of religion—ordained as follows:

Minister of Religion—Ordained:

1. Otten, David G.

Laypersons (4):

1. Becker, Dennis C.
2. Bonafede, Julia K.
3. Jaacks, James R.
4. Stromback, Judy K.

Therefore be it

*Resolved*, That the LCMS Board of Directors make the 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) Appointments to Board of Members—Lutheran Church Extension Fund

The board having already received the recommendation of the Personnel Committee, which made use of all submitted and consenting names, it was moved 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 members-at-large positions (term Nov. 1, 2019– Oct. 31, 2022) and for two to three alternates (in case any members-at-large are unable to attend the annual meeting) 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 sent out a call for nominations on January 4, 2019, for responses by Feb. 22, 2019; and

WHEREAS, The LCMS Office of the Secretary and the LCMS Department of Human Resources has compiled information on all nominees and/or incumbent nominees; 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 23, 2019, made the following recommendation:

Regular Appointments:

1. Becker, Dennis C.
2. Nau, William H.
3. Ullerich, Stanton G.
4. Vincent, George H.

Alternates:

1. Zehnder, Larry (1<sup>st</sup> alternate)
2. Rathert, Richard (2<sup>nd</sup> alternate)

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.

## **275. Governance Committee Report**

Governance Committee Chair Christian Preus offered the report (pp. 114–39/246) of his committee, which met April 16 to discuss board orientation practices and plans for orientation of new board members elected by this year’s convention, as well as the recently completed board self-review.

With regard to the 2019 board performance review (last conducted in 2016) Preus noted that the results were very positive: members are conscientious, work well together, do their job. The committee especially discussed the self-assessment’s point on the board being “aware/supportive of mission strategy,” as this was the one topic with a lower aggregate score (pp. 137–8/246). Preus noted the aspect of mission strategy, already addressed in the meeting, and invited input from the rest of the board on how to continue to address this point. The board needs to be more active in this aspect of the Synod’s life and more coordinated with those who are working in this area. Strategic plans need to percolate up to the board, and the board needs to accommodate the discussion and address this relative lacuna in its work. Board member Edwards noted that the participation rate in the survey could have been higher and that the staff involved needed questions more suited to their experience. Suggestions on the questions in general are also welcome, or as regard schedule, although a triennial review seems reasonable.

## **276. Operating and Capital Budget Adoption**

Kumm introduced the operating budget resolution (p.163/246) presented earlier by CFO Wulf. It was moved and adopted to amend the budget to reflect cessation of the LCMS grant to the National Housing Support Corporation, previously budgeted at \$150k, allocated from Mercy restricted funds. It was noted that payment of the CUS debt could result in up to \$1.44M in expenditure of undesignated funds being removed from the budget.

### **(A) Fiscal Year 2019/2020 (FY20) LCMS Operating Budget**

The operating budget was adopted as amended:

*Resolved*, That the Board of Directors approve the 2019/2020 (FY20) Mission and Ministry Operating Budget as follows:

Total Spending Plan	\$ 81,276,698
<u>Total Revenue</u>	<u>81,489,743</u>
Surplus (Deficit)	\$ 213,045

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.

**(B) Fiscal Year 2019/2020 (FY20) LCMS Capital Budget**

Chairman Kumm next introduced the capital budget resolution, presented earlier by CFO Wulf.

The board discussed the \$350k line for the Office of International Mission in Sri Lanka. CMO Robson noted that it was presented to the board in May 2016 and has been in three capital budgets. It's been deferred to this point because of the situation on the ground; inclusion in this capital budget would retain authorization for this fiscal year. Expenditure would, as always, be subject to a management decision on appropriateness.

It was moved and adopted:

*Resolved*, That the Board of Directors approve the 2019/2020 Capital Budget request totaling \$1,355,017 as shown above, 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.

