

**HERITAGE CHRISTIAN UNIVERSITY**

**FLORENCE, ALABAMA**

**AUDIT REPORT**

**JUNE 30, 2005**

**WAYNE L. RIGGS, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
P.O. BOX 1537  
HAMILTON, ALABAMA 35570  
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Heritage Christian University  
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June 30, 2005

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**WAYNE L. RIGGS, P.C.**  
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HAMILTON, ALABAMA 35570-1537

September 1, 2005

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Heritage Christian University  
Florence, Alabama 35630

We have audited the accompanying statement of financial position of Heritage Christian University, a non profit organization, as of June 30, 2005 and June 30, 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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 Heritage Christian University as of June 30, 2005 and June 30, 2004, and 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005, on our consideration of Heritage Christian University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Heritage Christian University taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit*

*Organizations*, and is not a required part of the basic financial statements. The supplemental schedules on pages 22-34 are also not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wayne L. Riggs, P.C.  
Certified Public Accountants

*Wayne L. Riggs, P.C.*

**WAYNE L. RIGGS, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
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September 1, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Heritage Christian University  
Florence, Alabama 35630

We have audited the financial statements of Heritage Christian University, a nonprofit organization, as of and for the year ended June 30, 2005, and June 30, 2004, and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Heritage Christian University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heritage Christian University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board members, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wayne L. Riggs, P.C.  
Certified Public Accountants

A handwritten signature in cursive script that reads "Wayne L. Riggs, P.C.".

**WAYNE L. RIGGS, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
234 FIRST AVENUE S.W.  
P.O. BOX 1537  
HAMILTON, ALABAMA 35570-1537

September 1, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Heritage Christian University  
Florence, Alabama 35630

Compliance

We have audited the compliance of Heritage Christian University, a nonprofit organization, with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2005. Heritage Christian University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Heritage Christian University's management. Our responsibility is to express an opinion on Heritage Christian University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Heritage Christian University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Heritage Christian University's compliance with those requirements.

In our opinion, Heritage Christian University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Heritage Christian University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered

Heritage Christian University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board members, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wayne L. Riggs, P.C.  
Certified Public Accountants

*Wayne L. Riggs, P.C.*



Heritage Christian University  
**STATEMENT OF FINANCIAL POSITION**  
 June 30, 2005

	<u>Year Ended</u> 6-30-05	<u>Year Ended</u> 6-30-04
<u>ASSETS</u>		
Cash and cash equivalents	\$ 372,494	292,947
Accounts receivable--students (net)	58,106	36,171
Pledges receivable	40,000	30,500
Other accounts receivable	209,844	211,752
Inventories	24,295	22,616
Prepaid expenses and deposits	79,200	82,631
Investments	5,232,474	4,893,521
Land, buildings, and equipment, less accumulated depreciation	<u>2,317,064</u>	<u>2,348,517</u>
Total assets	<u>\$8,333,477</u>	<u>7,918,655</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 14,232	9,925
Notes payable	-	20,000
Accrued liabilities	3,301	2,684
Payroll taxes withheld	10,240	9,140
Deferred revenues	43,680	39,155
Amounts held on behalf of others	57,768	23,864
Actuarial liability for life income funds (Split Interest Agreements)	634,536	504,122
Long-term debt	<u>1,373,304</u>	<u>1,448,543</u>
Total liabilities	<u>2,137,061</u>	<u>2,057,433</u>
Net Assets:		
Unrestricted	1,341,909	1,305,213
Temporarily restricted	2,145,598	2,020,181
Permanently restricted	<u>2,708,909</u>	<u>2,535,828</u>
Total net assets	<u>6,196,416</u>	<u>5,861,222</u>
Total liabilities and net assets	<u>\$8,333,477</u>	<u>7,918,655</u>

See accompanying Notes to Financial Statements.

Heritage Christian University  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2005

	Year Ended 6-30-05	Year Ended 6-30-04
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
Revenues and gains:		
Tuition and fees	\$ 651,102	725,319
Less--tuition discounts	2,579	70,151
Net tuition and fees	648,523	655,168
Donations	1,506,248	1,391,383
Foundation grants	7,000	5,000
Bequests	129,271	40,000
Interest income	916	686
Other Investment income	-	454
Other revenues	19,764	19,209
Sales and services--auxiliary enterprises	125,627	84,507
Total unrestricted revenues and gains	2,437,349	2,196,407
Net Assets released from restrictions	96,933	110,150
Total unrestricted revenues and gains & reclassifications	2,534,282	2,306,557
Expenses and losses:		
Educational and general:		
Instruction	464,096	552,566
Public Service	20,236	16,837
Academic Support	118,158	101,861
Student Services	224,711	209,697
Institutional Support	1,162,734	952,316
Scholarships and grants	151,237	164,613
Total educational and general expenses	2,141,172	1,997,890
Auxiliary enterprises	106,520	68,127
Subtotal	2,247,692	2,066,017
Interest on long-term debt	83,579	88,295
Depreciation expense	150,291	151,641
Cost of fixed assets scrapped	16,024	6,426
Other costs	-	3,380
Total expenses	2,497,586	2,315,759
Increase(Decrease) in unrestricted net assets	\$ 36,696	(9,202)

See accompanying Notes to Financial Statements.  
(continued on next page)

Heritage Christian University  
**STATEMENT OF ACTIVITIES**  
 Year Ended June 30, 2005

	Year Ended 6-30-05	Year Ended 6-30-04
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>		
Donations - Covenants & Annuities	\$ 46,948	6,602
Donations - Capital Campaigns	88,050	56,275
Pooled investment earnings (losses)	148,190	342,936
Annuity and unitrust earnings (losses)	46,248	126,338
Interest and dividend income	21,326	19,923
Adjustments of actuarial liability	(35,582)	(29,440)
Payments to life income beneficiaries	(14,484)	(17,721)
Payments to annuity and unitrust beneficiaries	(43,059)	(36,565)
Other expenses	(35,286)	(11,882)
Net assets released from restrictions	(96,933)	(110,150)
	125,418	346,316
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:</b>		
Donations	167,240	153,677
Interest income & Dividends	5,840	5,003
	173,080	158,680
Increase(Decrease) in permanently restricted net assets	173,080	158,680
Increase(Decrease) in net assets	335,194	495,794
Net assets at beginning of year	5,861,222	5,365,428
Net assets at end of year	\$ 6,196,416	\$ 5,861,222

See accompanying Notes to Financial Statements.

