WILLIAM CAREY UNIVERSITY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended June 30, 2010 and 2009

WILLIAM CAREY UNIVERSITY

TABLE OF CONTENTS

CARL L. NICHOLSON, JR., CPA
RICHARD D. HALBERT, CPA
RICHARD G. TOPP, CPA
FRANK H. McWHORTER, JR., CPA
T. JOHN HARVEY, CPA
WILLIAM T. KELLY, CPA/ABV, CVA
SUSAN A. RILEY, CPA
DAWN T. JONES, CPA
MICHAEL W. DAVIS, CPA
GREGORY L. FAIREY, CPA
JEFFREY M. ALLEN, CPA
JOHN S. HEATH, CPA
DONALD J. NESTER, CPA
PAIGE M. JOHNSON, CPA
SHANNON J. JONES, CPA
JANICE M. BATES, CPA
JOE C. TRAVIS, CPA, Cr.FA, CFF
JOSEPH C. TOWNSEND, CPA, CVA
TRACY W. HAYNES, CPA
JAMES E. POLK, CPA
STEPHEN W. GRAY, CPA
ROBBIN COURTNEY JONES, CPA
LEIGH F. AGNEW, CPA
ANNETTE P. HERRIN, CPA/ABV, CVA, CFE, CFF
SHELBY L. HOWARTH, CPA

NICHOLSON & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
2 SOUTHERN POINTE PARKWAY, SUITE 100
HATTIESBURG, MISSISSIPPI 39401
POST OFFICE DRAWER 15099
HATTIESBURG, MISSISSIPPI 39404-5099

TELEPHONE 601-264-3519
TOLL FREE 877-842-7137
FAX 601-264-3642

www.nicholsoncpas.com

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

MISSISSIPPI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

OTHER OFFICES:
150 OLD HWY 98 EAST
POST OFFICE BOX 609
COLUMBIA, MISSISSIPPI 39429
TELEPHONE: 601-736-3449
FAX 601-736-0501

450 EAST PASS ROAD, SUITE 108
GULFPORT, MISSISSIPPI 39507
POST OFFICE BOX 1842
GULFPORT, MISSISSIPPI 39502
TELEPHONE: 228-864-1779
FAX 228-864-3850

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
William Carey University
Hattiesburg, Mississippi

We have audited the accompanying statements of financial position of William Carey University (a Mississippi nonprofit corporation) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of William Carey University'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 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 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 William Carey University as of June 30, 2010 and 2009, 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.

To the Board of Trustees
William Carey University

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2010 on our consideration of William Carey University's internal control over financial reporting and on 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 that testing and not to provide an opinion on the internal control over financial reporting or 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of William Carey 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 Non-Profit Organizations, it and the accompanying supplemental combining statements of financial position for the years ending June 30, 2010 and 2009, are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
September 2, 2010

EXHIBIT A

WILLIAM CAREY UNIVERSITY

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

ASSETS

	June 30, 2010	June 30, 2009
Cash and cash equivalents:		
Unrestricted	$ 9,658,001	$ 13,930,076
Temporarily restricted	2,167,492	2,459,999
Permanently restricted	206,494	171,012
Student accounts receivable, less allowance of $90,444 and $95,121 for June 30, 2010 and 2009, respectively	1,067,345	1,047,734
Other receivables	548,245	690,946
Prepaid expenses	116,561	97,441
Loans to students, less allowance of $162,232 and $195,317 for 2010 and 2009, respectively	280,943	327,430
Investments, at market value	18,242,862	15,549,769
Pooled investments – Mississippi Baptist Foundation	8,849,538	8,330,455
Other assets	361,104	351,370
Property held for resale	274,000	26,500
Deferred compensation asset	364,007	247,234
Property, plant and equipment, net of accumulated depreciation of $21,501,326 and $19,115,494 for 2010 and 2009, respectively	58,375,971	51,458,074
Total assets	$ 100,512,563	$ 94,688,040

See accompanying notes to the financial statements.

LIABILITIES AND NET ASSETS

	June 30, 2010	June 30, 2009
Accounts payable	$ 856,143	$ 728,190
Accrued liabilities	743,749	2,112,375
Deferred compensation liability	364,007	247,234
Student deposits and refunds	644,144	300,072
Line of credit	24,125,000	20,125,000
Capital leases payable	360,812	248,402
Notes payable	1,086,314	1,422,150
Tradition campus lease payable	13,198,917	13,952,000
Total liabilities	41,379,086	39,135,423
Net assets:		
Unrestricted	47,554,492	44,515,472
Temporarily restricted	2,299,343	2,617,652
Permanently restricted	9,279,642	8,419,493
Total net assets	59,133,477	55,552,617
Total liabilities and net assets	$ 100,512,563	$ 94,688,040

