

**LUTHERAN CHURCH-MISSOURI SYNOD
CENTRAL ILLINOIS DISTRICT, INC.
SPRINGFIELD, ILLINOIS**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010**

Lutheran Church-Missouri Synod
Central Illinois District, Inc.

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Independent Auditor's Report

To the Board of Directors
Lutheran Church-Missouri Synod
Central Illinois District, Inc.
Springfield, Illinois

We have audited the accompanying statements of financial position of the of the Lutheran Church-Missouri Synod Central Illinois District, Inc. (a not-for-profit organization) as of the years ended December 31, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Lutheran Church-Missouri Synod Central Illinois District, Inc. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the of the Lutheran Church-Missouri Synod Central Illinois District, Inc. as of the years ended December 31, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Estes, Bridgewater & Ogden
Certified Public Accountants

April 11, 2012

Lutheran Church-Missouri Synod
Central Illinois District, Inc.
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

| <u>Assets</u> | <u>2011</u> | <u>2010</u> |
|--|-------------------------------|-------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents..... | \$ 79,788 | \$ - |
| Accounts receivable..... | 36,710 | 44,618 |
| Interest receivable..... | 3,155 | 4,795 |
| Prepaid expense..... | <u>3,330</u> | <u>1,486</u> |
| Total Current Assets..... | <u>122,983</u> | <u>50,899</u> |
| OTHER ASSETS | | |
| Investments..... | 533,073 | 716,173 |
| Staff loans receivable..... | <u>122,261</u> | <u>137,250</u> |
| Total Other Assets..... | <u>655,334</u> | <u>853,423</u> |
| PROPERTY AND EQUIPMENT | | |
| Land..... | 320,728 | 320,728 |
| Land improvements..... | 43,530 | 43,530 |
| Office buildings/Campus Centers/Other..... | 2,945,019 | 2,920,265 |
| Furniture and equipment..... | <u>386,143</u> | <u>384,139</u> |
| Total property and equipment..... | 3,695,420 | 3,668,662 |
| Accumulated depreciation..... | (<u>2,323,608</u>) | (<u>2,253,980</u>) |
| Fixed Assets – Net..... | <u>1,371,812</u> | <u>1,414,682</u> |
| TOTAL ASSETS..... | <u>\$2,150,129</u> | <u>\$2,319,004</u> |

The accompanying notes are an integral part of these financial statements.

| <u>Liabilities and Net Assets</u> | <u>2011</u> | <u>2010</u> |
|--|---------------------------|---------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 8,115 | \$ 19,004 |
| Deferred revenue | 280 | 2,637 |
| Due to Endowment Fund | <u>22,062</u> | <u>16,218</u> |
| Total Current Liabilities | <u>30,457</u> | <u>37,859</u> |
| LONG-TERM LIABILITIES | | |
| Mortgage payable..... | <u>195,000</u> | <u>195,000</u> |
| Total Liabilities | <u>225,457</u> | <u>232,859</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Investment In Plant..... | 1,371,813 | 1,414,682 |
| Board Designated | 80,753 | 80,753 |
| Undesignated | <u>249,000</u> | <u>362,252</u> |
| Total Unrestricted | <u>1,701,566</u> | <u>1,857,687</u> |
| Temporarily Restricted | <u>223,106</u> | <u>228,458</u> |
| Total Net Assets | <u>1,924,672</u> | <u>2,086,145</u> |
| TOTAL LIABILITIES AND NET ASSETS..... | <u>\$2,150,129</u> | <u>\$2,319,004</u> |

Lutheran Church-Missouri Synod
Central Illinois District, Inc.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2011 and 2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>2011</u> |
|---|---------------------------|-----------------------------------|---------------------------|
| SUPPORT: | | | |
| District congregations | \$1,972,696 | \$ - | \$1,972,696 |
| Gifts and grants | <u>5,526</u> | <u>114,272</u> | <u>119,798</u> |
| Total support | <u>1,978,222</u> | <u>114,272</u> | <u>2,092,494</u> |
| REVENUES: | | | |
| Building rent | 22,600 | - | 22,600 |
| Conferences/Convention | 66,172 | - | 66,172 |
| Other miscellaneous income | 28,669 | - | 28,669 |
| Interest income | 29,703 | - | 29,703 |
| Net assets released from restrictions | <u>127,822</u> | (<u>127,822</u>) | <u>-</u> |
| Total revenues | <u>274,966</u> | (<u>127,822</u>) | <u>147,144</u> |
| Total support and revenue | <u>2,253,188</u> | (<u>13,550</u>) | <u>2,239,638</u> |
| EXPENSES: | | | |
| Direct Program Services: | | | |
| World missions | 617,500 | - | 617,500 |
| Preparing church workers | 78,382 | - | 78,382 |
| Missions & ministry | 1,021,906 | - | 1,021,906 |
| Program services – support | <u>391,934</u> | <u>-</u> | <u>391,934</u> |
| Total Program Services | <u>2,109,722</u> | <u>-</u> | <u>2,109,722</u> |
| Support Expenses: | | | |
| General Administration | <u>291,389</u> | <u>-</u> | <u>291,389</u> |
| Total expenses | <u>2,401,111</u> | <u>-</u> | <u>2,401,111</u> |
| CHANGE IN NET ASSETS | (147,923) | (13,550) | (161,473) |
| NET ASSETS - BEGINNING OF YEAR | <u>1,849,489</u> | <u>236,656</u> | <u>2,086,145</u> |
| NET ASSETS – END OF YEAR | <u>\$1,701,566</u> | <u>\$ 223,106</u> | <u>\$1,924,672</u> |

