LUTHERAN FOUNDATION OF TEXAS

Financial Statements as of and for the Years Ended December 31, 2015 and 2014 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lutheran Foundation of Texas:

We have audited the accompanying financial statements of Lutheran Foundation of Texas (a nonprofit organization) (the "Foundation"), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maxwell Locke & Ritter LLP

Austin, Texas
October 27, 2016

LUTHERAN FOUNDATION OF TEXAS

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 241,183	$ 247,509
Management fee receivable	56,217	49,133
Prepaid insurance	30,608	20,427
Property and equipment, net	74,920	53,805
Investments	7,326,168	8,349,742
Investments held for others	32,902,877	33,524,488
TOTAL ASSETS	$ 40,631,973	$ 42,245,104
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accrued expenses	$ 57,461	$ 54,114
Deferred revenue	8,781	3,115
Charitable gift annuities	52,955	56,475
Agency and trust accounts	13,115,562	13,430,386
Endowments benefiting others	19,734,360	20,037,627
Total liabilities	32,969,119	33,581,717
NET ASSETS:		
Unrestricted	2,066,881	2,526,393
Temporarily restricted	2,003,943	2,292,015
Permanently restricted	3,592,030	3,844,979
Total net assets	7,662,854	8,663,387
TOTAL LIABILITIES AND NET ASSETS	$ 40,631,973	$ 42,245,104

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Management fees	$ 474,597	-	-	474,597
Contributions	139,306	7,302	76,519	223,127
Rents and royalties	82,715	-	65	82,780
Investment income	48,592	59,287	109,678	217,557
Other income	317	44,652	-	44,969
Net realized and unrealized losses on investments	(432,173)	(179,242)	(139,194)	(750,609)
Actuarial and other losses	(50,322)	(181,423)	(253,087)	(484,832)
Distributions to support unrestricted operations and Board-designated programs	86,078	-	(86,078)	-
Transfers to permanent endowment	(39,148)	-	39,148	-
Net assets released from restrictions	38,648	(38,648)	-	-
Total revenues, gains and other support	348,610	(288,072)	(252,949)	(192,411)
EXPENSES:				
Program services - development	475,976	-	-	475,976
Support services - management and general	332,146	-	-	332,146
Total expenses	808,122	-	-	808,122
CHANGE IN NET ASSETS	(459,512)	(288,072)	(252,949)	(1,000,533)
NET ASSETS, beginning of year	2,526,393	2,292,015	3,844,979	8,663,387
NET ASSETS, end of year	$ 2,066,881	2,003,943	3,592,030	7,662,854

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Management fees	$ 486,275	-	-	486,275
Contributions	163,544	13,955	155,715	333,214
Rents and royalties	200,831	-	-	200,831
Investment income	36,790	44,686	111,335	192,811
Other income	606	411	-	1,017
Net realized and unrealized gains (losses) on investments	115,854	(238,820)	27,569	(95,397)
Actuarial and other gains (losses)	(34,793)	63,460	253,989	282,656
Distributions to support unrestricted operations and Board-designated programs	86,130	-	(86,130)	-
Transfers to permanent endowment	(111,545)	-	111,545	-
Total revenues, gains and other support	943,692	(116,308)	574,023	1,401,407
EXPENSES:				
Program services - development	444,841	-	-	444,841
Support services - management and general	342,010	-	-	342,010
Total expenses	786,851	-	-	786,851
CHANGE IN NET ASSETS	156,841	(116,308)	574,023	614,556
NET ASSETS, beginning of year	2,369,552	2,408,323	3,270,956	8,048,831
NET ASSETS, end of year	$ 2,526,393	2,292,015	3,844,979	8,663,387

