

**LIFE COVENANT
CHURCH, INC.**

December 31, 2011

LIFE COVENANT CHURCH, INC.

December 31, 2011

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, 2011, 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, 2011, 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 18, 2012

LIFE COVENANT CHURCH, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	2,839,743
Short-term investments		5,963,447
Accounts receivable		75,099
Other current assets		94,158

TOTAL CURRENT ASSETS 8,972,447

INVESTMENTS 4,136,249

BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS 27,602

ASSETS HELD FOR SALE 810,000

PROPERTY AND EQUIPMENT, net 58,612,346

OTHER ASSETS, net 318,390

TOTAL ASSETS \$ 72,877,034

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	1,017,209
Accrued liabilities		2,829,098
Current portion of note payable		436,571

TOTAL CURRENT LIABILITIES 4,282,878

LONG-TERM LIABILITIES

Note payable, less current portion 11,091,645

TOTAL LONG-TERM LIABILITIES 11,091,645

TOTAL LIABILITIES 15,374,523

NET ASSETS

Unrestricted	57,474,909
Temporarily restricted	7,602
Permanently restricted	20,000

TOTAL NET ASSETS 57,502,511

TOTAL LIABILITIES AND NET ASSETS \$ 72,877,034

See accompanying notes and independent auditors' report.

LIFE COVENANT CHURCH, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CONTRIBUTIONS AND REVENUE				
Contributions	\$ 51,689,997	\$ 8,089,783	\$ -	\$ 59,779,780
Non-cash contributions	74,985	1,097	-	76,082
Interest income	211,014	1,083	-	212,097
Other income	748,771	-	-	748,771
Net assets released from restrictions	8,090,426	(8,090,426)	-	-
TOTAL CONTRIBUTIONS, REVENUES AND RECLASSIFICATION	<u>60,815,193</u>	<u>1,537</u>	<u>-</u>	<u>60,816,730</u>
EXPENSES				
Program expenses:				
Campus and central operations	12,554,710	-	-	12,554,710
Weekend experiences	8,337,214	-	-	8,337,214
LifeKIDS	3,461,018	-	-	3,461,018
LifeYouth	2,172,006	-	-	2,172,006
LifeGroups	1,746,588	-	-	1,746,588
Digital missions	1,614,540	-	-	1,614,540
LifeMissions and compassion	1,602,490	-	-	1,602,490
YouVersion	3,874,918	-	-	3,874,918
TOTAL PROGRAM EXPENSES	<u>35,363,484</u>	<u>-</u>	<u>-</u>	<u>35,363,484</u>
Supporting expenses:				
Technology and logistics	1,712,261	-	-	1,712,261
Human resources	1,264,906	-	-	1,264,906
Financial operations	969,440	-	-	969,440
Depreciation and amortization	2,838,011	-	-	2,838,011
Interest	997,895	-	-	997,895
TOTAL SUPPORTING EXPENSES	<u>7,782,513</u>	<u>-</u>	<u>-</u>	<u>7,782,513</u>
TOTAL EXPENSES	<u>43,145,997</u>	<u>-</u>	<u>-</u>	<u>43,145,997</u>
OTHER GAINS (LOSSES)				
Net realized and unrealized losses				
on investments and swap agreement	(80,528)	(9,294)	-	(89,822)
Net gain on sales and disposals of property and equipment	1,379,815	-	-	1,379,815
OTHER GAINS (LOSSES)	<u>1,299,287</u>	<u>(9,294)</u>	<u>-</u>	<u>1,289,993</u>
CHANGE IN NET ASSETS	<u>18,968,483</u>	<u>(7,757)</u>	<u>-</u>	<u>18,960,726</u>
NET ASSETS, beginning of year	<u>38,506,426</u>	<u>15,359</u>	<u>20,000</u>	<u>38,541,785</u>
NET ASSETS, end of year	<u>\$ 57,474,909</u>	<u>\$ 7,602</u>	<u>\$ 20,000</u>	<u>\$ 57,502,511</u>

See accompanying notes and independent auditors' report.

