

LIFE COVENANT CHURCH, INC.

December 31, 2012

LIFE COVENANT CHURCH, INC.

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AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

Life Covenant Church, Inc.
Edmond, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Life Covenant Church, Inc. ("LifeChurch.tv") which comprise the statements of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 reasonable 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, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Cole & Reed P.C.

Oklahoma City, Oklahoma
May 2, 2013

LIFE COVENANT CHURCH, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	3,441,867
Short-term investments		7,946,294
Accounts receivable		142,372
Other current assets		43,143

TOTAL CURRENT ASSETS 11,573,676

INVESTMENTS 6,685,792

ASSETS HELD FOR SALE 380,700

UNAMORTIZED INTANGIBLE ASSET 3,519,382

PROPERTY AND EQUIPMENT, net 74,589,997

OTHER ASSETS, net 191,644

BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS 30,871

TOTAL ASSETS \$ 96,972,062

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	1,116,602
Accrued liabilities		1,839,263
Current portion of note payable		450,476

TOTAL CURRENT LIABILITIES 3,406,341

LONG-TERM LIABILITIES

Note payable, less current portion 10,645,648

TOTAL LONG-TERM LIABILITIES 10,645,648

TOTAL LIABILITIES 14,051,989

NET ASSETS

Unrestricted	82,889,202
Temporarily restricted	10,871
Permanently restricted	20,000

TOTAL NET ASSETS 82,920,073

TOTAL LIABILITIES AND NET ASSETS \$ 96,972,062

See accompanying notes and independent auditors' report.

LIFE COVENANT CHURCH, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CONTRIBUTIONS AND REVENUE				
Contributions	\$ 59,509,766	\$ 10,576,110	\$ -	\$ 70,085,876
Non-cash contributions	161,962	2,233	-	164,195
Interest income	177,428	-	-	177,428
Other income	911,285	-	-	911,285
Net assets released from restrictions	10,576,506	(10,576,506)	-	-
TOTAL CONTRIBUTIONS, REVENUES AND RECLASSIFICATION	71,336,947	1,837	-	71,338,784
EXPENSES				
Program expenses:				
Campus and central operations	12,419,867	-	-	12,419,867
Weekend experiences	9,697,453	-	-	9,697,453
LifeKIDS	3,956,753	-	-	3,956,753
LifeYouth	2,625,087	-	-	2,625,087
LifeGroups	1,870,050	-	-	1,870,050
Digital missions	2,168,300	-	-	2,168,300
LifeMissions and compassion	2,260,645	-	-	2,260,645
YouVersion	4,455,355	-	-	4,455,355
TOTAL PROGRAM EXPENSES	39,453,510	-	-	39,453,510
Supporting expenses:				
Depreciation and amortization	2,884,060	-	-	2,884,060
Technology and logistics	2,064,527	-	-	2,064,527
Human resources	1,351,248	-	-	1,351,248
Financial operations	1,168,248	-	-	1,168,248
Interest	335,446	-	-	335,446
TOTAL SUPPORTING EXPENSES	7,803,529	-	-	7,803,529
TOTAL EXPENSES	47,257,039	-	-	47,257,039
OTHER GAINS				
Net realized and unrealized gains on investments	188,249	1,432	-	189,681
Net gain on sales and disposals of property and equipment	1,146,136	-	-	1,146,136
OTHER GAINS	1,334,385	1,432	-	1,335,817
CHANGE IN NET ASSETS	25,414,293	3,269	-	25,417,562
NET ASSETS, beginning of year	57,474,909	7,602	20,000	57,502,511
NET ASSETS, end of year	<u>\$ 82,889,202</u>	<u>\$ 10,871</u>	<u>\$ 20,000</u>	<u>\$ 82,920,073</u>

See accompanying notes and independent auditors' report.