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (1,000,533)	$ 614,556
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	15,667	15,451
Net realized and unrealized losses on investments	750,609	95,397
Contributions restricted for long-term investment	(83,821)	(169,670)
Investment income restricted for long-term investment	(168,965)	(156,021)
Actuarial and other (gains) losses	484,832	(282,656)
Loss on disposition of property and equipment	-	(1,683)
Changes in operating assets and liabilities:		
Management fee receivable	(7,084)	31,995
Prepaid insurance	(10,181)	(5,152)
Investments held for others	621,611	1,226,306
Accrued expenses	3,347	4,553
Deferred revenue	5,666	(5,709)
Charitable gift annuities	(3,520)	(3,715)
Agency and trust accounts	(314,824)	(1,548,718)
Endowments benefiting others	(303,267)	326,127
Net cash (used in) provided by operating activities	(10,463)	141,061
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchases of property and equipment	(36,782)	(29,447)
Net purchases of investments	(211,867)	(430,883)
Net cash used in investing activities	(248,649)	(460,330)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	83,821	169,670
Investment income restricted for long-term investment	168,965	156,021
Net cash provided by financing activities	252,786	325,691
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,326)	6,422
CASH AND CASH EQUIVALENTS, beginning of year	247,509	241,087
CASH AND CASH EQUIVALENTS, end of year	$ 241,183	$ 247,509

See notes to financial statements.

1. ORGANIZATION

Lutheran Foundation of Texas (the "Foundation") is a corporate nonprofit foundation dedicated to providing a ministry to the people of The Lutheran Church-Missouri Synod ("LCMS"), especially those in the Texas District, and the Christian community at large. The Foundation accomplishes its goals through accepting contributions and administering trusts and endowment funds. The mission of the Foundation is to educate people about planned giving, facilitate receipt of their gifts, and distribute assets according to their desires to sustain ministries that otherwise would be unfunded or inadequately funded.

The Foundation serves as a charitable organization exempt from income tax under Section 501(c)(3), 509(a)(3) and other applicable provisions of the U.S. Internal Revenue Code (the "Code") and comparable state law. Contributions to it are tax deductible within the limitations prescribed by the Code. The Foundation has been classified as a publicly supported organization which is not a private foundation under the Code. The Foundation did not incur any tax liabilities due to unrelated business income in 2015 or 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Under the accrual basis of accounting, revenue is recognized when earned regardless of when collected and expenses are recognized when the obligation is incurred regardless of when paid. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

<u>Unrestricted Net Assets</u> **-** Net assets that are not restricted by donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Unrestricted amounts are those currently available for use by the Foundation or at the discretion of the Board of Directors for the Foundation's use.

<u>Temporarily Restricted Net Assets</u> **-** Net assets subject to donor imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets are subject to donor-imposed stipulations that must be maintained permanently by the Foundation. Those net assets are not available for use in operations and limitations neither expire by passage of time nor can they be fulfilled or otherwise removed by actions of the Foundation. The Foundation classifies as permanently restricted net assets all trusts and endowment funds in which the donor has granted the Board of Directors ("the Board") variance power regarding beneficiary selection. These endowments include the Foundation's permanent ministry endowment, to which management can make elective transfers of contributions having no explicit donor restrictions. Such transfers then become permanent additions to its corpus. Furthermore, split-interest agreements having any charitable component that must be maintained in perpetuity as designated by the donor are also classified as permanently restricted net assets.

Use of Estimates - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents - The Foundation considers all unrestricted cash and short-term investments with original maturities of three months or less to be cash equivalents.

Property and Equipment - Purchases of property and equipment are capitalized at cost. Maintenance and repairs are charged to expense as incurred, while all additions or betterments greater than $1,000 that have a benefit of more than one year are capitalized. The Foundation computes depreciation expense using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and fixtures	10 years
Automobiles	5 years
Computer software	3-5 years

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. If the estimated fair value of an asset is less than its carrying amount, an impairment loss is recognized based on the fair value of the asset. Management believes there had been no impairment of such assets as of December 31, 2015 and 2014.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Investment transactions are recorded on the trade date. Investment income is recorded when earned. Realized gains and losses are recorded as the difference between historical cost and fair value. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 **-** Inputs based on quoted market prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 **-** Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability, developed from market data obtained from sources independent of the Foundation.

