

BATTS, MORRISON, WALES & LEE, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS  
www.nonprofitcpa.com

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Ligonier Ministries, Inc.  
Lake Mary, Florida

We have audited the accompanying statements of financial position of Ligonier Ministries, Inc. ("the Ministry") as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Ministry's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Ligonier Ministries, Inc. as of December 31, 2008 and 2007, the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Batts, Morrison, Wales & Lee, P.A.*  
BATTS, MORRISON, WALES & LEE, P.A.

Orlando, Florida  
May 28, 2009

**LIGONIER MINISTRIES, INC.**  
STATEMENTS OF FINANCIAL POSITION

**ASSETS**

	December 31,	
	2008	2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,415,010	\$ 2,045,684
Restricted cash and investments	40,000	10,000
Inventories	1,138,817	1,113,628
Prepaid expenses and other assets	504,304	440,399
Property and equipment, net	14,503,330	13,133,811
<b>Total assets</b>	<b>\$ 17,601,461</b>	<b>\$ 16,743,522</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,167,697	\$ 962,316
Deferred revenue	436,024	413,103
Notes payable	6,957,039	6,808,976
Interest rate swap contracts, at estimated fair value	454,606	82,230
<b>Total liabilities</b>	<b>9,015,366</b>	<b>8,266,625</b>
<b>NET ASSETS</b>		
Unrestricted	8,297,531	8,449,172
Temporarily restricted	278,564	17,725
Permanently restricted	10,000	10,000
<b>Total net assets</b>	<b>8,586,095</b>	<b>8,476,897</b>
<b>Total liabilities and net assets</b>	<b>\$ 17,601,461</b>	<b>\$ 16,743,522</b>

The Accompanying Notes are an Integral  
Part of These Financial Statements

**LIGONIER MINISTRIES, INC.**  
STATEMENTS OF ACTIVITIES

	For The Years Ended	
	December 31,	
	<u>2008</u>	<u>2007</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
Public support and revenue:		
Contributions	\$ 10,401,028	\$ 9,271,311
Contribution recognized in connection with a bargain purchase of real estate	—	3,089,077
Product sales	3,502,041	3,664,589
Conference registration and fees	575,346	887,746
Other revenue	<u>256,437</u>	<u>495,042</u>
Total public support and revenue	14,734,852	17,407,765
Net assets released from restrictions:		
Satisfaction of use restrictions	<u>648,392</u>	<u>160,271</u>
Total public support and revenue and net assets released from restrictions	<u>15,383,244</u>	<u>17,568,036</u>
Expenses:		
Program activities:		
Ministry activities	8,771,842	8,627,887
Cost of products sold and donor fulfillment	<u>1,615,803</u>	<u>1,243,869</u>
Total program activities	<u>10,387,645</u>	<u>9,871,756</u>
Supporting activities:		
General and administrative	2,382,223	2,056,902
Development	<u>2,392,641</u>	<u>1,735,699</u>
Total supporting activities	<u>4,774,864</u>	<u>3,792,601</u>
Total expenses	<u>15,162,509</u>	<u>13,664,357</u>
<b>Change in unrestricted net assets before change in fair value of interest rate swap contracts</b>	<b>220,735</b>	<b>3,903,679</b>
Change in estimated fair value of interest rate swap contracts	<u>(372,376)</u>	<u>(61,666)</u>
<b>Change in unrestricted net assets</b>	<b><u>(151,641)</u></b>	<b><u>3,842,013</u></b>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	909,231	164,501
Net assets released from restrictions	<u>(648,392)</u>	<u>(160,271)</u>
<b>Change in temporarily restricted net assets</b>	<b><u>260,839</u></b>	<b><u>4,230</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>109,198</b>	<b>3,846,243</b>
<b>NET ASSETS - Beginning of year</b>	<b><u>8,476,897</u></b>	<b><u>4,630,654</u></b>
<b>NET ASSETS - End of year</b>	<b><u>\$ 8,586,095</u></b>	<b><u>\$ 8,476,897</u></b>

The Accompanying Notes are an Integral  
Part of These Financial Statements

**LIGONIER MINISTRIES, INC.**  
STATEMENTS OF CASH FLOWS

	For The Years Ended	
	December 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 109,198	\$ 3,846,243
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Contribution recognized in connection with a bargain purchase of real estate	—	(3,089,077)
Gain on sale of property	—	(205,802)
Contributions restricted for long term purposes	(466,826)	—
Depreciation and amortization	421,410	526,927
Change in inventories	(25,189)	40,971
Change in prepaid expenses and other assets	(76,545)	37,390
Change in deposits	—	(11,353)
Change in accounts payable and accrued expenses	205,381	(8,088)
Change in deferred revenue	22,921	(43,889)
Change in estimated fair value of interest rate swap contracts	372,376	61,666
	<b>562,726</b>	<b>1,154,988</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in restricted cash and investments	(30,000)	—
Purchases of and improvements to property and equipment	(1,778,289)	(3,871,004)
Proceeds from sale of property	—	515,360
	<b>(1,808,289)</b>	<b>(3,355,644)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for investment in property and equipment	466,826	—
Proceeds from borrowings	487,570	4,566,430
Repayments of notes payable	(339,507)	(1,402,239)
	<b>614,889</b>	<b>3,164,191</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(630,674)</b>	<b>963,535</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>2,045,684</b>	<b>1,082,149</b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 1,415,010</b>	<b>\$ 2,045,684</b>

**SUPPLEMENTAL DISCLOSURE:**

Interest paid during 2008 and 2007 amounted to approximately \$361,000 and \$246,000, respectively.

