LUTHERAN FOUNDATION OF THE SOUTHWEST

Financial Statements
as of and for the Years Ended
December 31, 2018 and 2017 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, 2018 and 2017, the related statements of activities, functional expenses, 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, 2018 and 2017, 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, 2018. 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
June 24, 2019

LUTHERAN FOUNDATION OF THE SOUTHWEST

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 514,451	$ 420,499
Accounts receivable	17,285	6,270
Prepaid insurance	8,905	8,895
Investments	9,857,692	10,456,266
Investments held for others	52,325,962	49,923,713
TOTAL ASSETS	$ 62,724,295	$ 60,815,643
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 5,692	$ 8,258
Trusts and managed assets	22,832,386	20,733,722
Endowments held for others	29,493,576	29,189,991
Total liabilities	52,331,654	49,931,971
NET ASSETS:		
Without donor restrictions:		
Undesignated	2,886,862	2,669,459
Board designated	2,685,051	2,685,051
With donor restrictions	4,820,728	5,529,162
Total net assets	10,392,641	10,883,672
TOTAL LIABILITIES AND NET ASSETS	$ 62,724,295	$ 60,815,643

See notes to financial statements.

LUTHERAN FOUNDATION OF THE SOUTHWEST

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS:			
Management fees	$ 536,519	-	536,519
Investment income, net	236,021	-	236,021
Contribution revenue	6,569	13,696	20,265
Net unrealized and realized gain (loss) on investments	(76,254)	(499,495)	(575,749)
Other revenues	179,012	-	179,012
Net assets released from restrictions	222,635	(222,635)	-
Total revenues and net assets released from restrictions	1,104,502	(708,434)	396,068
EXPENSES:			
Program services - development	563,733	-	563,733
Support services - management and general	323,366	-	323,366
Total expenses	887,099	-	887,099
CHANGE IN NET ASSETS	217,403	(708,434)	(491,031)
NET ASSETS, beginning of year	5,354,510	5,529,162	10,883,672
NET ASSETS, end of year	$ 5,571,913	4,820,728	10,392,641

See notes to financial statements.

LUTHERAN FOUNDATION OF THE SOUTHWEST

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS:			
Management fees	$ 461,793	-	461,793
Investment income, net	84,166	238,811	322,977
Contribution revenue	-	11,061	11,061
Net unrealized and realized gain on investments	329,730	588,233	917,963
Other revenues	195,026	-	195,026
Net assets released from restrictions	716,659	(716,659)	-
Total revenues and net assets released from restrictions	1,787,374	121,446	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	121,446	1,078,185
NET ASSETS, beginning of year	4,397,771	5,407,716	9,805,487
NET ASSETS, end of year	$ 5,354,510	5,529,162	10,883,672

See notes to financial statements.

LUTHERAN FOUNDATION OF THE SOUTHWEST

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services - Development	Support Services - Management and General	Total Expenses
Salaries, wages, and benefits	$ 465,978	258,488	724,466
Travel	50,306	-	50,306
Professional fees	-	34,214	34,214
Office equipment	19,089	10,506	29,595
Rent	11,339	6,241	17,580
Telephone	3,725	2,050	5,775
Advertising	3,041	1,674	4,715
Insurance	2,358	1,298	3,656
Postage	1,902	1,047	2,949
Supplies	1,734	954	2,688
Utilities	1,183	650	1,833
Printing	1,162	640	1,802
Other	1,916	5,604	7,520
Total expenses	$ 563,733	323,366	887,099

See notes to financial statements.

LUTHERAN FOUNDATION OF THE SOUTHWEST

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services - Development	Support Services - Management and General	Total Expenses
Salaries, wages, and benefits	$ 424,796	235,912	660,708
Travel	48,855	-	48,855
Professional fees	-	32,792	32,792
Office equipment	19,747	10,868	30,615
Rent	10,995	6,051	17,046
Telephone	5,198	2,861	8,059
Advertising	5,985	3,294	9,279
Insurance	4,127	2,271	6,398
Postage	1,542	848	2,390
Supplies	1,712	942	2,654
Utilities	1,055	581	1,636
Printing	1,955	1,076	3,031
Other	1,749	5,423	7,172
Total expenses	$ 527,716	302,919	830,635

See notes to financial statements.

