

**LIFE COVENANT
CHURCH, INC.**

December 31, 2013

LIFE COVENANT CHURCH, INC.

December 31, 2013

AUDITED FINANCIAL STATEMENTS

Independent Auditors' Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6

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, 2013, 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 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, 2013, and the statement of activities 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 19, 2014

STATEMENT OF FINANCIAL POSITION

LIFE COVENANT CHURCH, INC.

December 31, 2013

ASSETS

Cash and cash equivalents	\$ 4,535,987
Accounts receivable	272,323
Investments	22,027,395
Unamortized intangible asset	3,519,382
Property and equipment, net	98,213,315
Other assets, net	271,634
Beneficial interest in assets held by others	<u>36,589</u>

TOTAL ASSETS \$ 128,876,625

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 2,048,600
Accrued liabilities	2,337,406
Note payable	<u>10,648,471</u>
TOTAL LIABILITIES	15,034,477

NET ASSETS

Unrestricted	113,806,341
Temporarily restricted	15,807
Permanently restricted	<u>20,000</u>
TOTAL NET ASSETS	<u>113,842,148</u>

TOTAL LIABILITIES AND NET ASSETS \$ 128,876,625

See accompanying notes and independent auditors' report.

STATEMENT OF ACTIVITIES

LIFE COVENANT CHURCH, INC.

Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
CONTRIBUTIONS, REVENUE AND GAINS (LOSSES)				
Contributions	\$ 71,783,432	\$ 8,935,477	\$ -	\$ 80,718,909
Non-cash contributions	4,343,643	759,505	-	5,103,148
Interest and dividend income	250,565	-	-	250,565
Net realized and unrealized losses on investments	(617,988)	4,936	-	(613,052)
Net gain on sales and disposals of property and equipment	1,060,305	-	-	1,060,305
Other income	3,080,746	-	-	3,080,746
Net assets released from restrictions	<u>9,694,982</u>	<u>(9,694,982)</u>	<u>-</u>	<u>-</u>
TOTAL CONTRIBUTIONS, REVENUES AND GAINS (LOSSES)	89,595,685	4,936	-	89,600,621
EXPENSES				
Program expenses:				
Campus and central operations	16,469,883	-	-	16,469,883
Weekend experiences	12,623,054	-	-	12,623,054
LifeKids and LifeYouth (Switch)	8,673,508	-	-	8,673,508
YouVersion	5,548,178	-	-	5,548,178
Relief and restoration	4,992,457	-	-	4,992,457
Digital missions	2,525,202	-	-	2,525,202
LifeGroups	<u>2,054,984</u>	<u>-</u>	<u>-</u>	<u>2,054,984</u>
Total program expenses	52,887,266	-	-	52,887,266
Supporting expenses:				
Technology and logistics	2,895,179	-	-	2,895,179
Human resources	1,493,183	-	-	1,493,183
Financial operations	<u>1,402,918</u>	<u>-</u>	<u>-</u>	<u>1,402,918</u>
Total supporting expenses	<u>5,791,280</u>	<u>-</u>	<u>-</u>	<u>5,791,280</u>
TOTAL EXPENSES	58,678,546	-	-	58,678,546
CHANGE IN NET ASSETS	30,917,139	4,936	-	30,922,075
NET ASSETS, beginning of year	<u>82,889,202</u>	<u>10,871</u>	<u>20,000</u>	<u>82,920,073</u>
NET ASSETS, end of year	<u>\$ 113,806,341</u>	<u>\$ 15,807</u>	<u>\$ 20,000</u>	<u>\$ 113,842,148</u>

See accompanying notes and independent auditors' report.

STATEMENT OF CASH FLOWS

LIFE COVENANT CHURCH, INC.

Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 30,922,075
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization of property and equipment	4,113,231
Amortization of financing costs	25,381
Net realized and unrealized losses on investments	613,052
Net realized gains on disposal of assets	(1,060,305)
Non-cash contributions	(4,330,878)
Proceeds from sales of donated financial assets	205,534
Change in operating assets and liabilities:	
Other assets	(62,228)
Accounts receivable	(129,951)
Accounts payable	931,998
Accrued liabilities	498,143
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>31,726,052</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(23,945,524)
Purchases of investments	(22,992,403)
Proceeds from sales and disposals of assets	1,749,980
Proceeds from sales and maturities of investments	15,003,668
NET CASH USED IN INVESTING ACTIVITIES	<u>(30,184,279)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on notes payable	<u>(447,653)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(447,653)</u>

NET INCREASE IN CASH 1,094,120

CASH AT BEGINNING OF YEAR 3,441,867

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 4,535,987

SUPPLEMENTAL INFORMATION:

Interest paid	<u>\$ 320,310</u>
Noncash contributions:	
Equity and debt securities	<u>\$ 230,096</u>
Property and equipment used in operations	<u>\$ 4,100,000</u>
In-kind contributions used in operations	<u>\$ 772,270</u>
Investment of non-cash contribution in beneficial interest	<u>\$ 782</u>
Donated property and equipment and use of facilities, reflected as other income and relief and restoration expense	<u>\$ 434,046</u>

See accompanying notes and independent auditors' report.

NOTES TO FINANCIAL STATEMENTS

LIFE COVENANT CHURCH, INC.

December 31, 2013

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: Life Covenant Church, Inc. ("LifeChurch.tv"), a not-for-profit corporation, operating 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 2013, LifeChurch.tv operated eighteen 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.

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. Depreciation and amortization estimates are based on the estimated useful lives of the underlying assets.

Cash and Cash Equivalents: LifeChurch.tv considers all highly liquid investments with an original maturity of three months or less when purchased, excluding cash equivalent funds held in LifeChurch.tv'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, 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).

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

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2013

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

Income Tax Status--Continued: 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 2010.

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 \$3,097,000 in 2013).

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. 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: 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.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2013

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

Fair Value Measurements--Continued:

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.

Recent Accounting Pronouncement: For the year ended December 31, 2013, LifeChurch.tv implemented 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 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. Implementation did not have a significant impact on LifeChurch.tv's financial statements.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2013

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

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. 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.

Subsequent Events: Management has evaluated subsequent events through May 19, 2014, 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 O.

NOTE B--ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2013 consists of a refund for an application fee and escrow deposit related to a one-time auction for certain internet related rights (approximately \$205,000), accrued interest and dividends receivable (approximately \$45,000), and other receivables (approximately \$22,000).

NOTE C--INVESTMENT INCOME

Investment income for the year ended December 31, 2013 consists of the following:

Realized gain on investments	\$	157
Unrealized loss on investments		(618,145)
Change in value of beneficial interest		4,936
Net realized and unrealized investment gains		(613,052)
Interest and dividend income		250,565
Total investment income	\$	<u>(362,487)</u>

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2013

NOTE D--FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

LifeChurch.tv's financial instruments and fair value estimates, methods, and assumptions at December 31, 2013 are summarized as follows:

	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 4,535,987	\$ 4,535,987
Investments	22,027,395	22,027,395
Accounts receivable	272,323	272,323
Beneficial interest in assets held by others	36,589	36,589
Financial liabilities:		
Accounts payable	2,048,600	2,048,600
Accrued liabilities	2,337,406	2,337,406
Notes payable	10,648,471	10,648,471

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 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.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2013

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

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, common stock, 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, 2013

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, 2013. Assets carried at fair value on a recurring basis are classified within the fair value hierarchy at December 31, 2013 as follows:

	Level 1	Level 2	Level 3	Total
ASSETS				
Investments:				
Cash and cash equivalents	\$ 267,930	\$ -	\$ -	\$ 267,930
Money market funds	11,520,346	-	-	11,520,346
Corporate bonds:				
Domestic	2,129,209	221,485	-	2,350,694
International	962,194	-	-	962,194
Government sponsored entity bonds	974,733	598,267	-	1,573,000
Common stock	9,011	-	-	9,011
Certificates of deposit	-	5,344,220	-	5,344,220
Total investments	15,863,423	6,163,972	-	22,027,395
Beneficial interest in assets held by others				
	-	-	36,589	36,589
Total assets at fair value	<u>\$ 15,863,423</u>	<u>\$ 6,163,972</u>	<u>\$ 36,589</u>	<u>\$ 22,063,984</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, 2013:

	Beneficial interest in assets held by others
Balance at January 1, 2013	\$ 30,871
Investment of other funds distribution	782
Change in value of beneficial interest in assets held by others-- <i>included in earnings</i>	4,936
Balance at December 31, 2013	<u>\$ 36,589</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, 2013

