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The Audit Committee
Ligonier Ministries, Inc.
Lake Mary, Florida

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of Ligonier Ministries, Inc. ("the Ministry") as of December 31, 2005, and the related statements of activities and cash flows for the year 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 audit. The financial statements of Ligonier Ministries, Inc. for the year ended December 31, 2004, were audited by Graham, Cottrill, Jackson, Batts & Hostetter, LLP. The report was dated March 15, 2005, and expressed an unqualified opinion on those statements.

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 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 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 Ligonier Ministries, Inc. as of December 31, 2005, the changes in its net assets and its cash flows for the year 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.

September 14, 2006

LIGONIER MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2005	2004
ASSETS		
Cash and cash equivalents	\$ 1,349,746	\$ 1,271,003
Cash – special deposit account	113,085	122,777
Restricted cash and investments	10,000	10,000
Inventories	1,162,163	833,114
Prepaid expenses	237,159	453,841
Property and equipment, net	6,888,098	2,745,218
Deposits	502,200	335,200
Other assets	163,911	107,473
Total assets	<u>\$10,426,362</u>	<u>\$ 5,878,626</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 513,197	\$ 665,098
Deferred revenue	290,276	315,715
Notes payable and capital lease obligation	4,750,351	865,459
Interest rate swap contract, at fair market value	40,184	—
Total liabilities	<u>5,594,008</u>	<u>1,846,272</u>
NET ASSETS		
Unrestricted	4,805,994	3,974,781
Temporarily restricted	16,360	47,573
Permanently restricted	10,000	10,000
Total net assets	<u>4,832,354</u>	<u>4,032,354</u>
Total liabilities and net assets	<u>\$10,426,362</u>	<u>\$ 5,878,626</u>

The Accompanying Notes are an Integral
Part of These Financial Statements

LIGONIER MINISTRIES, INC.
STATEMENTS OF ACTIVITIES

	For The Years Ended December 31,	
	2005	2004
CHANGE IN UNRESTRICTED NET ASSETS		
Public support and revenue:		
Contributions	\$ 9,236,166	\$ 7,766,508
Product sales	4,584,050	3,198,021
Conference registration and fees	478,109	504,949
Other revenue	<u>172,922</u>	<u>25,349</u>
Total public support and revenue	14,471,247	11,494,827
Net assets released from restrictions:		
Satisfaction of use restrictions	<u>164,164</u>	<u>128,467</u>
Total public support and revenue and net assets released from restrictions	<u>14,635,411</u>	<u>11,623,294</u>
Expenses:		
Program activities:		
Ministry activities	9,437,849	7,865,468
Cost of products sold	<u>1,350,619</u>	<u>1,181,369</u>
Total program activities	<u>10,788,468</u>	<u>9,046,837</u>
Supporting activities:		
Development	1,608,407	1,638,128
General and administrative	<u>1,367,139</u>	<u>725,333</u>
Total supporting activities	<u>2,975,546</u>	<u>2,363,461</u>
Total expenses	<u>13,764,014</u>	<u>11,410,298</u>
Change in unrestricted net assets before change in fair market value of interest rate swap contract	871,397	212,996
Change in fair market value of interest rate swap contract	<u>(40,184)</u>	<u>—</u>
Change in unrestricted net assets	<u>831,213</u>	<u>212,996</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	132,951	103,490
Net assets released from restrictions	<u>(164,164)</u>	<u>(128,467)</u>
Change in temporarily restricted net assets	<u>(31,213)</u>	<u>(24,977)</u>
CHANGE IN NET ASSETS	800,000	188,019
NET ASSETS – Beginning of year	<u>4,032,354</u>	<u>3,844,335</u>
NET ASSETS – End of year	<u>\$ 4,832,354</u>	<u>\$ 4,032,354</u>