LIFE COVENANT CHURCH, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 25,417,562
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization of property and equipment	2,858,680
Amortization of financing costs	25,380
Net realized and unrealized gains on investments	(189,681)
Net realized gains on disposal of assets	(1,146,136)
Non-cash contributions	(152,380)
Change in operating assets and liabilities:	
Other assets	152,381
Accounts receivable	(67,273)
Accounts payable	99,393
Accrued liabilities	(989,835)
NET CASH PROVIDED BY OPERATING ACTIVITIES	26,008,091

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(22,398,578)
Purchases of investments	(19,772,269)
Proceeds from disposal of assets	1,618,301
Proceeds from sales and maturities of investments	15,580,508
Investment in assets held by others	(1,837)
NET CASH USED IN INVESTING ACTIVITIES	(24,973,875)

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on notes payable	(432,092)
NET CASH USED IN FINANCING ACTIVITIES	(432,092)

NET INCREASE IN CASH 602,124

CASH AT BEGINNING OF YEAR 2,839,743

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 3,441,867

SUPPLEMENTAL INFORMATION:

Interest paid	\$ 337,262
Noncash contributions:	
Equity securities	\$ 152,380
Property and equipment used in operations and/or converted to cash	\$ 9,978
Reinvestment of contribution in beneficial interest	\$ 1,837
Donated use of facilities, reflected as Other income and LifeMissions and compassion expense	\$ 30,000

See accompanying notes and independent auditors' report.

NOTES TO FINANCIAL STATEMENTS

LIFE COVENANT CHURCH, INC.

December 31, 2012

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 2012, LifeChurch.tv operated fifteen 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 investments. Depreciation and amortization estimates 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 ninety 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 G).

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

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 2009.

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 \$2,199,000 in 2012).

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.

Asset 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.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

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

Fair Value Measurements: LifeChurch.tv 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 LifeChurch.tv 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.

LifeChurch.tv has certain investments and/or beneficial interests which are measured at net asset value per share ("NAV"). If LifeChurch.tv has the ability to redeem its investment or beneficial interest with the investee at NAV at the measurement date or within ninety days of the measurement date, the fair value of the investment is categorized as a Level 2 fair value measurement. If LifeChurch.tv will never have the ability to redeem its investment with the investee at NAV or LifeChurch.tv cannot redeem its investment within ninety days of the measurement date, LifeChurch.tv categorizes the asset as a Level 3 measurement.

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

For the year ended December 31, 2012, LifeChurch.tv implemented 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 result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs and are to be applied prospectively. 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 of this guidance did not have a significant impact on LifeChurch.tv's financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

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

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

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. LifeChurch.tv 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. LifeChurch.tv elected to early implement ASU 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Assets for Impairment* which permits performance of a qualitative assessment to determine whether it is more likely than not (more than 50%) that the unamortized intangible 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, LifeChurch.tv determines that it is more likely than not that the asset is impaired, LifeChurch.tv 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, LifeChurch.tv recognizes an impairment loss in an amount equal to that excess.

Recent Accounting Pronouncements: In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit ("NFP") Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* which is effective prospectively for fiscal years beginning after June 15, 2013. This ASU requires a NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes in which case, those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. Retrospective application is permitted but not required and early implementation is also permitted. LifeChurch.tv expects implementation of the ASU to impact the presentation of its statement of cash flows.

Subsequent Events: Management has evaluated subsequent events through May 2, 2013, which is the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure, except as summarized in Note O.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

NOTE B--ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2012 consisted of royalties due on mineral interests, (approximately \$83,000), accrued interest receivable (approximately \$41,000) and other receivables (approximately \$18,000).

