

## **Sons of Norway International Board Meeting Minutes May 7-10, 2019**

The Sons of Norway International Board met May 7-10, 2019, at the Hilton Garden Inn, 6330 Point Chase, Eden Prairie, MN 55344.

### **Attendees:**

- The following officers were present: President Ron Stubbings, Vice President Mark Agerter, Secretary Marci Larson, and Treasurer Elaine Nelson.
- Also present were board members Karl Hella (District 1), Chris Hicks (District 2), Ken Johnson (District 3), Steve Halverson (District 4), Robin Fossum (District 5), Mary Beth Ingvaldstad (District 6), Erik Brochmann (District 7) and Per Mikalsen (District 8).
- Headquarters staff attending the entire meeting included CEO Eivind Heiberg and Executive Assistant Lonna Hanson. Staff members who attended part of the time were COO Chris Pinkerton, CFO Erica Oberg, Actuary Dean Stiller, Rachele Hockert, Linda Pederson, Corrie Knudson, and Lizbeth Halva.
- Also present was Legal Counsel Dave Ness from Fafinski Mark & Johnson, P.A.

### **TUESDAY, MAY 7**

The board meeting began with a group dinner at the hotel where CEO Heiberg and Legal Counsel Dave Ness presented their respective reports to the board.

### **WEDNESDAY, MAY 8**

#### **Parkway Capital Advisors**

Pursuant to the recent RFP process, Parkway Capital Advisors has replaced BTC Capital Management as Sons of Norway's investment advisor. They are a SEC registered investment firm based in Abilene, TX and have been in charge of the SON portfolio for only about a month. Parkway handles clients in the fraternal industry almost exclusively, and they are a top sponsor of the American Fraternal Alliance (AFA).

Chad Hoes, Chief Investment Officer, and Kyle Timmermann, Director of Insurance Consulting, presented to the board about the current investment climate and their investment philosophy.

Parkway's preliminary strategy for the SON portfolio was discussed. Watch list securities were also reviewed and discussed. Parkway fielded questions from the board related to the investment policy, "ethical" investing, mortgage pool investments, timing of portfolio changes and working with staff and the investment committee going forward.

#### **1<sup>st</sup> Qtr. Financials – 2019**

CFO Oberg presented the 1<sup>st</sup> quarter financial report. She made a few key remarks and then the board asked questions.

The first item she called to the board's attention was the operating statement which indicated a net loss from operations of \$592K, which was \$185K below the forecast for the first quarter. The main factor behind this discrepancy is slower than expected single premium life and annuity sales. Investment income is on forecast, but it is lower than it could have been had there been additional premium revenues to invest.

CFO Oberg said SON needs to do two things to reverse this trend: increase sales and increase efficiency. Sales growth will require additional sales personnel and better market penetration. Increasing efficiencies will require investment in technology to replace manual processes.

COO Chris Pinkerton explained what is currently happening in Sons of Norway's insurance business and why the financial statements appear as they do. He explained to the board that the insurance business is a long-term business. It can take 5-10 years to profit from an annuity or life insurance sale. The first year that a policy is put on the books it actually costs money for SON because of sales commissions and other management costs. SON begins to profit when policyholders renew their policies and continue to pay their premiums year after year. The income that SON is using to run the business now was actually generated 8-10 years ago. So even though sales have increased (50 percent over last year at this point), SON will not see those sales bear fruit for several years.

SON has 155 FBCs as of May 8, compared to 45 agents at the end of 2018. This influx of independent agents should greatly improve sales and set us up for continued growth.

CEO Heiberg also reported positive membership numbers. Six out of 12 months in 2018 showed net membership growth. We have also experienced net membership growth during the first four months of 2019. This is the first time in many, many years we have experienced such growth.

### **MVP Advisory Group**

Paul Tiede, managing partner at MVP Advisory Group, presented the board an assessment of Sons of Norway's IT capabilities. Mr. Tiede and his team spent considerable time at SON headquarters over six weeks interviewing personnel and examining SON systems. They used their previous experience working with fraternal and insurance companies to recommend improvements to the SON IT systems. Several failure points were identified, such as SON's dependence on a single software resource, highly manual processes that are overly dependent on administrative staff, desktop software that is not industry standard, and IBM servers that are near the end of their life cycle.