Heritage Christian University  
**STATEMENT OF CASH FLOWS**  
Year Ended June 30, 2005

	<u>Year Ended</u> 6-30-05	<u>Year Ended</u> 6-30-04
Cash flows from operating activities:		
Change in net assets	\$ 335,194	\$ 495,794
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	150,291	151,642
Disposal of Fixed Assets	(16,024)	(6,426)
(Increase)Decrease in prepaid expenses and deposits	3,431	(21,517)
Increase(Decrease) in deferred revenue	4,525	32,000
Increase(Decrease) in accounts payable	4,307	(11,536)
Increase(Decrease) in accrued expenses	1,716	(3,920)
(Increase)Decrease in accounts receivable	(20,028)	(19,962)
(Increase)Decrease in pledges receivable	(9,500)	16,014
(Increase)Decrease in inventories	(1,679)	(3,913)
Increase(Decrease) in amounts held for others	33,904	(7,763)
Increase(Decrease) in actuarial liability for life income funds	130,415	(32,990)
Net cash used for operating activities	<u>616,552</u>	<u>587,423</u>
Cash flows from investing activities:		
(Increase)Decrease in investments	(338,952)	(420,270)
(Increase)Decrease in land, building, and equipment	(102,814)	(74,051)
Net cash used for investing activities	<u>(441,766)</u>	<u>(494,321)</u>
Cash flows from financing activities:		
Increase(Decrease) in short term debt	(20,000)	19,500
Increase(Decrease) in long term debt	(75,239)	(70,523)
Net cash provided by financing activities	<u>(95,239)</u>	<u>(51,023)</u>
Net increase (decrease) in cash and cash equivalents	79,547	42,079
Cash and cash equivalents at beginning of year	<u>292,947</u>	<u>250,868</u>
Cash and cash equivalents at end of year	<u>\$ 372,494</u>	<u>\$ 292,947</u>

See accompanying Notes to Financial Statements.

Heritage Christian University  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**1. DESCRIPTION OF ORGANIZATION:**

Heritage Christian University is a nonprofit corporation offering a four-year program leading to the Bachelor of Arts in Bible. The school also offers a Master's Degree in Bible. The mission of the college is to recruit, train, and encourage faithful men and women for evangelistic ministry as servants and leaders in the Churches of Christ. Special emphasis is placed on preparing a church leadership with an international perspective. In a letter dated September 6, 1972, the Internal Revenue Service stated that International Bible College (now Heritage Christian University) is exempt from Federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Effective July 1, 1995, the University became subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the University is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

- A. Permanently restricted net assets--Net assets subject to donor-imposed restrictions that they be maintained permanently by the University. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.
- B. Temporarily restricted net assets--Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.
- C. Unrestricted net assets--Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Heritage Christian University  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**CONTRIBUTIONS**

Effective also at July 1, 1995, the University became subject to SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Under this statement, contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue. An allowance for uncollectible contributions is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

**INVESTMENTS**

Under SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

Income and realized net gains on investments of endowment and similar funds are reported as follows:

- A. As increases in permanently restricted net assets if the terms of the gift or the University Board's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund.
- B. As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of income.
- C. As increases in unrestricted net assets in all other areas.

**TEMPORARILY RESTRICTED NET ASSETS**

With respect to temporarily restricted net assets, the University has adopted the following optional accounting policies as permitted by various provisions of SFAS No. 116.

- A. The University has adopted the provisions of SFAS No. 116 concerning release from restrictions on temporarily restricted net assets upon incurrence of an expense when both unrestricted and temporarily restricted net assets are available for that purpose.
- B. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Heritage Christian University  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2005

- C. Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment without such donor restrictions are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.
- D. Contributions of works of art, historical treasures, and similar assets held as part of a collection--for education, research, or public exhibition rather than for sale--are recognized as revenue at their estimated fair value at the date of receipt based upon appraisals or similar valuations. Contributions of such items not held as part of a collection are recognized at their estimated fair value at the date of receipt based upon appraisal or similar valuations. Purchased works of art, historical treasures and similar assets, whether or not held as a collection, are capitalized. (No contributions of this nature have been received, and no purchases of such items have been made, as of the date of this report.)

**OTHER SIGNIFICANT ACCOUNTING POLICIES**

Other significant accounting policies are set forth in the financial statements and the notes thereto.

**3. CASH AND CASH EQUIVALENTS:**

Unrestricted cash	\$	57,478
Restricted cash		<u>315,016</u>
 Total		 <u><u>\$ 372,494</u></u>

The restricted cash consists of money held for the Alumni Fund, Endowment Funds, Annuity Funds, and money designated for tuition. A separate "restricted bank account" is maintained for these funds.

**4. ACCOUNTS RECEIVABLE--STUDENTS:**

Following is an analysis of the aging of students' accounts as of June 30, 2005:

Current year charges	\$	58,106
Preceding year charges		7,617
Accounts over two years old		<u>16,212</u>
Total		81,935
Less--allowance for doubtful accounts		<u><u>23,829</u></u>
 Net receivables		 <u><u>\$ 58,106</u></u>

The allowance for doubtful accounts is maintained in an amount equal to total accounts over two years old.