EXHIBIT B

WILLIAM CAREY UNIVERSITY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Tuition and fees	$ 26,992,382	$ 41,765	$ -	$ 27,034,147
Auxiliary revenue	2,125,174	422,524	4,979	2,552,677
Private gifts and grants	3,850,573	1,168,680	192,094	5,211,347
Pledges	-	-	-	-
Endowment income (losses)	128,197	227,691	-	355,888
Unrealized capital gains (losses)	(68,495)	-	593,087	524,592
Realized capital gains (losses)	(27,926)	57	69,788	41,919
Gain on sale of property, plant, and equipment	-	-	-	-
Governmental grants and contracts	-	730,093	-	730,093
Interest income	362,912	23,677	401,001	787,590
Net assets released from restrictions	2,249,009	(1,834,718)	(414,291)	-
Other revenues (expenses)	30,600	-	-	30,600
Total support and revenue	35,642,426	779,769	846,658	37,268,853
EXPENSES AND LOSSES				
Instructional and research	9,642,667	-	-	9,642,667
Academic support	822,226	-	-	822,226
Student services	1,864,088	-	-	1,864,088
Institutional support	4,523,956	-	-	4,523,956
Scholarships and fellowships	6,749,291	-	-	6,749,291
Operation and maintenance	4,086,066	-	-	4,086,066
Depreciation expense	2,395,318	-	-	2,395,318
Interest expense	950,414	-	-	950,414

See accompanying notes to the financial statements.

EXHIBIT B
PAGE TWO

WILLIAM CAREY UNIVERSITY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES AND LOSSES (Cont.)				
Auxiliary enterprises	$ 2,222,302	$ -	$ -	$ 2,222,302
Other expenses	265,449	-	-	265,449
Other grants and contracts	166,216	-	-	166,216
Total expenses	33,687,993	-	-	33,687,993
Change in net assets before transfers	1,954,433	779,769	846,658	3,580,860
INTERFUND TRANSFERS	1,084,587	(1,098,078)	13,491	-
CHANGE IN NET ASSETS	3,039,020	(318,309)	860,149	3,580,860
NET ASSETS				
Beginning of year	44,515,472	2,617,652	8,419,493	55,552,617
End of year	$ 47,554,492	$ 2,299,343	$ 9,279,642	$ 59,133,477

See accompanying notes to the financial statements.

EXHIBIT C

WILLIAM CAREY UNIVERSITY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Tuition and fees	$ 24,121,428	$ 3,360	$ -	$ 24,124,788
Auxiliary revenue	2,023,512	144,984	-	2,168,496
Private gifts and grants	2,901,824	707,933	101,784	3,711,541
Pledges	100,000	-	-	100,000
Endowment income	127,511	229,403	2,098	359,012
Unrealized capital gains (losses)	183,430	-	(448,019)	(264,589)
Realized capital gains (losses)	31,415	(44,947)	(644,481)	(658,013)
Gain on sale of property, plant, and equipment	1,315	-	-	1,315
Governmental grants and contracts	1,675,890	2,873,230	-	4,549,120
Interest income	391,451	99,417	397,299	888,167
Net assets released from restrictions	4,246,635	(3,803,780)	(442,855)	-
Other revenues (expenses)	-	306,964	13,320	320,284
Total support and revenue	35,804,411	516,564	(1,020,854)	35,300,121
EXPENSES AND LOSSES				
Instructional and research	8,744,347	-	-	8,744,347
Osteopathic School of Medicine	710,835	-	-	710,835
Academic support	730,614	-	-	730,614
Student services	1,493,580	-	-	1,493,580
Institutional support	3,433,172	-	-	3,433,172
Scholarships and fellowships	5,181,323	-	-	5,181,323
Operation and maintenance	2,406,203	-	-	2,406,203
Depreciation expense	1,928,111	-	-	1,928,111
Interest expense	348,293	-	-	348,293

See accompanying notes to the financial statements.

EXHIBIT C
PAGE TWO

WILLIAM CAREY UNIVERSITY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES AND LOSSES (Cont.)				
Auxiliary enterprises	$ 1,873,437	$ -	$ -	$ 1,873,437
Other expenses	1,651,894	-	-	1,651,894
Other grants and contracts	2,648,658	-	-	2,648,658
Total expenses	31,150,467	-	-	31,150,467
Change in net assets before transfers	4,653,944	516,564	(1,020,854)	4,149,654
INTERFUND TRANSFERS	205,754	(224,341)	18,587	-
CHANGE IN NET ASSETS	4,859,698	292,223	(1,002,267)	4,149,654
NET ASSETS :				
Beginning of year	39,482,964	2,325,429	9,421,760	51,230,153
Prior period adjustment	172,810	-	-	172,810
End of year	$ 44,515,472	$ 2,617,652	$ 8,419,493	$ 55,552,617

See accompanying notes to the financial statements.

