

**LUTHERAN FOUNDATION
OF TEXAS
(dba LEGACY DEO)**

**Financial Statements
as of and for the Years Ended
December 31, 2017 and 2016 and
Independent Auditors' Report**



MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 411 West Main Street, Suite 300
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lutheran Foundation of Texas (dba Legacy Deo):

We have audited the accompanying financial statements of Lutheran Foundation of Texas (dba Legacy Deo) (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the statement of functional expenses for the year ended December 31, 2017, 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.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

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, 2017 and 2016, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Foundation adopted Financial Accounting Standards Board Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2017. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Maxwell Locke: Ritter LLP

Austin, Texas
November 1, 2018

LUTHERAN FOUNDATION OF TEXAS (dba LEGACY DEO)

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 273,387	\$ 239,542
Investments	3,501,967	3,823,847
Prepaid insurance	33,952	30,603
Property and equipment, net	38,607	51,480
Accounts receivable	56,925	54,111
Note receivable	51,776	72,950
Investments restricted as to use	4,001,338	3,437,304
Investments held for others	33,802,002	33,720,258
TOTAL ASSETS	<u>\$ 41,759,954</u>	<u>\$ 41,430,095</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accrued expenses	\$ 67,897	\$ 76,941
Deferred revenue	2,293	4,792
Charitable gift annuities	44,307	49,550
Agency and trust accounts	11,123,605	12,740,088
Endowments benefiting others	22,634,090	20,930,620
Total liabilities	33,872,192	33,801,991
NET ASSETS:		
Without donor restrictions	3,886,424	4,190,800
With donor restrictions	4,001,338	3,437,304
Total net assets	7,887,762	7,628,104
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,759,954</u>	<u>\$ 41,430,095</u>

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS (dba LEGACY DEO)

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT:			
Management fees	\$ 450,680	\$ -	\$ 450,680
Contributions	176,419	214,975	391,394
Investment income	76,604	97,566	174,170
Rents and royalties	55,625	168	55,793
Other income	725	-	725
Actuarial and other gains	2,447	301,508	303,955
Net realized and unrealized (losses) gains on investments	(331,483)	156,017	(175,466)
External distributions required by donors	-	(124,652)	(124,652)
Distributions to support unrestricted operations and Board-designated programs	81,548	(81,548)	-
Total revenues, gains, and other support	512,565	564,034	1,076,599
EXPENSES:			
Program services	594,102	-	594,102
Support services	222,839	-	222,839
Total expenses	816,941	-	816,941
CHANGE IN NET ASSETS	(304,376)	564,034	259,658
NET ASSETS, beginning of year	4,190,800	3,437,304	7,628,104
NET ASSETS, end of year	\$ 3,886,424	\$ 4,001,338	\$ 7,887,762

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS (dba LEGACY DEO)

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT:			
Management fees	\$ 465,638	\$ -	\$ 465,638
Investment income	73,819	142,053	215,872
Contributions	108,405	103,959	212,364
Rents and royalties	44,687	377	45,064
Other income	404	-	404
Actuarial and other losses	(2,811)	(68,563)	(71,374)
Net realized and unrealized (losses) gains on investments	(38,863)	235,801	196,938
External distributions required by donors	-	(184,876)	(184,876)
Distributions to support unrestricted operations and Board-designated programs	76,446	(76,446)	-
Net assets released from restrictions	1,912,142	(1,912,142)	-
Total revenues, gains, and other support	2,639,867	(1,759,837)	880,030
EXPENSES:			
Program services	653,277	-	653,277
Support services	317,600	-	317,600
Total expenses	970,877	-	970,877
CHANGE IN NET ASSETS	1,668,990	(1,759,837)	(90,847)
NET ASSETS, beginning of year	2,521,810	5,197,141	7,718,951
NET ASSETS, end of year	\$ 4,190,800	\$ 3,437,304	\$ 7,628,104

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS (dba LEGACY DEO)