The accompanying notes are an integral part of these financial statements.

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>2010</u> |
|--|---------------------------|-----------------------------------|---------------------------|
| SUPPORT: | | | |
| District congregations | \$1,932,726 | \$ - | \$1,932,726 |
| Gifts and grants | <u>10,000</u> | <u>126,988</u> | <u>136,988</u> |
| Total support | <u>1,942,726</u> | <u>126,988</u> | <u>2,069,714</u> |
| REVENUES: | | | |
| Building rent | 20,448 | - | 20,448 |
| Conferences/Convention..... | 174,617 | - | 174,617 |
| Other miscellaneous income | 21,714 | - | 21,714 |
| Interest income | 30,406 | - | 30,406 |
| Net assets released from restrictions..... | <u>164,338</u> | (<u>164,338</u>) | <u>-</u> |
| Total revenues..... | <u>411,523</u> | (<u>164,338</u>) | <u>247,185</u> |
| Total support and revenue..... | <u>2,354,249</u> | (<u>37,350</u>) | <u>2,316,899</u> |
| EXPENSES: | | | |
| Direct Program Services: | | | |
| World missions | 629,570 | - | 629,570 |
| Preparing church workers | 121,762 | - | 121,762 |
| Missions & ministry..... | 1,023,220 | - | 1,023,220 |
| Program services – support..... | <u>491,313</u> | <u>-</u> | <u>491,313</u> |
| Total Program Services..... | <u>2,265,865</u> | <u>-</u> | <u>2,265,865</u> |
| Support Expenses: | | | |
| General Administration..... | <u>289,687</u> | <u>-</u> | <u>289,687</u> |
| Total expenses..... | <u>2,555,552</u> | <u>-</u> | <u>2,555,552</u> |
| CHANGE IN NET ASSETS | (201,303) | (37,350) | (238,653) |
| NET ASSETS - BEGINNING OF YEAR..... | <u>2,050,792</u> | <u>274,006</u> | <u>2,324,798</u> |
| NET ASSETS - END OF YEAR..... | <u>\$1,849,489</u> | <u>\$ 236,656</u> | <u>\$2,086,145</u> |

Lutheran Church-Missouri Synod
Central Illinois District, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2011 and 2010

| | <u>Program Services</u> | <u>Management and General</u> | <u>2011</u> |
|---|-----------------------------|-----------------------------------|------------------------|
| World Missions..... | \$ 617,500 | \$ - | \$ 617,500 |
| Preparing Church Workers | 78,382 | - | 78,382 |
| Board Expenses..... | - | 10,581 | 10,581 |
| Conferences, committees and convention..... | 82,663 | 3,471 | 86,134 |
| Depreciation..... | 52,316 | 21,102 | 73,418 |
| Insurance..... | 22,337 | 3,989 | 26,326 |
| Maintenance..... | 24,679 | 8,832 | 33,511 |
| Postage..... | 9,458 | - | 9,458 |
| Printing and publications | 19,508 | 1,299 | 20,807 |
| Professional and contractual services | 60,046 | 10,946 | 70,992 |
| Other program costs..... | 235,074 | - | 235,074 |
| Salaries and benefits | 780,285 | 191,204 | 971,489 |
| Subsidies..... | 131,006 | - | 131,006 |
| Supplies..... | 3,660 | 5,244 | 8,904 |
| Telephone..... | 2,816 | 4,258 | 7,074 |
| Travel/Visitations..... | 32,428 | 12,399 | 44,827 |
| Utilities..... | 22,936 | 18,064 | 41,000 |
| Other | <u>7,828</u> | <u>-</u> | <u>7,828</u> |
| Total Expenses..... | <u>\$2,182,922</u> | <u>\$ 291,389</u> | <u>\$2,474,311</u> |