To make this major IT transformation, Mr. Tiede recommended that SON hire a temporary highly-skilled CIO (chief information officer) for several months to set the strategic path for IT infrastructure going forward (a 3-5 year plan). COO Pinkerton said this project will need approximately \$100K to get started.

### **Eide Bailly Audit Report**

Vanessa Dutton, audit partner, and Mollee Keys, auditor in charge, presented their findings from the Sons of Norway audit for fiscal year 2018.

- There have been no changes in accounting policies or their application during 2018.
- The audit evidence they obtained was sufficient and appropriate to provide a basis for their audit opinion.
- No misstatements were detected during the audit.
- SON's financial statements were prepared using accounting practices permitted by the Minnesota Department of Commerce, which is a basis of accounting other than accounting principles generally accepted in the U.S. For that reason, an adverse opinion on generally accepted accounting principles was given.
- Eide Bailly did not identify any deficiencies in internal control that they consider to be material weaknesses.
- Eide Bailly's opinion is that the financial statements of Sons of Norway "present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Society as of Dec. 31, 2018 and 2017."

As is customary the board went into executive session with only the auditors present. After a coffee break, headquarters staff were invited to rejoin the board.

### **Auditor Requests for Proposal (RFPs)**

CFO Oberg presented a summary and recommendation concerning retaining a new auditing firm. Six firms were asked to provide proposals:

1. H2R CPA
2. BKD CPAs & Advisors
3. Strohm Ballweg, LLP
4. Eide Bailly (our current partner)
5. RSM US LLP
6. CliftonLarsonAllen LLP (CLA)

The cost estimates from the firms ranged between \$54,675 to more than \$85,000. Four firms were selected for in person interviews: Eide Bailly, BKD, Strohm Ballweg and RSM. Two specific areas discussed in the interview process were (1) the deliverables their audit produces which could be relied on as documentation for an upcoming MN Exam and (2) the training and outreach they provide to their clients to keep them updated of current and upcoming issues. After the interviews, staff recommend that RSM US LLP would best serve SON's needs. Their estimated cost for 2019 is \$54,675. They have extensive experience in auditing nonprofit clients, and they are also an active member of the American Fraternal Alliance (AFA).

### **Revised D17 and D18 Forms**

CFO Oberg told the board that the D17 and D18 forms have been revised incorporating feedback from Fraternal Director Linda Pederson, the District Presidents, and internal headquarters staff. The graphic design team has also rebranded them and made the format simpler and more visually appealing.

The D17 form now comes with a page of instructions for filing out each line item.

Several comments and recommendations for the form were made. President Stubbings also instructed the Corporate Matters Committee to review the form and advise if any other changes are needed.

### **Committee Work**

At 4 p.m. the board went into separate committee meetings for the remainder of the day.

## **THURSDAY, MAY 9**

### **Cyber Security**

IT consultant Josh Moore presented on cyber security and the protection measures being taken to guard data. The status of the security measures was also discussed. There have been no successful breaches of our security.

IT Director Rachele Hockert reviewed the status of password protection and phone system encryption.

SON does have a robust backup disaster recovery plan. SON data is backed up daily to the cloud and could be recovered in a matter of hours. Also, SON is still using a secondary tape backup system as well.

### **Corporate Governance Annual Disclosure (CGAD)**

Legal Counsel Dave Ness reviewed progress on the Sons of Norway CGAD draft. He said the report is 90 percent complete and well ahead of schedule according to the State of Minnesota. It is expected that the State of Minnesota will pass CGAD legislation by the end of the current session.

The CGAD report describes Sons of Norway’s corporate governance framework and structure, including the qualifications and expertise of each board member. Mr. Ness recommended that this qualifications list be reviewed as an agenda item at every fall board meeting.

Mr. Ness said that board compensation needs to be analyzed every biennium as required by the resolution passed at the 2018 International Convention.

Mark Agerter suggested that the Finance Committee make a recommendation about what sources to consult or what the formula should be to adjust board compensation.

