# LUTHERAN FOUNDATION OF THE SOUTHWEST

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

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# INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Lutheran Foundation of the Southwest:

We have audited the accompanying financial statements of Lutheran Foundation of the Southwest (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 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, 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.

Maxwell Locke & Ritter LLP

Austin, Texas
June 15, 2018

# LUTHERAN FOUNDATION OF THE SOUTHWEST

## STATEMENTS OF FINANCIAL POSITION
## DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS:** | | |
| Cash | $ 420,499 | $ 277,392 |
| Accounts receivable | 6,270 | 6,370 |
| Prepaid insurance | 8,895 | 11,280 |
| Investments | 10,456,266 | 9,521,047 |
| Investments held for others | 49,923,713 | 43,352,959 |
| **TOTAL ASSETS** | $ 60,815,643 | $ 53,169,048 |
| **LIABILITIES AND NET ASSETS:** | | |
| LIABILITIES: | | |
| Accounts payable | $ 8,258 | $ 10,602 |
| Trusts and managed assets | 20,733,722 | 18,254,938 |
| Endowments held for others | 29,189,991 | 25,098,021 |
| Total liabilities | 49,931,971 | 43,363,561 |
| NET ASSETS: | | |
| Unrestricted: | | |
| Undesignated | $ 2,669,459 | $ 1,712,720 |
| Board designated | 2,685,051 | 2,685,051 |
| Temporarily restricted | 205,429 | 95,044 |
| Permanently restricted | 5,323,733 | 5,312,672 |
| Total net assets | 10,883,672 | 9,805,487 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 60,815,643 | $ 53,169,048 |

See notes to financial statements.

# LUTHERAN FOUNDATION OF THE SOUTHWEST

## STATEMENT OF ACTIVITIES
## YEAR ENDED DECEMBER 31, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| REVENUES, GAINS AND OTHER SUPPORT: | | | | |
| Management fees | $ 461,793 | - | - | 461,793 |
| Investment income, net of related expenses | 84,166 | 238,811 | - | 322,977 |
| Other revenues | 195,026 | - | - | 195,026 |
| Contribution revenue | - | - | 11,061 | 11,061 |
| Net unrealized and realized gain on investments | 329,730 | 588,233 | - | 917,963 |
| Net assets released from restrictions | 716,659 | (716,659) | - | - |
| Total revenues, gains and other support and net assets released from restriction | 1,787,374 | 110,385 | 11,061 | 1,908,820 |
| EXPENSES: | | | | |
| Program services - development | 527,716 | - | - | 527,716 |
| Support services - management and general | 302,919 | - | - | 302,919 |
| Total expenses | 830,635 | - | - | 830,635 |
| CHANGE IN NET ASSETS | 956,739 | 110,385 | 11,061 | 1,078,185 |
| NET ASSETS, beginning of year | 4,397,771 | 95,044 | 5,312,672 | 9,805,487 |
| NET ASSETS, end of year | $ 5,354,510 | 205,429 | 5,323,733 | 10,883,672 |

See notes to financial statements.

# LUTHERAN FOUNDATION OF THE SOUTHWEST

## STATEMENT OF ACTIVITIES
## YEAR ENDED DECEMBER 31, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| REVENUES, GAINS AND OTHER SUPPORT: | | | | |
| Management fees | $ 448,198 | - | - | 448,198 |
| Gain on sale of land and building | 438,620 | - | - | 438,620 |
| Investment income, net of related expenses | 291,534 | - | - | 291,534 |
| Other revenues | 160,299 | - | - | 160,299 |
| Contribution revenue | - | - | 20,710 | 20,710 |
| Net unrealized and realized gain on investments | 110,105 | 20,401 | - | 130,506 |
| Net assets released from restrictions | 43,397 | (43,397) | - | - |
| Total revenues, gains (losses) and other support and net assets released from restriction | 1,492,153 | (22,996) | 20,710 | 1,489,867 |
| EXPENSES: | | | | |
| Program services - development | 499,229 | - | - | 499,229 |
| Support services - management and general | 300,074 | - | - | 300,074 |
| Total expenses | 799,303 | - | - | 799,303 |
| CHANGE IN NET ASSETS | 692,850 | (22,996) | 20,710 | 690,564 |
| NET ASSETS, beginning of year | 3,704,921 | 118,040 | 5,291,962 | 9,114,923 |
| NET ASSETS, end of year | $ 4,397,771 | 95,044 | 5,312,672 | 9,805,487 |

See notes to financial statements.

