Lutheran Foundation of Texas
(dba Legacy Deo)

Financial Statements
as of and for the Years Ended
December 31, 2022 and 2021
Independent Auditors' Report

MAXWELL
& LOCKE
RITTER

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):

Opinion

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, 2022 and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Maxwell Locke + Ritter LLP

Austin, Texas
August 31, 2023

Lutheran Foundation of Texas (dba Legacy Deo)

Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 580,847	$ 554,135
Investments	3,673,954	4,206,879
Prepaid insurance and deposits	36,952	29,004
Accounts receivable	65,664	69,660
Note receivable	274,086	293,076
Property and equipment, net	942,428	6,671
Investments restricted as to use	4,365,997	5,228,972
Investments held for others	43,445,728	51,878,314
Total	$ 53,385,656	$ 62,266,711
Liabilities and Net Assets		
Liabilities:		
Accrued expenses	$ 54,474	$ 79,831
Charitable gift annuities	13,502	22,024
Agency and trust accounts	12,299,093	14,813,155
Endowments benefiting others	31,133,133	37,043,136
Note payable	499,178	-
Total liabilities	43,999,380	51,958,146
Net assets:		
Without donor restrictions (Note 10)	5,020,279	5,079,593
With donor restrictions	4,365,997	5,228,972
Total net assets	9,386,276	10,308,565
Total	$ 53,385,656	$ 62,266,711

See notes to financial statements.

Lutheran Foundation of Texas (dba Legacy Deo)

Statement of Activities
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and net assets released from restrictions:			
Contributions	$ 446,901	326,994	773,895
Management fees	551,123	-	551,123
Investment income	143,393	109,012	252,405
Rents and royalties	62,455	6	62,461
Other income	880	-	880
Actuarial and other losses	(920)	(89,967)	(90,887)
External distributions required by donors	-	(272,797)	(272,797)
Net realized and unrealized losses on investments	(479,560)	(794,356)	(1,273,916)
Distributions to support operations and Board-designated programs	106,213	(106,213)	-
Net assets released from restriction	35,654	(35,654)	-
Total revenues and net assets released from restrictions	866,139	(862,975)	3,164
Expenses:			
Program services	489,241	-	489,241
Support services	436,212	-	436,212
Total expenses	925,453	-	925,453
Change in net assets	(59,314)	(862,975)	(922,289)
Net assets, beginning of year	5,079,593	5,228,972	10,308,565
Net assets, end of year	$ 5,020,279	4,365,997	9,386,276

See notes to financial statements.

Lutheran Foundation of Texas (dba Legacy Deo)

Statement of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and net assets released from restrictions:			
Contributions	$ 110,469	858,397	968,866
Management fees	625,514	-	625,514
Investment income	129,196	85,670	214,866
Rents and royalties	28,819	-	28,819
Other income	81,360	-	81,360
Actuarial and other losses	(839)	(93,542)	(94,381)
External distributions required by donors	-	(340,374)	(340,374)
Net realized and unrealized gains on investments	216,975	236,988	453,963
Distributions to support operations and Board-designated programs	104,427	(104,427)	-
Net assets released from restriction	-	-	-
Total revenues and net assets released from restrictions	1,295,921	642,712	1,938,633
Expenses:			
Program services	448,479	-	448,479
Support services	363,566	-	363,566
Total expenses	812,045	-	812,045
Change in net assets	483,876	642,712	1,126,588
Net assets, beginning of year	4,595,717	4,586,260	9,181,977
Net assets, end of year	$ 5,079,593	5,228,972	10,308,565

See notes to financial statements.

Lutheran Foundation of Texas (dba Legacy Deo)

Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services			Support Services			
	Gift Acquisition	Gift Administration	Total Program Services	Fundraising	Management and General	Total Support Services	Total Expenses
Salaries, wages, benefits, and payroll taxes	$ 132,431	175,797	308,228	5,945	346,704	352,649	660,877
Professional fees, contract services, and insurance	57,383	48,599	105,982	-	60,160	60,160	166,142
Grants and awards	-	46,787	46,787	-	-	-	46,787
Occupancy, telephone, and supplies	5,205	6,315	11,520	-	14,306	14,306	25,826
Conferences, travel, staff development, and board meetings	14,020	1,384	15,404	777	6,809	7,586	22,990
Depreciation and amortization	567	753	1,320	-	1,511	1,511	2,831
	$ 209,606	279,635	489,241	6,722	429,490	436,212	925,453

See notes to financial statements.