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

	Program Services			Support Services	
	Gift Acquisition	Gift Administration	Total Program Services	Management and General	Total Expenses
Salaries, wages, benefits, and payroll taxes	\$ 207,028	\$ 190,677	\$ 397,705	\$ 135,464	\$ 533,169
Professional fees, contract services, and insurance	51,356	34,887	86,243	64,303	150,546
Occupancy, telephone, and supplies	19,873	18,304	38,177	13,133	51,310
Grants and awards	-	36,709	36,709	-	36,709
Conferences, travel, staff development, and board meetings	13,256	5,093	18,349	8,860	27,209
Depreciation and amortization	15,399	1,520	16,919	1,079	17,998
	<u>\$ 306,912</u>	<u>\$ 287,190</u>	<u>\$ 594,102</u>	<u>\$ 222,839</u>	<u>\$ 816,941</u>

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS (dba LEGACY DEO)

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for management services performed	\$ 448,591	\$ 468,148
Cash received for charitable contributions	96,403	25,004
Dividends and interest received	109,434	47,658
Cash received for royalties	54,671	42,846
Cash received for payments on note receivable	21,174	2,796
Cash received from related parties	40,417	45,000
Cash payments to employees, grantees, and vendors	(805,945)	(942,700)
Cash payments to external beneficiaries	(124,652)	(184,876)
Net cash used in operating activities	(159,907)	(496,124)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,125)	(6,306)
Sales of property and equipment	-	8,100
Net sales (purchases) of investments	(113,665)	246,678
Net cash provided by (used in) investing activities	(118,790)	248,472
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	214,976	103,959
Investment income restricted for long-term investment	97,566	142,052
Net cash provided by financing activities	312,542	246,011
NET CHANGE IN CASH AND CASH EQUIVALENTS	33,845	(1,641)
CASH AND CASH EQUIVALENTS, beginning of year	239,542	241,183
CASH AND CASH EQUIVALENTS, end of year	\$ 273,387	\$ 239,542

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS (dba LEGACY DEO)

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2017 AND 2016

1. ORGANIZATION

Lutheran Foundation of Texas (the “Foundation”) is a corporate nonprofit foundation dedicated to providing a needed financial ministry to the people and congregations of The Lutheran Church—Missouri Synod (“LCMS”), especially those in the Texas District, and to the Christian community at large. The Foundation's mission is to inspire giving that impacts life forever. Its mission is accomplished through accepting contributions and administering trusts and endowment funds. By educating people about estate plans, legacy gifts, and stewardship of financial resources, Christian ministries that otherwise would be unfunded or inadequately funded are sustained and able to flourish for the long-term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

Net Asset Classification - Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions - Net assets that are not restricted by donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Net assets without donor restrictions are those currently available for use by the Foundation or at the discretion of the Board of Directors (the “Board”) for the Foundation’s use.

With Donor Restrictions - Net assets that are subject to donor-imposed stipulations, which limit their use by the Foundation to a specific purpose and/or the passage of time. When a restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Also included in this category are stipulations permanently imposed by the donor. Those net assets are not available for use in operations and limitations neither expire by fulfillment of a specific purpose and/or the passage of time. The Foundation classifies as net assets with donor restrictions all trusts and endowment funds in which the donor has granted the Board authority regarding beneficiary selection. Split-interest agreements having any charitable component that must be maintained in perpetuity as designated by the donor are also classified as net assets with donor restrictions.

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 an original maturity of three months or less to be cash equivalents.

Property and Equipment - Purchases of property and equipment are capitalized at cost. The Foundation capitalizes all acquisitions of property and equipment in excess of \$1,000 with a useful life of more than one year. Repairs and maintenance costs are charged to expense as incurred. 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. An impairment loss is recognized by the amount in which the carrying amount of the asset exceeds fair value, if the carrying amount of the asset is not recoverable.

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 the proceeds received from the sale of the security. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods. Investments that correspond to net assets with donor restrictions, which therefore are not available for the Foundation's use, are shown as investments restricted as to use on the statements of financial position.

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 at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level 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 entity.
- Level 3 - Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability, developed from the best information available.