Level 3 **-** Unobservable inputs that reflect the Foundation's own assumptions about the assumptions market participants would use in pricing the asset or liability, developed from the best information available.

In general, three valuation techniques may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Deferred Revenue - Deferred revenue includes amounts received in up-front bonuses related to leases on the Foundation's mineral interests. Revenue is recognized over the lease term, generally three to five years.

Charitable Gift Annuities - Donors contribute assets in exchange for the right to receive a fixed dollar annual return for their benefit or for the benefit of third parties. Upon receipt of each such gift, the Foundation calculates the present value of the periodic payments due to the beneficiaries and classifies this amount as annuities payable. The Foundation determines the present value of the future periodic payments on an actuarial basis based on the annuitant's life expectancy. The discount rate used in determining fair value of the liabilities at December 31, 2015 and 2014 was 2.0%, and represents the Applicable Federal Rate issued monthly by the Internal Revenue Service ("IRS"). Significant increases or decreases in these inputs in isolation would result in a significantly lower or higher fair value measurement. Any income earned on charitable gift annuity investments is also credited to charitable gift annuities payable. The carrying value of the charitable gift annuities is determined annually based on actuarial estimates. Any changes in the present value of the charitable gift annuities payable are recorded as actuarial gain or loss on the statements of activities.

The Foundation is required by the State of Texas to maintain a reserve of at least $100,000 to make payments if the assets are depleted. This reserve is held in unrestricted net assets.

Agency and Trust Accounts - The Foundation accepts cash and other financial assets from organizations and individuals and agrees to return those assets and the earnings thereon, or both, or transfer them to specified beneficiaries. At the time the gift is received, the Foundation records the trust assets at their fair value and an offsetting liability for the same amount. Subsequent valuations of trust liabilities are determined annually based on the fair value of the trust assets.

Charitable Remainder Trusts - The Foundation accepts cash and other financial assets from donors who establish trusts, from which specified distributions are made either from principal or earnings to one or more beneficiaries over a specified term or for life. At the time the gift is received, the Foundation records the trust assets at their fair value and a liability for the present value of any expected future cash distributions to the beneficiaries. The present value is based on the Foundation's assumptions about the projected rate of return on the trust investments, the discount rate for the obligation, and the expected mortality of the individual on which termination of the agreement depends, if applicable. Significant increases or decreases in these inputs in isolation would result in a significantly lower or higher fair value measurement.

The Foundation is named as co-beneficiary of certain charitable remainder trusts under its management. At the time a gift of this nature is received, the Foundation records a temporarily restricted contribution unless the donor explicitly imposes a permanent restriction or grants the Foundation unrestricted access to the funds. The fair value of the Foundation's beneficiary interest is the excess of the gift amount over the estimated liability pertaining to the other beneficiaries.

Subsequent valuations of all charitable remainder trust liabilities are determined annually based on applicable discount rates and mortality tables. The discount rate used in determining fair value of the liabilities at December 31, 2015 and 2014 was 2.0%, and represents the Applicable Federal Rate issued monthly by the IRS. The Foundation uses mortality index tables also issued by the IRS. Any changes in the present value of the liabilities are recorded as actuarial gains or losses on the statements of activities.

For purposes of presentation, charitable remainder trusts are included as a component of agency and trust accounts on the statements of financial position.

Endowments Benefiting Others - The Foundation accepts cash and other financial assets as trustee of life-income, student loan and scholarship, ministry and memorial, and other types of endowment agreements. At the time the gift is received, the Foundation records the endowment assets at their fair value and an offsetting liability for the same amount. Subsequent valuations of endowment liabilities are determined annually based on the fair value of the endowment assets. Endowments for which the Foundation has no variance power are included in this liability.

Management Fees - The Foundation charges all asset funds an administrative fee. The fee is generally computed on a sliding scale basis as 0.5% to 1.5% per annum of the fair value of fund assets and is collected quarterly.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Expense Allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and support services benefited.