**LIGONIER MINISTRIES, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE A – NATURE OF ACTIVITIES**

Ligonier Ministries, Inc. (“the Ministry”) is a not-for-profit Pennsylvania corporation, with headquarters in Lake Mary, Florida. The Ministry promotes Christian theological education and scholarship. In so doing, the Ministry produces radio programs for broadcast, conducts conferences, sells books, audio and video media, magazines, and curriculum, and publishes books and other media that advance the Ministry’s exempt religious and educational purposes. The Ministry has plans to establish an academy for the delivery of theological education through both certificate programs and undergraduate and graduate degree programs.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Restricted and unrestricted revenue and support**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase 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 statements of activities as “net assets released from restrictions.”

**Cash and cash equivalents**

The Ministry considers investment instruments purchased or donated with original maturities of three months or less to be cash equivalents.

**Restricted cash and investments**

Restricted cash and investments consist of amounts held which are restricted for a pulpit and a certain endowment.

**Inventories**

Inventories consist primarily of audio and video media, books and curriculum materials. Inventories are stated at the lower of cost or market using the first-in, first-out inventory cost-flow assumption.

**Depreciation**

Property and equipment are stated at cost, if purchased, or fair market value on the date of donation, if donated. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets.

**Deferred revenue**

Deferred revenue consists of unearned revenue from magazine subscriptions and advance conference registrations. Subscriptions to the Ministry’s magazine are made in one-, two- and three-year intervals. The future portion of revenue relating to these subscriptions is deferred and recognized in the periods earned.

**Income taxes**

The Ministry is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to state law. The Ministry is further classified as a public charity and not a private foundation for federal tax purposes. The Ministry has not incurred unrelated business income taxes. As a result, no income tax provision or liability has been provided for in the accompanying financial statements.

**Use of estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those related to the useful lives of property and equipment and the estimated fair value assigned to the interest rate swap contracts. Actual results could differ from the estimates.

**Reclassifications**

Certain amounts included in the 2007 financial statements have been reclassified to conform to classifications adopted during 2008. These reclassifications had no material effect on the accompanying financial statements.

**LIGONIER MINISTRIES, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE C - CONCENTRATION OF CREDIT RISK**

The Ministry maintains its cash and cash equivalents in deposit accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Ministry has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

**NOTE D – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

Category	December 31,	
	2008	2007
Land	\$ 4,467,588	\$ 4,467,588
Buildings and improvements	8,081,689	8,081,689
Furniture and equipment	2,660,353	2,474,590
Production equipment and tape masters	2,092,075	1,891,750
Media masters under development	88,852	65,897
Construction in progress	1,429,548	60,302
Total property and equipment	18,820,105	17,041,816
Less: Accumulated depreciation	(4,316,775)	(3,908,005)
Net property and equipment	\$ 14,503,330	\$ 13,133,811

Depreciation expense was approximately \$409,000 and \$520,000 for 2008 and 2007, respectively.

**NOTE E – NOTES PAYABLE**

Notes payable consisted of the following:

	December 31,	
	2008	2007
Note payable to a bank up to \$4,000,000, interest only payable monthly through December 2009, thereafter, fixed principal payments plus interest at one-month LIBOR plus 1.55% payable monthly, secured by a mortgage on certain real property, maturing December 2014	\$ 4,000,000	\$ 3,512,430
Note payable to a bank, varying principal payments plus interest at one-month LIBOR plus 1.55% payable monthly, secured by a mortgage on certain real property, maturing April 2016	2,880,506	3,002,835
Other	76,533	293,711
Total notes payable	\$ 6,957,039	\$ 6,808,976

**LIGONIER MINISTRIES, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE E – NOTES PAYABLE (Continued)**

Approximate future maturities of notes payable are as follows:

Year Ending <u>December 31,</u>	
2009	\$ 202,000
2010	328,000
2011	332,000
2012	335,000
2013	339,000
Thereafter	<u>5,421,000</u>
 Total	 <u>\$ 6,957,000</u>

Interest paid, capitalized and expensed consisted of the following approximate amounts:

	<u>For the Years Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Total interest paid	\$ 361,000	\$ 246,000
Less: Amount capitalized as construction in progress (See Note D)	<u>(348,000)</u>	<u>—</u>
 Interest expense	 <u>\$ 13,000</u>	 <u>\$ 246,000</u>

**NOTE F – INTEREST RATE SWAP CONTRACTS**

The Ministry has entered into an interest rate swap contract with a bank to reduce the impact of changes in the variable rate of a certain note payable. The interest rate swap contract matures on April 1, 2016. The contract effectively fixes the Ministry's interest rate on decreasing notional amounts totaling \$1,493,839 and \$1,536,168 as of December 31, 2008 and 2007, respectively, at 6.77% per year. The estimated fair value of the interest rate swap contract was a liability of \$272,230 and \$82,230 as of December 31, 2008 and 2007, respectively, based on the "unwind fee" the Ministry would pay the bank to cancel the interest rate swap contract. The change in the estimated fair value of the contract is reported in the accompanying statements of activities as "change in estimated fair value of interest rate swap contracts."

The Ministry has entered into another interest rate swap contract with a bank to reduce the impact of changes in the variable rate of a certain note payable. The interest rate swap contract matures on December 27, 2014. The contract effectively fixes the Ministry's interest rate on decreasing notional amounts totaling \$2,000,000 as of December 31, 2008, at 5.6% per year. The estimated fair value of the interest rate swap contract was a liability of \$182,376 as of December 31, 2008, based on the "unwind fee" the Ministry would pay the bank to cancel the interest rate swap contract. The change in the estimated fair value of the contract is reported in the accompanying statements of activities as "change in estimated fair value of interest rate swap contracts."

**LIGONIER MINISTRIES, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE F – INTEREST RATE SWAP CONTRACTS (Continued)**

The estimated fair value of the interest rate swap contracts, measured on a recurring basis, at December 31, 2008 is as follows:

	Estimated Fair Value	Estimated Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap contracts	\$ 454,606	\$ —	\$ 454,606	\$ —
Total	\$ 454,606	\$ —	\$ 454,606	\$ —

The estimated value determined using Level 2 inputs is based on an amount provided by a certain financial institution.

**NOTE G – RESTRICTIONS ON NET ASSETS**

Net assets were temporarily restricted for the following purposes:

	December 31,	
	2008	2007
Literary translations	\$ 235,025	\$ —
Pulpit	30,000	—
Conference scholarships	13,539	9,551
Other	—	4,230
Media library	—	3,944
Total temporarily restricted net assets	\$ 278,564	\$ 17,725

Permanently restricted net assets consist of an endowment fund, the income from which is restricted for conference scholarships.

**NOTE H – OPERATING LEASES**

The Organization leases building space under various operating lease agreements. Future minimum rental payments under noncancellable operating leases are approximately as follows:

Year Ending <u>December 31,</u>	
2009	\$ 162,000
2010	167,000
2011	172,000
2012	147,000
Total	\$ 648,000

Total rent expense related to all leases was approximately \$341,000 and \$317,000 for 2008 and 2007, respectively.

**LIGONIER MINISTRIES, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE I – RETIREMENT PLAN**

The Ministry contributes to a 401(k) profit-sharing plan (“the Plan”). Eligible employees may make elective deferral contributions to the Plan. Employer contributions to the Plan are discretionary. The Ministry contributed approximately \$90,000 and \$87,000 to the Plan during 2008 and 2007, respectively.

**NOTE J – COMMITMENTS**

The Ministry has available an \$800,000 line of credit with a bank. The line of credit bears interest at the bank’s prime rate and expires in July 2009. There was no outstanding balance on this line of credit as of December 31, 2008 or 2007.

As of December 31, 2008, the Ministry was a party to several licensing agreements with unrelated parties related to its publishing activities, requiring the Ministry to make annual royalty payments ranging from 5% to 40% of related net sales of the published items. For 2008 and 2007, the Ministry had royalty expense of approximately \$72,000 and \$143,000, respectively, related to these agreements. As of December 31, 2008, approximately \$33,000 related to these agreements is included in accounts payable and accrued expenses in the accompanying statement of financial position.

**NOTE K – RELATED PARTY TRANSACTIONS**

The Ministry is party to several licensing agreements with the Ministry’s President related to its publishing activities, requiring the Ministry to make annual royalty payments ranging from 10% to 12% of related net sales of the published items. In connection with these agreements, the Ministry paid its President approximately \$129,000 and \$151,000 during 2008 and 2007, respectively. As of December 31, 2008, approximately \$98,000 related to these agreements is included in accounts payable and accrued expenses in the accompanying statement of financial position.

During 2007, the Ministry purchased certain real property from an individual who is a member of the Ministry’s Board of Directors. The contract to purchase the property was executed prior to the individual becoming a member of the board. The purchase price was substantially less than the fair market value of the property at the date of closing as estimated by an independent appraisal. Contribution revenue for 2007 includes \$3,089,077 related to this transaction.