LUTHERAN FOUNDATION OF THE SOUTHWEST

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (491,031)	$ 1,078,185
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized loss (gain) on investments	575,749	(917,963)
Contributions restricted for long-term investment	(13,696)	(11,061)
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	(11,015)	100
Prepaid insurance	(10)	2,385
Investments held for others	(2,402,249)	(6,570,754)
Accounts payable	(2,566)	(2,344)
Trusts and managed assets	2,098,664	2,478,784
Endowments held for others	303,585	4,091,970
Net cash provided by operating activities	57,431	149,302
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,195,187)	(1,228,804)
Sales of investments	1,218,012	1,211,548
Net cash provided by (used in) investing activities	22,825	(17,256)
CASH FLOWS FROM FINANCING ACTIVITIES-		
Contributions restricted for long-term investment	13,696	11,061
NET CHANGE IN CASH AND CASH EQUIVALENTS	93,952	143,107
CASH AND CASH EQUIVALENTS, beginning of year	420,499	277,392
CASH AND CASH EQUIVALENTS, end of year	$ 514,451	$ 420,499

See notes to financial statements.

1. ORGANIZATION

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 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:

<u>Without Donor Restrictions</u> **-** These net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restrictions. 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 Trustees (the "Board") for the Foundation's use.

With Donor Restrictions - These net assets 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. These net assets are not available for use in operations and limitations neither expire by fulfillment of a specific purpose or the passage of time. The Foundation classifies as net assets with donor restrictions all trusts 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 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 investments with an initial maturity 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 entity'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, 2018 and 2017 because management estimates all balances to be collectible.

Investments - Investments 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.

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 8. Upon gift receipt, the Foundation records the excess of the fair value of the assets and the estimated liability as contribution revenue with donor restrictions. If the donor has permanently restricted the Foundation's use of its interest in the assets, contribution revenue will be classified as with donor restrictions. 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 net assets without donor restrictions.

On an annual basis, the Foundation revalues the liability due to the donors' designated beneficiaries. The discount rate used in determining fair value at December 31, 2018 and 2017 was 1.5%, and was set to equal the expected Applicable Federal Rate ("AFR") issued by the Internal Revenue Service ("IRS").

Charitable remainder trusts are included as a component of trusts 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, included with trusts and managed assets in the statements of financial position. 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 at December 31, 2018 and 2017 was 1.5%, and was set to equal the expected AFR 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 8. Upon gift receipt, the Foundation records the excess of the fair value of the assets and the estimated liability as contribution revenue with donor restrictions. If the donor has permanently restricted the Foundation's use of its interest in the assets, contribution revenue will be classified as with donor restrictions. 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 net assets without donor restrictions.

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 net assets without donor restrictions.

Charitable gift annuities are included as a component of trusts 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 has designated $2,685,051 of net assets without donor restrictions to be included in the Permanent Operating Endowment Fund ("POEF") for general support to the Foundation.

Management Fees - The Foundation charges trusts 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.

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 - The accompanying financial statements present expenses by functional and natural classification. Natural expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Accordingly, certain costs have been allocated among the program and supporting services using a variety of cost allocation techniques, such as time and effort.