Heritage Christian University  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2005

**5. PLEDGES RECEIVABLE:**

Pledges totaled \$30,500 at June 30, 2004 and \$40,000 at June 30, 2005. Following is an analysis of the balance at June 30, 2005:

Pledges less than one year	\$ 30,000
Pledges over one year but less than five years	10,000
Total	40,000
Less--allowance for uncollectible pledges	-
Net pledges	\$ 40,000

**6. OTHER ACCOUNTS RECEIVABLE:**

Other accounts receivable include the following as of 6/30/05:

Mobile Ministry Sales	\$ 5,485
Friends of Overton Memorial Library	13
Return Checks	10
Planned giving receivable (FMV)	51,627
Due from Federal Funds	143
Loan fund receivables	123,430
HCU Associates	1,188
Matching gifts receivable	6,850
Stephen Guy	23
Coy Roper	23
Peacemakers	(1,169)
Western Christian College	(61)
Dennis Jones	1,581
Alana Marks	14,113
Glenn Newton	6,588
Totals	\$ 209,844

**7. INVENTORIES:**

Inventories, valued at lower of cost or market, on the first-in, first-out method, were as follows at June 30, 2005:

Bookstore	\$ 15,441
Cafeteria	790
Vending machines	-
Postage	2,209
Distance Learning	3,092
Audio taping service	2,763
Total	\$ 24,295



Heritage Christian University  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**8. PREPAID EXPENSES AND DEPOSITS:**

Workshop	\$	2,252
Library		26,167
Bookstore		5,384
Insurance		12,737
Benefit Dinner		26,163
Miscellaneous School Expense		2,762
Expense Advances		2,725
Utility Deposits		1,010
		14,840
Total	\$	79,200

**9. INVESTMENTS:**

Investments of the University are recorded at cost, in the case of purchase, and at fair market value as of the date of acquisition, in the case of gift or inheritance. Marketable securities invested in the pooled investment fund are reported at fair market value.

Investments consisted of the following at June 30, 2005:

Unrestricted:

General Electric - 140 Shares	\$	4,869
Unlisted stock		2,500
Cash surrender value of life insurance policies		59,198
Lot in Geneva County, Alabama		1,000
1/2 interest in estate gift; lot in Tuscaloosa Cty.		2,000
Lot and dwelling; Mabelvale, Arkansas		23,500
11 acres, Cypress Mill Road, Florence, Alabama		37,818
Fairfield Resort Pkg		13,400
Oracle stock - 25 shares		625
Ameritrade Money Fund #160-318465		166
		145,076

Temporarily restricted:

Pooled investment fund		1,277,899
Unitrust investments (Split Interest Agreement)		898,388
Variable annuity investments (Split Interest Agreements)		404,149
		2,580,436

Permanently restricted:

Pooled investment fund		2,506,962
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Total	\$	5,232,474
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The pooled investment fund was initiated on September 30, 1993. Assets of the fund are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the beginning of the month within which the transaction takes place.

Heritage Christian University  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2005

**10. LAND, BUILDINGS, AND EQUIPMENT:**

Physical plant and equipment are recorded at cost, in the case of purchase or construction; and at fair market value as of the date of acquisition, in the case of gift or inheritance. Management's policy is to capitalize expenditures in excess of \$200.00.

Effective as of June 30, 1991, library books, periodicals, and other materials were re-valued annually on the basis of standard costs applied by a method recommended by the National Association of College and University Business Officers. This method was discontinued at June 30, 1997, and effective for acquisitions subsequent to June 30, 1995, valuation is at cost, including estimated processing expense.

Following is summary of fixed assets reflecting cost, accumulated depreciation, and unrecovered cost as of June 30, 2005:

	Cost	Accumulated Depreciation	Unrecovered Cost
Land	\$ 793,114		\$ 793,114
Land improvements	244,031	159,067	84,964
Buildings	1,466,451	583,976	882,475
Vehicles	26,771	25,767	1,004
Furniture and equipment	657,393	429,272	228,121
Library books and materials	1,111,234	818,712	292,522
Distance Learning video tapes	229,263	194,399	34,864
Totals	<u>\$ 4,528,257</u>	<u>\$ 2,211,193</u>	<u>\$ 2,317,064</u>

**11. ACCOUNTS PAYABLE:**

This amount consisted of various operating expenses that had been incurred but not paid at year end.

**12. NOTES PAYABLE:**

Notes payable consists of a \$175,000 unsecured line-of-credit bank loan by the General Fund. Interest is at prime rate less 1/2 of one percent, payable monthly. Balance totaled \$0 as of June 30, 2005, decrease from \$20,000 as of June 30, 2004.

**13. ACCRUED LIABILITY:**

Interest Payable	\$	2,066
Unused sick leave		342
Unused vacation		893
Totals	<u>\$</u>	<u>3,301</u>

Heritage Christian University  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2005

**14. PAYROLL TAXES WITHHELD:**

This total represents amounts held out of employee earnings that had not been paid at year end.

**15. DEFERRED REVENUE:**

This amount consists of \$42,375 of benefit dinner revenue and \$1,305 of workshop fees that had been collected but not earned at year end.

**16. AMOUNTS HELD ON BEHALF OF OTHERS:**

Agency funds consisted of the following at June 30, 2005:

Credit balance in student accounts	\$ 13,832
Funds held for other individuals	38,761
Federal Funds Held	24
Funds held for Friends of Overton Memorial Library	2,136
Funds held for HCU Alumni Association	<u>3,016</u>
Total	<u><u>\$ 57,768</u></u>

**17. LIABILITY FOR FUTURE LIFE INTEREST PAYMENTS:**

Dunn Life Interest Fund	\$ 22,080
Rogers Life Interest Fund	-
McGill Life Interest Fund	32,013
Rinks Charitable Remainder Trust	163,662
Shannon Life Interest Fund	2,122
Burnham Life Interest Fund	9,101
Strickland Donor Covenant	67,465
Norris Annuity	18,744
Norris Annuity	143,285
Norris Annuity	31,092
Bullard Annuity	44,407
McKeever Annuity	4,895
Hasha Annuity	3,432
Bryan Annuity	7,898
Shuffett Annuity	6,671
Johnson Annuity	72,541
Iris Hasha Annuity	<u>5,127</u>
Total	<u><u>\$ 634,536</u></u>

The above totals represent amounts expected to be paid over life expectancies in the various split interest agreements that Heritage Christian University has a remainder interest.