**Insurance Document Signing Authority**

The board reviewed changes to the “Insurance Document Signing Authority” letter. It was **MOVED** and **SECONDED** that it should state:

BE IT RESOLVED that any two of the following individuals are hereby authorized to execute, on behalf of Sons of Norway, insurance policy surrender forms necessary to accomplish tax-free exchanges or surrenders under Internal Revenue Code §1035, IRAs and Rollovers, and any other insurance instruments and documents as required.

Chief Executive Officer	Eivind Heiberg
Chief Financial Officer	Erica Oberg
Chief Operating Officer	Christopher Pinkerton
Actuary	Dean Stiller
Compliance Analyst	Vicki Sivula
Accounting Manager	Michelle Swanson
Accounting Manager	Scott Rajha

**MOTION CARRIED.**

**General Document & Contract Signing Authority Policy**

Legal Counsel Ness reviewed a 5-page document he and CFO Oberg prepared which spells out the authority required and number of signatures required to execute Sons of Norway documents and contracts. Only five individuals shall have the power to sign legal documents on behalf of Sons of Norway: Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Director of Sales and Fraternal Director. Each of these individuals has differing levels of authority. No individual or combination of individuals may make a purchasing decision greater than \$250,000 without the approval of the International Board. It was **MOVED and SECONDED** that the General Document & Contract Signing Authority Policy be accepted. **MOTION CARRIED.**

**Executive Session**

The board went into executive session for approximately 30 minutes.

**American Fraternal Alliance (AFA) Advocacy Trip**

Claudia Bomier and Diane Halvorson from Vennekretsen Lodge 1-559 (Anoka, MN) presented to the board about their participation in the fraternal member advocacy trip to Washington, DC April 2-4, 2019 sponsored by the American Fraternal Alliance.

They were part of a group of Minnesotans who met with Congressional members from the state to advocate for the continued tax exemption of fraternal benefit societies. They shared their volunteer activities with the representatives and let them know the important role they are playing in local communities.

They met with Senators Amy Klobuchar and Tina Smith and Representatives James Hagedorn, Angie Craig, Dean Phillips, Tom Emmer and Pete Stauber.

### **Strategic Planning and Goals Update**

Since fall of 2018 the Sons of Norway staff leadership team has used the Entrepreneurial Operating System (EOS) to develop a strategy for the organization to be successful. EOS is a set of concepts and practical tools to help businesses more appropriately align core business functions in order to better focus on their core goals and achieve them faster. CEO Heiberg invited members of the leadership team to give progress updates. Speakers were Lizabeth Halva (HR & Operations), Corrie Knudson (Foundation), Chris Pinkerton (Sales & Marketing), Erica Oberg (Finance), and Linda Pederson (Fraternal).

### **New Building Construction Update**

Reed Holliman from CBRE is the Project Manager representing SON for the build-out of our new office space on Lake Street in Minneapolis. Mr. Holliman spoke to the board about the project budget and timeline and answered questions from the board. Mr. Holliman's role is to be SON's liaison with the project developer, Ryan Companies, and to make sure our interests are protected.

Ryan Companies said the building will be weather tight by August 2019 and our occupancy date will still be Feb. 20, 2020. That means everything will be in working order, and the employees will be at their desks.

### **Committee Work**

At 3:20 p.m., the full board adjourned and the board committees met.

## **FRIDAY, MAY 10**

### **Committee Work**

The three Board committees met from 8:30 a.m. to 12 noon.

### **Executive Session**

At 12:45 p.m., the board met in executive session.

### **Past Board Minutes**

At 1 p.m. the headquarters staff rejoined the board.