Lutheran Foundation of Texas (dba Legacy Deo)

Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services			Support Services	
	Gift Acquisition	Gift Administration	Total Program Services	Management and General	Total Expenses
Salaries, wages, benefits, and payroll taxes	$ 50,457	191,272	241,729	274,765	516,494
Professional fees, contract services, and insurance	50,844	39,902	90,746	56,141	146,887
Grants and awards	-	85,624	85,624	-	85,624
Occupancy, telephone, and supplies	4,797	18,226	23,023	26,274	49,297
Conferences, travel, staff development, and board meetings	3,430	2,261	5,691	4,499	10,190
Depreciation and amortization	347	1,319	1,666	1,887	3,553
	$ 109,875	338,604	448,479	363,566	812,045

See notes to financial statements.

Lutheran Foundation of Texas (dba Legacy Deo)

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Cash received for management services performed	$ 555,904	$ 621,258
Cash received for charitable contributions	584,170	159,651
Dividends and interest received	143,528	129,196
Cash received for royalties	63,550	30,745
Cash received from related parties	1,250	94,889
Cash payments to employees, grantees, and vendors	(954,686)	(770,272)
Net cash provided by operating activities	393,716	265,467
Cash Flows from Investing Activities:		
Purchases of property and equipment	(938,802)	(3,642)
Proceeds from the sale of property and equipment	471	-
Purchases of investments	(742,731)	(770,803)
Sales of investments	795,890	628,329
Net cash used in investing activities	(885,172)	(146,116)
Cash Flows from Financing Activities:		
Cash received for payments on note receivable	18,990	18,069
Issuance of long-term debt	500,000	-
Payments on long-term debt	(822)	-
Net cash provided by financing activities	518,168	18,069
Net change in cash and cash equivalents	26,712	137,420
Cash and cash equivalents, beginning of year	554,135	416,715
Cash and cash equivalents, end of year	$ 580,847	$ 554,135

See notes to financial statements.

1. Organization

Lutheran Foundation of Texas (dba Legacy Deo) (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 Classifications - Net assets, revenues, gains, losses, 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 **-** These 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, or at the discretion of the Board of Directors (the "Board") for the Foundation's use.

With Donor Restrictions **-** These assets are subject to donor-imposed stipulations, which limit their use to a specific purpose and/or the passage of time, or which require them to be maintained permanently.

Net assets required to be maintained permanently are not available for use in operations, and limitations thereon neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. 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 those estimates.

Cash and Cash Equivalents - The Foundation considers all unrestricted cash and short-term highly liquid investments 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 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.

Investments - Investments are valued at their fair values in the statements of financial position. Investment transactions are recorded on the trade date, and 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 investment. 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.

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 and amortization expense using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Furniture and fixtures	5-15 years
Computers and other equipment	3-5 years
Computer software	5 years

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment of the asset group level 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 carrying amount of the asset group exceeds fair value, if the carrying amount of the asset group is not recoverable.

Deferred Revenue - Deferred revenue may include amounts received as upfront bonuses related to leases on the Foundation's mineral interests. Revenue is recognized over the lease term, which is generally three to five years. Deferred revenue may also include amounts received, but not yet earned, on contracts with other organizations that promote the Foundation's services and benefit the client organizations' membership.

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 annuitants' life expectancies. The discount rates used in determining the fair value of the liabilities at December 31, 2022 and 2021 were 5.2% and 1.6%, 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 undesignated net assets without donor restrictions.

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.

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, 2022 and 2021 were 5.2% and 1.6%, 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.

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. 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.

For purposes of presentation, charitable remainder trusts representing the balance of the other beneficiary 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.

Contributions - The Foundation recognizes contributions when cash, securities, other assets, unconditional promises to give, or a notification of a beneficial interest is received. All contributions, including unconditional promises to give, are recorded at their fair value and are considered to be available for operations of the Foundation unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as net assets with donor restrictions, if they are received with donor stipulations that limit the use of donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related restricted net assets are reclassified to net assets without donor restrictions. This is reported in the statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire within the fiscal year in which the contributions are received. Conditional promises to give, defined as those with a measurable performance or other barrier and a right of return, are recognized when the condition on which they depend is met and the promise becomes unconditional.