The Accompanying Notes are an Integral
Part of These Financial Statements

LIGONIER MINISTRIES, INC.
STATEMENTS OF CASH FLOWS

	For The Years Ended December 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 800,000	\$ 188,019
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Acquisition of Soli Deo Gloria Ministries, Inc.	—	368,640
Depreciation and amortization	458,507	317,228
Change in cash – special deposit account	9,692	(32,981)
Change in inventories	(329,049)	(474,148)
Change in prepaid expenses	216,682	(195,811)
Change in other assets	(61,434)	(16,790)
Change in accounts payable and accrued expenses	(151,901)	139,617
Change in deferred revenue	(25,439)	59,471
Change in fair market value of interest rate swap contract	40,184	—
Net cash flows from operating activities	957,242	353,245
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of and improvements to property and equipment	(4,463,391)	(533,316)
Land purchase deposits	(300,000)	(333,000)
Net cash flows from investing activities	(4,763,391)	(866,316)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	4,826,333	—
Repayments of notes payable and capital lease obligation	(941,441)	(194,056)
Net cash flows from financing activities	3,884,892	(194,056)
NET CHANGE IN CASH AND CASH EQUIVALENTS	78,743	(707,127)
CASH AND CASH EQUIVALENTS - Beginning of year	1,271,003	1,978,130
CASH AND CASH EQUIVALENTS - End of year	\$ 1,349,746	\$ 1,271,003

SUPPLEMENTAL DISCLOSURES:

Interest paid amounted to approximately \$272,000 and \$73,000 for 2005 and 2004, respectively.

During 2005, \$133,000 of deposits was reclassified to land.

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, and sells books, audio and video media, magazines, and curriculum.

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 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.

Cash – special deposit account

The Ministry maintains a special cash deposit account with a certain lender, as further described in Note E.

Restricted cash and investments

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

Inventories

Inventories consist 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 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 period 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. As a result, no income tax provision or liability has been provided for in the accompanying financial statements. The Ministry has not incurred unrelated business income taxes.

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 value assigned to the interest rate swap contract. Actual results could differ from the estimates.

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,	
	2005	2004
Land	\$ 2,055,953	\$ 189,000
Buildings and improvements	3,646,373	1,467,158
Furniture and equipment	2,307,386	1,983,005
Production equipment and tape masters	1,671,310	1,325,769
Media masters under development	147,774	267,473
Total property and equipment	9,828,796	5,232,405
Less: Accumulated depreciation	(2,940,698)	(2,487,187)
Net property and equipment	\$ 6,888,098	\$ 2,745,218

Depreciation expense was approximately \$453,500 and \$315,500 for 2005 and 2004, respectively.

NOTE E – NOTES PAYABLE AND CAPITAL LEASE OBLIGATION

Notes payable and capital lease obligation consisted of the following:

	December 31,	
	2005	2004
Note payable to a bank, interest only payable monthly through April 2006, thereafter, varying principal payments plus interest at one month LIBOR plus 1.55% payable monthly, secured by a mortgage on certain real property and certain personal property, maturing in April 2016	\$ 3,200,000	\$ —
Revolving line of credit up to \$800,000, interest payable monthly at the bank's prime rate, secured by substantially all assets of the Ministry, due on demand	799,991	—
Note payable to a revocable trust, payable in monthly payments of \$12,978 including interest at 7.5%, secured by a mortgage on certain real property and guaranteed by a board member of the Ministry, maturing in August 2014, with certain prepayment options	603,565	758,142
Notes payable to a bank, payable in monthly payments of \$2,488 and \$2,095 including interest at 5.5% and the bank's prime rate plus .50%, respectively, secured by certain equipment, maturing in October 2008 and June 2005	76,002	107,317
Obligation under capital lease, monthly payments of \$3,037 including interest at 6.55%, secured by certain equipment, matures in January 2008	70,793	—
Total notes payable and capital lease obligation	\$ 4,750,351	\$ 865,459

LIGONIER MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE E – NOTES PAYABLE AND CAPITAL LEASE OBLIGATION (Continued)

Approximate future maturities of notes payable and capital lease obligation are as follows:

Year Ending <u>December 31,</u>	
2006	\$ 1,095,000
2007	360,000
2008	339,000
2009	202,000
2010	124,000
Thereafter	<u>2,631,000</u>
Total	<u>\$ 4,751,000</u>

Interest expense amounted to approximately \$272,000 and \$73,000 for 2005 and 2004, respectively.

