

Life Covenant Church, Inc.

Financial Report
December 31, 2016

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Independent Auditor's Report

RSM US LLP

Board of Directors
Life Covenant Church, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Life Covenant Church, Inc., which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements (collectively, financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Life Covenant Church, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Oklahoma City, Oklahoma
May 30, 2017

Life Covenant Church, Inc.

**Statement of Financial Position
December 31, 2016**

Assets

Cash and cash equivalents	\$ 5,141,279
Accounts receivable	164,869
Investments	29,756,017
Investment in limited liability company	237,170
Asset held for sale	576,111
Unamortized intangible asset	3,519,382
Property and equipment, net	157,891,690
Other assets, net	439,408
Beneficial interest in assets held by others	44,082

Total assets \$ 197,770,008

Liabilities and Net Assets

Liabilities	
Accounts payable	\$ 782,833
Accrued liabilities	4,905,834
Total liabilities	<u>5,688,667</u>

Net assets	
Unrestricted	192,041,446
Temporarily restricted	19,895
Permanently restricted	20,000
Total net assets	<u>192,081,341</u>

Total liabilities and net assets \$ 197,770,008

See notes to financial statements.

Life Covenant Church, Inc.

**Statement of Activities
Year Ended December 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions, revenue and gains (losses):				
Contributions	\$ 98,407,183	\$ 9,062,942	\$ -	\$ 107,470,125
Non-cash contributions	259,286	14,155	-	273,441
Interest and dividends	62,879	-	-	62,879
Net realized and unrealized gains on investments, net	624,907	2,270	-	627,177
Net losses on sales and disposals of property and equipment	(1,702,859)	-	-	(1,702,859)
Other revenue	1,593,747	-	-	1,593,747
Net assets released from restrictions	9,077,097	(9,077,097)	-	-
Total contributions, revenue and gains	108,322,240	2,270	-	108,324,510
Expenses:				
Program expenses:				
Campus and central operations	25,414,890	-	-	25,414,890
Weekend experiences	19,350,004	-	-	19,350,004
LifeKids and LifeYouth (Switch)	12,697,894	-	-	12,697,894
YouVersion	7,876,855	-	-	7,876,855
Relief and Restoration	6,145,585	-	-	6,145,585
LifeGroups	3,864,077	-	-	3,864,077
Digital Missions	2,532,813	-	-	2,532,813
Total program expenses	77,882,118	-	-	77,882,118
Supporting expenses:				
Technology and logistics	4,642,354	-	-	4,642,354
Human resources	3,865,552	-	-	3,865,552
Financial operations	2,683,792	-	-	2,683,792
Total supporting expenses	11,191,698	-	-	11,191,698
Total expenses	89,073,816	-	-	89,073,816
Change in net assets	19,248,424	2,270	-	19,250,694
Net assets, beginning of year	172,793,022	17,625	20,000	172,830,647
Net assets, end of year	\$ 192,041,446	\$ 19,895	\$ 20,000	\$ 192,081,341

See notes to financial statements.

Life Covenant Church, Inc.

**Statement of Cash Flows
Year Ended December 31, 2016**

Cash flows from operating activities:	
Change in net assets	\$ 19,250,694
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization of property and equipment	7,121,398
Net realized and unrealized gains on investments	(627,177)
Net losses on sales and disposals of property and equipment	1,702,859
Non-cash contributions	(270,189)
Proceeds from sales of donated financial assets	273,185
Changes in operating assets and liabilities:	
Other assets, net	(4,552)
Accounts receivable	2,543
Accounts payable	105,347
Accrued liabilities	3,370,571
Net cash provided by operating activities	<u><u>30,924,679</u></u>
Cash flows from investing activities:	
Purchases of property and equipment	(29,257,398)
Purchases of investments	(15,510,999)
Proceeds from sales and disposals of assets	2,459,354
Proceeds from sales and maturities of investments	13,713,629
Net cash used in investing activities	<u><u>(28,595,414)</u></u>
Net increase in cash	2,329,265
Cash and cash equivalents:	
Beginning of year	<u>2,812,014</u>
End of year	<u><u>\$ 5,141,279</u></u>
Supplemental information:	
Noncash contributions:	
Equity and debt securities	<u><u>\$ 268,965</u></u>
In-kind contributions	<u><u>\$ 3,252</u></u>
Investment of non-cash contribution in beneficial interest	<u><u>\$ 1,224</u></u>
Donated property and equipment and use of facilities, reflected as other revenue and relief and restoration expense	<u><u>\$ 123,298</u></u>

See notes to financial statements.