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. Revenue is recognized when promised services are transferred to customers in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those services by following a five-step process: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations, and (5) recognize revenue when or as the Foundation satisfies performance obligations.

Performance obligations are satisfied as the services are rendered, and revenue is recognized over time.

Costs to Obtain or Fulfill Contracts - As performance obligations in the Foundation's contracts with customers are typically satisfied over a period of one year or less, the Foundation applies the practical expedient to expense costs to obtain a contract as incurred. The Foundation does not incur fulfillment costs requiring capitalization.

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.

Federal Income Taxes - 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, 2022 and 2021. 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.

Change in Accounting Principle for Recently Adopted Accounting Pronouncement - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for leases under Topic 840, *Leases*. The standard requires the recognition of right-of-use ("ROU") assets and lease liabilities for all leases, including operating leases. For lessors, the accounting for rental revenue and other property income remains substantially unchanged from previous lease accounting guidance. The Foundation adopted ASU No. 2016-02, as amended, on January 1, 2022, using a modified retrospective approach. The adoption did not have a significant impact on the Foundation's statement of financial position or statement of activities.

Leases - Leases with an initial term of twelve months or less are classified as short-term leases and are not recognized in the statement of financial position unless the lease contains a purchase option that is reasonably certain to be exercised. Management assesses contracts at inception to determine whether an arrangement is or includes a lease, which conveys the Foundation's right to control the use of an identified asset for a period of time in exchange for consideration. A determination is made at inception as to whether the lease is an operating lease or a finance lease, and lease determinations are reassessed in the event of a change in lease terms. ROU assets and associated liabilities are recognized at the commencement date and initially measured based on the present value of future minimum lease payments over the expected lease term, with ROU assets increased for initial direct costs and prepaid lease payments and reduced by any lease incentives received from the lessor. There were no significant ROU assets or associated liabilities recorded on the Foundation's statement of financial position as of December 31, 2022 as the Foundation was not obligated under any significant lease agreements.

3. Liquidity and Availability of Resources

The Foundation's financial assets available within one year for general expenditure were as follows, as of December 31:

	2022	2021
Cash and cash equivalents	$ 580,847	$ 554,135
Investments	51,485,679	61,314,165
Accounts receivable	65,664	69,660
Note receivable	274,086	293,076
Total financial assets	52,406,276	62,231,036
Less amounts unavailable for general expenditure within one year, due to:		
Investments in endowments and trusts held for others	(43,455,728)	(51,878,314)
Investments restricted by donors as to their use	(4,365,997)	(5,228,972)
Investments in non-liquid assets	(190,592)	(92,236)
Board-designated quasi-endowment	(1,037,516)	(1,127,437)
Ninety-day cash reserve required by Board policy	(229,705)	(189,905)
Charitable gift annuity reserve fund	(100,000)	(100,000)
	(49,379,538)	(58,616,864)
Less amounts unavailable to management without Board's approval-		
Board-designated for discretionary use	(549,197)	(639,524)
Total financial assets available to management for general expenditure within one year	$ 2,477,541	$ 2,974,648

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 as of December 31:

	2022	2021
Building	$ 864,463	$ -
Furniture and fixtures	89,296	47,103
Computer software	33,934	54,160
Computers and other equipment	10,668	-
	998,361	101,263
Accumulated depreciation and amortization	(55,933)	(94,592)
Property and equipment, net	$ 942,428	$ 6,671

6. Investments

Investments measured at fair value at December 31, 2022 consisted of the following:

	Level 1	Level 2	Level 3	Fair Value
Exchange traded funds	$ 13,618,335	-	-	13,618,335
Mutual funds	11,390,464	-	-	11,390,464
Common stocks	10,567,000	-	-	10,567,000
U.S. government securities	2,983,088	-	-	2,983,088
Corporate bonds	-	1,995,805	-	1,995,805
Mortgage-backed and asset-backed securities	-	1,481,513	-	1,481,513
Cash and cash equivalents	1,269,651	-	-	1,269,651
Municipal bonds	-	909,605	-	909,605
Cash surrender value of life insurance policies	-	786,385	-	786,385
Term notes	-	489,250	-	489,250
Mineral interests	-	-	452,103	452,103
Real estate	-	-	172,250	172,250
Annuities	-	6,996	-	6,996
Private company stock	-	-	297	297
	$ 39,828,538	5,669,554	624,650	46,122,742
Investments measured at net asset value				5,362,937
Total investments at fair value				$51,485,679

There were no additions, sales, or transfers in or out of Level 3 investments during the year ended December 31, 2022.