There are three general valuation techniques that 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 upfront 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 rates used in determining fair value of the liabilities at December 31, 2017 and 2016 were 2.6% and 1.8%, respectively, and represent the Applicable Federal Rate ("AFR") 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 as investments held for others and an offsetting liability for the same amount in the statements of financial position. 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 as investments held for others 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 donor-restricted contribution if the donor explicitly imposes a temporary or permanent restriction. If the donor grants the Foundation unrestricted access to the funds, the Foundation records a contribution without donor restriction. 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 rates used in determining fair value of the liabilities at December 31, 2017 and 2016 were 2.6% and 1.8%, respectively, and represent the AFR 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 as investments held for others 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 authority to determine the charitable beneficiaries are included in this liability.

Management Fees Revenue - With the exception of its own accounts, 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 revenues with or without donor restrictions, depending on the existence and/or nature of any donor-imposed stipulations. If a restriction expires in the same reporting period in which the support is recognized, that contribution is reported as an increase in net assets without donor restrictions. All other donor-restricted support is reported as an increase in net assets with donor restrictions, 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.

Functional Allocation of Expenses - Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. A portion of management and general costs that benefit multiple functional areas have been allocated based on the proportion of full-time employee equivalents allocated to that program service. Costs that are not readily allocable to any program service are allocated entirely to management and general.

Income Tax Status - The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business income. The Foundation did not incur any tax liabilities due to unrelated business income during the years ended December 31, 2017 or 2016. Due to the IRS designation as being affiliated with the LCMS, the Foundation is exempt from filing an annual Form 990 tax return in the U.S. federal jurisdiction.

Recently Adopted Accounting Pronouncements - In May 2015, the FASB issued Accounting Standards Update (“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 was effective for the year ended December 31, 2017, and applied retrospectively. During 2017, management implemented the new standard, the effect of which is reflected in the reconciliation of investments at fair value discussed in Note 6. There was no impact on net assets as of December 31, 2017 and 2016 or on the changes in net assets for the years then ended.

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*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. The guidance requires presentation on the face of the statement 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 previously required three classes. Entities are also required to provide enhanced disclosures about liquidity, board designed amounts, and expense by both their natural and functional classification. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. During the year ended December 31, 2017, management implemented the new standard, the effect of which is reflected on the financial statements and within the footnotes.

A summary of the net asset reclassifications driven by adoption of ASU 2016-14 as of December 31, 2016 follows:

	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net Assets Classifications:			
As previously presented:			
Unrestricted	\$ 3,674,854	-	3,674,854
Temporarily restricted	-	280,272	280,272
Permanently restricted	-	3,639,181	3,639,181
Net assets as previously presented	<u>3,674,854</u>	<u>3,919,453</u>	<u>7,594,307</u>
Reclassifications to implement ASU 2016-14:			
Board-designated quasi-endowment Liability accounts having variance power	515,946	(515,946)	-
	-	33,797	33,797
Net assets, as reclassified	<u>\$ 4,190,800</u>	<u>3,437,304</u>	<u>7,628,104</u>

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. There was no material impact on net assets.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of December 31, 2017 the Foundation's financial assets available within one year for general expenditure are as follows:

Cash and cash equivalents	\$ 273,387
Investments	41,305,307
Accounts receivable	56,925
Note receivable	<u>51,776</u>
Total financial assets available within one year	<u>41,687,395</u>
Less amounts unavailable for general expenditure within one year, due to:	
Investments in endowments and trusts held for others	(33,802,002)
Investments restricted by donors as to their use	(4,001,338)
Investments in non-liquid assets	(1,038,512)
Board-designated quasi-endowment	(624,670)
Ninety-day cash reserve required by Board policy	(187,740)
Charitable gift annuity reserve fund	<u>(100,000)</u>
Total amounts unavailable for general expenditure within one year	<u>(39,754,262)</u>
Less amounts unavailable to management without Board's approval:	
Board-designated funds	<u>(570,637)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 1,362,496</u>

The Foundation manages its liquidity following three guiding principles:

- Operate within a prudent range of financial soundness and stability,
- Maintain adequate liquid assets, and
- Maintain sufficient reserves to provide reasonable assurance that ongoing operational expenditures can be met for the foreseeable future.