EXHIBIT D

WILLIAM CAREY UNIVERSITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	June 30, 2010	June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,580,860	$ 4,149,654
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,395,318	1,928,111
Net losses (gains) on sales of long-term investments	(41,908)	658,013
(Gain) Loss on sale of property	-	(1,315)
Unrealized loss (gain) on investments	(524,591)	264,589
Contributions of property held for resale	(247,500)	-
Cash contributions restricted for long-term investment	(190,337)	(75,095)
Changes in assets and liabilities:		
(Increase) decrease in student accounts receivable	(19,611)	(47,468)
(Increase) decrease in loans to students	46,487	(29,494)
(Increase) decrease in other receivables	142,701	410,698
(Increase) decrease in prepaid expenses and other assets	(28,854)	(27,421)
(Increase) decrease in deferred compensation asset	(116,773)	(59,942)
Increase (decrease) in accounts payable	127,953	430,512
Increase (decrease) in accrued liabilities	(1,368,626)	1,462,880
Increase (decrease) in student deposits and refunds	344,072	142,962
Increase (decrease) in deferred compensation liability	116,773	59,942
Net cash provided by operating activities	4,215,964	9,266,626
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(9,080,285)	(16,149,036)
Purchase of investments	(42,456,855)	(52,461,920)
Proceeds from sale of investments	39,811,178	37,836,215
Proceeds from sale of property and equipment	-	3,700
Net cash (used by) investing activities	(11,725,962)	(30,771,041)

See accompanying notes to the financial statements.

EXHIBIT D
PAGE TWO

WILLIAM CAREY UNIVERSITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	June 30, 2010	June 30, 2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from gifts restricted for endowment	$ 190,337	$ 75,095
Proceeds from long-term debt	4,000,000	15,853,499
Payments on long-term debt	(1,209,439)	(7,097)
Net cash provided by financing activities	2,980,898	15,921,497
NET INCREASE (DECREASE) IN CASH	(4,529,100)	(5,582,918)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,561,087	22,144,005
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 12,031,987	$ 16,561,087
SUPPLEMENTAL DISCLOSURE		
Interest paid	$ 1,057,482	$ 348,293
NONCASH FINANCING ACTIVITES		
Capitalization of interest	$ -	$ 172,810
NONCASH INVESTING ACTIVITES		
Lease purchase of equipment	$ 232,930	$ 255,499

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 1 - ORGANIZATION

William Carey University (the "University") is a private, coeducational institution of higher learning which was founded in 1906. The University operates campuses in Hattiesburg and Gulfport, Mississippi, and a nursing program in New Orleans, Louisiana. The majority of the University's revenues come from student tuition and fees. The University was incorporated as a not-for-profit corporation and is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The financial statements of the University have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements of Not-for-Profit Entities.* FASB ASC 958-205 requires the reporting of total assets, liabilities and net assets in a statement of financial position; reporting the change in net assets in a statement of changes in net assets; and reporting the sources and uses of cash and cash equivalents in a statement of cash flows. FASB ASC 958-205 also requires that net assets, revenues, gains, expenses and losses be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. A description of the three net asset categories follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees, and accordingly includes "quasi" endowment investments.

Temporarily Restricted - Net assets whose use by the University is subject to donor-imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time, such as campaign pledges receivable.

Permanently Restricted - Net assets subject to donor-imposed restrictions that the assets be maintained permanently by the University. Permanently restricted assets are primarily comprised of the original endowment gift given to the University by donors. Generally, the donors of these assets permit the University to use all or part of the income from these assets.

Under FASB ASC 958-205, expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE TWO
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Use of Estimates - Financial statements prepared in accordance with accounting principles generally accepted in the United States of America require the use of management estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates included in these financial statements relate to the estimated reserves for uncollectible accounts receivable and loans to students and the economic lives of the property and equipment. Actual results could differ from these estimates.

Cash and Cash Equivalents - The University considers available bank balances, money market accounts, and other highly liquid investments with original maturities of three months or less as cash or cash equivalents.

Investments - The University accounts for investments in accordance with FASB ASC 958-320 *Accounting for Investments Held by Not-for-Profit Entities.* Under ASC 958-320, 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. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 for discussion of fair value measurements.

Accounts Receivable - The University provides credit without collateral to students for charges such as tuition, books, fees, room, and board. These receivables are stated at unpaid balances, less allowances for doubtful accounts. The University provides for losses using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of students to meet their obligations. Receivables are considered delinquent if full principal payments are not received in accordance with the contractual terms. It is the University's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Unconditional Promises to Give - The University adopted FASB ASC 605-10, "Accounting for Contributions Received and Made", effective July 1, 1995. FASB ASC 605-10 requires the University to record certain promises to give as revenue when the promise is made.