Seven sets of minutes from past board meetings were reviewed:

- 1) Nov. 5-9, 2018
- 2) Nov. 6, 2018 dinner meeting
- 3) Nov. 21, 2018 teleconference
- 4) Jan. 16, 2019 teleconference
- 5) Feb. 4, 2019 teleconference
- 6) Feb. 15, 2019 teleconference
- 7) March 8, 2019 teleconference

A **MOTION** was made and **SECONDED** to accept all minutes as distributed. There were no objections or changes. **MOTION CARRIED.**

### **Finance Committee Resolutions**

President Stubbings asked for the list of 10 resolutions to be handled in a consent calendar. No resolutions were pulled for discussion. There were no objections, and **ALL FINANCE RESOLUTIONS WERE CARRIED.**

1. 2019 first quarter financials review (Board Exhibit – FIN 1).
2. Board member expense approval for the time period Oct. 1, 2018 through March 31, 2019 (Board Exhibit – FIN 2). 2019 Unallocated expenses were \$17,000 more. This included new computers and background checks for new board members.
3. BTC Capital Management investment advisor report for first quarter 2019 (Board Exhibit – FIN 3) and introductory report by our new investment advisors, Parkway Advisors (Board Exhibit – FIN 4).
4. Sons of Norway’s Investment Policy Statement (Board Exhibit – FIN 5). The Finance Committee also recommend reviewing the policy at the Fall 2019 board meeting after Parkway has had the portfolio for six months.
5. Audit Committee Report. The Audit Committee met April 23, 2019 to review and approve the audit management letter and the Dec. 31, 2018 audit report presented by Eide Bailly (Board Exhibit – FIN 6).
6. Audit Services RFP Summary and Recommendation. Six firms were asked to provide proposals: 1) H2R CPA, 2) BKD CPAs & Advisors, 3) Strohm Ballweg, LLP, 4) Eide Bailly, 5) RSM US LLP, and 6) CLA (CliftonLarsonAllen LLP). All six responded with quality offerings and the range of cost was as low as \$54,675 to more than \$85,000. The Finance Committee recommends RSM US LLP to be our new audit firm starting fiscal year 2019.
7. Membership Dues Section **2.20.1.1.1.** of the Charter and Constitution states that "dues for members shall be established by the International Board of Directors annually at its Spring Meeting." The Finance Committee recommends no change to the dues for U.S. lodges for the upcoming year of 2020.
8. IT Support Upgrade. Commit sufficient resources to do further investigation to solve our IT needs. This will include a cap of \$100K. The Finance Committee recommends approval of funds.
9. International Board Compensation. The Finance Committee reviewed board compensation for 13 fraternal. After removing the highest and lowest compensation amounts, the committee came up with the following average board compensation: \$11,150. SON board members currently average: \$5,166.

The Finance Committee recommends the following annual compensation schedule to take effect August 1, 2019 to be paid in semi-annual installments:

President	\$12,000
Vice President	\$6,000
Treasurer	\$7,000
Secretary	\$8,000
5 <sup>th</sup> Executive Member	\$5,500
Directors	\$5,000

If passed by the International Board, we recommend these increases be voted on by referendum to the International lodge.

10. 2020 International Convention Expenses – review of International Board, critical staff and spousal reimbursement to include registration & meals, flights, hotel. The committee reviewed, for the purpose of the 2020 convention only, the possibility of reimbursing only International Board and critical staff. Spouses would not be reimbursed for registration and airfare. No recommendation in change of policy at this time.

### **Corporate Matters Committee**

Mark Agerter introduced members of the Corporate Matters Committee.

#### **Life Member Status of Past International Presidents**

WHEREAS Chapter 6, Par. 1.6.1.3.c. of the Constitution states in part, "Life membership shall be extended to any member who has served as President of the International Lodge", and

WHEREAS this honor has not been bestowed on any of the past International Presidents in recent history;

THEREFORE BE IT RESOLVED that Jon Tehven, Marit Kristiansen, Dan Rude, Penny Joseph Knudsen, Jim Olson and Dennis Sorheim be immediately honored with this designation and receive all of the benefits this title conveys.

BE IT FURTHER RESOLVED that Ted Fosberg be duly recognized for this achievement even though he is already a Life Member through the normal course of his membership.

**CARRIED.**

#### **Lifting Suspension of Fredriksten Lodge 3-125**

WHEREAS since Fredriksten Lodge 3-125 was suspended February 15 because of inattention to real estate compliance issues; and

WHEREAS communication was sent to the membership outlining the real estate compliance issues and the steps for re-instatement; and

WHEREAS the lodge membership met and voted unanimously to hire a tax professional to assist them in filing the necessary documentation for their 501c designation;

THEREFORE BE IT RESOLVED that the International Board lifts the lodge suspension and restores Fredriksten to full legal status pending proof of engagement of tax counsel.