LIFE COVENANT CHURCH, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 18,960,726
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization of property and equipment	2,628,037
Amortization of financing costs	209,974
Net realized and unrealized losses on investments and swap agreement	89,822
Net realized gains on disposal of assets	(1,381,857)
Non-cash contributions	(58,204)
Donation of property and equipment to other organizations	2,042
Change in operating assets and liabilities:	
Other assets	(157,172)
Accounts receivable	7,915
Accounts payable	374,500
Accrued liabilities	811,744
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>21,487,527</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(15,440,485)
Purchases of investments	(19,605,095)
Proceeds from disposal of assets	2,679,327
Proceeds from sales and maturities of investments	21,317,173
Investment in assets held by others	(1,537)
NET CASH USED IN INVESTING ACTIVITIES	<u>(11,050,617)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on notes payable	(22,239,136)
Payments on capital lease obligations	(240,162)
Proceeds from issuance of note payable	11,765,493
NET CASH USED IN ACTIVITIES	<u>(10,713,805)</u>

NET DECREASE IN CASH	(276,895)
CASH AT BEGINNING OF YEAR	<u>3,116,638</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,839,743</u>

SUPPLEMENTAL INFORMATION:

Interest paid	<u>\$ 1,179,475</u>
Noncash contributions:	
Equity securities	<u>\$ 58,204</u>
Property and equipment used in operations and/or converted to cash	<u>\$ 17,424</u>
Reinvestment of contribution in beneficial interest	<u>\$ 454</u>
Donated use of facilities, reflected as Other income and LifeMissions and compassion expense	<u>\$ 32,500</u>

See accompanying notes and independent auditors' report.

NOTES TO FINANCIAL STATEMENTS

LIFE COVENANT CHURCH, INC.

December 31, 2011

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 locations, times, and formats. During 2011, LifeChurch.tv operated fourteen campuses in Oklahoma, Texas, Tennessee, New York, and 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 the provisions for depreciation and amortization and the estimated fair value of investment. Depreciation and amortization are based on the estimated useful lives of the underlying assets.

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.

Beneficial Interest in Assets Held by Others: Beneficial interest in assets held by others consists of assets transferred from LifeChurch.tv to the Oklahoma City Community Foundation, Inc. (the "OCCF") for the benefit of LifeChurch.tv (see Note F).

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2011

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 2008.

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 \$2,660,000 in 2011).

Investments: Investments in debt and 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. Realized investment gains and losses are computed on the first in first out (FIFO) basis.

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, 2011

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.

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 18, 2012, which is the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

Recently Issued Accounting Standards: In May 2011, the FASB issued ASU 2011-04: *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS*. The amendments in this update are to be applied prospectively and are effective for nonpublic entities for annual periods beginning after December 15, 2011. The amendments in this update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements with no intention for the amendments to result in a change in the application of the requirements of Topic 820. The adoption is not anticipated to be material to the financial statement presentation of LifeChurch.tv.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2011

NOTE B--ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2011 consisted of accrued interest (approximately \$43,000), funds due from Wagoner County for refund of property taxes paid (approximately \$30,000) and other receivables (approximately \$2,000).

NOTE C--INVESTMENT INCOME

Investment income for the year ended December 31, 2011 consists of the following:

Interest income	\$ 212,097
Realized loss on swap agreement	(90,122)
Realized gain on investments	312
Unrealized gain on investments	9,282
Change in value of beneficial interest	<u>(9,294)</u>
Net realized and unrealized losses on investments and swap agreement	<u>(89,822)</u>
Total Investment Income	<u><u>\$ 122,275</u></u>

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

A summary of LifeChurch.tv's financial instruments and fair value estimates, methods, and assumptions as of December 31, 2011 is below:

	<u>Carrying amount</u>	<u>Estimated fair value</u>
Financial assets:		
Cash	\$ 2,839,743	\$ 2,839,743
Investments	10,099,696	10,099,696
Accounts receivable	75,099	75,099
Beneficial interest in assets held by others	27,602	27,602
Financial liabilities:		
Accounts payable	1,017,209	1,017,209
Accrued liabilities	2,829,098	2,829,098
Notes payable	11,528,216	11,528,216

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2011

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 above approximate their fair values because they mature within a relatively short period of time and do not present unanticipated credit concerns.

