Standard Operating Manual
Joint Seminary Fund - Revised
April 2021

Scope of Manual

This manual is produced in response to an audit of the Joint Seminary Fund (JSF) program conducted by the LCMS Internal Audit Department on June 30, 2016.

The scope of this manual addresses one of the three observations and recommendations made by the audit team, namely, to develop a standard operating policies and procedures manual for the JSF program.

> *Since Mission Advancement is raising funds on behalf of two related third-parties with this program, we believe a standard operating procedure manual should be developed for the JSF. The policies and procedures documented in this manual should include, but not be limited to, the following:*
>
> 1) *How gifts are solicited and processed*
> 2) *How gifts restricted by the donor for a specific seminary are segregated from general gifts*
> 3) *Methodologies used to calculate and charge fundraising costs*
> 4) *Types of gifts on which the fundraising costs will be assessed*
> 5) *Formulas used to determine monthly distributions to each seminary*
> 6) *Procedures for modifying any existing policies and procedures.*

Ultimately, the goal of this manual is to communicate and provide guidance to management and staff of procedures which will accomplish the goals of the JSF while enhancing the overall operating efficiency and effectiveness of the program.

Structure

About the Program

The name of the program (activities, efforts, branding, etc.) is officially the "LCMS Joint Seminary Fund". Donations can be actively solicited and received by the LCMS, or simply received and administered by the LCMS depending on donor preference.

The LCMS Joint Seminary Fund is one of several charitable giving opportunities promoted and marketed by the LCMS to support the overall goal of forming and caring for LCMS clergy. These opportunities are grouped together under the name *Pastoral Formation and Care.*

Solicitation and the receiving/receipting of gifts is under the programmatic oversight of LCMS Mission Advancement. Disbursement of donated assets to the seminaries is under the oversight of the Office of Pastoral Education and completed by Synod Accounting.

Accounts

From a program standpoint, donors can choose to support both LCMS seminaries by restricting the gift for the Joint Seminary Fund (an account), or the exclusive benefit of either of the two LCMS seminaries by name. Thus, the *program* affords three options, or accounts, for honoring donor intent:

- Joint Seminary Fund (both seminaries, by a set formula), Account A20740-23201
- Concordia Seminary, St. Louis (only), Account 266160-11100
- Concordia Theological Seminary, Fort Wayne (only, Account 266155-11100

Note that the account number for each is unique.

Intended impact of donated funds

Donations to the LCMS Joint Seminary Fund and any of its three designated accounts are considered restricted (designated) gifts by the LCMS, who may only use the net assets as granted operating support for the two seminaries (St. Louis and Fort Wayne).

The seminaries themselves received the net assets without further restrictions (unrestricted) and may use them as budgets and Boards of Regents deem best accomplish their commonly understood objectives. The LCMS places no further conditions on how the seminaries spend the donated resources.

Distinctions and Delineations

While specific in its goals, the Joint Seminary Fund ***program*** and its related accounts have been administered within a revolving administrative environment since its inception. At times there may be a question whether the Joint Seminary Fund is a program, an account, or both. The answer is both.

The LCMS Joint Seminary (Fund) <u>PROGRAM</u>

The LCMS maintains an active effort to engage, inform, solicit people in the Synod for gifts that will support the operation of Synod's two seminaries, Concordia Seminary in St. Louis (Missouri) and Concordia Theological Seminary in Fort Wayne (Indiana). The program side also responds to the needs of these contributors for accountability, stewardship, and appreciation. The program budget includes expenditures that encompass personnel, travel, printing, postage, digital and electronic tools, record management and more. The structure of the program can serve the needs of a donor – individual, household, congregation, group or organization - open to a $10 annual gift up to a multi-million estate donation that will impact the operation of the two LCMS seminaries.

The Joint Seminary <u>Fund</u> (ACCOUNT)

For the Joint Seminary Fund *account* (A20740-23201) the mandate as a restricted fund under the administrative oversight of The Lutheran-Church Missouri Synod (previously, but no longer the LCMS Foundation) and its personnel has remained consistent. Namely it is driven by a funding formula that was approved by the former (now dissolved) LCMS Board for Higher Education in July 1997.

- The first 50% of the net monthly receipts is distributed equally to each seminary

- The remaining 50% is allocated to each seminary on a percentage basis, using the number of graduates at each seminary on a three-year rolling average each July compared to the total. These numbers are reported to and maintained by the Office of Pastoral Education.

Program costs are recouped, in whole or in part, by an LCMS Board of Directors policy that allows for a prudent portion of a donor's gift to be used as revenue to fund LCMS Mission Advancement. This allocation policy (advancement services allocation) does not generate revenue for use by other departments beyond LCMS Mission Advancement. This policy is made public, including on the Synod's website.

Any allocation of revenue from donations under this policy are performed and tacked by Synod Accounting, not Mission Advancement.

<u>Seminary-specific ACCOUNTS</u>

Gifts restricted by the donor for a specific seminary, even if given in response to an LCMS Joint Seminary Fund program appeal, are administered as "agency" gifts by Synod Accounting. They are kept separate from donations intended to benefit both seminaries placed into the Joint Seminary Fund (account) using unique accounts specific to each seminary.