Heritage Christian University  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2005

**18. LONG-TERM DEBT:**

Details of long-term debt are shown below:

SunTrust Bank--Fixed Rate Promissory Note, dated 11/21/02, principle amount of \$1,575,000, payable in 59 monthly installments of \$13,234.79, with interest at 5.85% per year with final payment due November 21, 2007. (This note was converted from Commercial Variable Rate Promissory Note with an original date of 3/11/02 and the addition of land from IBC Investment Corporation)	\$ 1,370,670
Bond payable (All outstanding bonds were called as of March 31, 1988, in the total amount of \$239,664; one bond remains outstanding)	<u>2,634</u>
Total long-term debt	<u><u>\$ 1,373,304</u></u>

Principal payments for the next five fiscal years are scheduled as follows:

June 30, 2006	79,037
June 30, 2007	85,345
June 30, 2008	1,206,288

**19. DEPRECIATION OF FIXED ASSETS:**

Depreciation is computed on the straight-line method for all classes of fixed assets except vehicles, for which the double declining balance method is employed. Useful lives are assumed as follows: land improvements--25 years; buildings--50 years; vehicles--6 years; furniture and equipment--10 years; library books and materials--10 years; Distance Learning video tapes--10 years.

Following is a summary of depreciation expense for the year ended June 30, 2005:

Land improvements	\$ 5,685
Buildings	29,329
Vehicles	2,611
Furniture and equipment	43,509
Library books and materials	54,452
DL video tapes	<u>14,705</u>
Totals	<u><u>\$ 150,291</u></u>

Heritage Christian University  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**20. ACCUMULATED SICK LEAVE:**

A sick leave plan was initiated by the University on January 1, 1990, covering full-time hourly employees. Under the plan, employees are entitled to receive payment for unused sick leave.

**21. RETIREMENT PLAN:**

The University maintains a salary reduction retirement plan under Section 403(b) for full-time faculty and staff. HCU makes no contributions and all assets in the plan are totally vested in the employees.

**22. USE OF ESTIMATES:**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

**23. FUND RAISING EXPENSES:**

The cost of fund raising expenses for direct mail promotions and benefit dinners totaled \$108,162 for the year ended June 30, 2005.

**24. OTHER CONTINGENCIES:**

Unrestricted and restricted cash as of June 30, 2005, totaled \$372,494 of which \$170,180 is covered by federal depository insurance.

**25. CONCENTRATIONS:**

Heritage Christian University benefited from federal awards of \$524,847 in the year ended June 30, 2005. In relation to income, this dollar amount would be considered a high concentration.

**26. ENDOWMENT FUNDS:**

Endowment funds provided Heritage Christian University \$123,864 for the year ended June 30, 2005.

**WAYNE L. RIGGS, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
234 FIRST AVENUE S.W.  
P.O. BOX 1537  
HAMILTON, ALABAMA 35570-1537

September 1, 2005

**INDEPENDENT AUDITORS' REPORT**  
**ON SUPPLEMENTARY DATA**

To the Board of Directors  
Heritage Christian University  
Florence, Alabama

Our report on our audit of the financial statements of Heritage Christian University for the year ended June 30, 2005, appears on page 2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary data (Schedules), as detailed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We also have previously audited, in accordance with generally accepted auditing standards, the financial statements of Heritage Christian University as of June 30, 2004, and the related statements of activities and cash flows for the period ending June 30, 2004, and we expressed an unqualified opinion on the financial statements. In our opinion, the supplementary data is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

Wayne L. Riggs, P.C.  
Certified Public Accountants

*Wayne L. Riggs, P.C.*

Heritage Christian University  
**SCHEDULE OF DONATIONS**  
 Years Ended June 30, 2005 and 2004

SCHEDULE 1

	Year Ended 6-30-05	Year Ended 6-30-04
<u>Current Funds:</u>		
Individuals:		
Cash	\$ 310,269	\$ 349,954
Other than cash	34,546	28,697
	<hr/>	
Total individuals	344,815	378,651
Churches	615,128	625,729
HCU Associates	34,059	33,819
The World Evangelist	-	550
Matching gifts	19,800	5,865
Memorial gifts	10,545	12,825
Scholarships	78,650	27,597
Bank drafts	5,010	4,035
HCU Workshop	4,175	4,276
Other designated purposes	-	5,130
Employee Special	370	384
Library	2,420	1,485
Direct mail (net)	184,308	170,352
Walk of Honor (brick fund--net)	2,567	4,215
IBC Benefit Dinner (net)	157,925	73,305
Other benefit dinners (net)	46,477	43,166
	<hr/>	
Totals--Current Funds	1,506,248	1,391,383
Total donations--Endowment Funds & covenants	200,837	159,661
Total donations---Life Interest Funds	13,351	618
Total donations -- Capital Projects	88,050	56,275
	<hr/>	
Total donations--all funds	\$ 1,808,486	\$ 1,607,937
	<hr/> <hr/>	

Heritage Christian University  
**STATEMENTS OF INCOME--AUXILIARY ENTERPRISES**  
 Years Ended June 30, 2005 and 2004