Fundraising Expenses - The Foundation's only program is development. Other than grants made to ministries, all the expenses reported under the development functional category in the supplemental schedule of functional expenses are considered fundraising expenses and were expensed as incurred.

Recently Issued Accounting Pronouncements - In May 2015, the FASB issued Accounting Standards Updates ("ASU") No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent).* ASU No. 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by ASC 820, *Fair Value Measurement*. ASU No. 2015-07 is effective for the year ended December 31, 2017, and is to be applied retrospectively, with early application permitted. The Foundation anticipates minor disclosure changes as a result of the implementation.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statements of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statements of activities the amount of the change in each of these two classes of net assets. The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method, however it will be required for an entity to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its financial statements.

3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to credit risk consist of cash and cash equivalents and investments. The Foundation places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Management believes no significant risk exists with respect to cash and cash equivalents. Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statements of financial position and statements of activities.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2015	2014
Furniture, fixtures and automobiles	$ 164,707	$ 127,925
Computer software	52,406	52,406
Total	217,113	180,331
Accumulated depreciation	(142,193)	(126,526)
Property and equipment, net	$ 74,920	$ 53,805

5. INVESTMENTS

Investments and investments held for others measured at fair value at December 31, 2015 consisted of the following:

	Fair Value	Level 1	Level 2	Level 3
Exchange-traded funds	$ 6,198,821	6,198,821	-	-
Cash and cash equivalents	6,195,430	6,195,430	-	-
Common stocks	5,910,191	5,910,191	-	-
Corporate bond mutual funds	5,087,249	5,087,249	-	-
Corporate bonds	2,876,996	-	2,876,996	-
U.S. Treasury notes	2,652,283	2,652,283	-	-
Growth taxable mutual funds	2,261,745	2,261,745	-	-
Mortgage-backed and asset-backed securities	1,782,731	-	1,782,731	-
Corporate taxable equity mutual funds	1,305,542	1,305,542	-	-
Real estate	1,116,655	-	-	1,116,655
Fixed income mutual funds	997,554	997,554	-	-
Cash surrender value of life insurance policies	588,163	-	588,163	-
Annuities	561,530	-	561,530	-
Notes receivable	556,868	-	556,868	-
Mineral interests	502,866	-	-	502,866
Municipal bonds	454,590	454,590	-	-
Government taxable mutual funds	329,677	329,677	-	-
U.S. government and agencies	321,100	321,100	-	-
Managed futures	269,046	-	269,046	-
Certificates of deposit	221,400	221,400	-	-
Government non-taxable mutual funds	33,184	33,184	-	-
Other receivables	5,127	-	5,127	-
Private company stock	297	-	-	297
Total investments	$ 40,229,045	31,968,766	6,640,461	1,619,818

Changes in investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows:

Balance, December 31, 2014	$ 2,688,178
Sales of real estate	(508,380)
Total net losses (realized/unrealized)	(559,980)
Balance, December 31, 2015	$ 1,619,818

Investments and investments held for others measured at fair value at December 31, 2014 consisted of the following:

	Fair Value	Level 1	Level 2	Level 3
Exchange-traded funds	$ 9,378,839	9,378,839	-	-
Corporate bond mutual funds	4,949,279	4,949,279	-	-
Corporate bonds	4,848,425	-	4,848,425	-
Common stocks	3,882,344	3,882,344	-	-
Cash and cash equivalents	3,648,190	3,648,190	-	-
U.S. Treasury notes	2,209,643	2,209,643	-	-
Mortgage-backed and asset-backed securities	2,148,277	-	2,148,277	-
Corporate taxable equity mutual funds	1,893,496	1,893,496	-	-
Growth taxable mutual funds	1,656,113	1,656,113	-	-
Real estate	1,584,985	-	-	1,584,985
Mineral interests	1,102,896	-	-	1,102,896
Fixed income mutual funds	949,033	949,033	-	-
Annuities	646,831	-	646,831	-
Notes receivable	580,087	-	580,087	-
Cash surrender value of life insurance policies	548,675	-	548,675	-
Municipal bonds	491,011	491,011	-	-
U.S. government and agencies	457,274	457,274	-	-
Government taxable mutual funds	326,615	326,615	-	-
Certificates of deposit	234,050	234,050	-	-
Managed futures	210,000	-	210,000	-
Government non-taxable mutual funds	126,076	126,076	-	-
Other receivables	1,794	-	1,794	-
Private company stock	297	-	-	297
Total investments	$ 41,874,230	30,201,962	8,984,090	2,688,178

