

**LIFE COVENANT  
CHURCH, INC.**

**December 31, 2008**

LIFE COVENANT CHURCH, INC.

December 31, 2008

AUDITED FINANCIAL STATEMENTS

|                                      |   |
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Independent Auditors' Report

Life Covenant Church, Inc.  
Edmond, Oklahoma

We have audited the accompanying statement of financial position of Life Covenant Church, Inc. ("LifeChurch.tv") as of December 31, 2008, and the related statement of activities and statement of cash flows for the year then ended. These financial statements are the responsibility of LifeChurch.tv's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LifeChurch.tv's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Life Covenant Church, Inc. as of December 31, 2008, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Cole & Reed P.C.*

Oklahoma City, Oklahoma  
May 13, 2009



LIFE COVENANT CHURCH, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2008

ASSETS

CURRENT ASSETS

|                               |                |
|-------------------------------|----------------|
| Cash                          | \$ 2,611,247   |
| Short-term investments        | 1,291,310      |
| Accounts receivable           | 305,144        |
| Other current assets          | 103,417        |
| Contributions receivable, net | <u>429,317</u> |

TOTAL CURRENT ASSETS 4,740,435

INVESTMENTS

2,376,093

BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

22,540

PROPERTY & EQUIPMENT, net

44,460,355

OTHER ASSETS, net

315,834

TOTAL ASSETS \$ 51,915,257

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

|   |                  |
|---|------------------|
| Accounts payable                          | \$ 231,727       |
| Accrued liabilities                       | 1,217,623        |
| Current portion of capital leases payable | 578,908          |
| Current portion of notes payable          | <u>1,462,401</u> |

TOTAL CURRENT LIABILITIES 3,490,659

LONG-TERM LIABILITIES

|  |                   |
|--|-------------------|
| Capital leases payable, less current portion | 497,287           |
| Notes payable, less current portion          | <u>19,988,990</u> |

TOTAL LONG-TERM LIABILITIES 20,486,277

TOTAL LIABILITIES 23,976,936

NET ASSETS

|                        |               |
|------------------------|---------------|
| Unrestricted           | 27,290,374    |
| Temporarily restricted | 627,947       |
| Permanently restricted | <u>20,000</u> |

TOTAL NET ASSETS 27,938,321

TOTAL LIABILITIES AND NET ASSETS \$ 51,915,257

See accompanying notes and independent auditors' report.

LIFE COVENANT CHURCH, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2008

|   | <u>Unrestricted</u>  | Temporarily<br><u>Restricted</u> | Permanently<br><u>Restricted</u> | <u>Total</u>         |
|---|----------------------|----------------------------------|----------------------------------|----------------------|
| <b>CONTRIBUTIONS &amp; REVENUE</b>                    |                      |                                  |                                  |                      |
| Contributions   | \$ 27,846,431        | \$ 2,769,755                     |                                  | \$ 30,616,186        |
| Non-cash contributions                                | 80,115               | 14,686                           | -                                | 94,801               |
| Interest and dividend income                          | 242,001              | -                                | -                                | 242,001              |
| Other income  | 758,219              | -                                | -                                | 758,219              |
| Net assets released from restrictions                 | <u>3,320,979</u>     | <u>(3,320,979)</u>               | -                                | <u>-</u>             |
| TOTAL CONTRIBUTIONS, REVENUES<br>AND RECLASSIFICATION | <u>32,247,745</u>    | <u>(536,538)</u>                 | -                                | <u>31,711,207</u>    |
| <b>EXPENSES</b>                                       |                      |                                  |                                  |                      |
| Program expenses:                                     |                      |                                  |                                  |                      |
| Leadership and campus operations                      | 7,728,935            | -                                | -                                | 7,728,935            |
| Experiences   | 5,788,614            | -                                | -                                | 5,788,614            |
| LifeKIDS  | 2,530,572            | -                                | -                                | 2,530,572            |
| LifeYouth   | 1,815,738            | -                                | -                                | 1,815,738            |
| LifeMissions and compassion                           | 1,797,084            | -                                | -                                | 1,797,084            |
| LifeGroups  | <u>1,168,851</u>     | -                                | -                                | <u>1,168,851</u>     |
| TOTAL PROGRAM EXPENSES                                | 20,829,794           | -                                | -                                | 20,829,794           |
| Supporting expenses:                                  |                      |                                  |                                  |                      |
| Technology and logistics                              | 2,579,266            | -                                | -                                | 2,579,266            |
| Financial operations and human resources              | 1,717,167            | -                                | -                                | 1,717,167            |
| Depreciation and amortization                         | 2,384,837            | -                                | -                                | 2,384,837            |
| Interest  | <u>1,249,366</u>     | -                                | -                                | <u>1,249,366</u>     |
| TOTAL SUPPORTING EXPENSES                             | <u>7,930,636</u>     | -                                | -                                | <u>7,930,636</u>     |
| TOTAL EXPENSES  | 28,760,430           | -                                | -                                | 28,760,430           |
| Other income:   |                      |                                  |                                  |                      |
| Net realized and unrealized losses                    | <u>(538,484)</u>     | <u>(1,932)</u>                   | -                                | <u>(540,416)</u>     |
| CHANGE IN NET ASSETS                                  | 2,948,831            | (538,470)                        | -                                | 2,410,361            |
| NET ASSETS, beginning of year                         | <u>24,341,543</u>    | <u>1,166,417</u>                 | <u>20,000</u>                    | <u>25,527,960</u>    |
| NET ASSETS, end of year                               | <u>\$ 27,290,374</u> | <u>\$ 627,947</u>                | <u>\$ 20,000</u>                 | <u>\$ 27,938,321</u> |