SCHEDULE 2

	Year Ended 6-30-05	Year Ended 6-30-04
<b>BOOKSTORE:</b>		
Net sales	\$ 41,141	\$ 39,374
Less--cost of sales	32,742	21,644
Net income	<u>\$ 8,399</u>	<u>\$ 17,731</u>
<b>CAFETERIA:</b>		
Net cash sales	\$ 13,130	\$ 12,021
Institutional sales	3,708	2,612
Total net sales	16,838	14,633
Less--cost of sales	23,571	15,508
Gross profit/(loss)	(6,732)	(875)
Less--expenses	16,157	12,156
Net income/(loss)	<u>\$ (22,889)</u>	<u>\$ (13,031)</u>
<b>VENDING MACHINES:</b>		
Net sales	\$ 643	\$ 1,627
Less--cost of sales	439	1,214
Net income	<u>\$ 204</u>	<u>\$ 413</u>
<b>AUDIO TAPING SERVICE:</b>		
Net sales	\$ 6,534	\$ 3,317
Less--cost of sales	6,408	29
Net income	<u>\$ 126</u>	<u>\$ 3,288</u>
<b>DORMITORIES:</b>		
Rental income	\$ 41,840	\$ 25,480
Dormitory maintenance fees	-	75
Total income	41,840	25,555
Less--expenses	25,606	17,577
Net income	<u>\$ 16,234</u>	<u>\$ 7,978</u>
<b>MOBILE MINISTRY:</b>		
Sales of DVD's	\$ 18,630	\$ -
Less--cost of sales	1,597	-
Net Income	<u>\$ 17,033</u>	<u>\$ -</u>
<b>TOTAL AUXILIARY ENTERPRISES:</b>		
Revenues	\$ 125,627	\$ 84,507
Expenses	106,520	68,128
Total net income	<u>\$ 19,107</u>	<u>\$ 16,379</u>



Heritage Christian University  
**EDUCATIONAL AND GENERAL EXPENSES**  
 Years Ended June 30, 2005 and 2004

SCHEDULE 3

<u>Instruction</u>	<u>Year Ended</u> <u>6-30-05</u>	<u>Year Ended</u> <u>6-30-04</u>
<u>General:</u>		
Salaries--clerical	\$ 258,456	\$ 388,975
Contractual	1,200	-
Supplies	2,050	2,046
Postage & Shipping	10	-
Software	-	734
Travel, meals, and lodging	1,603	2,216
Conferences, conventions, mtgs	814	2,286
Furniture & equip (under \$200)	323	20
Promotional expense	361	164
Other expenses	5,144	6,445
	<u>269,961</u>	<u>402,886</u>
<u>Christian Service:</u>		
Salaries--clerical	8,878	8,662
Supplies	796	231
Other expenses	4	168
	<u>9,678</u>	<u>9,061</u>
<u>Distance Learning Program:</u>		
Salaries--clerical	78,093	77,008
Supplies	1,624	4,956
Postage and shipping	1,830	481
Travel, meals & entertainment	41	-
Conferences, conventions & meetings	-	118
Repairs & maintenance--equipment	591	1,177
Promotional & Advertising	3,609	5
Sales tax	-	131
Other expenses	782	579
	<u>86,570</u>	<u>84,457</u>
<u>Graduate Program:</u>		
Salaries--instruction	43,744	-
Salaries--clerical	1,875	-
Supplies	679	1,126
Postage	14	35
Software	7,500	8,029
Equipment under \$200	613	-
Other expenses	19	-
	<u>54,444</u>	<u>9,190</u>
Allocation of plant maintenance	<u>43,443</u>	<u>46,972</u>
Total--Instruction	<u>464,096</u>	<u>552,566</u>

Heritage Christian University  
**EDUCATIONAL AND GENERAL EXPENSES**  
 Years Ended June 30, 2005 and 2004

SCHEDULE 3

	Year Ended 6-30-05	Year Ended 6-30-04
<u>Public Service</u>		
IBC Evangelistic Workshop:		
Contractual services	3,065	3,858
Supplies	543	145
Postage and shipping	5,802	373
Travel, meals & lodging	3,378	2,708
Advertising	5,436	8,245
Other expenses	118	76
	<u>18,342</u>	<u>15,406</u>
 Allocation of plant maintenance	 1,894	 1,431
 Total--Public Service	 <u>20,236</u>	 <u>16,837</u>
 <u>Academic Support</u>		
Academic Administration--Dean's Office:		
Salaries	50,594	41,784
Supplies	15	94
Travel, meals & lodging	147	1,001
Conferences, conventions & meetings	110	323
Printing and publications	3,028	-
Advertising	713	-
Other expenses	3,642	3,479
	<u>58,249</u>	<u>46,681</u>
 Library:		
Salaries--library staff	32,747	34,244
Employee benefits--health insurance	3,960	3,788
Employee benefits--retirement plan	1,200	1,200
Employee benefits--disability insurance	360	311
Employee benefits--life insurance	186	171
Binding expense	(2,585)	(1,601)
Supplies	1,024	1,014
Postage & Shipping	235	49
Software	5,996	795
Travel, meals, and lodging	-	374
Telephone	3,000	3,000
Equipment under \$200	-	171
Repairs and maintenance--equipment	99	240
Payroll taxes	2,376	2,618
Other expenses	251	148
	<u>48,849</u>	<u>46,521</u>
 Allocation of plant maintenance	 11,060	 8,659
 Total--Academic Support	 <u>118,158</u>	 <u>101,861</u>

Heritage Christian University  
**EDUCATIONAL AND GENERAL EXPENSES**  
 Years Ended June 30, 2005 and 2004

SCHEDULE 3

	Year Ended 6-30-05	Year Ended 6-30-04
<u>Student Services:</u>		
Admissions:		
Salaries	102,238	100,489
Supplies	1,808	1,437
Postage and shipping	2,660	427
Travel, meals, and lodging	29,645	18,468
Conferences, conventions & meetings	3,431	1,411
Telephone expense	1,624	1,198
Equipment under \$200	283	-
Repairs and maintenance--equipment	688	109
Printing and publications	287	1,769
Advertising	895	6,432
Promotional expense	937	2,504
Other expenses	-	188
	144,496	134,432
Dean of Students:		
Salaries	120	429
Supplies	74	17
Travel, meals, and lodging	14	99
Printing and publications	-	175
Promotional expense	561	20
Other expenses	1,018	923
	1,787	1,663
Financial Aid:		
Salaries--clerical	20,880	20,369
Supplies	182	178
Postage and shipping	14	-
Conferences, conventions, mtgs	1,193	1,154
Repairs & maint.--equipment	-	32
Other expenses	-	15
	22,269	21,749
Registrar's Office:		
Salary--Registrar	25,416	24,844
Supplies	577	56
Postage & Shipping	272	30
Travel, meals, and lodging	-	358
Conferences, conventions, mtgs	641	-
Other expenses	-	40
	26,906	25,327