Changes in investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows:

Balance, December 31, 2013	$ 3,310,246
Sales of real estate	(643,789)
Total net gains (realized/unrealized)	21,721
Balance, December 31, 2014	$ 2,688,178

Level 1 and Level 2 investments have been valued using a market approach. Level 3 real estate investments and private company stock have been valued using a market approach while the Level 3 mineral interest investments have been valued using an income approach. There have been no changes in the valuation methodologies used at December 31, 2015 and 2014.

Cash and cash equivalents, certificates of deposit, and marketable investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker-dealer quotations, or other alternative pricing sources with reasonable levels of price transparency. Marketable investments includes publicly-traded investments such as stock, mutual funds, bond funds, equity funds, exchange-traded funds, U.S. Treasury notes, and governmental securities and agencies. Level 1 investments held by the Foundation are deemed to be actively traded.

Bonds, mortgage-backed and asset-backed securities ("MBSs" and "ABSs"), annuities, notes receivable, and the cash value of life insurance policies are designated as Level 2 instruments since valuations are obtained from readily-available pricing sources for comparable instruments. Bonds, MBSs, and ABSs are valued based on recently executed prices. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. In the absence of market prices, bonds, MBSs, and ABSs are valued as a function of cash flow models using observable market-based inputs (e.g. yield curves, spreads, prepayments and volatilities). Annuities are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. At December 31, 2015 and 2014, contract value approximates fair value. Notes receivable are valued at the outstanding balance due from borrower. Managed futures are valued on a net asset value basis, based upon the valuation of the underlying assets and subject to discretionary adjustments by the manager of its master fund. The cash value of life insurance policies was reflected in the financial statements at fair value based on the cash value reflected on the policy statement at December 31, 2015 and 2014.

Real estate, mineral interests, and private company stock are classified within Level 3 since observable inputs are minimal. Real estate and mineral interests carrying values are determined by taking into account appraised value, tax authorities' valuations, annual income, and the changes in these amounts over time. Real estate and mineral interests are not routinely re-appraised; thus, valuations are based upon the advice of real estate professionals and local conditions. Private company stock is carried at $1.00 per share. Significant increases or decreases in either of these inputs in isolation would result in a significantly lower or higher fair value measurement.

6. CHARITABLE GIFT ANNUITIES

The following is a rollforward of the liabilities under charitable gift annuities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2015	2014
Balance, beginning of year	$ 56,475	$ 60,190
Net income	6,054	8,638
Beneficiary distributions	(38,661)	(55,482)
Fair market value adjustment	(16,979)	6,638
Actuarial gains	46,066	36,491
Balance, end of year	$ 52,955	$ 56,475

7. AGENCY AND TRUST ACCOUNTS

Agency and trust accounts were comprised of the following at December 31:

	2015	2014
Irrevocable trusts due other remaindermen	$ 3,962,825	$ 4,471,003
Irrevocable trusts due life beneficiaries	3,358,434	3,446,952
Revocable trusts	2,464,717	2,744,679
Church fund management agreements	1,862,362	1,278,645
Agency fund management agreements	1,114,996	1,161,012
Irrevocable trusts - pass through gifts	352,228	328,095
Total agency and trust accounts	$ 13,115,562	$ 13,430,386

Church and Agency Fund Management Agreements - The Foundation offers services for the investment and management of funds belonging to LCMS congregations and agencies as well as other Christian organizations. The net interest earned from these invested funds is paid to the investors on a monthly, quarterly, semiannual, or annual basis.