| | <u>Program Services</u> | <u>Management and General</u> | <u>2010</u> |
|---|-----------------------------|-----------------------------------|------------------------|
| World Missions..... | \$ 629,570 | \$ - | \$ 629,570 |
| Preparing Church Workers | 121,762 | - | 121,762 |
| Board Expenses..... | | 5,773 | 5,773 |
| Conferences, committees and convention..... | 195,275 | 13,348 | 208,623 |
| Depreciation..... | 49,797 | 21,146 | 70,943 |
| Insurance | 15,250 | 3,969 | 19,219 |
| Maintenance | 16,505 | 10,054 | 26,559 |
| Postage | 602 | 1,432 | 2,034 |
| Printing and publications | 23,782 | - | 23,782 |
| Professional and contractual services | 57,250 | 13,255 | 70,505 |
| Other program costs | 28,738 | - | 28,738 |
| Salaries and benefits | 769,984 | 186,455 | 956,439 |
| Subsidies | 280,207 | - | 280,207 |
| Supplies..... | 4,104 | 5,783 | 9,887 |
| Telephone..... | 3,100 | 3,246 | 6,346 |
| Travel/Visitations..... | 39,150 | 7,506 | 46,656 |
| Utilities..... | 25,005 | 17,305 | 42,310 |
| Other | <u>5,784</u> | <u>415</u> | <u>6,199</u> |
| Total Expenses | <u>\$2,265,865</u> | <u>\$ 289,687</u> | <u>\$2,555,552</u> |

Lutheran Church-Missouri Synod
Central Illinois District, Inc.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

Statement 4

| | <u>2011</u> | <u>2010</u> |
|---|-------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets..... | (\$161,473) | (\$238,653) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation expense..... | 73,418 | 70,943 |
| (Increase) decrease in assets: | | |
| Staff loans receivable..... | 14,989 | 14,084 |
| Accounts receivable..... | 7,908 | 10,645 |
| Interest receivable..... | 1,640 | 405 |
| Prepaid expenses and deposits..... | (1,844) | 294 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and due to..... | (5,045) | 3,431 |
| Deferred revenues..... | (<u>2,357</u>) | (<u>213</u>) |
| Net cash (used for) operating activities..... | (<u>72,764</u>) | (<u>139,064</u>) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from mortgage..... | <u> -</u> | <u>195,000</u> |
| Net cash provided by financing activities..... | <u> -</u> | <u>195,000</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sale of investments..... | 185,394 | 62,000 |
| Purchase of investments..... | (2,294) | (12,974) |
| Fixed asset acquisitions..... | (<u>27,833</u>) | (<u>230,730</u>) |
| Net cash provided by (used for) investing activities..... | <u>155,267</u> | (<u>181,704</u>) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS..... | 82,503 | (125,768) |
| CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR..... | (<u>2,715</u>) | <u>123,053</u> |
| CASH AND CASH EQUIVALENTS – END OF YEAR..... | \$ <u>79,788</u> | (\$ <u>2,715</u>) |

The accompanying notes are an integral part of these financial statements.

Lutheran Church-Missouri Synod
Central Illinois District, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Central Illinois District of the Lutheran Church-Missouri Synod (CID) is a charitable exempt organization organized under Section 501(c)(3) of the Internal Revenue Code and was established to provide ministry and other support services to member congregations and to provide missions support to the Lutheran Church-Missouri Synod. The CID's programs are supported primarily by member church congregations.

The financial statements of the Central Illinois District-LCMS have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

The significant accounting policies followed by the Central Illinois District-LCMS are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The financial statements of the Central Illinois District – LCMS have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation – The Central Illinois District-LCMS presents its financial statements on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. Restrictions are at the direction of the donor. Interest and dividends from investments are classified as unrestricted unless there are donor stipulations on the use of investment revenue.

Cash and Cash Equivalents – Cash consists solely of amounts used for current operations in a demand deposit.

Investments – Investments consist of certificates of deposit and a flexible savings account. They are carried at cost which is equal to market.

Contribution Receivables – The Central Illinois District-LCMS receives the majority of its support from the district congregations it serves. For budgeting purposes, each district congregation submits a non-binding pledge on an annual basis. According to board policy, these pledges are informational only and no effort to collect the amounts would be made should a congregation experience financial hardship. Accordingly, no pledge receivables are recognized in the statements.