NOTE C--INVESTMENT INCOME

Investment income for the year ended December 31, 2012 consists of the following:

Realized gain on investments	\$	38,744
Unrealized gain on investments		149,505
Change in value of beneficial interest		<u>1,432</u>
Net realized and unrealized investment gains		189,681
Interest income		<u>177,428</u>
Total Investment Income	\$	<u><u>367,109</u></u>

NOTE D--FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

LifeChurch.tv's financial instruments and fair value estimates, methods, and assumptions at December 31, 2012 are summarized as follows:

	<u>Carrying amount</u>	<u>Estimated fair value</u>
Financial assets:		
Cash and cash equivalents	\$ 3,441,867	\$ 3,441,867
Investments	14,632,086	14,632,086
Accounts receivable	142,372	142,372
Beneficial interest in assets held by others	30,871	30,871
Financial liabilities:		
Accounts payable	1,116,602	1,116,602
Accrued liabilities	1,839,263	1,839,263
Notes payable	11,096,124	11,096,124

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.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

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

Limitations--Continued: 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 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.

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 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: 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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

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

LifeChurch.tv 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, 2012. Assets carried at fair value on a recurring basis are classified within the fair value hierarchy at December 31, 2012 as follows:

	Level 1	Level 2	Level 3	Total
ASSETS				
Investments:				
Money market funds	\$ 3,540,216	\$ -	\$ -	\$ 3,540,216
Corporate bonds				
Domestic	1,847,384	348,642	-	2,196,026
International	504,320	264,345	-	768,665
Government sponsored entity bonds	862,144	460,025	-	1,322,169
Stock	9,009	-	-	9,009
Mutual Funds	1,001	-	-	1,001
Certificates of deposit	-	6,795,000	-	6,795,000
Total investments	6,764,074	7,868,012	-	14,632,086
Beneficial interest in assets held by others	-	-	30,871	30,871
Total assets at fair value	<u>\$ 6,764,074</u>	<u>\$ 7,868,012</u>	<u>\$ 30,871</u>	<u>\$ 14,662,957</u>

The following table summarizes the changes in the fair value of LifeChurch.tv's Level 3 financial assets for the year ending December 31, 2012:

	Beneficial interest in assets held by others
Balance at January 1, 2012	\$ 27,602
Reinvestment of beneficial interest distribution	1,057
Investment of other funds distribution	780
Change in value of beneficial interest in assets held by others-- <i>included in earnings</i>	1,432
Balance at December 31, 2012	<u>\$ 30,871</u>

The summary of changes in the fair value of the Level 3 asset 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 investment gains (see Note C). Reinvestment of the beneficial interest distribution increases LifeChurch.tv's beneficial interest and investment of the other funds distribution increases contribution revenue and the beneficial interest (see Note G).

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

NOTE E--PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation are summarized as follows at December 31, 2012:

	Depreciable life	Cost	Accumulated depreciation	Net
Buildings and improvements	30 years	\$ 55,323,691	\$ (10,672,990)	\$ 44,650,701
Land and improvements	-	17,785,205	-	17,785,205
Construction in progress	-	8,464,078	-	8,464,078
Equipment	5 years	7,516,188	(5,466,333)	2,049,855
Leasehold improvements	Lease term	3,154,475	(2,086,821)	1,067,654
Other	3-5 years	2,270,919	(1,698,415)	572,504
		<u>\$ 94,514,556</u>	<u>\$ (19,924,559)</u>	<u>\$ 74,589,997</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, 2012 totals approximately \$220,000 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 2012, LifeChurch.tv capitalized approximately \$125,000 of costs related to the development of software in accordance with the aforementioned policy.

NOTE F--UNAMORTIZED INTANGIBLE ASSET

In 2012, LifeChurch.tv 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 LifeChurch.tv's mission through YouVersion, LifeChurch.tv's free online and mobile bible applications. Costs incurred to renew and maintain the domain are expensed as incurred.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

NOTE F--UNAMORTIZED INTANGIBLE ASSET--Continued

LifeChurch.tv 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.