Life Covenant Church, Inc.

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

Nature of organization: Life Covenant Church, Inc. (Life.Church) is an Oklahoma not-for-profit corporation, operating as a religious organization. The mission of Life.Church is “to lead people to become fully devoted followers of Christ.” Life.Church is one church operating in a multisite environment, offering a variety of locations, times and formats. During 2016, Life.Church operated twenty-six campuses in Oklahoma, Texas, Tennessee, New Mexico, New York, Kansas, Arkansas, and Florida and a community on the internet, known as Church Online. Life.Church is supported primarily through contributions from attendees.

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with 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 investments.

Cash and cash equivalents: Life.Church considers all highly liquid investments with an original maturity of three months or less when purchased, excluding cash and cash equivalent funds held in Life.Church's investment portfolio, to be cash equivalents.

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.

Beneficial interest in assets held by others: Beneficial interest in assets held by others is carried at fair value and consists of assets transferred from Life.Church to the Oklahoma City Community Foundation, Inc. (the OCCF) for the benefit of Life.Church.

Income tax status: Life.Church is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Life.Church follows Accounting Standards Codification (ASC) Topic 740, which addresses the accounting for uncertainty in income taxes. Management evaluated Life.Church's tax positions and concluded that Life.Church had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Revenue recognition: Contributions, including unconditional promises to give, are recognized as revenues in the period received at their fair values. 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 Life.Church does not imply a time restriction that expires over the useful life of the asset.

Life Covenant Church, Inc.

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Advertising costs: Advertising costs are expensed as incurred (approximately \$3,948,000 in 2016).

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 made and is based on the average of the high and low price on the gift date for securities with readily determinable fair values and/or the best estimate of fair value as determined by qualified appraisal and/or management for non-marketable securities. 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.

Investment in limited liability company: Life.Church's investment in limited liability company does not have a readily determinable fair value and is carried under the equity method in the financial statements. The investment's carrying amount is (1) increased for Life.Church's proportionate share of earnings and capital contributions or (2) decreased for Life.Church's proportionate share of losses and distributions received.

Fair value measurements: Life.Church follows ASC Topic 820, Fair Value Measurements, which provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy under Topic 820 are described as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that Life.Church has the ability to access.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation to other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All transfers between fair value hierarchy levels are recognized by Life.Church at the beginning of each reporting period. There were no transfers in 2016.

Financial assets carried at fair value on a recurring basis include investments and beneficial interest in assets held by others.

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

New accounting pronouncement: On May 1, 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (a consensus of the FASB Emerging Issues Task Force). The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. ASU No. 2015-07 is effective for Life.Church for the year ended December 31, 2017, and should be applied retrospectively to all periods presented. Earlier application is permitted. Implementation of ASU No. 2015-07 resulted in changes to Life.Church's fair value measurement disclosures (Note 4) for its investments carried at net asset value.

Recent accounting pronouncement: On January 12, 2017, the FASB issued ASU No. 2017-02, *Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*. The amendments in this update clarify when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity. ASU No. 2017-02 is effective for Life.Church's year ending December 31, 2017. Earlier application is permitted. Life.Church is currently evaluating the effect implementation of ASU No. 2017-02 will have on its financial statements.

On August 26, 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this update provide cash flow statement classification guidance for the following eight categories: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. ASU No. 2016-15 is effective for Life.Church's year ending December 31, 2020. Earlier application is permitted. Life.Church is currently evaluating the effect implementation of ASU No. 2016-15 will have on its financial statements.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update change presentation and disclosure requirements for not-for profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These amendments include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU No. 2016-14 is effective for Life.Church's year ending December 31, 2019. Earlier application is permitted. Life.Church is currently evaluating the effect implementation of ASU No. 2016-14 will have on its financial statements.

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The FASB is issuing this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. To meet that objective, the FASB is amending the FASB Accounting Standards Codification (ASC) and creating Topic 842, Leases. This update, along with IFRS 16, Leases, is the result of the FASB's and the International Accounting Standards Board's (IASB's) efforts to meet that objective and improve financial reporting. This pronouncement is effective for nonpublic business entities' fiscal years beginning after December 15, 2019, with early application permitted. Life.Church is currently evaluating the impact of ASU No. 2016-02 on its financial statements.

