



LIFE COVENANT CHURCH, INC.

December 31, 2010

LIFE COVENANT CHURCH, INC.

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AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

Life Covenant Church, Inc.
Edmond, Oklahoma

We have audited the accompanying statement of financial position of Life Covenant Church, Inc. ("LifeChurch.tv") as of December 31, 2010, and the related statement of activities and statement of cash flows for the year then ended. These financial statements are the responsibility of LifeChurch.tv's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides 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 Life Covenant Church, Inc. as of December 31, 2010, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cole & Reed P.C.

Oklahoma City, Oklahoma
May 17, 2011

LIFE COVENANT CHURCH, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,836,638
Short-term investments	6,615,353
Accounts receivable	83,014
Other current assets	<u>82,759</u>

TOTAL CURRENT ASSETS 10,617,764

INVESTMENTS

4,408,623

BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

35,359

ASSETS HELD FOR SALE

2,107,470

PROPERTY AND EQUIPMENT, net

45,801,940

OTHER ASSETS, net

382,591

TOTAL ASSETS \$ 63,353,747

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 642,709
Accrued liabilities	1,927,232
Current portion of capital leases payable	175,434
Current portion of notes payable	<u>555,680</u>

TOTAL CURRENT LIABILITIES 3,301,055

LONG-TERM LIABILITIES

Capital leases payable, less current portion	64,728
Notes payable, less current portion	<u>21,446,179</u>

TOTAL LONG-TERM LIABILITIES 21,510,907

TOTAL LIABILITIES 24,811,962

NET ASSETS

Unrestricted	38,506,426
Temporarily restricted	15,359
Permanently restricted	<u>20,000</u>

TOTAL NET ASSETS 38,541,785

TOTAL LIABILITIES AND NET ASSETS \$ 63,353,747

See accompanying notes and independent auditors' report.

LIFE COVENANT CHURCH, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
CONTRIBUTIONS AND REVENUE				
Contributions	\$ 38,495,214	\$ 3,866,581	\$ -	\$ 42,361,795
Non-cash contributions	28,330	37,826	-	66,156
Interest income	162,245	-	-	162,245
Other income	479,828	-	-	479,828
Net assets released from restrictions	<u>4,035,719</u>	<u>(4,035,719)</u>	<u>-</u>	<u>-</u>
TOTAL CONTRIBUTIONS, REVENUES AND RECLASSIFICATION	<u>43,201,336</u>	<u>(131,312)</u>	<u>-</u>	<u>43,070,024</u>
EXPENSES				
Program expenses:				
Campus and central operations	8,433,253	-	-	8,433,253
Weekend experiences	5,760,992	-	-	5,760,992
Digital missions	3,073,513	-	-	3,073,513
LifeKIDS	2,868,387	-	-	2,868,387
LifeYouth and SWITCH	1,746,672	-	-	1,746,672
LifeMissions and compassion	1,613,545	-	-	1,613,545
LifeGroups	<u>1,497,902</u>	<u>-</u>	<u>-</u>	<u>1,497,902</u>
TOTAL PROGRAM EXPENSES	24,994,264	-	-	24,994,264
Supporting expenses:				
Technology and logistics	2,076,694	-	-	2,076,694
Team development	1,063,471	-	-	1,063,471
Financial operations	827,890	-	-	827,890
Depreciation and amortization	2,521,272	-	-	2,521,272
Interest	<u>1,569,243</u>	<u>-</u>	<u>-</u>	<u>1,569,243</u>
TOTAL SUPPORTING EXPENSES	<u>8,058,570</u>	<u>-</u>	<u>-</u>	<u>8,058,570</u>
TOTAL EXPENSES	33,052,834	-	-	33,052,834
Other income:				
Net realized and unrealized gains (losses)	<u>(379,040)</u>	<u>484</u>	<u>-</u>	<u>(378,556)</u>
CHANGE IN NET ASSETS	9,769,462	(130,828)	-	9,638,634
NET ASSETS, beginning of year	<u>28,736,964</u>	<u>146,187</u>	<u>20,000</u>	<u>28,903,151</u>
NET ASSETS, end of year	<u>\$ 38,506,426</u>	<u>\$ 15,359</u>	<u>\$ 20,000</u>	<u>\$ 38,541,785</u>

See accompanying notes and independent auditors' report.