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 carries 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: LifeChurch.tv gives highest priority to quoted prices in an active market. Money market funds, corporate bonds and government sponsored entity bonds, for which there is a quoted price in an active market for the identical securities are classified within Level 1 of the hierarchy. Corporate bonds and government sponsored entity bonds not classified as Level 1 and certificates of deposit are valued using the income approach and classified as Level 2 in the fair value hierarchy. The key inputs to the discounted cash flow model include coupon, yield, expected maturity dates, and credit risk (if any) of the issuer. All investments are independently valued by nationally recognized third-party pricing services, and provided by the investment manager to LifeChurch.tv.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2011

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

Beneficial Interest in Assets Held by Others: Beneficial interest in assets held by others is entirely comprised of a pooled investment fund held and managed by the OCCF. Fair value is based on the net asset value ("NAV") per share as determined by the OCCF and provided to LifeChurch.tv. The fund consists primarily of various common and preferred stocks, asset backed obligations, mutual and index funds, government obligations, and cash equivalent funds. The investment is directed by the OCCF and the portfolio is designed to achieve endowment returns consistent with the OCCF's adopted investment policies. Investments in this category cannot be redeemed at the current NAV per share as LifeChurch.tv is only the beneficiary of the investment earnings which are distributed in accordance with the OCCF's spending policy. Based on the valuation method and non-redeemable nature of the assets, they are categorized as Level 3.

The following table categorizes these assets and liabilities within the fair value hierarchy as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
ASSETS				
Investments:				
Money market funds	\$ 5,118,445	\$ -	\$ -	\$ 5,118,445
Corporate bonds				
Domestic	1,206,368	213,285	-	1,419,653
International	331,269	223,263	-	554,532
Government sponsored entity bonds	1,038,488	587,578	-	1,626,066
Certificates of deposit	-	1,381,000	-	1,381,000
Total investments	<u>7,694,570</u>	<u>2,405,126</u>	-	10,099,696
Beneficial interest in assets held by others	-	-	27,602	27,602
Total assets at fair value	<u>\$ 7,694,570</u>	<u>\$ 2,405,126</u>	<u>\$ 27,602</u>	<u>\$10,127,298</u>

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2011

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, 2011:

	Interest in assets held by others	Interest rate swap agreements
Balance at January 1, 2011	\$ 35,359	\$ 306,878
Payment to settle swap agreement	-	(397,000)
Realized loss-- <i>included in earnings</i>	-	90,122
Reinvestment of income distribution-- <i>included in earnings</i>	1,083	-
Change in value of beneficial interest in assets held by others-- <i>included in earnings</i>	(9,294)	-
Reinvestment of contribution	454	-
Balance at December 31, 2011	<u>\$ 27,602</u>	<u>\$ -</u>

The summary of changes in the fair values of Level 3 assets and liabilities has been prepared to reflect the activity in the same categories as those provided to LifeChurch.tv and those used in the statement of activities, except that the change in value of the beneficial interest in assets held by others is included as a component of net realized and unrealized gains (losses). Reinvestment of income distributions increases investment income and LifeChurch.tv's beneficial interest and reinvestment of contributions (from other funds held at OCCF, see Note F) increases LifeChurch.tv's beneficial interest and non-cash contribution revenue.

NOTE E--PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2011 consists of the following:

	Cost	Accumulated Depreciation	Net
Buildings and improvements	\$ 40,854,073	\$ (9,034,907)	\$ 31,819,166
Land and improvements	11,981,035	-	11,981,035
Construction in progress	11,529,247	-	11,529,247
Equipment	8,579,693	(7,026,735)	1,552,958
Leasehold improvements	3,154,475	(1,841,516)	1,312,959
Other	1,923,165	(1,506,184)	416,981
	<u>\$ 78,021,687</u>	<u>\$ (19,409,341)</u>	<u>\$ 58,612,346</u>

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2011

NOTE E--PROPERTY AND EQUIPMENT--Continued

Interest incurred during construction totaling approximately \$611,000 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. Accumulated amortization at December 31, 2011 totals approximately \$203,000 and related expense of approximately \$17,000 is included in amortization and depreciation in the statement of activities.

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 2011, LifeChurch.tv capitalized approximately \$92,000 of costs related to the development of software in accordance with the aforementioned policy.