# LUTHERAN FOUNDATION OF THE SOUTHWEST

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

| | 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Change in net assets | $ 1,078,185 | $ 690,564 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Unrealized gain on investments | (639,673) | (268,394) |
| Realized gain on investments | (278,290) | 137,888 |
| Contributions restricted for long-term investment | (11,061) | (20,710) |
| Gain on the sale of building and land | - | (438,620) |
| Changes in operating assets and liabilities that provided (used) cash: | | |
| Accounts receivable | 100 | (100) |
| Prepaid insurance | 2,385 | (908) |
| Investments held for others | (6,570,754) | (1,982,599) |
| Accounts payable | (2,344) | 902 |
| Trusts and managed assets | 2,478,784 | 1,385,901 |
| Endowments held for others | 4,091,970 | 596,698 |
| Net cash provided by operating activities | 149,302 | 100,622 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of investments | (1,228,804) | (3,526,338) |
| Sales of investments | 1,211,548 | 2,312,624 |
| Proceeds from the sale of building and land | - | 1,165,504 |
| Net cash used in investing activities | (17,256) | (48,210) |
| **CASH FLOWS FROM FINANCING ACTIVITIES-** | | |
| Contributions restricted for long-term investment | 11,061 | 20,710 |
| **NET CHANGE IN CASH** | 143,107 | 73,122 |
| **CASH, beginning of year** | 277,392 | 204,270 |
| **CASH, end of year** | $ 420,499 | $ 277,392 |

See notes to financial statements.

### 1. ORGANIZATION

The Lutheran Foundation of the Southwest (the "Foundation") is a Texas nonprofit corporation organized to encourage public support for the following sponsoring organizations (the "Sponsors"):

Southwestern Texas Synod, ELCA
Texas Lutheran University
Lutheran Sunset Ministries
Northern Texas-Northern Louisiana Mission Area, ELCA
ELCA Foundation, ELCA
Texas-Louisiana Gulf Coast Synod, ELCA
Upbring
Cross Trails Ministry

The Foundation offers no-cost, no-obligation estate planning for Lutherans residing in Texas and encourages Lutherans to establish planned or deferred gifts to benefit donors' families and heirs, the ministries of its sponsoring agencies, and other designated charitable recipients.

### 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"). 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:

Unrestricted **-** Net assets not subject to donor-imposed stipulations.

Temporarily Restricted **-** Net assets subject to donor-imposed stipulations, which limit their use by the Foundation to a specific purpose and/or the passage of time.

Permanently Restricted **-** Net assets subject to donor-imposed stipulations, which require them to be maintained permanently by the Foundation. Donor-imposed restrictions limiting the use of these assets or economic benefits can neither expire with the passage of time nor be removed by the Foundation's meeting of certain requirements. The Foundation classifies as permanently restricted net assets, all trusts in which the donor has granted the Board of Trustees ("the Board") with variance power regarding beneficiaries selection. 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 conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents -** The Foundation considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

**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 fair value hierarchy as follows:

Level 1 **-** Inputs based on quoted 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 based on market data obtained from sources independent from the entity.

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 based on 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.

**Accounts Receivable -** Accounts receivable are recorded at the amount the Foundation expects to collect on outstanding balances. The Foundation has not recorded an allowance for uncollectible receivables at December 31, 2017 and 2016 because management estimates all balances to be collectible.

**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.

**Building and Land Held For Sale -** In December 2015, the Foundation entered into an intent to sell an office building and related land. The building and land were sold in June 2016 for $1,165,504 and a gain of $438,620 was recognized in the statement of activities during the year ended December 31, 2016.