See accompanying notes and independent auditors' report.

LIFE COVENANT CHURCH, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

|   |                  |
|---|------------------|
| Change in net assets  | \$ 2,410,361     |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                  |
| Depreciation and amortization of property and equipment                                     | 2,384,837        |
| Amortization of financing costs   | 22,317           |
| Realized and unrealized losses on investments and swap agreement                            | 537,594          |
| Loss on disposal of property and equipment  | 2,822            |
| Non-cash contributions  | (94,801)         |
| Non-capital expenses financed via capital leases  | 97,424           |
| Change in operating assets and liabilities:   |                  |
| Other assets  | (118,155)        |
| Contributions receivable  | 396,499          |
| Accounts receivable   | (111,298)        |
| Accounts payable  | (1,082,089)      |
| Accrued liabilities   | 473,408          |
| NET CASH PROVIDED BY OPERATING ACTIVITIES   | <u>4,918,919</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

|   |                    |
|---|--------------------|
| Purchases of property and equipment   | (8,607,497)        |
| Purchases of investments, net   | (1,740,115)        |
| Decrease in beneficial interests in assets held by others   | 1,932              |
| Net change in short-term investments (excluding effects of \$981,211 of transfers from long-term investments) | 1,006,294          |
| NET CASH USED IN INVESTING ACTIVITIES   | <u>(9,339,386)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES:

|   |                  |
|---|------------------|
| Payments on notes payable                                     | (308,754)        |
| Payments on capital lease obligations                         | (523,495)        |
| Receipts from collections of loan proceed receivable balances | 867,083          |
| Loan proceeds   | 4,047,461        |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                     | <u>4,082,295</u> |

|                           |                     |
|---------------------------|---------------------|
| NET DECREASE IN CASH      | (338,172)           |
| CASH AT BEGINNING OF YEAR | <u>2,949,419</u>    |
| CASH AT END OF YEAR       | <u>\$ 2,611,247</u> |

SUPPLEMENTAL INFORMATION:

|  |                     |
|--|---------------------|
| Interest paid  | <u>\$ 1,226,402</u> |
| Capital lease acquisitions:                                |                     |
| Capitalized equipment                                      | <u>\$ 114,667</u>   |
| Non-capitalized equipment                                  | <u>\$ 97,424</u>    |
| Accrued borrowings receivable to reimburse:                |                     |
| Capitalized equipment included in construction in progress | <u>\$ 133,590</u>   |
| Capitalized equipment included in accounts payable         | <u>\$ 16,503</u>    |
| Non-capitalized equipment expenditures                     | <u>\$ 13,247</u>    |
| Noncash contributions:                                     |                     |
| Other assets   | <u>\$ 27,768</u>    |
| Equity securities  | <u>\$ 67,033</u>    |

See accompanying notes and independent auditors' report.