Three policies established by the Board are designed to ensure the Foundation's financial stability, as follows:

- The Foundation may not incur an operating deficit for more than three consecutive fiscal years,
- The Foundation may not incur cumulative operating results that cause its net assets without donor restrictions at the end of the current fiscal year to fall below 110% of its annual average for the rolling 10-year period ending at the previous fiscal year-end, and
- The Foundation must maintain a cash reserve of not less than ninety days' operating cash.

The Foundation does not have a committed line of credit upon which it could draw to manage unanticipated liquidity needs. However, it does have Board-designated net assets without restrictions that could be made available by the Board for current operations.

4. 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. 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.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2017	2016
Automobiles	\$ 68,738	\$ 68,738
Computer software	54,160	51,651
Furniture and fixtures	44,574	41,958
	<u>167,472</u>	<u>162,347</u>
Accumulated depreciation	(128,865)	(110,867)
Property and equipment, net	<u>\$ 38,607</u>	<u>\$ 51,480</u>

6. INVESTMENTS

Investments and investments held for others measured at fair value at December 31, 2017 consisted of the following:

	Level 1	Level 2	Level 3	Fair Value
Exchange-traded funds	\$ 12,857,279	-	-	12,857,279
Common stocks	6,208,512	-	-	6,208,512
Corporate bond mutual funds	5,617,631	-	-	5,617,631
Corporate bonds	-	3,665,764	-	3,665,764
Growth taxable mutual funds	2,722,528	-	-	2,722,528
Mortgage-backed and asset-backed securities	-	1,818,160	-	1,818,160
Cash and cash equivalents	1,788,987	-	-	1,788,987
U.S. Treasury notes	1,127,667	-	-	1,127,667
Fixed income mutual funds	897,778	-	-	897,778
Real estate	-	-	893,888	893,888
Cash surrender value of life insurance policies	-	645,408	-	645,408
Corporate taxable equity mutual funds	585,337	-	-	585,337
U.S. government and agencies	441,079	-	-	441,079
Term notes receivable	-	435,200	-	435,200
Mineral interests	-	-	383,771	383,771
Annuities	-	382,848	-	382,848
Municipal bonds	319,140	-	-	319,140
Government taxable mutual funds	204,537	-	-	204,537
Private company stock	-	-	297	297
Total assets in the fair value hierarchy	<u>\$ 32,770,475</u>	<u>6,947,380</u>	<u>1,277,956</u>	40,995,811
Investments measured at net asset value				<u>309,496</u>
Total investments at fair value				<u>\$ 41,305,307</u>

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

Balance, December 31, 2016	\$ 1,653,517
Total net unrealized losses	<u>(375,561)</u>
Balance, December 31, 2017	<u>\$ 1,277,956</u>

Investments and investments held for others measured at fair value at December 31, 2016 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Exchange-traded funds	\$ 10,209,117	-	-	10,209,117
Corporate bond mutual funds	5,521,638	-	-	5,521,638
Common stocks	5,261,132	-	-	5,261,132
Cash and cash equivalents	3,688,267	-	-	3,688,267
Corporate bonds	-	3,089,220	-	3,089,220
Growth taxable mutual funds	2,627,104	-	-	2,627,104
U.S. Treasury notes	2,266,071	-	-	2,266,071
Real estate	-	-	1,340,440	1,340,440
Mortgage-backed and asset-backed securities	-	1,291,293	-	1,291,293
Corporate taxable equity mutual funds	1,258,999	-	-	1,258,999
Fixed income mutual funds	1,131,895	-	-	1,131,895
Cash surrender value of life insurance policies	-	639,384	-	639,384
Term notes receivable	-	424,000	-	424,400
U.S. government and agencies	442,070	-	-	442,070
Annuities	-	411,508	-	411,508
Municipal bonds	404,695	-	-	404,695
Government taxable mutual funds	331,895	-	-	331,895
Mineral interests	-	-	312,780	312,780
Government non-taxable mutual funds	32,172	-	-	32,172
Private company stock	-	-	297	297
Total assets in the fair value hierarchy	<u>\$ 33,175,055</u>	<u>5,855,405</u>	<u>1,653,517</u>	40,683,977
Investments measured at net asset value				<u>297,432</u>
Total investments at fair value				<u>\$ 40,981,409</u>

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

Balance, December 31, 2015	\$ 1,619,818
Total net unrealized gains	<u>33,699</u>
Balance, December 31, 2016	<u>\$ 1,653,517</u>

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, 2017 and 2016.