LIFE COVENANT CHURCH, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 9,638,634
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization of property and equipment	2,521,272
Amortization of financing costs	54,813
Realized and unrealized losses on investments and swap agreement	113,216
Loss recognized on impairment of real estate	290,825
Gain on disposal of property and equipment	(25,485)
Non-cash contributions	(66,156)
Non-cash donations of property and equipment to other organizations	18,135
Change in operating assets and liabilities:	
Other assets	(106,275)
Accounts receivable	144,485
Accounts payable	364,526
Accrued liabilities	742,879
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>13,690,869</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(3,952,376)
Purchases of investments	(10,925,954)
Proceeds from property and equipment insurance settlements	56,698
Proceeds from sale of investments	4,624,341
Transfers designated for beneficial interests in assets held by others	(1,401)
NET CASH USED IN INVESTING ACTIVITIES	<u>(10,198,692)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on notes payable	(1,509,942)
Payments on capital lease obligations	(577,744)
NET CASH USED IN ACTIVITIES	<u>(2,087,686)</u>
NET INCREASE IN CASH	1,404,491
CASH AT BEGINNING OF YEAR	<u>2,432,147</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 3,836,638</u></u>
SUPPLEMENTAL INFORMATION:	
Interest paid	<u>\$ 1,579,215</u>
Noncash contributions:	
Equity securities	<u>\$ 66,156</u>
Donated use of facilities, reflected as Other income and LifeMissions and compassion expense	<u>\$ 79,595</u>
Realized loss on sale of investments	<u><u>\$ (11,746)</u></u>

See accompanying notes and independent auditors' report.

NOTES TO FINANCIAL STATEMENTS

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: Life Covenant Church, Inc. ("LifeChurch.tv"), a not-for-profit corporation, operates as a religious organization. The mission of LifeChurch.tv is "to lead people to become fully devoted followers of Christ." LifeChurch.tv is one church operating in a multi-site environment, offering a variety of experience locations, times, and formats. During 2010, LifeChurch.tv operated thirteen campuses in Oklahoma, Texas, Tennessee, New York, Florida and a community on the Internet, known as Church Online. LifeChurch.tv is supported primarily through contributions from attendees.

Accounting Standards Codification: LifeChurch.tv follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), which integrates existing accounting standards with other authoritative guidance. The ASC provides a single source of authoritative GAAP for nongovernmental entities and supersedes all other previously issued non-SEC accounting and reporting guidance.

Basis of Accounting: The accompanying financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimates included in the accompanying financial statements are, (a) the provisions for depreciation and amortization, which are based on the estimated useful lives of the underlying assets, and (b) fair value estimates for assets held for sale, which was based on a contracted sales price.

Cash and Cash Equivalents: Cash equivalents are short term, highly liquid investments that can be readily converted into known amounts of cash, including certificates of deposit with original maturities of 90 days or less.

Property and Equipment: Property and equipment are carried at cost, if purchased, or fair market value, if contributed. Property and equipment purchases and contributions are capitalized if they are in excess of \$5,000, otherwise they are expensed. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the underlying assets, or the term of the lease for capital leases.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Income Tax Status: LifeChurch.tv is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

LifeChurch.tv follows ASC 740, which addresses the accounting for uncertainty in income taxes. Management evaluated LifeChurch.tv's tax positions and concluded that LifeChurch.tv had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, LifeChurch.tv is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

Revenue Recognition: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and nature of any donor-imposed restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Long-lived assets received without a donor stipulation about how long the asset must be used are reported as unrestricted contributions, as LifeChurch.tv does not imply a time restriction that expires over the useful life of the asset.

Advertising Costs: Advertising costs are expensed as incurred (approximately \$1,034,000 in 2010).

Investments: Investments in debt equity securities are stated at fair value. The cost assigned to investments received by gift is the fair value at the date the gift is received. The net realized and unrealized gains (losses) on investments are reflected in the statement of activities.

Fair Value Measurements: Fair value is defined as 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 measurement accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Fair Value Measurements--Continued: The following is a brief description of those three levels of the fair value hierarchy:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs that are derived principally from or corroborated by observable market data; and
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

Financial assets and liabilities carried at fair value include investments, beneficial interest in assets held by others, assets held for sale, and an interest rate swap agreement liability (see Note D).

Assets Held for Sale: An asset is classified as held for sale when (i) management commits to a plan to sell and it is planning to market the sale in the near term; (ii) it is available for immediate sale and the sale is expected to be completed within one year; and (iii) it is unlikely significant changes to the plan will be made or that the plan will be withdrawn. In isolated instances, assets held for sale may exceed one year due to events or circumstances beyond LifeChurch.tv's control. Upon being classified as held for sale, the recoverability of the carrying value must be assessed. After the valuation process is completed, the assets held for sale are reported at the lower of the carrying value or fair value less cost to sell and the assets are no longer depreciated or amortized.