Pursuant to the mortgage agreement and related personal guarantee noted above, the Ministry is required to place \$24,386 per month into a special deposit account until the mortgage matures or is paid in full. The Ministry is required to use these funds to pay for: (1) principal and interest on the mortgage note; (2) real estate and sales taxes on the subject mortgaged property, if any; (3) operating expenses directly related to the property; and (4) prepayments on the mortgage note.

NOTE F – INTEREST RATE SWAP CONTRACT

During the year ended December 31, 2005, the Ministry 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 exposure on decreasing notional amounts totaling \$1,600,000 as of December 31, 2005, to 6.77% per year. The value of the interest rate swap contract was a liability of \$40,184 as of December 31, 2005, based on the "unwind fee" the Ministry would pay the bank to cancel the interest rate swap contract. The change in the fair market value of the contract is reported in the accompanying statements of activities as "change in fair market value of interest rate swap contract."

NOTE G – RESTRICTIONS ON NET ASSETS

Net assets were temporarily restricted for the following purposes:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Conference scholarships	\$ 12,399	\$ 13,569
Video tape library	3,944	23,599
Ligonier School of Theology	—	6,241
Other	<u>17</u>	<u>4,164</u>
Total temporarily restricted net assets	<u>\$ 16,360</u>	<u>\$ 47,573</u>

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

NOTE H – 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 \$64,600 and \$63,800 to the Plan during 2005 and 2004, respectively.

LIGONIER MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE I – COMMITMENTS

The Ministry has available an unused \$725,000 line of credit with a bank. The line of credit bears interest at the bank's prime rate and expires in January 2006.

As of December 31, 2005, the Ministry was a party to a contract for the purchase of land in the amount of \$3,800,000, scheduled to close in 2007. The Ministry has paid a total of \$500,000 in deposits on this contract as of December 31, 2005.

The Ministry is obligated under a noncancellable operating lease for certain facilities. Approximate future payments due under this lease are as follows:

Year Ending <u>December 31,</u>	
2006	\$ 74,900
2007	\$ 68,600

Total rent expense, including that related to the lease described above, was approximately \$88,000 and \$70,000 for 2005 and 2004, respectively.

NOTE J – ACQUISITION OF SOLI DEO GLORIA MINISTRIES, INC.

On September 27, 2004, Ligonier Ministries, Inc. and Soli Deo Gloria Ministries, Inc. ("SDG") completed a merger of their operations. Pursuant to Accounting Principles Board Opinion No. 16, *Business Combinations*, the merger was accounted for in a manner similar to a pooling-of-interests. Accordingly, the Ministry's financial statements include the accounts of SDG as of January 1, 2004. SDG promotes the knowledge and understanding of reformed theology primarily by republishing books from the 17th and 18th centuries and by providing educational conferences and materials. During 2004 and prior to the merger, the Ministry purchased approximately \$32,700 of inventory from SDG. This amount has been eliminated from the accompanying financial statements. There were no material adjustments to conform the accounting policies of the combining organizations.

Summarized results of operations of the Ministry and SDG for the period January 1, 2004 to September 27, 2004, the date of acquisition, are approximately as follows:

	<u>Ministry</u>	<u>SDG</u>
Revenue	<u>\$7,697,000</u>	<u>\$502,000</u>
Change in net assets	<u>\$ (347,000)</u>	<u>\$ (6,400)</u>

Following is a reconciliation of net assets as of January 1, 2004:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>
January 1, 2004, as previously reported	\$ 3,397,292	\$ 68,403	\$ 10,000
Acquisition of Soli Deo Gloria Ministries, Inc.	<u>364,493</u>	<u>4,147</u>	<u>—</u>
January 1, 2004, as restated	<u>\$ 3,761,785</u>	<u>\$ 72,550</u>	<u>\$ 10,000</u>