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 significant tax liabilities due to unrelated business income during the years ended December 31, 2018 and 2017. 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 Pronouncement - In August 2016, the FASB issued Accounting Standards Update ("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 of net assets, unrestricted, temporarily restricted, and permanently restricted. 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. During the year ended December 31, 2018, management implemented the new standard, the effect of which is reflected in 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, 2017 follows:

	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted:			
Undesignated	$ 2,669,459	-	2,669,459
Board designated	2,685,051	-	2,685,051
Temporarily restricted	-	205,429	205,429
Permanently restricted	-	5,323,733	5,323,733
Net assets as previously presented	$ 5,354,510	5,529,162	10,883,672

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 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.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of December 31, 2018 the Foundation's financial assets available within one year for general expenditure are as follows:

Cash and cash equivalents	$ 514,451
Accounts receivable	17,285
Investments	62,183,654
Total financial assets available within one year	62,715,390
Less amounts unavailable for general expenditure within one year, due to:	
Investments in endowments and trusts held for others	(52,325,962)
Investments restricted by donors as to their use	(4,820,728)
Board-designated funds	(2,685,051)
Charitable gift annuity reserve fund	(100,000)
Total amounts unavailable for general expenditure within one year	(59,931,741)
Total financial assets available to management for general expenditure within one year	$ 2,783,649

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.

The policy established by the Board is designed to ensure the Foundation's financial stability, as follows:

- On an annual basis, the Foundation is to approve balanced budgets.
- Deficit budgets may be approved if unrestricted funds are available to cover the deficit amounts.
- Allowances can be made for projections in the budget line items whether income or expense due to the nature of the circumstances outside of the control of the Foundation.

Board-designated net assets without restrictions could be made available by the Board for current operations if needed.

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 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.

5. 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 $834 and $1,061, during the years ended December 31, 2018 and 2017, respectively.

6. INVESTMENTS

Investments are reported at fair value at December 31, 2018 as follows:

	Fair Value Measurements Using:			
	Level 1	Level 2	Level 3	Fair Value
Multi-asset funds	$ 12,718,269	$ -	$ -	$ 12,718,269
Tax-exempt bonds	-	2,959,257	-	2,959,257
Taxable bond funds	-	2,519,487	-	2,519,487
Common stock	2,310,348	-	-	2,310,348
Real estate	-	-	2,195,767	2,195,767
U.S. government and agencies	-	1,609,154	-	1,609,154
Taxable money market accounts	1,454,075	-	-	1,454,075
Mortgage loans receivable	-	1,402,666	-	1,402,666
Mutual funds	1,184,005	-	-	1,184,005
Certificates of deposit	1,045,000	-	-	1,045,000
Mission loan and development certificates	-	763,062	-	763,062
Insurance	-	174,432	-	174,432
Restricted cash	158,387	-	-	158,387
Private company stock	-	-	34,850	34,850
Limited partnership	-	-	8,766	8,766
Total assets in the fair value hierarchy	$ 18,870,084	$ 9,428,058	$ 2,239,383	30,537,525
Investments measured at net asset value				31,646,129
Total investments at fair value				$ 62,183,654

A summary of activity and changes in Level 3 investments during the year ended December 31, 2018 follows:

Balance, December 31, 2017	$ 1,684,199
Contributions	3,480,581
Sales of real estate	(3,092,377)
Total net realized and unrealized gain	315,054
Transfer out	(148,074)
Balance, December 31, 2018	$ 2,239,383

Investments are reported at fair value at December 31, 2017 as 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 value hierarchy	$ 11,158,938	$ 8,230,995	$ 1,684,199	21,074,132
Investments measured at net asset value				39,305,847
Total investments at fair value				$ 60,379,979

A summary of activity and changes in Level 3 investments during the year ended December 31, 2017 follows:

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

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

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.

Cash, certificates of deposit, and marketable investments, including publicly traded investments such as stock, mutual funds, equity funds, and exchange traded funds 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.

Bonds, bond funds, U.S. governmental securities and agencies, 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, 2018 and 2017.

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, 2018 and 2017, respectively.

	Fair Value at December 31, 2018	Fair Value at December 31, 2017	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Multi-asset fund accounts:					
Endowment fund pooled interest	$ 16,207,158	$ 13,485,976	not applicable	daily	none
Large cap value fund	7,244,665	8,782,820	not applicable	daily	none
Real estate holdings	2,433,022	2,345,571	not applicable	daily	none
Private equities	2,031,284	1,392,846	$ 2,284,348	Illiquid - up to 10 years	not applicable
Private investment fund	1,865,000	-	not applicable	daily	none
Securities and foreign companies fund	1,865,000	-	not applicable	daily	none
Fund account	-	13,298,634	not applicable	daily	none

The multi-asset fund account has various accounts with different investment strategies: the endowment fund pooled interest invests in a diversified portfolio that consists of equity-based, fixed-income, and alternative investments and the fund account invests in mutual funds. 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. The private investment fund is a group of private investments and the securities and foreign companies fund invests its assets primarily in equity securities positioned to benefit from demand for their products or services.