Subsequent Events: Management has evaluated subsequent events through May 17, 2011, which is the date the financial statements were available to be issued. Note M provides information regarding non-recognized subsequent events. The December 31, 2010 financial statements include no recognized subsequent events.

NOTE B--ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2010 consisted of accrued interest (approximately \$40,000), funds due from Oklahoma Christian Schools, Inc. for repayment of utility costs (approximately \$30,000) and other receivables (approximately \$13,000).

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE C--INVESTMENTS

The estimated fair values of investments by class at December 31, 2010 are as follows:

	<u>2010</u>
Money market funds	\$ 6,457,486
Certificates of deposit	968,000
Mortgage backed securities	38,585
Corporate bonds	1,813,072
Government bonds	<u>1,746,833</u>
	<u>\$ 11,023,976</u>

NOTE D--FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

A summary of the LifeChurch.tv's financial instruments and the fair value estimates, methods, and assumptions as of December 31, 2010 is below:

	<u>Carrying amount</u>	<u>Estimated fair value</u>
Financial assets:		
Cash	\$ 3,836,638	\$ 3,836,638
Investments	11,023,976	11,023,976
Accounts receivable	83,014	83,014
Beneficial interest in assets held by others	35,359	35,359
Financial liabilities:		
Accounts payable	642,709	642,709
Accrued liabilities	1,620,354	1,620,354
Capital lease obligations	240,162	240,162
Notes payable	22,001,859	22,001,859
Interest rate swap agreement	306,878	306,878

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE D--FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS--Continued

Limitations: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time LifeChurch.tv's entire holdings of a particular financial instrument. Because no established exchange exists for a significant portion of LifeChurch.tv's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Cash, Accounts Receivable, Accounts Payable, and Accrued Liabilities: The carrying amounts of the financial instruments listed immediately above approximate their fair values because they mature within a relatively short period of time and do not present unanticipated credit concerns.

Capital Lease Obligations: The fair value is determined by discounting the expected future cash flows of each obligation at rates that could currently be negotiated by LifeChurch.tv for similar leases. The carrying amount of capital lease obligations approximates fair value.

Notes Payable: The fair value of notes payable is determined by discounting the future cash flows of each instrument at rates currently offered to LifeChurch.tv for similar debt instruments of comparable maturities by LifeChurch.tv's lender. The carrying amount of notes payable approximates fair value.

In addition to the financial instruments carried at cost in the financial statements, LifeChurch.tv also carried other assets at fair value. The following is a discussion of the methods used to estimate fair value of these assets and where these assets are categorized in the value hierarchy.

Investments: When quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Investments classified as Level 1 include common stocks. Other investments, such as money market funds, government agency bonds, corporate bonds, and mortgage backed securities are classified within Level 2 of the hierarchy and are independently valued by nationally recognized third-party pricing services, and provided by the investment manager to LifeChurch.tv. Certificates of deposit values are based on yield curves, interest rates, and other relevant factors and are classified within Level 2 of the hierarchy.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE D--FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS--Continued

Beneficial Interest in Assets Held by Others: The fair value of the asset is the fair value of the estimated future cash flows to be received from Oklahoma City Community Foundation, Inc. ("OCCF"), which is believed to approximate the fair value of the underlying assets held by OCCF for LifeChurch.tv's benefit as discussed in Note F. Since there is no market for a similar asset, the assets are not transferrable, and the value recorded represents the estimated future cash flows to be received from OCCF, LifeChurch.tv classifies its beneficial interest in the assets held by OCCF as Level 3.

Assets Held For Sale: Assets held for sale are reported at the lower of cost or fair value less cost to sell. LifeChurch.tv owns one property which was valued at fair value (less costs to sell) in 2010 with fair value being determined based on a contracted sale price (see note M). As the fair value is determined on a contracted sale price, this asset is classified as level 2 in the fair value hierarchy.

Interest Rate Swap Agreement: Interest rate swap agreements are valued by the counterparty using proprietary valuation methods. As a result, these agreements are classified as Level 3.