**CARRIED.**

#### **Nominating Committee Guidelines**

WHEREAS at the 2018 International Lodge meeting, the delegates voted that the International President appoint a committee to review the current nominating committee guidelines; and

WHEREAS the goal of this review was to create uniform procedures for the nominating process for candidates running for district and international board positions; and

WHEREAS the committee submitted draft guidelines to the International Board for final review and approval to be implemented for the 2020 nomination process;

THEREFORE BE IT RESOLVED that the International Board approves the draft nominating committee guidelines;

BE IT FURTHER RESOLVED that the guidelines be sent to all district presidents, district secretaries and nominating committees;

BE IT FURTHER RESOLVED that the guidelines be posted on the Sons of Norway international website under Lodge Leadership Resources.

**CARRIED.**

### Nominating Committee Guidelines (Change to CC/PP)

WHEREAS at the 2018 meeting of the Sons of Norway International Lodge, the International Board was tasked with creating uniform Nominating Committee Guidelines for the election of officers and directors of both the International and District boards; and

WHEREAS, those guidelines being created by a duly appointed committee and reviewed and approved by the International Board and through a referendum of the International Lodge;

THEREFORE BE IT RESOLVED that a new paragraph 1.11.1. be added to Chapter 11 of the Policy and Procedures as follows:

**1.11. OFFICERS AND DIRECTORS**

- 1.11.1.** All candidates for officer or director positions on the International and District Boards must be nominated and vetted in accordance with the provisions as established in the latest revision of the "Sons of Norway Guidelines for Nominating Committees."

**CARRIED.**

### Template for Preparing Resolutions

WHEREAS one of the real benefits of participating in the democratic process is the opportunity to have a voice regarding the public policy issues that affect our lives; and

WHEREAS since Sons of Norway formalizes its business policies and decisions using the resolution process, it is important that members and lodge, district and international committees and boards follow a consistent format or template in preparing, presenting and adopting resolutions; and

WHEREAS the goal of a resolution is to inform and educate the reader to take action approving the resolution; and

WHEREAS establishing a resolution template or format and guidelines will create consistency in presenting information that will impact Sons of Norway in its business practices;

THEREFORE BE IT RESOLVED that guidelines and a standard template or format to prepare and submit resolutions be added to the Policies and Procedures effective for the 2020 district and international conventions;

BE IT FURTHER RESOLVED that a new paragraph be added to Chapter 10 of the Policy & Procedures as follows:

**CHAPTER 10**

**1.10. LAWS AND AMENDMENTS**

- Par. 1.10.1.** Resolutions submitted for consideration at meetings of the International and District lodges shall be in the standard format as approved by the International Board of Directors.

BE IT FURTHER RESOLVED that the guidelines be posted on the Sons of Norway International web site under Lodge Leadership Resources.



BE IT FURTHER RESOLVED that the guidelines be sent to all District Presidents, District Secretaries, Local Lodge Presidents and Local Lodge Secretaries by September 1 of the non-convention years.

**CARRIED.**

#### Term Requirement for International Board Officer

WHEREAS the International Board is responsible for the general oversight of Sons of Norway and its financial obligations; monitors the business functions of the organization and its policies, general direction and priorities; and ensures that the decisions of the board and International Lodge are carried out; and

WHEREAS the board is accountable to certificate holders, members, regulators, auditors, other board members and the general public as fiduciary of a tax-exempt organization; and

WHEREAS the complex nature of oversight at this level requires expertise in the areas of corporate governance, strategic planning, risk management and the fraternal benefit system, all of which require a substantial amount of time in which to become proficient, particularly for members of the Executive Committee; and

WHEREAS corporate regulators are ever more concerned with the qualifications and experience levels of board members and officers of all financial institutions including Fraternal Benefit Societies;

THEREFORE BE IT RESOLVED that a new paragraph 2.11.1.1. be added to Chapter 11 of the Constitution as follows:

**2.11.1. ELIGIBILITY**

**2.11.1.1.** All candidates for an International Board Officer position must have served at least one year on the International Board in order to become eligible for that office.