NOTE E--PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation are summarized as follows at December 31, 2013:

	Depreciable life	Cost	Accumulated depreciation	Net
Buildings and improvements	30 years	\$ 77,027,781	\$ (12,628,710)	\$ 64,399,071
Land	-	22,937,562	-	22,937,562
Construction in progress	-	5,692,511	-	5,692,511
Equipment	5 years	6,664,479	(4,396,284)	2,268,195
Leasehold improvements	Lease term	4,351,232	(3,010,084)	1,341,148
Other	3-5 years	3,298,053	(1,723,225)	1,574,828
		<u>\$ 119,971,618</u>	<u>\$ (21,758,303)</u>	<u>\$ 98,213,315</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, 2013 totals approximately \$237,000, and related expense of approximately \$17,000 is included in program expenses (approximately \$16,000) and supporting expenses (approximately \$1,000) 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 2013, LifeChurch.tv capitalized approximately \$1,154,000 of costs related to the development of software in accordance with the aforementioned policy.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2013

NOTE F--UNAMORTIZED INTANGIBLE ASSET

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.

In 2013, 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 2013, LifeChurch.tv reinvested its annual beneficial interest distribution of \$1,380 and invested its distribution from funds contributed by others of \$782 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 \$36,589 at December 31, 2013.

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 \$782 in 2013. At December 31, 2013, the fair value of the funds originally donated by third parties is approximately \$25,000. LifeChurch.tv has no remainder interest in the corpus of these funds.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2013

NOTE H--OTHER ASSETS

Costs related to the issuance of debt totaling approximately \$127,000, net of accumulated amortization of approximately \$59,000 at December 31, 2013, 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 program services expense (approximately \$24,000) and supporting services expense (approximately \$1,000) in the statement of activities. Future amortization is expected to be approximately \$25,000 for 2014 and 2015 and approximately \$18,000 in 2016.

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, 2013 are summarized as follows:

Years ended December 31	
2014	\$ 600,430
2015	580,040
2016	580,920
2017	215,560
2018	198,000
2019	181,500

Equipment lease and rent expense totaled approximately \$872,000 in 2013.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2013

NOTE J--NOTE PAYABLE AND LINE OF CREDIT

At December 31, 2013, LifeChurch.tv has a note payable to a financial institution with a principal balance of \$10,648,471. The adjustable rate note (2.84% at December 31, 2013) requires monthly payments of principle and interest and matures September 1, 2016.

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

Years ended December 31	
2014	\$ 464,906
2015	481,442
2016	<u>9,702,123</u>
	<u>\$ 10,648,471</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. LifeChurch.tv is in compliance with all covenants at December 31, 2013.

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 \$125,000 each January 1, April 1, July 1, and October 1, and the maximum possible borrowing at December 31, 2013 is \$8,875,000. The line of credit has a variable interest rate equal to LIBOR, plus 2.50%, and the rate at December 31, 2013 is 2.667%. The line of credit is secured by substantially all of LifeChurch.tv's property and equipment, and a fee of .25% of the average unused portion of the maximum possible balance is due quarterly. The line of credit matures September 1, 2016.

NOTE K--RESTRICTED NET ASSETS

Net assets reported as temporarily restricted at December 31, 2013 are comprised entirely of accumulated but undistributed earnings of beneficial interest in assets held by others. During 2013 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, 2013. Permanently restricted net assets are comprised entirely of LifeChurch.tv's beneficial interest in assets held by others.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2013

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 \$1,248,000 in 2013.

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 \$104,000 in 2013.

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. Depreciation, amortization and interest expenses have been allocated to LifeChurch.tv's programs and supporting services based on the square footage utilized in providing the program service.

NOTE N--COMMITMENTS & CONTINGENCIES

At December 31, 2013, LifeChurch.tv was under contracts for the construction of buildings in Keller, Texas, Oklahoma City, Oklahoma and Broken Arrow, Oklahoma. Construction commitments under these contracts are not expected to exceed approximately \$14,379,000, with approximately \$10,802,000 of the commitments remaining in 2014. Construction on these properties should be substantially complete in 2014.

NOTE O--SUBSEQUENT EVENTS

LifeChurch.tv purchased two parcels of real estate in 2014 for a total cost of approximately \$1,400,000.