The following table categorizes these assets and liabilities within the fair value hierarchy as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
ASSETS				
Investments:				
Money market funds	\$ -	\$ 6,457,486	\$ -	\$ 6,457,486
Certificates of deposit	-	968,000	-	968,000
Mortgage based securities	-	38,585	-	38,585
Corporate bonds	-	1,813,072	-	1,813,072
Government bonds	-	1,746,833	-	1,746,833
Beneficial interest in				
assets held by others	-	-	35,359	35,359
Assets held for sale	-	607,470	-	607,470
Total assets at fair value	<u>\$ -</u>	<u>\$ 11,631,446</u>	<u>\$ 35,359</u>	<u>\$ 11,666,805</u>
LIABILITIES				
Interest rate swap agreement				
liability (see Note I)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (306,878)</u>	<u>\$ (306,878)</u>
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (306,878)</u>	<u>\$ (306,878)</u>

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE D--FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS—Continued

The following table summarizes the changes in the fair values of LifeChurch.tv's Level 3 financial assets and liabilities for the period ending December 31, 2010:

	Beneficial interest in trusts held by others	Interest rate swap agreements	Total
Balance at January 1, 2010	\$ 33,474	\$ (235,142)	\$ (201,668)
Investment income, net	-	-	-
Change in the value of interest rate swap agreement	-	(71,736)	(71,736)
Change in the value of beneficial interests in trusts held by others	484	-	484
Net transfer of funds to OCCF	1,401	-	1,401
Balance at December 31, 2010	<u>\$ 35,359</u>	<u>\$ (306,878)</u>	<u>\$ (271,519)</u>

The summary of changes in the fair values of Level 3 assets has been prepared to reflect the activity in the same categories as those provided to LifeChurch.tv. The changes in the value of the interest rate swap agreement and beneficial interest in assets held by others are included as a component of net realized and unrealized gains (losses) in the statement of activities. Net transfers to OCCF increase LifeChurch.tv's beneficial interest and decrease cash at the time of the transfer.

NOTE E--PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010 consists of the following:

	Cost	Accumulated Depreciation	Net
Land and improvements	\$ 11,981,035	\$ -	\$ 11,981,035
Buildings and improvements	36,771,589	(7,802,637)	28,968,952
Construction in progress	1,042,504	-	1,042,504
Equipment	7,874,550	(6,178,124)	1,696,426
Leasehold improvements	3,154,475	(1,596,210)	1,558,265
Other	1,779,974	(1,225,216)	554,758
	<u>\$ 64,384,101</u>	<u>\$ (16,802,187)</u>	<u>\$ 45,801,940</u>

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE E--PROPERTY AND EQUIPMENT--Continued

Interest incurred during construction of approximately \$424,000 (net of accumulated amortization of approximately \$186,000) has been capitalized as a component of buildings and improvements and is being amortized on a straight-line basis over the estimated lives of the underlying assets.

Costs associated with internal use software are evaluated for capitalization and subsequent amortization. Internally developed software, which management anticipates will require significant ongoing upgrades, modifications, and maintenance to remain functional, is estimated to have a useful life of less than one year and, as a result, is expensed as incurred. Other internally developed software projects are capitalized if the total project cost exceeds \$10,000 and the expenditures meet the capitalization requirements. Capitalized software costs are included as a component of other property and equipment and amortized over a period not to exceed three years.

In 2010, LifeChurch.tv capitalized approximately \$168,000 of costs related to the development of software in accordance with the aforementioned policy.

NOTE F--BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In current and prior years, LifeChurch.tv transferred funds to OCCF and specified itself as the beneficiary of the funds. Annual distributions from the funds are paid to LifeChurch.tv according to OCCF's spending policy. OCCF maintains variance power over these funds. Variance power assures donors that if the charitable purpose of their contributions becomes impractical or impossible, the distributions will be directed to similar purposes in the community. OCCF also maintains legal ownership of the funds. However, LifeChurch.tv reflects its beneficial interest in these assets in its financial statements.

NOTE G--OTHER ASSETS

Costs related to the issuance of debt of approximately \$201,000 (net of accumulated amortization of approximately \$258,000) have been capitalized and are being amortized on a straight-line basis over a five-year period. The amortization of these deferred financing costs is reported as a component of interest expense in the accompanying financial statements, and totaled approximately \$55,000 for the year ended December 31, 2010.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE H--LEASE COMMITMENTS

LifeChurch.tv leases office space, equipment, and other assets under non-cancelable operating leases that expire at various dates through 2016. Minimum future rentals under non-cancelable operating leases for each of the next five years are as follows:

2011	\$	947,863
2012		829,472
2013		810,105
2014		749,803
2015		267,640
2016 and thereafter		267,640

Equipment lease and rent expense totaled approximately \$961,000 for the year ended December 31, 2010.