On January 5, 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, the long-awaited final standard on the recognition and measurement of financial instruments. The ASU applies to all entities that hold financial assets or owe financial liabilities and represents the finalization of just one component of the FASB's broader financial instruments project. The ASU becomes effective for Life.Church's year ending December 31, 2020. Early adoption is permitted. Life.Church is currently evaluating the effects of ASU No. 2016-01 on its financial statements.

Concentration: Life.Church maintains cash in bank depository accounts which, at times, may exceed federally insured limits. Life.Church has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Asset held for sale: Life.Church measures assets held for sale at the lower of its carrying amount or fair value less cost to sell. Gains or losses are recognized for any subsequent changes to fair value less cost to sell. Property is classified as held for sale when (1) management with the appropriate authority commits to a plan to sell the asset, (2) the asset is available for immediate sale in its present condition, (3) an active program to locate a buyer and other actions required to complete the plan have been initiated, (4) the sale of the property or asset within one year is probable and will qualify for accounting purposes as a sale, (5) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value and (6) actions required to complete the plan of sale indicate that it is unlikely that 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 Life.Church's control. Assets held for sale are not depreciated.

At December 31, 2016, parcels of land with carrying values of approximately \$576,000 were being marketed for sale.

Unamortized intangible asset: Unamortized intangible assets are carried at cost if purchased, or fair value on the gift date if donated. Costs incurred to renew, extend, or maintain the asset's useful life are expensed as incurred. Life.Church evaluates the remaining useful life and performs an evaluation for impairment of indefinite lived intangibles annually or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. If based on the totality of events and circumstances and their potential effect on significant inputs to the fair value determination of the unamortized intangible asset, Life.Church determines that it is more likely than not that the asset is impaired, Life.Church will then calculate the fair value of the intangible asset and perform the quantitative impairment test. The quantitative impairment test consists of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, Life.Church recognizes an impairment loss in an amount equal to that excess.

Life Covenant Church, Inc.

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Subsequent events: Management has evaluated subsequent events through May 30, 2017, which is the date the financial statements were available to be issued. There were no subsequent events requiring recognition and subsequent events requiring disclosure are summarized in Note 13.

Note 2. Accounts Receivable

Accounts receivable at December 31, 2016, consists of a refund for property taxes (approximately \$75,000), a security deposit due (approximately \$45,000), and other receivables (approximately \$45,000).

Note 3. Investment Gain

Investment gains for the year ended December 31, 2016, consist of the following:

Interest and dividends	\$ 67,517
Less investment management fees	<u>(4,638)</u>
Interest and dividends, net	<u>62,879</u>
Realized loss on investments	(510,547)
Unrealized gain on investments	1,135,454
Change in value of beneficial interest in assets held by others	<u>2,270</u>
Net realized and unrealized investment gain	<u>627,177</u>
Total investment gain	<u><u>\$ 690,056</u></u>

Note 4. Financial Instruments and Fair Value Measurements

Life.Church's financial instruments and fair value estimates, methods and assumptions at December 31, 2016, are summarized as follows:

	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash and cash equivalents	\$ 5,141,279	\$ 5,141,279
Investments	29,756,017	29,756,017
Accounts receivable	164,869	164,869
Beneficial interest in assets held by others	44,082	44,082
Financial liabilities:		
Accounts payable	782,833	782,833
Accrued liabilities	4,905,834	4,905,834

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 Life.Church's entire holdings of a particular financial instrument. Because no established exchange exists for a significant portion of Life.Church'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.

Life Covenant Church, Inc.

Notes to Financial Statements

Note 4. Financial Instruments and Fair Value Measurements (Continued)

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities: The carrying amounts of these financial instruments approximate their fair values because they mature within a relatively short period of time and do not present unanticipated credit concerns.

In addition to the financial instruments carried at cost in the financial statements, Life.Church carries other financial instruments at fair value. The following is a description of the methodologies used to estimate the fair value of these assets and their classification within the fair value hierarchy.

Investments: Life.Church gives highest priority to quoted prices in an active market. Cash and cash equivalent funds and common stocks, for which there is a quoted price in an active market, are classified within Level 1 of the hierarchy. Level 2 inputs under the market approach include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there is not sufficient activity and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly.