7. TRUSTS AND MANAGED ASSETS

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

	2018	2017
Trusts and managed assets, beginning of year	$ 20,733,722	$ 18,254,938
Additions	4,750,396	3,053,205
Investment income	606,706	618,289
Net realized (loss) gain on investments	(215,857)	189,989
Net unrealized (loss) gain on investments	(867,787)	651,349
Disbursements to/for:		
Individual beneficiaries	(1,724,353)	(1,745,431)
Sponsoring organizations	(156,985)	(28,948)
Endowments held for others	(81,768)	(91,314)
Management fees	(211,688)	(168,355)
Trusts and managed assets, end of year	$ 22,832,386	$ 20,733,722

8. 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, 2018, the assets and liabilities for these split-interest agreements were $890,107 and $798,395, respectively. As of December 31, 2017, the assets and liabilities for these split-interest agreements were $1,094,459 and $975,342, 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) for the years ended December 31:

	2018	2017
Balance, beginning of year	$ 975,342	$ 994,832
Additions	959	-
Investment income	31,278	49,098
Net realized (loss) gain on investments	(11,383)	19,766
Net unrealized (loss) gain on investments	(37,976)	47,857
Disbursements to beneficiaries	(103,471)	(113,594)
Management fees	(7,345)	(7,960)
Actuarial adjustment	(49,009)	(14,657)
Balance, end of year	$ 798,395	$ 975,342

9. ENDOWMENTS

The Foundation had 202 and 192 separate endowments under its management as of December 31, 2018 and 2017, respectively. 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.

Interpretation of relevant law

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.
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. Also included are accumulations to the donor-restricted endowment if directed by the donor gift instrument.
The Foundation classifies the remaining portion of the donor-restricted endowment fund as net assets with donor restrictions until those funds are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA.

Spending policy

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. During 2018, the spending policy was modified to 3.75% as only three quarters of the quarterly payments were requested by the Foundation. The spending policy for all other endowments is 4.375% 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 2018 was 3.93%.

Investment Policy
The investment policy adopted by the Board 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.

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, 2018 and 2017, endowments with original gift values of $4,324,046 and $2,420,280 were deficient by $532,186 and $302,624. The deficient amount is reflected in net assets with donor restrictions.

Changes in donor-restricted endowment net assets were as follows for the year ended December 31, 2018:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ -	5,396,720	5,396,720
Net unrealized and realized loss on investments	-	(499,495)	(499,495)
Contributions	-	13,696	13,696
Appropriations for expenditures	-	(217,864)	(217,864)
Endowment net assets, end of year	$ -	4,693,057	4,693,057

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

	Without donor restrictions	With donor restrictions	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	$ -	5,396,720	5,396,720

10. NET ASSETS WITH DONOR RESTRICTIONS

Endowments and other trusts' funds, that will or have become endowments upon termination of the trusts, are held by the donors in perpetuity. 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. Net assets with donor restrictions were restricted for the following at December 31:

	2018	2017
Endowment funds permanently held	$ 4,693,057	$ 5,286,335
Time restricted	90,273	95,044
Other trust funds permanently held	37,398	37,398
Purpose restricted	-	110,385
Total restricted net assets	$ 4,820,728	$ 5,529,162

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, 2018 and 2017 totaled $17,580 and $17,046, respectively. Future minimum lease payments under this lease at December 31, 2018 were $8,922 due in 2019.

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 $51,892 and $47,945 during the years ended December 31, 2018 and 2017, respectively.

13. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through June 24, 2019 (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.