LifeChurch.tv has equipment of approximately \$1,325,000 acquired under capital leases, with related accumulated depreciation of approximately \$875,000. The following is a schedule, by year of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments:

2011	\$	184,013
2012		65,876
2013		-
Total minimum lease payments		<u>249,889</u>
Less amount representing interest		<u>(9,727)</u>
Present value of net minimum lease payments	\$	<u><u>240,162</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE I--NOTES PAYABLE

LifeChurch.tv's notes payable are comprised of the following as of December 31, 2010:

Fixed rate note (6.52%), monthly payments of principle and interest of \$52,176, due in 2013	\$ 6,498,235
Fixed rate note (6.15%), monthly payments of principle and interest of \$14,964, due in 2013	2,207,216
Fixed rate note (5.82%), monthly payments of principle and interest of \$15,023, due in 2013	2,323,551
Fixed rate note (6.30%), monthly payments of principle and interest of \$38,511, due in 2014	5,241,666
Adjustable rate note (2.26% at December 31, 2010) monthly payments of principle and interest of varying amounts, due in 2016	2,044,980
Construction term loan converted to fixed rate note effective March 1, 2009 (6.36%), monthly principle and interest of \$25,286, due in 2017	<u>3,686,211</u>
Notes payable, December 31, 2010	22,001,859
Less current portion	<u>(555,680)</u>
	<u>\$ 21,446,179</u>

Maturities of notes payable in each of the following five years and thereafter are as follows:

2011	\$ 555,680
2012	589,135
2013	8,546,039
2014	7,170,433
2015	176,677
2016 and thereafter	<u>4,963,895</u>
	<u>\$ 22,001,859</u>

LifeChurch.tv's notes payable are collateralized by substantially all of its property and equipment.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE I--NOTES PAYABLE--Continued

Effective January 1, 2007, LifeChurch.tv entered into a forward-starting interest rate swap agreement that effectively converts its \$2,107,108 adjustable rate term note payable into a fixed rate obligation. LifeChurch.tv entered into the swap agreement as a mechanism to manage cash flows and to protect against potential increases in interest rates. Under the terms of the swap, LifeChurch.tv will settle with the counterparty on a net basis for the difference between 100% of LifeChurch.tv's adjustable rate in the note payable agreement and a fixed rate of 7.22%. During 2010, LifeChurch.tv realized a net loss of approximately \$72,000 due to a decrease in the fair market value of the interest rate swap agreement, which is included as a component of net realized and unrealized gains (losses) in the statement of activities. The swap expires December 1, 2016.

Substantially all of the notes include restrictive covenants regarding additional borrowings.

NOTE J--RESTRICTED NET ASSETS

Net assets reported as temporarily restricted at December 31, 2010 are comprised entirely accumulated but undistributed earnings of beneficial interest in assets held by others. During 2010 and prior years, significant restricted contributions were received for LifeChurch.tv's Compassion ministry, Digital Missions ministry, and Spaces and Places ministry; however, all such amounts have been expended on their restricted purpose as of December 31, 2010. Permanently restricted net assets are comprised entirely of LifeChurch.tv's beneficial interest in assets held by others.

NOTE K--RETIREMENT PLAN

LifeChurch.tv sponsors a defined contribution retirement plan covering all permanent employees effective on the first day of employment. LifeChurch.tv makes a discretionary contribution of a percentage of gross earnings for each employee. The plan contains a provision allowing eligible participants to defer a portion of their wages into the plan, in accordance with section 401(k) of the Internal Revenue Code. LifeChurch.tv makes a matching contribution for a portion of those wage deferrals. LifeChurch.tv's contributions to the plan totaled approximately \$680,000 for the year ended December 31, 2010.

LifeChurch.tv sponsors a defined contribution retirement plan covering certain permanent employees. The plan provisions allow for employer contributions only, in accordance with section 403(b) of the Internal Revenue Code. LifeChurch.tv's contributions to the plan totaled \$55,000 in 2010.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2010

NOTE L--FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Salaries and benefits of program employees have been directly charged to the related programs.

NOTE M--SUBSEQUENT EVENTS

LifeChurch.tv entered into a contractual agreement in February 2011 for the construction of a building for the Wellington, Florida campus. Construction commitments under the contract are not expected to exceed approximately \$4,552,000 and construction should be substantially complete by December 2011.

LifeChurch.tv entered into a contractual agreement in February, 2011 for the sale of real estate in Mesa, Arizona. The contract purchase price is approximately \$649,000 and the sale should be complete by June 2011.

In April 2011, LifeChurch.tv purchased a building for a future campus in Broken Arrow, Oklahoma, for cash, in the amount of approximately \$1,600,000.

LifeChurch.tv entered into a contractual agreement in May 2011 for the pre-construction phase of a building project for the Owasso, Oklahoma campus. Construction commitments under the contract are limited to approximately \$999,000 and the pre-construction phase should be substantially complete by September 2011.