Investments measured at fair value at December 31, 2021 consisted of the following:

	Level 1	Level 2	Level 3	Fair Value
Exchange-traded funds	$ 17,532,454	-	-	$ 17,532,454
Common stocks	13,024,576	-	-	13,024,576
Mutual funds	12,719,334	-	-	12,719,334
U.S. government securities	3,010,361	-	-	3,010,361
Corporate bonds	-	2,836,383	-	2,836,383
Cash and cash equivalents	1,504,825	-	-	1,504,825
Mortgage-backed and asset-backed securities	-	1,269,878	-	1,269,878
Municipal bonds	-	1,211,325	-	1,211,325
Cash surrender value of life insurance policies	-	805,327	-	805,327
Term notes	-	489,250	-	489,250
Mineral interests	-	-	281,183	281,183
Real estate	-	-	172,250	172,250
Annuities	-	970	-	970
Private company stock	-	-	297	297
	$ 47,791,550	6,613,133	453,730	54,858,413
Investments measured at net asset value				6,455,752
Total investments at fair value				$ 61,314,165

There were no additions, sales, or transfers in or out of Level 3 investments during the year ended December 31, 2021.

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, 2022 and 2021.

Cash and cash equivalents and marketable investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. Marketable investments includes publicly-traded investments such as stock, mutual funds, equity funds, exchange-traded funds, and U.S. 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, 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, 2022 and 2021, contract value approximates fair value. Term notes are valued at the outstanding balance held by the issuer. 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, 2022 and 2021.

Mineral interest, real estate, 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, 2022	Fair Value at December 31, 2021	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedged equity funds	$ 5,362,937	$ 6,455,752	not applicable	quarterly	20-90 days

The hedged equity funds invest primarily in equity securities of U.S. and foreign companies that the managers believe are well-positioned to generate benefit from their products and services, and utilize short sale and margin overlay strategies.

7. Charitable Gift Annuities

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

	2022	2021
Balance, beginning of year	$ 22,024	$ 24,406
Net income	297	123
Contributions	9,392	-
Beneficiary distributions	(7,578)	(6,789)
Fair market value adjustment	(14,175)	1,633
Actuarial gains	3,542	2,651
Balance, end of year	$ 13,502	$ 22,024

8. Agency and Trust Accounts

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

	2022	2021
Irrevocable trusts due other remaindermen	$ 4,919,630	$ 5,937,293
Irrevocable trusts due life beneficiaries	2,955,141	4,107,897
Church custodial agreements	2,495,510	2,342,544
Agency custodial agreements	1,534,105	1,973,478
Irrevocable trusts - pass through gifts	381,475	436,548
Revocable trusts	13,232	15,395
Total agency and trust accounts	$ 12,299,093	$ 14,813,155

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

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

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

As of December 31, 2022, the assets and liabilities of the split-interest charitable remainder unitrusts were $570,413 and $305,651, respectively. As of December 31, 2021, the assets and liabilities of the split-interest charitable remainder unitrusts were $714,913 and $366,738, 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) as of December 31:

	2022	2021
Balance, beginning of year	$ 366,738	$ 343,131
Net income	8,346	4,693
Beneficiary distributions	(32,243)	(30,159)
Realized gains	11,319	29,868
Fair market value adjustment	(131,704)	21,885
Actuarial gains (losses)	83,195	(2,680)
Balance, end of year	$ 305,651	$ 366,738

9. Endowments

The Foundation had 315 and 306 separate endowments under its management as of December 31, 2022 and 2021, 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, 2022 and 2021, this subset numbered 34 and 33 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, 2022, endowments with original gift values of $3,424,401 were deficient by $579,629. As of December 31, 2021, endowments with original gift values of $1,863,989 were deficient by $86,265. Deficient amounts are 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, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated quasi-endowment	$ 1,037,516	$ -	$ 1,037,516
Donor-restricted endowment funds	-	2,971,478	2,971,478
Total endowment funds	$ 1,037,516	$ 2,971,478	$ 4,008,994