This means seminary-specific donations are not subject to the JSF formula and are instead treated purely as gifts restricted for the benefit of the specific seminary named by the donor/contributor. Nor are these gifts subject to the advancement services allocation policy established by the Synod Board of Directors under Board Policy Manual Section 4.2., although for any solicited gift this exempt treatment fails to fulfill the purpose of the advancement services allocation policy and creates an inconsistency.

Beyond this sole restriction, gifts remain "unrestricted" and each seminary with oversight by their respective Board of Regents selects how the funds will be used to advance theological education at their institutions.

Operational Policy and Procedure

1. Gift Solicitation and Processes

    1.1. All donor records and gift information will be considered confidential. Donor/prospect information will not be released unless the individual is engaged in Synod fundraising activities, except with the consent of the donor, or are family members of a deceased donor or except as required by law.

    1.2. Mission Advancement will keep all information about donors and gifts confidential unless written permission is received from the donor authorizing public dissemination of relevant information. Confidential information about donors and gifts will be shared internally on a need-to-know basis as determined by the Executive Director of Mission Advancement.

    1.3. In cases where the release or non-release of information is challenged, the Executive Director of Mission Advancement will consult with the Chief Mission Officer, Chief Financial Officer, Chief Administrative Office, and/or as needed the President of the LCMS Foundation. Final decisions on any challenge shall rest with the Board of Directors of Synod, communicating through the Chief Administrative Officer.

2. Gift Acceptance and Restrictions

    2.1. As recommended by the LCMS Internal Audit Department, the LCMS Accounting personnel developed and monitors procedures to ensure all specific restrictions placed on JSF deferred gifts managed by the LCMS Foundation are well documented and communicated to the seminaries upon distribution of matured gift or endowment income. This ensures donor restrictions on all JSF deferred gifts are being met.

    2.2. Likewise, Mission Advancement personnel will ensure all specific acceptance and restrictions placed on gifts to JSF are appropriately recorded. To ensure that restrictions are reported accurately, personnel will follow the fundraising policies established in the *Manual of Fund-Raising Policies and Procedures* developed by Mission Advanced (Updated: July 2014).

    2.3. Currently, LCMS will accept checks made payable to legacy entities, such as JSF. A gift to JSF in which a seminary is specifically designated to receive the gift will be recorded. A check that is made payable to a seminary and received by LCMS will not be recorded as a gift to JSF. Instead, donors of these gifts will be notified and encouraged to consult that entity.

2.4. In the instance, when a donor wishes to advance another program under pastoral formation and care, checks must clearly identify these programs by name. No gifts to these programs will be received under the auspices of JSF.

3. <u>Recouping Fundraising and Donor Services Costs</u>

3.1. Not unlike the seminaries, as stated in its articles of incorporation the LCMS is a corporation organized under the Nonprofit Public Benefit Corporation Law for public or charitable purposes only. While it is understood that charitable purposes are achieved through its various ministries, it is also acceptable that organizations will incur reasonable costs associated with carrying out its purposes.

3.2. For this reason, the LCMS relies on charitable gifts to carry out certain activities, such as proactively raising additional funding restricted for the support of its seminaries while assuming the costs to achieve this goal. As reported by the LCMS Internal Audit Department,

During fiscal years 2013 and 2014, JSF fundraising expenses were billed by LCMS Foundation and charged against the monthly JSF receipts. In fiscal 2015, when Mission Advancement assumed responsibility for JSF fundraising and receipting, fundraising costs were allocated to the JSF on a percentage basis. For fiscal years 2015 and 2016, 17.28% and 18.5%, respectively of monthly gifts received from individuals/agencies and pledge payments were charged to JSF fundraising expense. Bequests, district gifts, non-cash gifts, and investment return are not being assessed a fundraising fee (as revenue to support JSF-related work by) LCMS Mission Advancement.

3.3. Inequitable methods leading to variations in how the LCMS covered fundraising costs led to the adoption, in 2016 (beginning of the 2017 fiscal year) of a Board of Director's policy speaking to the equitable allocation of fundraising costs across all ministries based on rolling averages of performance data taken from the annual audited financial statements. The policy places responsibility on the Synod's Chief Financial Officer to calculate a rate applicable to all gifts regardless of source or designation.

3.4. The allocation rate (ceiling) is reviewed annually, and the rate (ceiling) is renewed or reset when the Synod Board of Directors approves the annual operating budget. Again, to clarify, this policy sets a maximum acceptable allocation rate, or "ceiling".

3.5. Should the adopted allocation rate result in an operating deficit on the books of Mission Advancement at the end of a fiscal year, a deficit is incurred against Synod's unrestricted net asset balance and appears on the books as a Mission Advancement deficit. If, on the other hand, the adopted rate would ever result in Mission Advancement incurring a surplus of revenue, the surplus is added to the revenues available for fundraising and donor care activity the following year, and the allocation rate is adjusted down to account for the available, existing surplus funds. The operational objective over time is to balance revenues from the allocation with actual fundraising and donor care expenses over time. This approach applies to the JSF and all other fund-raising and donor care expectations laid on Mission Advancement by the budget, except for services in support of LCMS missionaries which are under a modified version of this policy.