NOTE G--BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In prior years, LifeChurch.tv transferred funds to the OCCF and specified itself as the beneficiary of the funds. Annually distributions from the funds are paid to LifeChurch.tv according to the 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. In 2012, LifeChurch.tv reinvested its annual beneficial interest distribution of \$1,057 and invested its distribution from funds contributed by others of \$780 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, LifeChurch.tv reflects its beneficial interest in these assets which have an estimated fair value of \$30,871 at December 31, 2012.

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 \$800 in 2012. At December 31, 2012 the fair value of the funds originally donated by third parties is approximately \$22,000. LifeChurch.tv has no remainder interest in the corpus of these funds.

NOTE H--OTHER ASSETS

Costs related to the issuance of debt totaling approximately \$127,000, net of accumulated amortization of approximately \$34,000 at December 31, 2012, have been capitalized and are being amortized on a straight-line basis over the five-year life of the loan. Amortization of these deferred financing costs is reported as a component of depreciation and amortization expense in the statement of activities, and totaled approximately \$25,000 in 2012. Future amortization is expected to be approximately \$25,000 for 2013 through 2015 and approximately \$18,000 in 2016.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

NOTE I--LEASE COMMITMENTS

LifeChurch.tv leases office space, equipment, and other assets under non-cancelable operating leases that expire at various dates through 2019. Minimum future rentals under non-cancelable operating leases at December 31, 2012 are summarized as follows:

2013	\$ 775,547
2014	743,007
2015	583,522
2016	580,995
2017	215,560
2018 and thereafter	396,000

Equipment lease and rent expense totaled approximately \$864,000 in 2012.

NOTE J--NOTE PAYABLE AND LINE OF CREDIT

LifeChurch.tv's note payable consists of the following at December 31, 2012:

Adjustable rate note (2.92% at December 31, 2012), monthly payments of principle and interest of varying amounts, maturing September 1, 2016	\$ 11,096,124
Less current portion	<u>(450,476)</u>
	<u>\$ 10,645,648</u>

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

2013	\$ 450,476
2014	465,837
2015	478,593
2016	<u>9,701,218</u>
	<u>\$ 11,096,124</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.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

NOTE J--NOTE PAYABLE AND LINE CREDIT--Continued

Effective August 12, 2011, LifeChurch.tv entered into a reducing revolving line of credit arrangement with a financial institution, which originally carried a maximum possible balance of \$10,000,000. The maximum possible balance reduces by \$250,000 each January 1, April 1, July 1, and October 1 and the maximum possible borrowing at December 31, 2012 is \$9,375,000. The line of credit has a variable interest rate equal to LIBOR, plus 2.50% and the rate at December 31, 2012 is 2.7135%. 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 line of credit matures September 1, 2016.

NOTE K--RESTRICTED NET ASSETS

Net assets reported as temporarily restricted at December 31, 2012 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 Relief and Restoration ministry, Digital Missions ministry, Spaces and Places ministry and YouVersion ministry; however, all such amounts have been expended for their restricted purpose as of December 31, 2012. Permanently restricted net assets are comprised entirely of LifeChurch.tv's beneficial interest in assets held by others.

NOTE L--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 \$965,000 in 2012.

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 approximately \$105,000 in 2012.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2012

NOTE M--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 N--COMMITMENTS & CONTINGENCIES

At December 31, 2012, LifeChurch.tv was under contract for the construction of a building in Jenks, Oklahoma. Construction commitments under the contract are not expected to exceed approximately \$4,356,000, with approximately \$2,748,000 of the commitment remaining in 2013. Construction should be substantially completed by July 2013.

NOTE O--SUBSEQUENT EVENTS

LifeChurch.tv entered into contracts in January and March 2013 to purchase two parcels of real estate for a total of approximately \$2,068,000. These transactions should be completed by July 2013.

LifeChurch.tv entered into a contractual agreement in February 2013 for the construction of a building in Moore, Oklahoma. Construction commitments under the contract are not expected to exceed approximately \$4,465,000 and should be substantially completed by the end of 2013.