Conditional Promises and Indications of Intentions to Give - Pursuant with University policy and in conformity with FASB ASC 605-10, the University does not recognize conditional promises as revenue until the condition is met or the pledges are received.

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE THREE
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Property and Equipment - Property is stated at cost at date of acquisition or fair value at date of donation in the case of gifts. FASB ASC 958-360, "Recognition of Depreciation by Not-for-Profit Organizations" as promulgated by the FASB, requires the University to recognize the cost of using the future economic benefits of its long-lived assets by recording depreciation.

Consistent with the accepted practice of not depreciating land, the FASB has declared that individual works of art or historical treasures whose economic benefit or service potential is not estimable should not be depreciated. The amounts included in other assets for these non-depreciable items were $283,320 and $277,064 as of June 30, 2010 and 2009, respectively.

FASB ASC 958-360 allowed the University to establish net asset lives based on the useful life to date of adoption plus an estimate of the remaining useful life of the asset. Depreciation expense has been computed over the following estimated useful lives of the assets utilizing the straight-line method.

	Estimated Useful Life
Land improvements	10-20 years
Buildings and improvements	5-40 years
Furniture and equipment	3-7 years
Library	5-20 years

Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The costs and related accumulated depreciation of assets sold or retired are removed from the accounts and any resulting gain or loss is reflected in the accompanying statements of activities.

Fair Value of Financial Instruments - The carrying amounts at June 30, 2010 and 2009 for cash, project funds held by others, bond sinking fund, receivables, accounts payable and accrued liabilities are a reasonable estimate of their fair values.

Advertising Costs - Costs for advertising, including radio, television, and newspaper advertisements, are expensed as incurred. Total advertising costs for the years ended June 30, 2010 and 2009 were $143,521 and $133,387, respectively.

Blended Component Unit - The William Carey University Development Foundation, although legally separate from the University, is so intertwined with the University that it is, in substance, the same as the University. Therefore, this component unit is reported as if it is part of the University.

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE FOUR
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Accounting Changes - In July 2009, the Financial Accounting Standards Board (FASB) approved the FASB Accounting Standards Codification (ASC) as the official source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles (GAAP), superseding existing FASB and related literature. The FASB Accounting Standards Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The University adopted FASB ASC 105-10-65 (*Prior literature:* SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles)* as of June 30, 2010.

In September 2006, the Financial Accounting Standards Board issued FASB ASC 820-10 (*Prior authoritative literature:* SFAS No. 157, *Fair Value Measurements).* FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures regarding fair value measurements. FASB ASC 820-10 applies only to fair value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. The effective date for FASB ASC 820-10 is for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The University adopted FASB ASC 820-10 effective July 1, 2009.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, and Interpretation of FASB Statement No. 109 (FIN 48). Effective September 15, 2009, FIN 48 was superseded by FASB ASC 740, Income Taxes. FASB ASC 740 clarifies the accounting and recognition for income tax positions taken or expected to be taken in the University's income tax returns. The University's income tax returns are subject to examination by taxing authorities for three years after they were filed. The University's open tax periods are 2007 – 2009. The University believes their estimates are appropriate based on current facts and circumstances and that no uncertain tax positions were taken.

Subsequent Events - In connection with the preparation of the financial statements and in accordance with the recently issued ASC 855, *Subsequent Events,* the University has evaluated subsequent events after the statement of financial position through September 2, 2010, which is the date the financial statements were available to be issued.

Reclassifications - Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. There was no effect to the 2009 net income related to the reclassifications.

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE FIVE
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 3 - INVESTMENTS

At June 30, 2010 and 2009, investments are comprised of the following:

June 30, 2010	**Cost**	**Market Value**	**Unrealized Gain**	**Unrealized Loss**	**Other than Temporary Loss**
Equity securities	$ 288,630	$ 275,613	$ -	$ (13,017)	$ -
Corporate bonds	134,361	136,753	2,392	-	-
Pooled marketable securities	8,805,549	8,849,538	43,989	-	-
Fixed income securities	17,702,578	17,830,496	127,918	-	-
Total	$ 26,931,118	$ 27,092,400	$ 174,299	$ (13,017)	$ -

June 30, 2009	**Cost**	**Market Value**	**Unrealized Gain**	**Unrealized Loss**	**Other than Temporary Loss**
Equity securities	$ 317,920	$ 272,475	$ 1,023	$ (46,468)	$ -
Corporate bonds	85,411	76,057	-	(9,354)	-
Pooled marketable securities	8,817,631	8,330,455	-	(487,176)	-
Fixed income securities	15,022,572	15,201,237	183,734	(5,069)	-
Total	$ 24,243,534	$ 23,880,224	$ 184,757	$ (548,067)	$ -

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE SIX
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 3 - INVESTMENTS (Cont.)