**Trusts and Managed Assets -** The Foundation accepts cash and other financial assets from organizations and individuals and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to specified beneficiaries. The Foundation records the fair value of the assets received and an offsetting liability for the same amount at the time the assets are received. 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 Foundation determines the present value of the future payments due to the beneficiaries based on assumptions about the projected rate of return on the investments in the trusts, the discount rate for the obligation, and the expected mortality of the individual on which termination of the agreement depends, if the agreement is life dependent. 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, which are included as split-interest agreements discussed in Note 7. Upon gift receipt, the Foundation records the excess of the fair value of the assets and the estimated liability as temporarily restricted contribution revenue. If the donor has permanently restricted the Foundation's use of its interest in the assets, contribution revenue will be classified as permanently restricted. If the Foundation has been given the immediate right to use its interest in the assets without restrictions, the contribution revenue is recognized as an increase in unrestricted net assets.

On an annual basis, the Foundation revalues the liability due to the donors' designated beneficiaries. The discount rates used in determining fair value at December 31, 2017 and 2016 were 1.5% and 2.0%, respectively, and were set to equal the expected Applicable Federal Rate issued by the Internal Revenue Service ("IRS").

Charitable remainder trusts are included as a component of trust and managed assets in the statements of financial position.

**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 at December 31, 2017 and 2016 were 1.5% and 2.0%, respectively, and were set to equal the expected Applicable Federal Rate issued by the 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 Foundation is named as co-beneficiary of certain charitable gift annuities under its management, which are included as split-interest agreements discussed in Note 7. Upon gift receipt, the Foundation records the excess of the fair value of the assets and the estimated liability as temporarily restricted contribution revenue. If the donor has permanently restricted the Foundation's use of its interest in the assets, contribution revenue will be classified as permanently restricted. If the Foundation has been given the immediate right to use its interest in the assets without restrictions, the contribution revenue is recognized as an increase in unrestricted net assets.

On an annual basis, the Foundation revalues the carrying value of the charitable gift annuities.

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.

Charitable gift annuities are included as a component of trust and managed assets in the statements of financial position.

**Endowments Held For Others -** The Foundation accepts cash and other financial assets as a trustee of various endowment agreements. The Foundation records the fair value of the assets received at the time of receipt and an offsetting liability for the same amount. Subsequent valuations of the endowment liabilities are determined annually based on the fair value of the endowment assets. The portion of the endowment agreements for which the Foundation has no variance power is also included in this liability.

**Board Designated Net Assets -** The Board of Trustees has designated $2,685,051 of unrestricted net assets to be included in the Permanent Operating Endowment Fund ("POEF") for the Foundation.

**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 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 on the date of donation.

**Management Fees -** The Foundation charges both trust and managed assets and endowments held for others a fee for recovery of administrative expenses incurred by the Foundation. The fee is generally computed as 0.5% to 1% per annum of the fair value of fund assets and is collected quarterly.

**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 and 2016. Due to the IRS designation as an association of a church, 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 was to be 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 5. There was no impact on net assets as of December 31, 2017 and 2016 or on the change in net assets for the years then ended.

**Recently Issued Accounting Pronouncements -** In May 2014 and August 2015, the FASB issued ASU No. 2014-09 and No. 2015-14, *Revenue from Contracts with Customers*, which supersede the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Foundation is currently evaluating the impact the new standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the statement of activities for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its financial statements.

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.

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

## 3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to credit risk consist of cash and investments. The Foundation places its cash 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 securities, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statements of financial position.

## 4. RELATED PARTY TRANSACTIONS

Each Sponsor has a representative chosen by its respective Board who serves on the Foundation's Board. The Foundation's Board also appoints additional at-large trustees. Foundation Board members made personal contributions to the Foundation to support its operations and to the POEF of $1,061 and $4,425, during the years ended December 31, 2017 and 2016, respectively.

## 5. INVESTMENTS

The multi-asset investment fund is a unitized fund. Participations are purchased in $1 units. Income from the investments is allocated to participants based on the number of units held at the end of each calendar quarter. Additions to and withdrawals from the funds are made at the end of each quarter in accordance with donors' restrictions.