NOTE F--BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In 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 (and/or reinvested) according to OCCF's spending policy which currently is to distribute an amount equal to 5% of a moving twelve-quarter average for all types of funds. 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, as required by ASC 958-605, LifeChurch.tv reflects its beneficial interest in these assets which had an estimated fair value of \$27,602 at December 31, 2011.

In addition to the funds discussed above, the OCCF maintains other funds that have been contributed by various donors to the OCCF for the benefit of LifeChurch.tv. These funds are not included as assets of LifeChurch.tv. The earnings from these funds are paid to LifeChurch.tv (or reinvested at the request of LifeChurch.tv) each year in accordance with the OCCF's spending policy and totaled approximately \$400 in 2011. At December 31, 2011 the fair value of the funds originally donated by third parties was approximately \$16,000. The Foundation has no remainder interest in the corpus of these funds.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2011

NOTE G--OTHER ASSETS

Costs related to the issuance of debt totaling approximately \$127,000 at December 31, 2011 have been capitalized and are being amortized on a straight-line basis over the life of the loan (five-year period). Related accumulated amortization totaled approximately \$8,000 at December 31, 2011. The amortization of these deferred financing costs as well as the residual issuance cost related to refinanced loans is reported as a component of depreciation and amortization expense in the accompanying financial statements, and totaled approximately \$210,000 for the year ended December 31, 2011. (Amortization expense for 2011 includes approximately \$8,000 related to debt issued in 2011, and approximately \$202,000 related to debt issued in previous years and fully repaid in 2011.) Future amortization is expected to be approximately \$25,000 for 2012 through 2015 and approximately \$19,000 in 2016.

NOTE H--LEASE COMMITMENTS

LifeChurch.tv leases office space, equipment, and other assets under non-cancelable operating leases that expire at various dates through 2017. Minimum future rentals under non-cancelable operating leases for each of the next five years are as follows:

2012	\$	749,995
2013		732,793
2014		718,554
2015		375,830
2016		375,080
2017 and thereafter		68,800

Equipment lease and rent expense totaled approximately \$1,071,000 for the year ended December 31, 2011.

NOTE I--NOTES PAYABLE

LifeChurch.tv's note payable consists of the following at December 31, 2011:

Adjustable rate note (2.93% at December 31, 2011), monthly payments of principle and interest of varying amounts, due in 2016	\$	11,528,216
Less current portion		(436,571)
	\$	<u>11,091,645</u>

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2011

NOTE I--NOTES PAYABLE--Continued

Maturities of the note payable in each of the following years are as follows:

2012	\$	436,571
2013		450,476
2014		463,854
2015		477,628
2016		<u>9,699,687</u>
	\$	<u>11,528,216</u>

LifeChurch.tv's note payable is collateralized by the property and equipment of six campuses in Oklahoma and the agreement includes restrictive covenants regarding additional borrowings.

Effective January 1, 2007, LifeChurch.tv entered into a forward-starting interest rate swap agreement that effectively converted an 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 would 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%. The swap agreement was terminated August 10, 2011 and LifeChurch.tv realized a loss of approximately \$90,000 (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.

Effective August 12, 2011, LifeChurch.tv entered into a revolving line of credit arrangement with a financial institution, which carries a maximum possible balance of \$10,000,000 and has a variable interest rate equal to LIBOR, plus 2.50%. The interest rate as of December 31, 2011 is 2.706%. The line of credit is secured by substantially all of LifeChurch.tv's property and equipment. A fee of .25% of the average unused portion of the maximum possible balance is due quarterly, and is included as a component of interest expense in the statement of activities. The maximum possible balance reduces by \$250,000 each January 1, April 1, July 1, and October 1, and matures on September 1, 2016.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2011

NOTE J--RESTRICTED NET ASSETS

Net assets reported as temporarily restricted at December 31, 2011 are comprised entirely of accumulated but undistributed earnings of beneficial interest in assets held by others. During 2011 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 for their restricted purpose as of December 31, 2011. 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 \$825,000 for the year ended December 31, 2011.

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 \$87,000 in 2011.

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--COMMITMENTS & CONTINGENCIES

At December 31, 2011, LifeChurch.tv was under contracts to purchase three parcels of real estate for approximately \$1,200,000. These transactions were completed in 2012.