Fixed Assets – Fixed assets (greater than \$500) are recorded at cost and depreciated over their estimated useful lives using the straight-line method of depreciation. Management's policy is to recognize a full year of depreciation in the year the asset is acquired and no depreciation in the year of disposal. Depreciation expense was \$73,418 for the year ended December 31, 2011. The prior years total was \$70,943.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and accompanying notes. Actual results could differ from those estimates.

Lutheran Church-Missouri Synod
Central Illinois District, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Income Taxes – The organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Subsequent Events – The Organization reviewed events for inclusion in the financial statements through April 11, 2012, the date through which subsequent events have been evaluated and the date the financial statements were available to be issued.

NOTE 2 – STAFF LOANS RECEIVABLE

Elected, called, and contracted full-time executive and field staff of the Central Illinois District of the Lutheran Church-Missouri Synod are eligible for first mortgage loans up to \$135,000 for their primary residences. Lending guidelines, including terms and security for the loans, are established by the Central Illinois District Board of Directors.

Staff loans receivable are reported at their outstanding principal balance. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Staff loans receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. At December 31, 2011 and 2010, there were two loans in effect with an interest rate of 6.25% and outstanding balances of \$122,261 and \$137,250, respectively.

NOTE 3 – INVESTMENTS

Investments consisted of the following for the years ended December 31, 2011 and 2010:

| | <u>December 31, 2011</u> | | <u>December 31, 2010</u> | |
|---|--------------------------|------------------|--------------------------|------------------|
| | <u>Cost</u> | <u>Market</u> | <u>Cost</u> | <u>Market</u> |
| Central Illinois District | | | | |
| Church Extension Fund: | | | | |
| Certificates of Deposit, Rates: 2.00% - 4.75% | \$532,355 | \$532,355 | \$715,460 | \$715,460 |
| Flexible Account | <u>718</u> | <u>718</u> | <u>713</u> | <u>713</u> |
| Total | <u>\$533,073</u> | <u>\$533,073</u> | <u>\$716,173</u> | <u>\$716,173</u> |

Investment income includes interest income earned on the above investments and loans receivable. Interest income for the years December 31, 2011 and 2010 were \$29,703 and \$30,406, respectively.

Lutheran Church-Missouri Synod
Central Illinois District, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE 4 – MORTGAGE LOAN PAYABLE

In July 2010, the Central Illinois District obtained a loan for \$195,000 for the purchase of property in St. Joseph, Illinois. The mortgage is with the Central Illinois District-Church Extension Fund (CEF) and the interest rate is computed monthly based on the CEF cost of funds rate. The mortgage is due and payable on July 30, 2038.

The following is the repayment schedule of principal and interest:

| | |
|-----------|---|
| 2011 | Interest only based on CEF Cost of Funds |
| 2012 | Interest only based on CEF Cost of Funds +1% |
| 2013 | Interest only based on CEF Cost of Funds +1% |
| 2014 | Interest only based on CEF Cost of Funds +21% |
| 2015 | Interest only based on CEF Cost of Funds +21% |
| 2016-2028 | Principal and Interest – Interest rate is CEF adjustable rate |

NOTE 5 – CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the organization to concentration of credit risk, include cash, accounts and staff loans receivable and investments. The organization places its temporary cash with credit-worthy, high quality financial institutions. Accounts receivable and notes receivable are principally with member churches and individuals within the Central Illinois District. The organization performs ongoing evaluations of the financial conditions of the member churches to ensure collection of outstanding balances.

Investments with the Central Illinois District – Church Extension Fund (CEF) of \$533,073 are not SIPC or FDIC-insured bank deposit accounts, and repayment of principal and interest is dependent upon the general financial condition of CEF. Management has reviewed the financial condition of the CEF and is satisfied that deposits are secure despite lack of regulatory insurance coverage.

NOTE 6 – CAMP CILCA

Camp CILCA is a 501(c)(3) organization. The Central Illinois District LCMS appoints one half of the members of the board of directors. Camp CILCA owns certain real estate and other assets which are encumbered by debt and would revert to the Central Illinois District LCMS should the corporation cease to exist. There is no plan to dissolve the corporation.

NOTE 7 – CENTRAL ILLINOIS DISTRICT ENDOWMENT FUND, INC.

In 2003, the Central Illinois District Endowment Fund, Inc. (Endowment Fund) was created to manage invested funds. Endowment Fund is governed by a board of trustees independent of Central Illinois District. Inasmuch as disbursements from Endowment Fund can be for purposes and programs administered by Central Illinois District, Central Illinois District is represented at Endowment Fund meetings in a non-voting capacity. Should Endowment Fund dissolve, the assets of the Fund would be distributed to Central Illinois District, if extant, or else to Lutheran Church – Missouri Synod Foundation.