Investments are reported at fair value at December 31, 2017 follows:

| | Fair Value Measurements Using: | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Multi-asset funds | $ 3,309,731 | $ - | $ - | $ 3,309,731 |
| Tax-exempt bonds | 2,949,675 | - | - | 2,949,675 |
| Taxable bond funds | 2,861,831 | - | - | 2,861,831 |
| Common stock | 2,511,777 | - | - | 2,511,777 |
| Taxable money market accounts | 1,925,890 | - | - | 1,925,890 |
| Certificates of deposit | 1,817,000 | - | - | 1,817,000 |
| Real estate | - | - | 1,640,878 | 1,640,878 |
| Mortgage loans receivable | - | 1,481,203 | - | 1,481,203 |
| Mutual funds | 1,338,397 | - | - | 1,338,397 |
| Mission loan and development certificates | - | 759,081 | - | 759,081 |
| Restricted cash | 256,143 | - | - | 256,143 |
| Insurance | - | 154,918 | - | 154,918 |
| Private company stock | - | - | 34,850 | 34,850 |
| U.S. government and agencies | 24,287 | - | - | 24,287 |
| Limited partnership | - | - | 8,471 | 8,471 |
| Total assets in the fair valuehierarchy | $ 16,994,731 | $ 2,395,202 | $ 1,684,199 | 21,074,132 |
| Investments measured at net asset value | | | | 39,305,847 |
| Total investments at fair value | | | | $ 60,379,979 |

All Level 1, Level 2 and Level 3 investments have been valued using a market approach.

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

| | |
|---|---|
| Balance, December 31, 2016 | $ 2,436,920 |
| Contributions | 20,037 |
| Sales | (759,370) |
| Total net realized and unrealized loss | (13,388) |
| Balance, December 31, 2017 | $ 1,684,199 |

Investments are reported at fair value at December 31, 2016 as follows:

| | Fair Value Measurements Using: | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Multi-asset funds | $ 2,535,405 | $ - | $ - | $ 2,535,405 |
| Tax-exempt bonds | 2,993,052 | - | - | 2,993,052 |
| Taxable bond funds | 2,709,575 | - | - | 2,709,575 |
| Common stock | 2,244,354 | - | - | 2,244,354 |
| Taxable money market accounts | 796,063 | - | - | 796,063 |
| Certificates of deposit | 1,456,000 | - | - | 1,456,000 |
| Real estate | - | - | 2,391,863 | 2,391,863 |
| Mortgage loans receivable | - | 930,473 | - | 930,473 |
| Mutual funds | 1,346,401 | - | - | 1,346,401 |
| Mission loan and development certificates | - | 755,465 | - | 755,465 |
| Restricted cash | 723,328 | - | - | 723,328 |
| Insurance | - | 154,918 | - | 154,918 |
| Private company stock | - | - | 34,850 | 34,850 |
| U.S. government and agencies | 23,498 | - | - | 23,498 |
| Limited partnership | - | - | 10,207 | 10,207 |
| Investment-other | 19,977 | - | - | 19,977 |
| Total assets in the fair value hierarchy | $ 14,847,653 | $ 1,840,856 | $ 2,436,920 | 19,125,429 |
| Investments measured at net asset value | | | | 33,748,577 |
| Total investments at fair value | | | | $ 52,874,006 |

All Level 1, Level 2 and Level 3 investments have been valued using a market approach.

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

| | |
|---|---|
| Balance, December 31, 2015 | $ 1,649,648 |
| Purchases | 2,265,846 |
| Sales of real estate | (1,358,636) |
| Total net realized and unrealized losses | (119,938) |
| Balance, December 31, 2016 | $ 2,436,920 |

Cash, certificates of deposit, marketable investments, including publicly traded investments such as stock, bonds, mutual funds, bond funds, equity funds, exchange traded funds, U.S. governmental securities and agencies, mortgage receivable and mortgage-backed and asset-backed securities are classified within Level 1 of the fair market value hierarchy because they are valued using quoted market prices, broker dealer quotations or other alternative pricing sources with reasonable levels of price transparency.