## NOTES TO FINANCIAL STATEMENTS

### LIFE COVENANT CHURCH, INC.

December 31, 2008

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

Nature of Organization: Life Covenant Church, Inc. ("LifeChurch.tv"), a not-for-profit corporation, operates as a religious organization. The mission of LifeChurch.tv is "to lead people to become fully devoted followers of Christ." LifeChurch.tv is one church operating in a multi-site environment, offering a variety of experience locations, times, and formats. During 2008, LifeChurch.tv operated thirteen campuses in Oklahoma, Arizona, Texas, Tennessee, New York, Florida and a campus on the Internet. LifeChurch.tv is supported primarily through contributions from attendees.

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimates included in the accompanying financial statements are (a) the provisions for depreciation and amortization, which are based on the estimated useful lives of the underlying assets and (b) the provision for uncollectible contributions receivable which are based on past payment history and the current economic environment.

Cash and Cash Equivalents: Cash equivalents are short term, highly liquid investments that can be readily converted into known amounts of cash, including certificates of deposit with original maturities of 90 days or less. At December 31, 2008, a cash balance of approximately \$231,000 was held by LifeChurch.tv's lender in an interest-bearing, restricted-access account, in LifeChurch.tv's name. The purpose of the restriction is to provide for potential cost overages on a construction project.

In September 2008, Federal Deposit Insurance Corporation ("FDIC") limits were increased whereby all traditional type deposit accounts are insured up to \$250,000 (through December 31, 2009). Additionally, banks may participate in the FDIC's Transaction Account Guarantee Program (the "TAG Program") whereby non-interest bearing transaction accounts are 100% guaranteed by the FDIC through December 31, 2009. Coverage under the TAG Program is in addition to coverage provided to traditional type deposit accounts. As of December 31, 2008, all of LifeChurch.tv's cash balances are fully insured by either the FDIC or excess Securities Investor Protection Corporation coverage as provided by through its brokerage account.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2008

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

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.

Assets and Liabilities Measured at Fair Value: As outlined in Statement of Financial Standards No. 157, *Fair Value Measurements*, LifeChurch.tv measures and reports the fair value of certain assets and liabilities using level (1), (2), and (3) inputs. Level (1) inputs represent fair values obtained using quoted prices in active markets. Level (2) inputs represent fair values obtained from observable market data but not from quoted market prices. Level (3) inputs represent unobservable inputs and are generally based on LifeChurch.tv's own assumptions.

Assets and liabilities measured at fair value consist of the following at December 31:

|   | <u>Fair Value</u>   | <u>Fair Value<br/>Hierarchy</u> |
|---|---------------------|---------------------------------|
| Investments:  |                     |                                 |
| Cash equivalent funds   | \$ 191,310          | (1)                             |
| Pooled investments managed by Servant<br>Christian Community Foundation | 10,000              | (1)                             |
| Securities:   |                     |                                 |
| U.S. Government obligations   | 1,005,452           | (1)                             |
| Corporate bonds   | 602,674             | (1)                             |
| Mortgage-backed   | 122,967             | (1)                             |
| Certificates of deposit   | <u>1,735,000</u>    | (1)                             |
|   | <u>\$ 3,667,403</u> |                                 |
| Beneficial interest in assets held by others                            | <u>\$ 22,540</u>    | (2)                             |
| Interest rate swap agreement liability (see Note G)                     | <u>\$ (442,291)</u> | (2)                             |

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2008

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

Fair Value of Financial Instruments: The following methods and assumptions were used to estimate the fair value of each financial instrument:

Cash and cash equivalents, accounts payable and accrued liabilities – the carrying amounts approximate fair value due to their short maturities.

Accounts and contributions receivable – the carrying amounts approximate fair value for accounts receivable due to their short maturities. Fair value for unconditional promises to give expected to be received over more than twelve months is estimated by discounting the expected future cash flows of the commitments, which is further reduced by a valuation allowance for uncollectible balances.

Investments – the fair values are based on quoted market prices of the underlying investment securities. Investments are carried at fair value in the accompanying financial statements.

Beneficial interest in assets held by others – the fair values are based on marked prices of the underlying investments securities as reported by the asset custodian. Beneficial interest in assets held by others is carried at fair value in the accompanying financial statements.

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

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

Interest rate swap agreement – the fair value is determined by the counterparty financial institution using current market pricing models. The interest rate swap agreement is carried at fair value in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2008

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.