The University has invested $8,805,548 and $8,817,630 as of June 30, 2010 and 2009, in pooled funds held at the Mississippi Baptist Foundation (the Foundation). The market value allocated to the University ($8,849,538 and $8,330,455 as of June 30, 2010 and 2009, respectively) for these pooled funds represents the University's portion of the underlying market value of all securities in the pool. The Foundation is an agency of the Mississippi Baptist Convention ("MBC") created to manage investment funds for Mississippi Baptist institutions.

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest earnings	$ 128,197	$ 227,691	$ -	$ 355,888
Realized (losses) gains	(27,926)	57	69,788	41,919
Unrealized (losses) gains	(68,495)	-	593,087	524,592
Distribution of earnings	-	-	(358,970)	(358,970)
Fiduciary fees and other expenses	-	-	(40,288)	(40,288)
Net investment return	$ 31,776	$ 227,748	$ 263,617	$ 523,141

Investment earnings and realized gains are reported on the statement of activities as endowment income. Investment fees totaled $7,321.

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest earnings	$ 127,511	$ 229,403	$ 2,098	$ 359,012
Realized (losses) gains	31,415	(44,947)	(644,481)	(658,013)
Unrealized (losses) gains	183,430	-	(448,019)	(264,589)
Distribution of earnings	-	-	(356,758)	(356,758)
Fiduciary fees and other expenses	-	-	(82,024)	(82,024)
Net investment return	$ 342,356	$ 184,456	$ (1,529,184)	$ (1,002,372)

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE SEVEN
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 3 - INVESTMENTS (Cont.)

Investment return is reported on the statement of activities as endowment income and is shown net of investment fees of $6,767.

The maturity distribution of fixed income securities held is as follows:

Due within one year	$ 18,838,746
Due between one and five years	7,940,039
Due after five years	38,001
Total	$ 26,816,786

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE EIGHT
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 3 - INVESTMENTS (Cont.)

For those available for sale securities with unrealized losses at June 30, 2010, the following table summarizes the duration of the impairment:

	Less than 12 months		12 months or longer		Total	
	Fair Market Value	**Unrealized Loss**	**Fair Market Value**	**Unrealized Loss**	**Fair Market Value**	**Unrealized Loss**
Equity securities	$ -	$ -	$ 275,613	$ (13,016)	$ 275,613	$ (13,016)
Total	$ -	$ -	$ 275,613	$ (13,016)	$ 275,613	$ (13,016)

NOTE 4 - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board issued FASB ASC 820-10, *Fair Value Measurements and Disclosures,* which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE NINE
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 4 - FAIR VALUE MEASUREMENTS (Cont.)

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2010.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include U.S. Government Bonds, Corporate Bonds, Pooled Marketable Securities, Equity Securities, and Debt Securities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the University's assets at fair value as of June 30, 2010:

(See Table on Next Page)

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE TEN
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 4 - FAIR VALUE MEASUREMENTS (Cont.)

	Assets at Fair Value as of June 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
U.S. Government Bonds	$ 17,462,559	$ -	$ -	$ 17,462,559
Corporate bonds	136,753	-	-	136,753
Pooled marketable securities	8,849,538	-	-	8,849,538
Equity securities	275,613	-	-	275,613
Debt securities	367,937	-	-	367,937
Total assets at fair value	$ 27,092,400	$ -	$ -	$ 27,092,400

NOTE 5 - PROPERTY HELD FOR RESALE

The University is the recipient of various donations in the form of real estate. These properties are included in the financial statements at their appraised values on the dates of the gifts. Declines in market values which are determined to be permanent in nature are recognized in the year of the decline. Depending on the economic and real estate market conditions at the time of disposition, the values assigned to the properties at the date of the gifts may differ from the proceeds ultimately received.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2010	**2009**
Land and improvements	$ 5,877,973	$ 5,426,222
Buildings and improvements	50,378,615	35,543,958
Equipment	11,573,315	10,169,192
Library books	3,373,569	3,299,685
Construction in process	8,673,825	16,134,511
	79,877,297	70,573,568
Less: Accumulated depreciation	(21,501,326)	(19,115,494)
Total	$ 58,375,971	$ 51,458,074

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE ELEVEN
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (Cont.)

Total depreciation and amortization expense for the periods ended June 30, 2010 and 2009 was $2,395,318 and $1,928,111, respectively.