Mission loan and development certificates, mortgage loans and cash value of life insurance policies are designated as Level 2 instruments since valuations are obtained from readily-available pricing sources for comparable instruments. Mission loan and development certificates and mortgage loans are valued based upon anticipated collectability which approximates fair value. 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 statements at December 31, 2017 and 2016.

Real estate, private company stock and the investment in the limited partnership are classified within Level 3 since observable inputs are minimal. Real estate 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 is not routinely re-appraised; thus, valuations are based upon the advice of real estate professionals and local conditions. The limited partnership is reflected in the financial statements at fair value based on the audited financial statements of the limited partnership. Significant increases or decreases in either of these inputs in isolation would result in a significantly lower or higher fair value measurement.

The following table summarizes the investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 2017 and 2016, respectively.

| | Fair Value at December 31, 2017 | Fair Value at December 31, 2016 | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|---|
| Multi-asset fund accounts: | | | | | |
| Fund account | $ 13,298,634 | $ 11,453,041 | not applicable | daily | none |
| Endowment fund pooled interest | 13,485,976 | 12,091,776 | not applicable | daily | none |
| Large cap value fund | 8,782,820 | 7,509,938 | not applicable | daily | none |
| Real estate holdings | 2,345,571 | 2,148,367 | not applicable | daily | none |
| Private equities | 1,392,846 | 545,455 | $ 2,701,686 | Illiquid - up to 10 years | not applicable |

The multi-asset fund account has various accounts with different investment strategies: the fund account invests in mutual funds, and the endowment fund pooled interest invests in a diversified portfolio that consists of equity-based, fixed-income, and alternative investments. The large cap value fund seeks long-term capital growth and invests all of its assets in a master advantage large cap value portfolio. The real estate holdings primarily invests in a broad range of real estate-related debt investments, and private equities invests in limited partnership interests in private investment funds.

## 6. TRUSTS AND MANAGED ASSETS

The following summarizes the operating activity of the trusts and managed assets for the years ended December 31:

| | 2017 | 2016 |
|---|---|---|
| Trusts and managed assets, beginning of year | $ 18,254,938 | $ 16,869,037 |
| Additions | 3,053,205 | 3,710,358 |
| Investment income | 618,289 | 545,738 |
| Net realized (loss) gain on investments | 189,989 | (279,497) |
| Net unrealized gain on investments | 651,349 | 552,524 |
| Disbursements to/for: | | |
| Individual beneficiaries | (1,745,431) | (2,616,099) |
| Sponsoring organizations | (28,948) | (128,403) |
| Endowments held for others | (91,314) | (228,317) |
| Management fees | (168,355) | (170,403) |
| Trusts and managed assets, end of year | $ 20,733,722 | $ 18,254,938 |

## 7. SPLIT-INTEREST AGREEMENTS

The Foundation is listed as a co-beneficiary for certain agreements under its management. These agreements contain provisions for the distribution of assets to remaindermen other than the Foundation. As of December 31, 2017, the assets and liabilities for these split-interest agreements were $1,094,459 and $975,342, respectively. As of December 31, 2016, the assets and liabilities for these split-interest agreements were $1,099,744 and $994,832, respectively.

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

| | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | $ 994,832 | $ 1,360,075 |
| Investment income | 49,098 | 25,868 |
| Net realized (loss) gain on investments | 19,766 | (12,924) |
| Net unrealized gain on investments | 47,857 | 23,423 |
| Disbursements to beneficiaries | (113,594) | (294,935) |
| Management fees | (7,960) | (8,453) |
| Actuarial adjustment | (14,657) | (98,222) |
| Balance, end of year | $ 975,342 | $ 994,832 |

## 8. ENDOWMENTS

The Board has interpreted the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Permanently restricted net assets are classified at the original value of gifts donated to the permanent endowment, plus the original value of subsequent gifts to the permanent endowment. Also included are accumulations to the permanent endowment if directed by the donor gift instrument. The Foundation classifies the remaining portion of the donor restricted endowment fund as temporarily restricted net assets until those funds are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by TUPMIFA.