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, term 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, 2017 and 2016, contract value approximates fair value. Notes receivable are valued at the outstanding balance due from borrower. 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, 2017 and 2016.

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. Significant increases or decreases in either of these inputs in isolation would result in a significantly lower or higher fair value measurement.

Investments measured at fair value using the net asset value practical expedient have been excluded from the fair value hierarchy leveling table. These investments consisted of the following at December 31:

	Fair Value at December 31, 2017	Fair Value at December 31, 2016	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Managed Futures	\$ 309,496	\$ 297,432	not applicable	daily	30-60 days

Managed futures operate as commodity investment pools, in a manner similar to mutual funds. The investment strategy includes engaging in the speculative trading of futures contracts and forward currency contracts. 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.

Investment return consisted of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Dividends and interest, net of investment fees	\$ 206,989	\$ 215,872
Net unrealized gains (losses) from:		
Investment securities	200,094	163,239
Real estate	(446,552)	223,785
Mineral interests	70,992	(190,086)
Direct staff expenses	<u>(32,819)</u>	<u>-</u>
Total investment return	<u>\$ (1,296)</u>	<u>\$ 412,810</u>

7. 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):

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 49,550	\$ 52,955
Net income	1,330	4,673
Beneficiary distributions	(20,134)	(20,304)
Fair market value adjustment	12,822	13,233
Actuarial gains (loss)	<u>739</u>	<u>(1,007)</u>
Balance, end of year	<u>\$ 44,307</u>	<u>\$ 49,550</u>

8. AGENCY AND TRUST ACCOUNTS

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

	<u>2017</u>	<u>2016</u>
Irrevocable trusts due other remaindermen	\$ 4,394,992	\$ 3,413,045
Irrevocable trusts due life beneficiaries	3,167,286	4,145,300
Church fund management agreements	1,777,210	1,753,044
Agency fund management agreements	1,223,323	1,160,803
Irrevocable trusts - pass through gifts	311,638	273,613
Revocable trusts	<u>249,156</u>	<u>1,994,283</u>
Total agency and trust accounts	<u>\$ 11,123,605</u>	<u>\$ 12,740,088</u>

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

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

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.

At December 31, 2017, the assets and liabilities of the split-interest charitable remainder unitrusts were \$647,182 and \$283,761, respectively. At December 31, 2016, the assets and liabilities of the split-interest charitable remainder unitrusts were \$628,818 and \$233,899, 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:

	2017	2016
Balance, beginning of year	\$ 233,899	\$ 160,055
Contributions	-	300,000
Net income	8,273	3,785
Beneficiary distributions	(30,072)	(25,190)
Realized losses	(3,586)	(3,099)
Fair market value adjustment	48,519	11,259
Actuarial gain (loss)	26,728	(212,911)
Balance, end of year	<u>\$ 283,761</u>	<u>\$ 233,899</u>

9. ENDOWMENTS

The Foundation had 292 and 285 separate endowments under its management as of December 31, 2017 and 2016, respectively. Distributions from all endowments are either paid to the designated beneficiaries or added to corpus in accordance with donors' restrictions. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

A subset of endowments grants the Board decision-making authority with regard to their charitable beneficiaries. As of December 31, 2017 and 2016, this subset numbered 32 and 29 endowments, respectively. One is a quasi-endowment established by the Board for the purpose of providing general operational support to the Foundation. The quasi-endowment is a component of the Foundation's net assets without donor restrictions. The remainder of the subset was established and restricted by donors; therefore, those endowments are a component of the Foundation's net assets with donor restrictions.