NOTE 7 - LINE OF CREDIT

On May 1, 2008, the University entered into three (3) separate Loan and Security Agreements (Agreements) with BancorpSouth Bank (BSB). Under the terms of the Agreements, BSB has agreed to advance to the University from time to time an amount not to exceed $20,000,000 as a University operating line of credit, $4,000,000 for capital improvements pursuant to the University's College of Osteopathic Medicine, and a $3,000,000 operating line of credit for the College of Osteopathic Medicine. As of June 30, 2010, the University had drawn down all of the $20,000,000 University operating line of credit, all of the $4,000,000 for capital improvements, and $125,000 of College of Osteopathic Medicine operating line of credit.

Advances under the Agreements bear interest at a fluctuating rate equal to the one-month LIBOR interest rate plus 0.950% per annum. At June 30, 2010, the applicable rate was 1.298%.

All advances under the Agreements are secured by a deed of trust security interest and liens upon the University's Hattiesburg and beachfront campus properties as well as by a first priority, perfected security interest in all of the University's present and after-acquired furniture, fixtures and equipment located at the Hattiesburg campus.

At June 30, 2010 and 2009, the available and outstanding balances under the University's lines of credit were as follows:

	2010	2009
Available	$ 27,000,000	$ 27,000,000
Outstanding balance	24,125,000	20,125,000

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE TWELVE
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 8 - CAPITAL LEASE PAYABLE

During fiscal year 2009, the University finalized an equipment lease agreement with CIT Communications Finance Corporation for the lease purchase and installation of telecommunications equipment with a cost of $255,499. Monthly installments in the amount of $7,162.97 are based upon level principal and interest payments in the amounts of $7,097.21 and $65.76, respectively. The lease is to be amortized over a three (3) year period beginning April 1, 2009 at an interest rate of 0.60%.

During fiscal year 2010, the University finalized an equipment lease agreement with Cisco Systems Capital Corporation for the lease purchase of audio and visual equipment with a cost of $148,160. Annual installments are in the amount of $49,387. The lease is to be amortized over a three (3) year period beginning May 14, 2010.

The University also finalized a non-interest bearing software lease agreement in fiscal year 2010 with Susquehanna Commercial Finance, Incorporated for the lease purchase of software with a cost of $84,770. Annual installments are in the amount of $28,257. The lease is to be amortized over a three (3) year period beginning March 29, 2010.

Presented below is a recap of the lease principal outstanding for the leases:

Year Ending June 30,	Principal
2011	$ 162,811
2012	148,614
2013	49,387
Total	$ 360,812

NOTE 9 - NOTES PAYABLE

On October 11, 2007, the University executed a variable rate promissory note in the amount of $1,422,150 with Columbus Communities, LLC for the purpose of land acquisition for the William Carey University Tradition Campus located in Harrison County, Mississippi. No principal or interest payments were due on this note until the University either sold the capital assets from the existing Gulf Coast beachfront properties or there was an enrollment total of 750 students at the Tradition Campus. The first principal payment of $335,836 plus accrued interest through November 2009 was paid in December 2009 due to the 750 student enrollment criteria having been met. The maturity date of the note is October 11, 2012. Interest was initially set at 7.75% and subject to quarterly changes based upon the Wall Street Journal prime interest rate as made available by the Federal Reserve Board. The interest rate was 3.25% at June 30, 2010. This note is secured by the Gulf Coast beachfront properties.

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE THIRTEEN
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 9 - NOTES PAYABLE (Cont.)

The balance due at June 30, 2010 and 2009 was $1,086,314 and $1,442,150, respectively. Approximate maturities of the note payable during the next five (5) years ending June 30th are as follows:

Year Ending June 30,	Amount	
2011	$	467,785
2012		491,718
2013		126,811
2014		-
2015		-
Thereafter		-
Total	$	1,086,314

NOTE 10 - TRADITION CAMPUS LEASE PAYABLE

During fiscal year 2008, the Mississippi Business Finance Corporation, a public corporation organized and existing under and by virtue of the laws of the State of Mississippi issues a Financing and Lease Agreement (Agreement) that provided for Regions Equipment Finance Corporation (the “Lessor”) a sum of an amount not to exceed $13,952,000 for the construction and equipping of the University’s Tradition Campus. The Tradition Campus lease is secured by collateral listed in the corresponding Guaranty Agreement, including the buildings, improvements, personal property and fixtures at the Tradition Campus.

Under the terms of the Agreement, there is a fixed interest rate of 4.68%, with monthly payments of interest paid from May 2008 through April 2010 at $54,413. Monthly principal and interest payments at $95,693 per month are payable from May 2010 through March 2018, with the unpaid principal and interest in the aggregate amount of $8,285,675 due at maturity in April 2018. During fiscal year 2010, the University paid $753,083 in principal payments and $643,539 in interest payments under this lease agreement. In fiscal year 2009, the University paid $652,954 in interest payments under this lease agreement.

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE FOURTEEN
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 10 - TRADITION CAMPUS LEASE PAYABLE (Cont.)