Revocable Trusts - All trust income, deductions, and credits are reportable by the grantor for tax purposes.

Irrevocable Trusts - Certain charitable remainder unitrusts and other miscellaneous trusts contain provisions to distribute assets to remaindermen other than the Foundation.

At December 31, 2015, the assets and liabilities of the split-interest charitable remainder unitrusts were $345,675 and $160,055, respectively. At December 31, 2014, the assets and liabilities of the split-interest charitable remainder unitrusts were $370,574 and $149,621, respectively.

The following is a rollforward of the liabilities under split-interest trust agreements measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31:

	2015	2014
Balance, beginning of year	$ 149,621	$ 127,141
Contributions	260	68,520
Net income (loss)	1,225	(1,199)
Beneficiary distributions	(12,890)	(13,464)
Realized gains	12,245	28,207
Fair market value adjustment	(25,676)	(24,120)
Actuarial gain (loss)	35,270	(35,464)
Balance, end of year	$ 160,055	$ 149,621

8. ENDOWMENTS

The Board has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (“TUPMIFA”), barring any explicit donor restrictions to the contrary, as not requiring the preservation of the fair value of the original gift as of the gift date. In the absence of donor restrictions, the net appreciation is spendable under TUPMIFA. The Foundation’s donors have not placed restrictions on the use of the investment income or net appreciation of their funds.

The investment policy of the Foundation is developed and amended by the Investment Committee, with approval by the Board. The investment policy details the objectives, risk management, investment selection and monitoring procedures. The main objective of the Foundation regarding investments is to maximize return within an acceptable level of risk.

The Foundation seeks to understand the appropriate investment strategy for each account. Specific investment objectives include:

Liquidity **-** short-term investments

Capital Preservation **-** safety-oriented

Income **-** maximum income consistent with protection of capital

Total Return **-** invested for income, equity growth, or both

Growth **-** equity growth with little or no current income

The Foundation is guided by the prudent man rule: "In acquiring, investing, reinvesting, exchanging, retaining, selling, supervising, and managing property for the benefit of another, the Investment Committee of the Foundation shall exercise the judgment and care under the current circumstances that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of their capital."

The Foundation had 279 and 275 separate endowments under its management as of December 31, 2015 and 2014, respectively. Income earned on all endowments is either paid to the designated beneficiaries or added to the corpus in accordance with the donors' restrictions. The Foundation's endowment spending policy is dependent upon the wording found in each individual endowment agreement.

Twenty-seven endowments earn income directly for the Foundation and are included in the Foundation's net assets. All are donor-restricted endowment funds and are classified as permanently restricted net assets. As of December 31, 2015 and 2014, all of the distributable earnings from these endowments had been spent.

Included in these endowments is the Foundation's permanent ministry endowment. Management can make elective transfers to fund this endowment with contributions to which no explicit donor restrictions apply, which then become permanent additions to its corpus. Those amounts are not available for expenditure and cannot be subsequently removed by the Board per the resolution creating the endowment. That resolution also states that only the net income generated by the endowment is available for expenditure by the Foundation for its administrative and operational expenses. Any excess net income is available for grants to qualified ministries of the Texas District LCMS at the discretion of the Board.

Changes in net assets of the twenty-seven permanently restricted endowments for years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Endowment net assets, beginning of year	$ 2,981,113	$ 2,867,374
Contributions and transfers	111,224	187,893
Distributions to support unrestricted operations and Board-designated programs	(86,078)	(86,130)
Net investment activity	(107,358)	11,976
Endowment net assets, end of year	$ 2,898,901	$ 2,981,113

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted amounts are those not available for use by the Foundation until commitments regarding the lifetime beneficiary interests have ceased.