Interpretation of relevant law

The Board has determined that the Texas Uniform Prudent Management of Institutional Funds Act (“TUPMIFA”), enacted by the state of Texas in 2007, applies to the Foundation’s donor-restricted endowment funds. TUPMIFA provides guidance and authority to charitable organizations concerning the management and investment of endowments held by those organizations. It also imposes additional duties on those who manage and invest charitable funds on behalf of the organizations. These duties provide protections for charities and also protect the interests of donors who want to see their contributions used wisely.

The Foundation classifies as net assets with donor restrictions the original value of gifts donated to donor-restricted endowments and all additional gifts received thereafter. Investment income from donor-restricted endowments is likewise classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the donors’ stipulated purposes within the standard of prudence prescribed by TUPMIFA.

The Board’s interpretation of TUPMIFA is that preservation of the original value of all gifts to a donor-restricted endowment is not required as a condition for spending from the endowment’s assets. However, explicit donor restrictions to the contrary or any law that extends donor restrictions with regard to spending limitations will prevail.

Spending policy

In making expenditures from donor-restricted endowment funds, the Foundation complies first with any restrictions in the gift instrument as to purpose and amount. The Foundation reviews its spending rate at least annually and takes into consideration all relevant factors including, but not limited to, the short and long-term needs of each endowment fund, its stated purpose and objectives, the expected total return of its investments, price level trends, and general economic conditions. Spending rates are then adjusted accordingly within TUPMIFA’s prudence standard. The Foundation’s targeted annual spending rate is 4% of each endowment’s market value, averaged over twenty (20) consecutive quarters preceding the distribution date.

Investment policy

Fundamental investment objectives for endowment investments are found in TUPMIFA and have been incorporated into the Foundation’s investment policy statement. These include preservation of principal, ability to meet liquidity needs, adequate diversification, and appropriate levels of risk necessary to achieve the long-term distribution and growth needs of endowment funds. The asset pools in which the endowment funds are invested require a combination of current income for expense coverage and prudent liquidity, growth of income for planning and executing distributions, and expansion of capital for long-term sustainability. Investment allocations within these asset pools are periodically rebalanced back to their policy targets to ensure that long-term investment strategies are achieved.

Endowments with deficiencies

In accordance with U.S. GAAP, the Foundation considers an endowment to be deficient if its fair value is less than the sum of: (a) the original value of initial and subsequent gifts donated to the endowment and (b) any donor-imposed accumulations to the endowment that must be maintained in perpetuity. The Foundation complies with TUPMIFA and has interpreted it to permit spending from deficient endowments in accordance with the prudent measures required under the law. As of December 31, 2017, endowments with original gift values of \$2,176,203 were deficient by \$165,833. The deficient amount is reflected in net assets with donor restrictions.

The following represents the composition of the Foundation's endowment net assets by type of fund as of December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated quasi-endowment	\$ 624,670	\$ -	\$ 624,670
Donor-restricted endowment funds	-	2,561,164	2,561,164
Total endowment funds	<u>\$ 624,670</u>	<u>\$ 2,561,164</u>	<u>\$ 3,185,834</u>

The following represents the composition of the Foundation's endowment net assets by type of fund as of December 31, 2016:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated quasi-endowment	\$ 515,947	\$ -	\$ 515,947
Donor-restricted endowment funds	-	2,485,416	2,485,416
Total endowment funds	<u>\$ 515,947</u>	<u>\$ 2,485,416</u>	<u>\$ 3,001,363</u>

The changes in endowment net assets for the year ended December 31, 2017 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 515,947	\$ 2,485,416	\$ 3,001,363
Investment return, net	57,627	107,836	165,463
Contributions	76,569	49,460	126,029
Appropriations	(25,473)	(81,548)	(107,021)
Endowment net assets, end of year	<u>\$ 624,670</u>	<u>\$ 2,561,164</u>	<u>\$ 3,185,834</u>