The balance due at June 30, 2010 and 2009 was $13,198,917 and $13,952,000, respectively. Approximate maturities of Tradition Campus lease payable during the next five (5) years ending June 30th are as follows:

Year Ending June 30,	Amount
2011	$ 542,138
2012	568,061
2013	595,224
2014	623,686
2015	653,509
Thereafter	10,216,299
Total	$ 13,198,917

As lessee, the University is obligated for the following capital assets acquired through capital leases as of June 30, 2010:

Classes of Property	
Buildings and improvements	$ 15,414,008

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2010 and 2009:

	2010	2009
Current Restricted Fund (pledges and other)	$ 2,237,066	$ 2,515,351
Title IV Grant Programs	62,277	102,301
Total temporarily restricted net assets	$ 2,299,343	$ 2,617,652

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE FIFTEEN
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2010 and 2009:

	2010	2009
Perkins Loan Program	$ 267,718	$ 273,913
Nursing Student Loan Program	-	26
Pearson Loan Fund	10,509	10,278
Bass Loan Fund	125,358	120,718
Bobby Wingo Loan Fund	4,391	4,382
Otis Seale Loan Fund	4,524	4,515
Nursing Faculty Loan Program	51,105	80,465
Endowment Fund	8,816,037	7,925,196
Total permanently restricted net assets	$ 9,279,642	$ 8,419,493

NOTE 13 - ENDOWMENT FUNDS

The University maintains numerous endowed funds designated for the support of scholarships, University operations, and various academic and auxiliary programs. All of these funds are donor-restricted and perpetual in nature.

Endowment Spending Policy - Unless otherwise stipulated by the donor, the University receives distributions of all interest and dividends earned by its endowed funds. These earnings are segregated according to the funds' purposes as established by agreement between the University and the donor and applied directly for support of the scholarship or program so designated. This policy of capping spending at the amount earned through interest and dividends allows for long term endowment growth through additional contributions and capital gains.

Endowment Investment Policy - The University seeks to invest its endowed funds in such a way as to preserve principal while providing a predictable stream of funding to the scholarships and programs supported by the endowment. To accomplish this objective the Board of Trustees, its Investment Committee, and the University administration have directed the various custodians to invest the majority of endowed funds in fixed income securities and a minority in equity-base instruments. This combination allows for a stable revenue stream with moderate long-term capital appreciation. The University seeks an average investment yield of 7%. Actual returns in any given year may vary from this percentage.

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE SIXTEEN
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 13 - ENDOWMENT FUNDS (Cont.)

Changes in endowment net assets as of June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ -	$ -	$ 8,419,493	$ 8,419,493
Contributions	-	-	197,076	197,076
Investment income	-	-	401,001	401,001
Other revenue	-	-	-	-
Transfers	-	-	13,491	13,491
Net appreciation (depreciation)	-	-	662,872	662,872
Amounts appropriated for expenditure	-	-	(414,291)	(414,291)
Endowment net assets, end of year	$ -	$ -	$ 9,279,642	$ 9,279,642

NOTE 14 - DESIGNATED UNRESTRICTED NET ASSETS

The University has designated portions of the unrestricted net asset balance as of June 30, 2010 in order to maintain these accounts that pertain to certain contractual provisions and financing agreements made pursuant to the establishment of the University's College of Osteopathic Medicine. The cash, cash equivalents and investment balances, at market value, for the College of Osteopathic Medicine Operating Reserve is $3,830,161, and the cash, cash equivalents and investment balances, at market value, for the College of Osteopathic Medicine Teach Out Reserve is $15,299,314. These balances represent internally designated spending limitations as opposed to donor restrictions that are typically used in the determination of temporarily and permanently restricted net assets. The College of Osteopathic Medicine Operating Reserve is utilized to provide cash resources for short term cash flow needs and the College of Osteopathic Medicine Teach Out Reserve is to be maintained as a designated account balance until the graduation of the College of Osteopathic Medicine's first incoming class anticipated to be May 2014.

NOTE 15 - RETIREMENT PLAN

The University's employees participate in two defined contribution retirement plans. Substantially all of the University's employees participate in one of these plans. The University contributes a percentage (3% to 15%) of participating employee's salaries depending on years of service. The University contributed $734,581 and $694,055 in 2010 and 2009, respectively, to these plans.

NOTE 16 - OPERATING LEASE

The University leases property located on the campus of New Orleans Baptist Theological Seminary under an operating lease that requires monthly payments of $15,021 with a current rental period that expires December 31, 2013. The lease allows for five-year renewal options to be adjusted upward by increments of 3% for each five-year period for which the renewal option is exercised. The lease agreement requires the University to pay property taxes, utility charges and repairs and maintenance expenses.