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 \$373,000 in 2008).

NOTE B--ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable at December 31, 2008 consisted of loan proceeds approved for payment by LifeChurch.tv's lender in December 2008 and funded in January 2009 (approximately \$163,000), funds due from Oklahoma Christian Schools, Inc. for repayment of utility costs (approximately \$90,000), accrued interest (approximately \$46,000) and other receivables (approximately \$6,000).

Contributions receivable represent unconditional promises made by attendees to give contributions designated for Campus Development ministry between September 2007 and August 2009. The commitments are not payable in installments over the period and are considered to be due at the end of the period, August 2009. Accordingly, all such commitments are considered current at December 31, 2008. The accompanying financial statements include unconditional promises to give of approximately \$429,000, which are net of an allowance of uncollectible amounts of approximately \$616,000 and a discount of approximately \$14,000. Estimates of uncollectible amounts are based on historical experience, and the estimated discount is based on an interest rate of 7.5%.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2008

NOTE C--PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2008 consists of the following:

|                            | <u>Cost</u>          | <u>Accumulated<br/>Depreciation</u> | <u>Net</u>           |
|----------------------------|----------------------|-------------------------------------|----------------------|
| Land and improvements      | \$ 12,132,956        | \$ -                                | \$ 12,132,956        |
| Buildings and improvements | 28,785,122           | (5,737,566)                         | 23,047,556           |
| Construction in progress   | 4,387,794            | -                                   | 4,387,794            |
| Equipment                  | 7,160,194            | (4,474,789)                         | 2,685,405            |
| Leasehold improvements     | 2,696,044            | (949,110)                           | 1,746,934            |
| Other                      | <u>1,195,786</u>     | <u>(736,076)</u>                    | <u>459,710</u>       |
|                            | <u>\$ 56,357,896</u> | <u>\$ (11,897,541)</u>              | <u>\$ 44,460,355</u> |

Interest incurred during construction of approximately \$357,000 (net of accumulated amortization of approximately \$153,000) 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.

As of December 31, 2008, LifeChurch.tv had approximately \$1,235,000 outstanding commitments under noncancelable construction contracts.

Costs associated with internal use software are evaluated for capitalization and subsequent amortization in accordance with American Institute of Certified Public Accountants Statement of Position 98-1 ("SOP 98-1"), *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*.

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 of SOP 98-1. Capitalized software costs are included as a component of other property and equipment and amortized over a period not to exceed three years.

In 2008, LifeChurch.tv expensed approximately \$163,000 and capitalized approximately \$13,000 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, 2008

NOTE D--BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

During 2005, LifeChurch.tv transferred \$20,000 to the Oklahoma City Community Foundation, Inc. ("OCCF"), and specified itself as the beneficiary of the funds. Annual distributions from the funds are paid to LifeChurch.tv according to OCCF's spending policy. OCCF maintains variance power over these funds. Variance power assures donors that if the charitable purpose of their contributions becomes impractical or impossible, the distributions will be directed to similar purposes in the community. OCCF also maintains legal ownership of the funds. However, Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, requires that LifeChurch.tv reflect its beneficial interest in these assets in its financial statements.

NOTE E--OTHER ASSETS

Costs related to the issuance of debt of approximately \$223,000 (net of accumulated amortization of approximately \$145,000) have been capitalized and are being amortized on a straight-line basis over a five-year period. The amortization of these deferred financing costs is reported as a component of interest expense in the accompanying financial statements, and totaled approximately \$22,000 for the year ended December 31, 2008.

NOTE F--LEASE COMMITMENTS

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

| <u>Year ended December 31</u> |            |
|-------------------------------|------------|
| 2009                          | \$ 652,322 |
| 2010                          | 596,410    |
| 2011                          | 560,395    |
| 2012                          | 439,166    |
| 2013                          | 434,721    |
| 2014 and thereafter           | 954,720    |

Equipment lease and rent expense totaled approximately \$696,000 for the year ended December 31, 2008.