**CARRIED.**

#### Benefits Committee Resolutions

##### Guidelines for Nominating Committees – Referendum

WHEREAS the “Guidelines for Nominating Committee” titled “Nominating Committees for International Officers and District Officers” is only in draft form; and

WHEREAS it’s the document that is intended for all eight Districts to follow the same guidelines for implementing the nominating process; and

WHEREAS earlier editions of the document created some inconsistencies and confusion in implementation; and

WHEREAS an updated version has been produced by the International Nominating Committee;

THEREFORE BE IT RESOLVED that the International Board issue a referendum via email or where appropriate, by regular mail, to all 2018 international convention delegates requesting them to approve the final “Guidelines for Nominating committees.” Being time sensitive, this communication must be completed no later than June 15, 2019.

The Benefits Committee recommends approval of this resolution.

**CARRIED.**

### Biennial Review of Board Policy Book

WHEREAS the International Board Policy Book is a vital document for the performance of the International Board; and

WHEREAS the 108-page International Board Policy Book document was last updated in 2014; and

WHEREAS the Policy Book needs to stay current to ensure the professional performance of the current International Board, enabling them to employ sound business practices;

THEREFORE BE IT RESOLVED that the International Board review the International Board Policy Book biennially addressing the accuracy and validity of each section.

The Benefits Committee recommends approval of this resolution.

**CARRIED.**

### Policy Book Review Committee Status

WHEREAS the International Board Policy Book has not been reviewed since 2014; and

WHEREAS a committee of three (Elaine Nelson, Marci Larson, Ken Johnson) were assigned to review the Policy Book; and

WHEREAS the status of the review is documented on the attached sixty-two (62) line spreadsheet that reflects the status of the Policy Book review process for six (6) categories have been identified as:

- Content edited/follow-up required
- Update required
- Validate accuracy
- Validate content
- Update organization charts
- Remove and validate entry in the “employee handbook”

THEREFORE BE IT RESOLVED that the committee continue with the review process to completion, communicating its status to the International Board.

The Benefits Committee recommends approval of this resolution.

**CARRIED.**

### 2020 Nominating Committee

It was **MOVED and SECONDED** that the 2020 Nominating Committee members should be former International Board Presidents Dan Rude, Jon Tehven and Marit Kristiansen. **CARRIED.**

### Vice Presidents Network

Board Vice President Agerter reported on the VP network teleconference calls he has been having with the District Vice Presidents. The VPs are particularly happy with our positive membership growth. We had a net gain of 119 members in 1<sup>st</sup> quarter 2019 compared to a net loss of 130 members in the same period last year. VP Agerter said, “We haven’t had this kind of constant membership growth in my lifetime.”

### District Presidents Forum

All eight District Presidents joined the board for a question and answer session. The board asked questions of the Presidents, and the Presidents asked questions of the board. Like the VPs, the District Presidents are very delighted with SON’s membership growth.

District 8 President Tor Arild Halvorsen gave a progress update on the 2020 International Convention that will be held in Norway.

**Odin Lodge Probation – Rugby, ND**

On Nov. 6, 2018 the board voted to lift the suspension of Odin Lodge in Rugby, ND with a probationary reinstatement that requires them to pay their liability insurance, complete a financial audit for 2018 and complete any other outstanding issues by May 1, 2019. Some of these requirements have been met, but not all. They did submit a D17 and paid their liability insurance. However, they have not had an audit. The District Treasurer could perform this function if asked.

The board determined to keep Odin Lodge under probationary status until all requirements are met.

**Next Board Meetings**

A teleconference will be scheduled in August to review 2<sup>nd</sup> quarter financials.

The next in-person meeting will be the first full week of November (Nov. 4-8, 2019). President Stubbings suggested that the Corporate Matters Committee may wish to consider extending their attendance by one day to handle their extra tasks.

President Stubbings adjourned the meeting.

Respectfully submitted,



Marci Larson  
International Board Secretary