The following represents the composition of the Foundation's endowment net assets by type of fund as of December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated quasi-endowment	$ 1,127,437	$ -	$ 1,127,437
Donor-restricted endowment funds	-	3,569,254	3,569,254
Total endowment funds	$ 1,127,437	$ 3,569,254	$ 4,696,691

Changes in endowment net assets were as follows during the year ended December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 1,127,437	$ 3,569,254	$ 4,696,691
Investment loss, net	(100,277)	(511,438)	(611,715)
Additions	44,939	19,875	64,814
Appropriations	(34,583)	(106,213)	(140,796)
Endowment net assets, end of year	$ 1,037,516	$ 2,971,478	$ 4,008,994

Changes in endowment net assets were as follows during the year ended December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 1,034,441	$ 3,414,617	$ 4,449,058
Investment return, net	96,214	183,374	279,588
Additions	25,217	75,690	100,907
Appropriations	(28,435)	(104,427)	(132,862)
Endowment net assets, end of year	$ 1,127,437	$ 3,569,254	$ 4,696,691

10. Net Assets without Donor Restrictions

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

	2022	2021
Undesignated	$ 3,433,566	$ 3,312,632
Board-designated for discretionary use	549,197	639,524
Board-designated for quasi-endowment	1,037,516	1,127,437
Total net assets without donor restrictions	$ 5,020,279	$ 5,079,593

Board-designated for discretionary use
Included in net assets without donor restrictions is a special-use fund 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 the consolidated fund is not available for expenditure by the Foundation unless released by the Board.

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 $35,264 and $30,599 of additional revenue during the years ended December 31, 2022 and 2021, respectively. This revenue is included in net assets without donor restrictions on the statements of activities.
The quasi-endowment revenue enabled the Foundation to make grants of $29,288 during the year ended December 31, 2021.

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. The corpus of each endowment 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 as of December 31:

	2022	2021
Endowment funds	$ 2,971,478	$ 3,569,254
Charitable remainder trusts	364,607	496,136
Donor-advised funds	875,587	958,760
Other irrevocable trusts	147,508	175,764
Charitable gift annuities	6,817	29,058
Total net assets with donor restrictions	$ 4,365,997	$ 5,228,972

12. Borrowing Arrangement

The Foundation entered into a $500,000 loan with Church Extension Fund of Texas District LCMS on October 31, 2022. The loan is payable in monthly installments of principal and interest of $2,176, matures October 31, 2052, and carries a rate of 3.25% that resets every three years on the anniversary of the loan.

Future maturities of long-term debt were as follows as of December 31, 2022:

2023	$ 10,037
2024	10,368
2025	10,711
2026	11,064
2027	11,429
Thereafter	445,569
Total	$ 499,178

13. 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, 2022 and 2021 totaled $45,858 and $41,521, respectively.

14. 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 $8,265,732 and $8,993,421 as of December 31, 2022 and 2021, respectively.

The Foundation also holds term notes issued by the Church Extension Fund of Texas District LCMS. The market value of these term notes was $489,250 as of December 31, 2022 and 2021. These notes are classified as term notes in the Foundation's investments.

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

	2022	2021
Principal and income distributions to Texas District LCMS from beneficial interest in endowments and trusts held by the Foundation	$ 268,309	$ 273,270
Interest received on Church Extension Fund term notes and cash equivalents	13,583	13,031
Grants paid to qualified ministries of Texas District LCMS	6,157	35,442
Estimated market value of the Foundation's office space, contributed by Texas District LCMS on an in-kind basis	3,300	39,600
Unrestricted cash contribution from Texas District LCMS to the Foundation	1,250	15,000
Cash contribution from Texas District LCMS for the Foundation's qualifying expenses from the Texas District LCMS's Paycheck Protection Program loan forgiveness	-	79,889

The Foundation received $161,000 and $9,000 in contributions from Board members during the years ended December 31, 2022 and 2021, respectively.

15. Subsequent Events

The Foundation has evaluated subsequent events through August 31, 2023, the date the financial statements were available to be issued.

On July 20, 2023 and August 15, 2023, the Foundation received installments of $2,550,522 and $943,932, respectively, from the Southern District LCMS Lutheran Foundation (SDLF) as part of its planned dissolution. SDLF named the Foundation successor trustee to its 54 accounts. The Foundation estimates that a total of $3,900,000 will be received from SDLF by September 30, 2023.