The changes in endowment net assets for the year ended December 31, 2016 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 454,929	\$ 2,473,349	\$ 2,928,278
Investment return, net	71,765	62,167	133,932
Contributions	8,594	26,346	34,940
Appropriations	(19,341)	(76,446)	(95,787)
Endowment net assets, end of year	<u>\$ 515,947</u>	<u>\$ 2,485,416</u>	<u>\$ 3,001,363</u>

10. NET ASSETS WITHOUT DONOR RESTRICTIONS

The following represents the composition of the Foundation's net assets without donor restrictions as of December 31:

	<u>2017</u>	<u>2016</u>
Undesignated	\$ 2,691,117	\$ 3,116,631
Board-designated for discretionary use	570,637	558,222
Board-designated for quasi-endowment	<u>624,670</u>	<u>515,947</u>
Total net assets with donor restrictions	<u>\$ 3,886,424</u>	<u>\$ 4,190,800</u>

Board-designated for discretionary use

Included in net assets without donor restrictions are three special-use funds set aside by the Board for its discretionary use. The Board determines each year the purposes for which the Foundation is to use the income. The corpus of each fund is not available for expenditure by the Foundation unless released by the Board. The composition of the funds was as follows at December 31:

	<u>2017</u>	<u>2016</u>
Fund 1	\$ 118,180	\$ 115,628
Fund 2	202,789	198,369
Fund 3	<u>249,668</u>	<u>244,225</u>
Total Board-designated for discretionary use	<u>\$ 570,637</u>	<u>\$ 558,222</u>

Board-designated for quasi-endowment

The Board has designated funds to be set aside to establish and maintain a quasi-endowment for purposes of securing the Foundation's long-term financial viability and meeting the Foundation's ongoing operational need for supplemental operating funds. The resolution creating the quasi-endowment states that it is permanent, its corpus is not available for expenditure, and any net income in excess of the Foundation's annual operating need is available for grants to qualified ministries of the Texas District LCMS. The quasi-endowment generated \$25,473 and \$19,341 of additional contributions for the years ended December 31, 2017 and 2016, respectively. These contributions are included in contributions without donor restrictions on the statements of activities. No grants were made from the quasi-endowment in 2017 and 2016.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are amounts that are not available for the Foundation's immediate use in its operations. Endowments are restricted in perpetuity, although the Board has been granted decision-making authority for determining their charitable beneficiaries. Trusts and other accounts are subject to lifetime beneficiary interests which have not yet expired. Certain charitable remainder trusts and irrevocable trusts will become endowments in perpetuity upon termination of the trust. Net assets with donor restrictions were restricted for the following at December 31:

	<u>2017</u>	<u>2016</u>
Endowment funds	\$ 2,561,164	\$ 2,485,416
Charitable remainder trusts	746,046	367,488
Other irrevocable trusts	513,467	496,759
Donor-advised funds	95,215	5,536
Charitable gift annuities	<u>85,446</u>	<u>82,105</u>
Total net assets with donor restrictions	<u>\$ 4,001,338</u>	<u>\$ 3,437,304</u>

12. RETIREMENT PLAN

Qualifying employees of the Foundation participate in a qualified defined-benefit retirement plan sponsored by LCMS. Employer contributions during the years ended December 31, 2017 and 2016 totaled \$42,384 and \$50,430, 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 \$6,534,076 and \$6,464,389, as of December 31, 2017 and 2016, respectively.

The Foundation also holds term notes issued by the Church Extension Fund of Texas District LCMS. As of December 31, 2017 and 2016, the market value of these term notes was \$435,200 and \$424,000, respectively. These notes are classified as term notes receivable in the Foundation's investments.

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

	<u>2017</u>	<u>2016</u>
Principal and income distributions to Texas District LCMS from beneficial interest in endowments and trusts held by the Foundation	\$ 165,157	\$ 142,093
Unrestricted cash contribution from Texas District LCMS to the Foundation	40,417	45,000
Estimated market value of the Foundation's office space, contributed by Texas District LCMS on an in-kind basis	39,600	38,400
Interest received on Church Extension Fund term notes	7,358	7,492

The Foundation received \$2,500 and \$425 in contributions from Board members during the years ended December 31, 2017 and 2016, respectively.

14. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through November 1, 2018 (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.