Heritage Christian University  
**EDUCATIONAL AND GENERAL EXPENSES**  
 Years Ended June 30, 2005 and 2004

SCHEDULE 3

	Year Ended 6-30-05	Year Ended 6-30-04
Child Care:		
Salaries--child care	2,080	4,028
Supplies	6	39
	<u>2,086</u>	<u>4,067</u>
Yearbook:		
Yearbook costs and expenses	6,132	4,633
	<u>6,132</u>	<u>4,633</u>
Allocation of plant maintenance	<u>21,035</u>	<u>17,826</u>
Total--Student Services	<u>224,711</u>	<u>209,697</u>
<u>Institutional Support</u>		
General Administration:		
Salaries--officers	175,664	137,687
Salaries--business office	77,261	100,567
Contractual services	-	200
Supplies	1,535	1,125
Postage and shipping	1,812	223
Travel, meals, and lodging	15,958	12,864
Automobile expense	7,318	5,340
Conferences, conventions, mtgs	2,538	190
Telephone	1,464	1,058
Furniture and equipment	875	-
Repairs & maint.--equipment	-	214
Accounting and auditing	10,109	11,827
Promotional	212	13
Other expenses	2,930	2,399
	<u>297,676</u>	<u>273,706</u>

Heritage Christian University  
**EDUCATIONAL AND GENERAL EXPENSES**  
 Years Ended June 30, 2005 and 2004

SCHEDULE 3

	Year Ended 6-30-05	Year Ended 6-30-04
Development:		
Salaries--clerical	160,071	122,537
Contractual services	400	6,314
Supplies	8,483	3,047
Postage and shipping	2,194	301
Software	650	-
Travel -- Raising support	-	2,981
Travel, meals, and lodging	44,243	10,641
Conferences, conventions, mtgs	310	20
Telephone--auto	4,070	3,058
Furniture & equip (under \$200)	145	46
Equipment rental	12,580	11,382
Repairs & maintence--equipment	-	287
Printing and publications	-	45
Advertising	1,469	2,014
Promotional expense	6,045	1,971
Other expenses	586	1,402
	<u>241,246</u>	<u>166,046</u>
Public Affairs:		
Salaries--clerical	44,862	43,260
Photographic services	23	161
Supplies	1,193	96
Postage and shipping	674	98
Software	1,165	-
Travel, meals, and lodging	593	1,978
Furniture & equip (under \$200)	-	100
Repairs & maint.--equipment	294	-
Printing and publications	7,722	29
Advertising	8,635	2,216
Promotional expense	5,370	4,671
Other expenses	896	239
	<u>71,427</u>	<u>52,847</u>
Institutional Research:		
Consultant fees	1,100	-
Supplies	65	23
Travel, meals, and lodging	-	17
Conferences, conventions, mtgs	4,100	2,224
Accrediting association fees	2,320	3,335
Self-study expense	-	596
Printing and publications	-	8
Other expenses	389	100
	<u>7,974</u>	<u>6,303</u>

Heritage Christian University  
**EDUCATIONAL AND GENERAL EXPENSES**  
 Years Ended June 30, 2005 and 2004

SCHEDULE 3

	Year Ended 6-30-05	Year Ended 6-30-04
General Institutional:		
Salaries	14,242	1,633
Group insurance	140,290	144,627
Retirement plan contributions	60,588	44,093
Employee benefits--tuition remissions	38,128	34,284
Other employee benefits	15,855	15,609
Contractual labor	728	709
Supplies	5,332	3,518
Postage and shipping	2,888	-
Software	2,106	2,115
Employment insurance	5,789	8,091
Telephone	5,906	5,343
Equipment rental	6,714	5,390
Repairs and maintenance--equipment	281	627
Interest expense	364	1,821
Provision for doubtful accounts	5,480	3,117
Payroll taxes	30,180	25,414
Other expenses	16,382	10,225
	<u>351,253</u>	<u>306,616</u>
Computer Services:		
Salaries	29,890	22,936
Supplies	463	627
Postage and shipping	643	48
Software	2,912	2,899
Travel, meals, & lodging	1,297	179
Telephone	19,616	17,348
Equipment under \$200	1,149	2,763
Repairs and maintenance--equipment	28,348	18,543
Other expenses	-	501
	<u>84,318</u>	<u>65,844</u>
Allocation of plant maintenance	<u>108,840</u>	<u>80,953</u>
Total--Institutional Support	<u>1,162,734</u>	<u>952,316</u>
<u>Grants and Scholarships</u>		
Institutional grants and scholarships	<u>151,237</u>	<u>164,613</u>
Total expenses	<u>\$ 2,141,172</u>	<u>\$ 1,997,890</u>

Heritage Christian University  
**LISTINGS OF ENDOWMENT AND LIFE INTEREST FUNDS**  
As of June 30, 2005 and 2004