Temporarily restricted net assets were restricted for the following at December 31:

	2015	2014
Irrevocable trusts	$ 1,806,803	$ 2,044,143
Miscellaneous trusts	119,154	151,194
Charitable gift annuities	77,986	96,678
Total temporarily restricted net assets	$ 2,003,943	$ 2,292,015

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted amounts are those restricted by donors in perpetuity as endowments and other trusts that will or have become endowments upon termination of the trust.

Permanently restricted net assets were restricted for the following at December 31:

	2015	2014
Endowment funds	$ 2,898,901	$ 2,981,113
Other trusts	693,129	863,866
Total permanently restricted net assets	$ 3,592,030	$ 3,844,979

11. PROGRAM AND SUPPORT SERVICES

The following program and support services are included in the accompanying financial statements:

Development - Development services include education and facilitation of gift planning to individuals, Christian ministries, and charitable organizations, largely from accumulated assets and accomplished through either testamentary or lifetime transfer. Gift plans include charitable gift annuities, trusts, endowments, irrevocable insurance trusts, outright gifts of appreciated property, and other vehicles. Grants made to deserving ministries through decisions made by the Board are included in Development services.

Management and General - Management and general services include the administration and operation of the Foundation and asset management, trust accounting, donor services, policies and procedures, security and control, investing, and other activities typical of a religious charitable foundation.

12. RETIREMENT PLAN

The Foundation employees participate in a retirement plan sponsored by LCMS. The employer contribution for the years ended December 31, 2015 and 2014 was $38,922 and $36,095, respectively.

13. RELATED PARTY TRANSACTIONS

The Foundation serves as trustee for numerous endowments and trusts from which Texas District LCMS derives a beneficial interest. The market value of assets in these endowments and trusts comprising the beneficial interest was $6,356,105 and $6,771,123, as of December 31, 2015 and 2014, respectively.

The Foundation also holds term notes issued by the Church Extension Fund of Texas District LCMS. As of December 31, 2015 and 2014, the market value of these term notes was $466,500 and $580,087, respectively. These notes are classified as notes receivable in the Foundation's investments.

The Foundation engaged in the following transactions with Texas District LCMS for the years ended December 31:

		2015		2014
Principal and income distributions to Texas District LCMS from beneficial interest in endowments and trusts held by the Foundation	$	135,176	$	141,816
Unrestricted cash contribution from Texas District LCMS to the Foundation	$	45,417	$	50,417
Estimated market value of the Foundation's office space, contributed by Texas District LCMS on an in-kind basis	$	39,235	$	38,026
Interest received on Church Extension Fund term notes	$	8,259	$	12,556

The Foundation received $1,825 and $3,240 in contributions from Board members for the years ended December 31, 2015 and 2014, respectively.

14. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through October 27, 2016 (the date the financial statements were available to be issued), and no events have occurred from the statement of financial position date through that date that would impact the financial statements.

SUPPLEMENTAL SCHEDULE

LUTHERAN FOUNDATION OF TEXAS

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Development	Management and General	Total
Salaries and wages	$ 251,923	185,124	437,047
Employee benefits	63,242	46,871	110,113
Accounting and professional services	11,335	39,070	50,405
Rent	19,680	19,555	39,235
Insurance	18,900	14,007	32,907
Grants to ministries	30,361	-	30,361
Information technology support	16,899	12,524	29,423
Depreciation	14,828	839	15,667
Promotion and public relations	13,726	-	13,726
Conferences	5,966	3,619	9,585
Board meetings	6,744	1,319	8,063
Auto	6,315	-	6,315
Travel	5,704	-	5,704
Bank charges	949	4,195	5,144
Telephone	3,887	972	4,859
Postage	2,543	619	3,162
Taxes	-	1,770	1,770
Office supplies	843	576	1,419
Dues and memberships	593	529	1,122
Minor equipment	784	10	794
Equipment maintenance	416	309	725
Legal fees	230	58	288
Books and periodicals	108	80	188
Miscellaneous	-	100	100
	$ 475,976	332,146	808,122