Lutheran Church-Missouri Synod
Central Illinois District, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE 8 – NET ASSETS

Unrestricted Net Assets are considered unrestricted as to use unless a restriction has been placed by the donor. For reporting purposes, management has identified certain net assets to be used for specific purposes. These net assets are termed “board designated” for the specific purpose. At December 31, 2011, \$1,371,812 of unrestricted net assets were designated as Net Investment In Plant and represents the book value of unrestricted fixed assets held by the organization reduced by the outstanding liabilities against those assets.

In 2004, \$93,564 had been designated by the board for special projects. Board Designated Net Assets for the years ended December 31, 2011 and 2010 were \$80,753 and \$80,753, respectively.

Temporarily Restricted Net Assets were solicited for or designated for a specific use by the donor and are listed in the following table:

| | <u>Balance</u> <u>December 31, 2011</u> | <u>Balance</u> <u>December 31, 2010</u> |
|--|--|--|
| Cemetery Fund - Topeka | \$ 8,198 | \$ 8,198 |
| Non-Office Building Repairs | - | 15,450 |
| Hispanic Building - ABLAZE | 37,073 | 36,982 |
| Campus Ministry | 25,296 | 35,446 |
| Convention | 31,345 | 7,825 |
| Jacksonville Site | - | (71) |
| Millions for Missions | 59,973 | 66,636 |
| New Mission Mass Media | 4,200 | 4,200 |
| Video Sales | - | 80 |
| Rural Mission - Buffalo | 15,613 | 15,613 |
| University - Champaign | 19,978 | 19,979 |
| Missions | 13,076 | 26,505 |
| Student Aid | 3,511 | (7,421) |
| LWML – Short-team missions | 1,168 | 5,668 |
| LWML – Grace Place Retreat | 1,475 | 1,475 |
| LCMS – Fan the Flame | - | 91 |
| Disaster response | 100 | - |
| New mission – Olney | <u>2,100</u> | <u>-</u> |
| Total Temporarily Restricted Net Assets | <u>\$223,106</u> | <u>\$236,656</u> |

Lutheran Church-Missouri Synod
 Central Illinois District, Inc.
NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2011 and 2010

NOTE 9 – NET ASSETS RELEASED FROM RESTRICTIONS

Net Assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. For the year ended December 31, 2011, net assets released were as follows:

| | |
|---------------------------|----------------------|
| Building repairs | \$ 15,450 |
| Campus Ministry | 10,150 |
| LWML –Short-term missions | 4,500 |
| Student AID | 77,700 |
| Millions for Mission | 6,664 |
| Missions | <u>13,358</u> |
| Total | <u>\$127,822</u> |

NOTE 10 – RELATED PARTY TRANSACTIONS

The Central Illinois District LCMS rents space to the Church Extension Fund on a month to month basis. Currently, rent is \$1,100 per month and covers the use of space by the Church Extension Fund in the district building.

The Church Extension Fund shares certain personnel and facilities with the Central Illinois District-LCMS. The Church Extension Fund manager’s time is allocated to both the Central Illinois District-LCMS and the Church Extension Fund. The allocation of salary and expenses was 75% to the Church Extension Fund as manager and 25% to the Central Illinois District as a Gift Estate Planning Counselor for the year ended December 31, 2011.

Proration is based on a study over a period of several years of the actual expenses incurred for each function. Additionally, certain administrative costs are incurred for the benefit of both administrative and program functions. These costs are prorated over program and administrative accounts. Time spent on the activities or total costs are used as the basis for allocation as appropriate.

Lutheran Church-Missouri Synod
 Central Illinois District, Inc.
NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2011 and 2010

NOTE 11 – FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Inputs are based on unadjusted quoted market prices within active markets.

Level 2 – Inputs are based primarily on quoted prices for similar assets in active or inactive markets.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value of investments measured on a recurring basis at December 31, 2011 and 2010 are as follows:

| | <u>Fair Value</u> | <u>Level 2</u> |
|--------------------------|-----------------------|------------------|
| <u>December 31, 2011</u> | | |
| Certificates of Deposit | \$532,355 | \$532,355 |
| Flexible Account | <u>718</u> | <u>718</u> |
| | <u>\$533,073</u> | <u>\$533,073</u> |
| <u>December 31, 2010</u> | | |
| Certificates of Deposit | \$715,460 | \$715,460 |
| Flexible Account | <u>713</u> | <u>713</u> |
| | <u>\$716,173</u> | <u>\$716,173</u> |