SCHEDULE 4

	Date Established	Fund Balances	
		6-30-05	6-30-04
<u>Endowment Funds:</u>			
Income Unrestricted:			
William Solomon Eastep Endowment Fund	3/11/1975	\$ 9,599	\$ 9,552
General Endowment Fund	3/11/1975	1,699	1,699
Smith Endowment Fund	1985	6,621	6,592
H. J. Priestly Endowment Fund	7/3/1987	119,536	118,987
Clifton Endowment Fund	1991	4,469	4,447
George E. Johnson Family Endowment Fund	10/23/1994	20,924	20,828
Flora Sue Boyd Memorial Endowment Fund	3/24/1995	21,410	21,317
Charlie & Francis Morris Endowment Fund	2/26/1996	17,141	17,062
Bob & Lorraine Broadfoot Endowment Fund	2/28/1997	24,024	21,081
T. & M. Pitts Endowment Fund	7/15/1997	13,107	13,043
Charles B. Wilson Endowment Fund	2/20/1998	743,186	739,788
Chloe Plunkett Endowment Fund	1998	5,761	5,733
Billy C. & Edith Meigs Endowment Fund	6/1/1999	24,848	21,402
Prater Endowment Fund	11/28/2001	10,212	10,162
Subtotal		1,022,537	1,011,694
Income Restricted:			
<u>Faculty/Staff Endowment Funds</u>			
Argie & Fay Wilson Endowment Fund	8/1/1999	14,305	14,238
Paul & Lucille Chainey Endowment Fund	8/1/1999	13,461	13,394
Subtotal		27,766	27,632
<u>Library Endowment Fund</u>			
Overton Memorial Library Endowment Fund	2/4/2003	8,274	7,072
McMeans Library Endowment Fund	4/14/2004	122,654	101,951
Subtotal		130,928	109,023
<u>Scholarship Endowment Funds</u>			
HCU Scholarship Endowment Fund	12/26/1979	28,188	36,424
W. M. Behel Scholarship Endowment Fund	9/14/1984	42,953	42,691
T. & J. Thompson Scholarship Endowment Fund	3/18/1985	39,088	38,905
Betty Whitehead Mem. Scholarship Endowment Fund	6/15/1986	159,195	158,475
Philip Gross Mem. Scholarship Endowment Fund	5/15/1987	16,178	16,104
Keith Priestly Scholarship Endowment Fund	9/9/1988	20,629	20,534
Gilbert Osborn Jr. Mem. Scholarship Endowment Fund	1/18/1990	6,312	6,284
Harlen J. Tanksley Mem. Scholarship Endowment Fund	6/6/1990	24,886	24,777
G. & M. McCaslin Scholarship Endowment Fund	7/23/1990	14,241	14,165
Jessie Reese Sholarship Endowment Fund	11/15/1990	119,481	118,934
Catherine & Fee Thomas Scholarship Endowment Fund	1990	107,846	107,350
Gus Nichols Mem. Scholarship Endowment Fund	2/4/1991	31,630	31,440
E. C. Day Mem. Scholarship Endowment Fund	3/8/1991	15,349	15,274
H. & L. Wade Mem. Scholarship Endowment Fund	4/1/1991	13,014	12,954
B. & M. Brock Scholarship Endowment Fund	5/2/1991	18,382	18,298
Mr. & Mrs. W.E. Ponds Scholarship Endowment Fund	8/23/1991	37,609	37,441

Heritage Christian University  
**LISTINGS OF ENDOWMENT AND LIFE INTEREST FUNDS**  
As of June 30, 2005 and 2004

SCHEDULE 4

	Date Established	Fund Balances	
		6-30-05	6-30-04
Paul Murphy Scholarship Endowment Fund	9/5/1991	23,850	23,738
T. & N. Cleek Scholarship Endowment Fund	11/12/1991	13,285	13,225
W. & M. Cato Scholarship Endowment Fund	12/23/1991	14,236	14,172
R. D. Underwood Scholarship Endowment Fund	6/30/1992	45,865	45,390
Homer Jakes Honorary Scholarship Endowment Fund	7/15/1992	76,736	76,384
S. & E. Pate Mem. Scholarship Endowment Fund	8/15/1992	13,855	13,795
J. & L. McGill Scholarship Endowment Fund	9/22/1992	9,151	9,111
Marshall Keeble Mem. Scholarship Endowment Fund	1/13/1993	96,200	95,765
Bill Lynn Scholarship Endowment Fund	3/29/1993	20,363	20,267
W. & L. Matthews Mem. Scholarship Endowment Fund	4/27/1993	18,219	18,130
John Hurt Mem. Scholarship Endowment Fund	6/21/1993	92,458	87,269
A. Kimbrell Mem. & I. Kimbrell Honorary Scholarship Endowment Fund	8/17/1993	18,219	18,130
J. & M. Cox Scholarship Endowment Fund	9/23/1993	21,181	21,086
P. & M. McCarley Scholarship Endowment Fund	12/10/1993	18,222	18,145
Kate Bales Mem. Scholarship Endowment Fund	12/23/1993	19,330	19,242
B. & M. Overton Scholarship Endowment Fund	12/31/1993	32,707	32,555
F. Markus & Family Scholarship Endowment Fund	5/24/1994	19,246	19,055
C. & M. Coil Scholarship Endowment Fund	12/5/1994	34,668	33,285
H. & L. Story Scholarship Endowment Fund	3/1/1995	183,456	182,619
Betty Wood Memorial Scholarship Endowment Fund	8/21/1995	12,726	12,642
W. & J. Richardson Scholarship Endowment Fund	10/3/1995	30,590	30,444
S. & C. Flatt Scholarship Endowment Fund	11/28/1995	19,003	18,916
R. Sparks Scholarship Endowment Fund	6/25/1996	20,681	20,380
M. & J. McKay Scholarship Endowment Fund	7/17/1996	21,267	21,168
P. & P. Gaunt Scholarship Endowment Fund	9/26/1996	7,160	7,132
G. & A. McKeever Mem. Scholarship Endowment Fund	9/26/1996	15,526	15,455
Binion Scholarship Endowment Fund	1/2/1997	5,469	5,441
F. & A. Moore Scholarship Endowment Fund	12/15/1997	32,717	32,565
K. & M. Freeman Scholarship Endowment Fund	12/17/1997	14,599	14,531
E. & A. Craddock Scholarship Endowment Fund	6/23/1998	6,428	6,395
Odis Lynne Farris Scholarship Endowment Fund	12/1/1998	19,335	19,235
Cunningham Scholarship Endowment Fund	1/6/2000	10,311	5,849
Marc & Edith Rinks Scholarship Endowment Fund	11/20/2000	95,298	64,107
Michael Scott Drake Scholarship Endowment Fund	12/31/2002	60,073	59,781
Mrs. Jim Brock Leonard Memorial Scholarship Endowment	1/6/2003	36,630	28,342
Joe & Wanda Johnson Endowed Academic Scholarship	7/22/2003	88,712	7,137
Aubra Rogers Memorial Scholarship Endowment Fund	3/23/1993	63,457	53,681
W.T. Allison & Shelby Allison Scholarship Fund	12/23/2004	5,085	-
W.S. Thompson Scholarship Fund	1/01/1980	5,200	-
Subtotal		2,036,495	1,884,613
Total fund balances--Endowment Funds		3,217,727	3,032,962