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2008

NOTE F--LEASE COMMITMENTS--Continued

LifeChurch.tv has equipment of approximately \$1,281,000 acquired under capital leases, with related accumulated depreciation of approximately \$394,000. The following is a schedule, by year of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments:

|   |    |                         |
|---|----|-------------------------|
| 2009  | \$ | 637,453                 |
| 2010  |    | 472,796                 |
| 2011  |    | <u>44,034</u>           |
| Total minimum lease payments                |    | 1,154,283               |
| Less amount representing interest           |    | <u>(78,088)</u>         |
| Present value of net minimum lease payments | \$ | <u><u>1,076,195</u></u> |

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2008

NOTE G--NOTES PAYABLE

LifeChurch.tv's notes payable are comprised of the following as of December 31, 2008:

|   |                      |
|---|----------------------|
| Adjustable rate note (3.08% at December 31, 2008) monthly payments of principle and interest of varying amounts, due in 2016  | \$ 2,164,677         |
| Fixed rate note (6.52%), monthly payments of principle and interest of \$52,176, due in 2013  | 6,865,547            |
| Fixed rate note (5.89%), monthly payments of principle and interest of \$7,360, due in 2009   | 1,051,106            |
| Fixed rate note (6.72%), monthly payments of principle and interest of \$5,979, due in 2010   | 812,412              |
| Fixed rate note (6.67%), monthly payments of principle and interest of \$1,384, due in 2017   | 196,858              |
| Fixed rate note (7.27%), monthly payments of principle and interest of \$32,275, due in 2011  | 4,307,967            |
| Fixed rate note (6.15%), monthly payments of principle and interest of \$14,964, due in 2013  | 2,286,521            |
| Construction term loan with adjustable rate (6.36% at December 31, 2008), converted to fixed rate note March 1, 2009, monthly payments of principle and interest of \$25,386, due in 2017 | <u>3,766,303</u>     |
| Notes payable, December 31, 2008  | 21,451,391           |
| Less current portion  | <u>(1,462,401)</u>   |
|   | <u>\$ 19,988,990</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2008

NOTE G--NOTES PAYABLE--Continued

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

|                     |    |                   |
|---------------------|----|-------------------|
| 2009                | \$ | 1,462,401         |
| 2010                |    | 1,232,602         |
| 2011                |    | 4,541,266         |
| 2012                |    | 407,765           |
| 2013                |    | 410,076           |
| 2014 and thereafter |    | <u>13,397,281</u> |
|                     | \$ | <u>21,451,391</u> |

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

Effective January 1, 2007, LifeChurch.tv entered into a forward-starting interest rate swap agreement that effectively converts its \$2,164,677 adjustable rate term note payable into a fixed rate obligation. Under the terms of the swap, LifeChurch.tv will settle with the counterparty on a net basis for the difference between 100% of LifeChurch.tv's adjustable rate in the note payable agreement and a fixed rate of 7.22%. During 2008, LifeChurch.tv realized a net loss of approximately \$337,000 due to a decline in the fair market value of the interest rate swap agreement. The swap expires December 1, 2016.

In 2007, LifeChurch.tv entered into a construction loan agreement for up to \$3,805,000 to finance the purchase of a building in Midwest City, Oklahoma, land in Bixby, Oklahoma and a lobby addition to its campus in Edmond, Oklahoma. As of December 31, 2008, approximately \$3,766,000 had been funded under the loan. The note automatically converted to a term note, effective March 1, 2009 and is reflected according to its conversion terms in notes payable in the accompanying statement of financial position. The note payable has a fixed rate of 6.36% and requires monthly principle and interest payments of \$25,286. All unpaid principal and interest is due on December 1, 2017.

LifeChurch.tv's note payable of approximately \$1,051,000 matures in October 2009, and accordingly, is classified as current portion of notes payable in the accompanying financial statements. However, LifeChurch.tv intends to refinance this note payable prior to its maturity date.

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

NOTES TO FINANCIAL STATEMENTS--Continued

LIFE COVENANT CHURCH, INC.

December 31, 2008

NOTE H--RESTRICTED NET ASSETS

Net assets reported as temporarily restricted at December 31, 2008 consist of contributions restricted for LifeChurch.tv's Compassion ministry, Missions ministry, and Campus Development. Permanently restricted net assets are comprised entirely of LifeChurch.tv's beneficial interest in assets held by others.

NOTE I--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 \$614,000 for the year ended December 31, 2008.

NOTE J--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. No costs have been allocated among the programs and supporting services benefited. Salaries and benefits of program employees have been directly charged to the related programs.