The investment policy adopted by the Board of the Foundation details the objectives, risk management, investment selection and monitoring procedures. The Foundation's investment philosophy is to exercise ordinary business care and prudence in its investment of Foundation assets considering the long and short-term needs of the Foundation in carrying out its charitable purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. The Foundation recognizes that the uncertainty of future events, volatility of investment assets, and the potential loss in purchasing power are present to some degree with all types of investments. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the opportunity to achieve satisfactory results consistent with the objectives and investment philosophy of the Foundation.

As of December 31, 2017, the Foundation had approximately 192 separate endowments under its management. Certain of these endowments earn income directly for the Foundation and are included in the POEF of the Foundation. The income earned on all other endowments was either paid to Sponsors and other nonprofit organizations or added to the corpus of the respective endowment in accordance with the donors' restrictions. The spending policy of the POEF endowment is 5% of the fair market value of the fund on the first day of the fiscal year. The spending policy for all other endowments is 4.5% of the fair market value on the first day of the fiscal year. This is subject to a rolling 20-quarter fund value average, and the effective yield for 2017 was 4.35%.

The aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the assets at reporting date is less than the level required by donor stipulation was $302,624 and $697,545 at December 31, 2017 and 2016, respectively.

Changes in donor-restricted endowment net assets were the following for the year ended December 31, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ (476,862) | - | 5,275,274 | 4,798,412 |
| Investment income | - | 238,811 | - | 238,811 |
| Net unrealized and realized gain on investments | - | 588,233 | - | 588,233 |
| Contributions | - | - | 11,061 | 11,061 |
| Other | 476,862 | (476,862) | - | - |
| Appropriations for expenditures | - | (239,797) | - | (239,797) |
| Endowment net assets, end of year | $ - | 110,385 | 5,286,335 | 5,396,720 |

Changes in donor-restricted endowment net assets were the following for the year ended December 31, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ (258,184) | - | 5,254,564 | 4,996,380 |
| Net unrealized and realized loss on investments | - | 20,401 | - | 20,401 |
| Contributions | - | - | 20,710 | 20,710 |
| Appropriations for expenditures | (218,678) | (20,401) | - | (239,079) |
| Endowment net assets, end of year | $ (476,862) | - | 5,275,274 | 4,798,412 |

## 9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted amounts are those not available for use by the Foundation until commitments regarding their use have been fulfilled or lifetime beneficiary interests have ceased and were composed of the following at December 31:

| | 2017 | 2016 |
|---|---|---|
| Time restricted | $ 95,044 | $ 95,044 |
| Purpose restricted | 110,385 | - |
| Total temporarily restricted net assets | $ 205,429 | $ 95,044 |

## 10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted amounts are those restricted by donors in perpetuity as endowments and other trusts funds that will or have become endowments upon termination of the trust and were composed of the following at December 31:

| | 2017 | 2016 |
|---|---|---|
| Endowment funds | $ 5,286,335 | $ 5,275,274 |
| Other trust funds | 37,398 | 37,398 |
| Total permanently restricted net assets | $ 5,323,733 | $ 5,312,672 |

## 11. COMMITMENTS

During 2016, the Foundation entered into a non-cancelable lease agreement for office space expiring on June 30, 2019.

Rental expense during the years ended December 31, 2017 and 2016 totaled $17,046 and $8,574, respectively. Future minimum lease payments under this lease at December 31, 2017 were as follows:

| | |
|---|---|
| 2018 | $ 17,580 |
| 2019 | 8,922 |
| Total | $ 26,502 |

## 12. PENSION PLAN

The Foundation participates in a pension plan covering various church institutions. The plan is a defined contribution plan covering employees of institutions affiliated with the Evangelical Lutheran Church in America. Employees qualify for the pension plan from the first day of employment as long as they are scheduled to work at least twenty hours per week for six months per year. Contributions paid to the plan by the Foundation totaled $47,945 and $45,775 for the years ended December 31, 2017 and 2016, respectively.

## 13. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through June 15, 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.