Heritage Christian University  
**LISTINGS OF ENDOWMENT AND LIFE INTEREST FUNDS**  
As of June 30, 2005 and 2004

SCHEDULE 4

	Date Established	Fund Balances	
		6-30-05	6-30-04
<u>Quasi Endowment Funds:</u>			
HCU Board Endowment Fund	3/15/1986	42,588	41,388
Irvin Scholarship Fund	5/1/2001	6,449	6,088
Orville Lee Scholarship Fund	6/23/2004	1,491	1,701
		50,528	49,177
Total fund balances--Quasi-endowment funds			
Total fund balances--Endowment and similar funds		\$ 3,268,255	\$ 3,082,139
<u>Life Interest Funds:</u>			
J. & R. Dunn (Interest of 6% on principal of \$54,000 goes to donors as long as either husband or wife lives)	12/13/1989	\$ 139,349	\$ 124,086
Lois McGill (Interest of 5.5% on principal goes to donor for donor's lifetime)	9/22/1992	137,529	135,290
Evelyn Shannon (Interest of 8% on principal goes to donor for donor's lifetime)	4/21/1995	14,196	13,702
Burnham Life Interest Fund (Interest of 7.5% goes to donor for her lifetime, then 6.5% goes to donor's daughter for her lifetime)	8/9/1995	18,269	17,853
		\$ 309,343	\$ 290,931
Total fund balances--Life Interest Funds			
<u>Donor Covenant and Annuity Funds:</u>			
McGill Charitable Unitrust (Lesser of yearly net income or 6.5% of net asset valuation)	11/23/1993	\$ 898,388	\$ 912,015
Johnson Annuity Trust Fund (Interest of 8% on principal to donor for his lifetime)	9/5/1997	(44,744)	(33,605)
Katie Strickland Donor Covenant (Each grandchild receives \$21,000, with payments beginning at the freshman year of college)	4/10/2000	(321)	(1,647)
J. D. Norris Annuities (Annuity A, interest at 8.3% on principal for donor's lifetime) (Annuity B, interest at 5.9% on principal for donor's lifetime) (Annuity C, interest at 7.55% on principal for donor's lifetime)	6/29/2000	(19,834)	(6,074)
Bullard Annuity (Interest of 10.9% on principal for donor's lifetime)	6/26/2001	5,752	10,027

Heritage Christian University  
**LISTINGS OF ENDOWMENT AND LIFE INTEREST FUNDS**  
 As of June 30, 2005 and 2004

SCHEDULE 4

	Date Established	Fund Balances	
		6-30-05	6-30-04
McKeever Annuity (Interest of 11.7% on principal for donor's lifetime)	1/9/2002	8,269	10,168
Harvey Hasha Annuity (Interest of 8.6% on principal for donor's lifetime)	10/10/02	5,588	5,027
Walter P. Bryan Annuity (Interest of 11% on principal for donor's lifetime)	12/18/2002	4,752	4,043
Dorothy Shuffett Annuity (Interest of 8.9% on principal for donor's lifetime)	1/6/2003	6,897	6,043
Iris M. Hasha Annuity (Interest of 7.6% on principal for donor's lifetime)	8/20/2003	4,183	3,878
Marcus E. Rinks Annuity (Interest of 6.0% on principal for twenty years)	3/23/2005	50,885	-
Total fund balances--Covenant and Annuities		\$ 919,815	\$ 909,874

Heritage Christian University  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the year ended June 30, 2005

Section I	Summary of Auditor's Results
<b>Financial Statements</b>	
1. Type of auditor's report issued.	Unqualified
2. Internal controls over financial reporting:	
a.) Material weakness identified?	None
b.) Reportable conditions identified not considered to be material weaknesses?	None
c.) Noncompliance material to financial statements noted?	None
<b>Federal Awards</b>	
1. Internal control over major programs:	
a.) Material weakness identified?	None
b.) Reportable conditions identified not considered to be material weaknesses?	None
2. Type of auditor's report issued on compliance for major programs?	Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	None
4. Identification of major programs.	Cluster Program/Student Financial Assistance
5. Dollar threshold used to distinguish between Type A and Type B Programs?	\$300,000.00
6. Auditee qualified as a low risk auditee under OMB Circular A-133, Section 530?	Yes
 Section II	
Financial Statement Findings	None Reported
 Section III	
Federal Award Findings and Questioned Costs	None Reported

Heritage Christian University  
**SCHEDULE OF EXPENDITURES OF FERERAL AWARDS**  
 For the year ended June 30, 2005

Federal Grantor/Pass-through Grantor/ Program of Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education:		
Direct Programs:		
Student Financial Assistance (Cluster)		
FSEOG	84.007	5,544.00
FWS	84.033	5,950.00
PELL	84.063	150,496.00
FFELL (Subsidized & Unsubsidized)		<u>362,857.00</u>
Total U.S. Department of Education Assistance		<u>524,847.00</u>
 Total Federal Financial Assistance		 <u><u>524,847.00</u></u>

Note:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Heritage Christian University and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.