4. Types of Gifts

4.1. In order for the LCMS to accept and receipt a charitable donation, the gift must advance the mission of the LCMS and its ministries, including a Constitution and Bylaws expectation that the Synod, through its corporate office, provide financial support to the two seminaries. Therefore:

4.1.1. LCMS Mission Advancement will, through the LCMS Joint Seminary Fund (program), continue to encourage voluntary charitable gifts and bequests be provided for unrestricted use by the seminaries, whether distributed under the current distribution policy or given wholly to a specifically named seminary.

4.1.2. Under the *program*, any donor who selects the Joint Seminary Fund designation is assumed to have an intention to support both seminaries through the agreed upon formula approach. Appeal copy, response devises, grant proposals, etc. will clearly indicate that a JSF donation supports both seminaries.

4.1.3. Under the *program*, a donor is permitted to restrict the use of their gift to their preferred seminary only. Written documentation indicating this designation is required and must include a written notice; a clear note on the memo line of a check; a response device used in an appeal; a completed gift intention, commitment, or pledge form; a copy of a life insurance policy beneficiary statement; a copy of a will, irrevocable or revocable trust document or other testamentary gift document signed by the donor; or a response email from the donor. Gifts received without any such accompanying documentation will be treated as a gift to the JSF account and will fall within the current distribution policy.

4.2. Gifts designated to a seminary for other, more-restrictive purposes (construction, debt retirement, library acquisitions, etc.) will NOT be encouraged or accepted under the auspices of JSF. Depending on the interests of the donors, JSF personnel will:

4.2.1. Connect prospective donors to the seminaries through their advancement offices to identify specific giving opportunities available at the seminaries, or;

4.2.2. Identify other LCMS pastoral formation and care opportunities which align with donor interests and gift intent, and ultimately benefit the seminaries and the church. Such programs may include but are not limited to, Global Seminary Initiative, Preach-the-Word, and PALS.

5. The LCMS will, as a standard practice, invest permanently restricted net assets with and through the LCMS Foundation. Unless otherwise stipulated by the donor, planned gifts and endowments established through JSF that designated to a specifically named seminary will bypass JSF and issue distributions directly to the named entity.

6. <u>Distribution Formula</u>

6.1. The recommendation for determining distributions to each seminary will be initiated by the Executive Director for Pastoral Education who reports to the Chief Mission Officer. Only with the approval of Chief Mission Officer and Accounting will new distributions be established or vary.

6.2. Any new distribution formulas introduced must be accurately reflected in the reports developed by Accounting and communicated with the seminaries, Mission Advancement, and the Executive Director for Pastoral Education.

6.3. LCMS personnel and the seminaries will ensure all communications with donors and the broader church accurately communicates that all JSF distributions are based on gifts provided by donors, redistribution to the seminaries made under established policies and procedures and is one of a number of programs aimed at furthering the cause of pastoral formation and care.

7. <u>Distribution of Net Revenues to Seminaries</u>

7.1. Beginning in July 2020, Synod Accounting will distribute JSF revenues (net of the advancement services allocation) and seminary-specific donations to the seminaries on a quarterly basis through a Synod-issued check.

7.1.1. The schedule of quarterly disbursements is adjusted so that funds raised in the final month of a fiscal year (June) are disbursed in the first quarter check (July, August, September). The fourth quarter check, sent in June, will only include JSF and seminary-specific donations received in the months of April and May.

7.1.2. Any interest earned on net assets while they are held by the LCMS will also be transferred to the seminaries in each quarterly check. Interest is not subject to the advancement services allocation policy as that revenue is not generated from charitable gifts and grants.

7.2. A report(s) accounting for the amount of each transfer is provided to each seminary by Synod Accounting, and a copy is shared with both the Office of Pastoral Education and with LCMS Mission Advancement.

8. Reporting

8.1. The LCMS will produce an annual report of revenues, expenses, allocations, and distributions related to administration of the LCMS Joint Seminary Fund (program), and the three restricted accounts. The report will be made publicly available on the LCMS website after the release of Synod's audited financial statements. Print copies of the annual report will be provided upon request to anyone who does not have access to the world wide web (internet).

8.2. The LCMS will produce unaudited reports of such nature and frequency as to meet the needs and expectations of the public, and the two seminaries, for additional information. Such reports include, but are not limited to, the monthly accounting of net assets realized from voluntary charitable contributions.

9. Modifying Existing Policies and Procedures

9.1. The writing of a new policy and procedure or the revision of an existing policy or procedure may be authorized by the Executive Director of Mission Advancement, in consultation with the Chief Mission Officer; or, in cases where the Chief Mission Officer is unavailable, with the President of Synod. This recommendation process may also be initiated by the Executive Director for Pastoral Education who reports to the Chief Mission Officer.

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