Limited partnership interests are carried at fair value which is based on the NAV per share as provided by the fund manager. Life.Church uses management agreements, analyst notes, audited financial statements and underlying investment holdings to evaluate the fund manager's valuation methodology (i.e., in determining whether the fund manager follows ASC 820) and determines if any adjustment to the NAV is necessary. Life.Church's investments have no unfunded commitments and no lock up periods as of December 31, 2016.

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 NAV per share as determined by the OCCF and provided to Life.Church. 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. The beneficial interest cannot be redeemed at the current NAV per share as Life.Church 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 nonredeemable nature of the assets, they are categorized as Level 3.

Life.Church has no liabilities carried at fair value on a recurring basis and no assets or liabilities carried at fair value on a nonrecurring basis at December 31, 2016. Assets carried at fair value on a recurring basis are classified within the fair value hierarchy at December 31, 2016, as follows:

	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Cash and cash equivalent funds	\$ 6,161,135	\$ 6,161,135	\$ -	\$ -
Common stocks	67,290	67,290	-	-
Beneficial interest in assets held by others	44,082	-	-	44,082
Total investments at fair value	6,272,507	6,228,425	-	44,082
Permanens Capital Funds, measured at net asset value	23,527,592	-	-	-
Total assets at fair value and/or net asset value	<u>\$ 29,800,099</u>	<u>\$ 6,228,425</u>	<u>\$ -</u>	<u>\$ 44,082</u>

Life Covenant Church, Inc.

Notes to Financial Statements

Note 4. Financial Instruments and Fair Value Measurements (Continued)

The following table summarizes the changes in the fair value of Life.Church's Level 3 financial assets for the year ended December 31, 2016:

	<u>Beneficial Interest in Assets Held by Others</u>
Balance at January 1, 2016	\$ 40,588
Investment of beneficial interest distribution	1,224
Change in value of beneficial interest in assets held by others—included in earnings	2,270
Balance at December 31, 2016	<u>\$ 44,082</u>

The summary of changes in the fair value of the Level 3 assets has been prepared to reflect the activity in the same categories as those provided to Life.Church 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 investment gains. Reinvestment of the beneficial interest distribution increases Life.Church's beneficial interest and investment of the other funds distribution increases contribution revenue and the beneficial interest.

Life.Church's investments in certain entities that calculate NAV per share and for which there is not a readily determinable fair value are summarized by category as follows:

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Permanens Capital Funds	<u>\$ 23,527,592</u>	Monthly	30 days

Permanens Capital Funds seek to preserve investor capital through a master-feeder structure and the master fund invests in a mixed portfolio of liquid assets, which includes common stocks, mutual funds, corporate bonds, and exchange traded funds, utilizing no leverage and bearing relatively low management fees. Withdrawal requests are subject to reserves for any lock-up period, contingencies, suspension restrictions, liquidity restrictions and hold-backs pending completion of an annual audit.

Life Covenant Church, Inc.

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment and related accumulated depreciation are summarized as follows at December 31, 2016:

	Depreciable Life	Cost	Accumulated Depreciation	Net
Buildings and improvements	30 Years	\$128,674,289	\$ (22,842,688)	\$105,831,602
Land	-	42,901,444	-	42,901,444
Construction in progress	-	4,415,856	-	4,415,856
Equipment	5 Years	8,935,331	(6,760,493)	2,174,838
Leasehold improvements	Lease Term	2,351,645	(2,259,941)	91,704
Software	3 Years	5,917,501	(4,424,274)	1,493,228
Other	3-5 Years	2,197,642	(1,214,623)	983,019
		<u>\$195,393,708</u>	<u>\$ (37,502,018)</u>	<u>\$157,891,690</u>

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, 2016, totals approximately \$288,000. Related expense of approximately \$17,000 is included in the statement of activities as program expenses (approximately \$16,000) and supporting expenses (approximately \$1,000).

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 2016, Life.Church capitalized approximately \$496,000 of costs related to the development of software in accordance with the aforementioned policy.

Note 6. Unamortized Intangible Assets

Life.Church purchased the internet domain, Bible.com, for \$3,519,382. The domain was not purchased with the intent of generating future cash flows but rather for the sole purpose of furthering Life.Church's mission through YouVersion, Life.Church's free online and mobile Bible applications. Costs incurred to renew and maintain the domain are expensed as incurred.

In 2016, Life.Church evaluated the useful life of the domain and determined it remains indefinite and performed a qualitative impairment assessment and concluded it is not likely the asset is impaired.