**277. Action Items**

Chairman Kumm introduced the two action items remaining in the prepared board docket:

**(A) FY20 Synod Officer Salary Recommendation**

After brief discussion from the officers present, all of which demurred, the board adopted the resolution:

WHEREAS, The Department of Human Resources conducts an annual review of local and national salary trends and compares them with the current LCMS salary ranges and actual salaries. The objective of this analysis is to measure the ability of the International Center employers to remain competitive with the local not-for-profit market; and

WHEREAS, Per the Board of Directors' Policy Manual section 5.6.6.6, the board approves the salaries of the Synod Officers; and

WHEREAS, The Board of Directors has considered a 3.0 percent salary increase pool for non-officer employees; and

WHEREAS, The Officers of the Synod have been fulfilling the requirements of their positions; therefore be it

*Resolved*, That Effective July 1, 2019 the President, the Secretary, the Chief Administrative Officer, the First Vice President, the Chief Financial Officer and the Chief Mission Officer receive a 3 percent annual increase; and be it further

*Resolved*, That the FY20 bonus budget is set at 0 percent for all officers.

**(B) Cape Girardeau Property Management**

CAO Simek reviewed the terms of a property gift to the Synod in the Cape Girardeau, MO, area. (pp. 180–194/246) and the proposed arrangement with the LCMS Foundation for its management on behalf of the LCMS in a long-term financial management plan, the term of which is to be negotiated.

It was moved and adopted:

WHEREAS, The Board of Directors has accepted a bequest of approximately 310 acres of land located slightly west of Cape Girardeau, MO (the Property) which contains:

- (i) a condition of acceptance to establish a hiking trail with the beatitudes posed at appropriate points along the trails, and
- (ii) a time restriction that the land may not be sold for 20 years; and

WHEREAS, The Board of Directors wishes to outsource the management of the Property; and

WHEREAS, The LCMS Foundation (FND) provides “investment management services for legacies, bequests, ...” (Bylaw 3.6.5); and

WHEREAS, The Chief Administrative Officer (CAO) shall not allow financial transaction policies and procedures which do not specifically clarify using the LCMS Foundation where appropriate (Board of Directors Policy 4.4.1.1); and

WHEREAS, The CAO has met with FND senior management and has negotiated preliminary general terms and conditions for managing the Property which were presented to the Board of Directors on May 17, 2019; therefore be it

*Resolved*, That the Board of Directors does hereby approve entering into an agreement with the LCMS Foundation to manage the Property on the terms as summarized in the May 17, 2019, presentation and such other terms and conditions that are acceptable to the Chief Administrative Officer and Synod’s General Counsel.

#### **278. Floor Committee Weekend and Convention Activities**

Chief Administrative Officer Frank Simek reviewed with the board plans for its participation in the upcoming Floor Committee Weekend (May 31–June 3), in St. Louis, and 2019 Synod Convention, July 20–25, in Tampa, Fla. (pp. 194–203/246)

#### **279. Floor Committee and Convention Update**

Secretary John Sias highlighted for the board overtures and reports submitted to the 2019 convention related to the board’s area of responsibility, noting interest on the part of many in the Synod in the “ownership” of their institutions, but also the need for the board and staff to provide the owners the information and insight they need to participate profitably in managing our shared endeavor.

#### **280. Meeting Review**

Chairman Kumm noted that this is the last regular board meeting for Kurt Senske, Gloria Edwards, and Kathy Schulz. Noting that there will be an opportunity for a get-together and recognition at the convention, the board nonetheless took the opportunity to thank them for their service. Kumm noted the board as one of the most collegial groups he’s worked with, and the number of difficult decisions that have been made by consensus, rather than by contentious votes, speaks very well of the board. The board entered executive session, with all non-members excused, to review the meeting according to its policies.

---

#### **280X. Executive Session III: Meeting Review**

---

#### **281. Adjournment**

With the agenda concluded, Chairman Kumm adjourned the meeting with prayer.

John W. Sias, *Secretary*