Life Covenant Church, Inc.

Notes to Financial Statements

Note 7. Beneficial Interest in Assets Held by Others

In prior years, Life.Church transferred funds to the OCCF and specified itself as the beneficiary of the funds. Annual distributions from the funds are paid to Life.Church according to the OCCF's spending policy which currently is to distribute an amount equal to 5 percent of a moving 12 quarter average for all types of funds. In 2016, Life.Church reinvested its annual beneficial interest distribution of \$1,867 and invested its distribution from funds contributed by others of \$1,224 with the OCCF. The 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. The OCCF also maintains legal ownership of the funds; however, as required by ASC 958-605, Transfers of Assets to a Not-for-Profit Entity or Charitable Trust That Raises or Holds Contributions for Others, Life.Church reflects its beneficial interest in these assets which have an estimated fair value of \$44,082 at December 31, 2016.

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 Life.Church. These funds are not included as assets of Life.Church as Life.Church has no control and/or beneficial interest in these assets. The earnings from these funds are paid to Life.Church (or reinvested at the request of Life.Church) each year in accordance with the OCCF's spending policy and totaled \$1,224 in 2016. At December 31, 2016, the fair value of the funds originally donated by third parties is approximately \$24,000. Life.Church has no remainder interest in the corpus of these funds.

Note 8. Lease Commitments

Life.Church leases office space, equipment and other assets under noncancelable operating leases that expire at various dates through 2020. Minimum future rentals under noncancelable operating leases at December 31, 2016, are summarized as follows:

Years ended December 31:	
2017	\$ 356,207
2018	212,644
2019	193,152
2020	117

Equipment lease and rent expense totaled approximately \$747,000 in 2016.

Note 9. Line of Credit

Effective July 27, 2016, Life.Church entered into a revolving line of credit arrangement with a financial institution, which originally carried a maximum possible balance of \$20,000,000. The line of credit has a variable interest rate equal to LIBOR, plus 1.50 percent and the rate at December 31, 2016, is 2.22 percent and the outstanding balance is \$-0-. The line of credit is secured by six of Life.Church's properties and a fee of .125 percent of the average unused portion of the maximum possible balance is due quarterly. The line of credit matures July 27, 2021.

Life Covenant Church, Inc.

Notes to Financial Statements

Note 10. Restricted Net Assets

Net assets reported as temporarily restricted at December 31, 2016, are comprised entirely of accumulated but undistributed earnings of beneficial interest in assets held by others. During 2016, significant restricted contributions were received for Life.Church's Relief and Restoration ministry, Digital Missions ministry, Spaces and Places ministry and YouVersion ministry; however, all such amounts have been expended for their restricted purposes as of December 31, 2016. Permanently restricted net assets are comprised entirely of Life.Church's beneficial interest in assets held by others.

Note 11. Retirement Plan

Life.Church sponsors a defined contribution retirement plan covering all permanent employees effective on the first day of employment. Life.Church 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. Life.Church makes a matching contribution for a portion of those wage deferrals. Life.Church's contributions to the plan totaled approximately \$2,306,000 in 2016.

Life.Church 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. Life.Church's contributions to the plan totaled approximately \$88,000 in 2016.

Note 12. 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. Depreciation, amortization and interest expenses have been allocated to Life.Church's programs and supporting services based on the square footage utilized in providing the program or supporting service.

Note 13. Commitments and Contingencies, and Subsequent Events

During 2016, Life.Church elected to self-insure its employee's health insurance coverage. Under the health program, Life.Church provides for health costs of up to \$125,000 per employee, while the excess cost policy provides for losses over that amount. Provisions for losses expected under the self-insurance program are recorded based upon Life.Church's estimates of the liability for claims incurred and totaled approximately \$505,000 at December 31, 2016. The amount of actual losses incurred could differ materially from the estimates reflected in these financial statements.

At December 31, 2016, Life.Church was under contracts for the construction of buildings in Fort Worth, Texas; Norman, Oklahoma; and Albany, New York. Construction commitments under these contracts are not expected to exceed approximately \$9,612,000. Construction on these properties should be substantially complete in 2017.

In April 2017, Life.Church entered into a construction agreement of approximately \$4,981,000 for construction of a new building in Shawnee, Oklahoma. In April 2017, Life.Church entered into contracts to sell two parcels of real estate for approximately \$1,500,000 and to purchase one parcel of real estate for approximately \$1,550,000.