Minimum future payments required under the lease agreement are as follows:

Year Ending June 30,		**Amount**
2011	$	180,250
2012		180,250
2013		180,250
2014		90,125
2015		-
Thereafter		-
Total	$	630,875

Payments made under the operating lease for the year ended June 30, 2010 and 2009, were $180,250 and $177,625, respectively.

Total expenses under month-to-month and other cancelable leases for the years ended June 30, 2010 and 2009, were $321,713 and $330,225, respectively.

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE EIGHTEEN
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 17 - COMMITMENTS AND CONTINGENCIES

The University receives grants under various federal and state sponsored programs. Specific requirements are to be met by the University concerning the grants, the most common being maintenance of a proper level of documentation. These programs are subject to audit by either the agency administering the program or another agency. If subjected to such an audit, the University could be liable for the amount of questioned costs discovered, if any.

In fiscal year 1987, the University received a donation of land and timber located adjacent to the Hattiesburg campus, with a fair market value at the date of donation of $445,000. The donation included a restriction that should the property ever cease to be used for University purposes, title to the property would revert to the donor. As a condition for donating the land, the donor is requiring that the University build a three-lane boulevard to the University and to additional property owned by the donor. Future plans for financing and construction of the boulevard have not been completed and require approval of the Board of Trustees.

The University is affiliated with the MBC which provides funding through allocation to the University of gifts to the MBC. The amount of such gifts allocated is determined based on the number of student credit hours earned and other factors related to the University's service to the MBC. The University received gifts from the MBC of approximately $2,235,831 in 2010 and $2,560,951 in 2009.

During fiscal year 2008, the University submitted its application to the American Osteopathic Association (AOA) for the establishment of the College of Osteopathic Medicine to be located on the Hattiesburg campus. The first step in the accreditation process was the submission of a feasibility study that has been forwarded to the Executive Committee of the Council on Osteopathic College Accreditation (COCA). The next step was the pre-accreditation visit scheduled during fiscal year 2009 which resulted in pre-accreditation status, awarded May 12, 2009. This was followed by a provisional inspection in August 2009, with the determination of provisional status granted in September 2009. The College's first class is scheduled for enrollment in August 2010, and the final step for full accreditation would be accomplished after the graduation of the first class in May 2014. At year-end, construction was under way for all three phases of the buildings that will ultimately house the College of Osteopathic Medicine. The construction contract for these three buildings is $7,960,073, with $4 million in funding from the University's construction line of credit, $1,000,000 in funding from the Asbury grant and the balance from contributions and the University's operating revenues.

WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
PAGE NINETEEN
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 18 - CONCENTRATIONS OF CREDIT AND MARKET RISK

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of bank deposit accounts and student accounts receivable. The University maintains its cash balances in financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At June 30, 2010 the University had $3,349,320 over the FDIC federally insured limits.

Concentrations of credit risk with respect to student accounts receivable are limited due to the large number of students comprising the University's student base.

Investments held by the University are subject to market risk. Although 33% of the total fair value of investments is held with the MBF, these holdings are not considered to have significant market risk since the Foundation maintains diversified holdings.

SUPPLEMENTARY INFORMATION

WILLIAM CAREY UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA#	Agency or Passthrough #	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct programs:			
Student Financial Aid Cluster			
Federal Family Supplemental Educational Opportunity Grant	84.007	--	$ 162,239
Federal Family Education Loans	84.032	--	27,306,456
Federal Work Study	84.033	--	312,728
Federal Perkins Loan Program	84.038	--	409,996
Federal Pell Grant Program	84.063	--	5,789,705
Total SFA Cluster			33,981,124
TRIO - Student Support Services	84.042A	--	255,126
ACG - Academic Competitiveness Grant	84.375	--	62,315
SMART - National Science and Math Access to Retain Talent Grant	84.376	--	63,183
Teacher Education Assistance for College and Higher Education Grants	84.379	--	880,894
Total direct programs			35,242,642

See the independent auditor’s report.

WILLIAM CAREY UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PAGE TWO
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA#	Agency or Passthrough #	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION (Cont.)			
Passed through Mississippi Post-Secondary Education			
Financial Assistance Board:			
Leveraging Educational Assistance Partnership	84.069	N/A	$ 8,849
Total pass-through programs			8,849
Total U.S. Department of Education			35,251,491
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Mississippi Emergency Management Agency			
Public Assistance Program	97.036	--	224,181
Total Federal Awards			$ 35,475,672

See the independent auditor’s report.

WILLIAM CAREY UNIVERSITY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of William Carey University (the University) and is presented on the accrual 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.

NOTE 2 - LOANS OUTSTANDING

The University had the following loan balances outstanding at June 30, 2010. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	CFDA#	Amount
Federal Perkins Loan Program	84.038	$ 206,397
Nursing Faculty Loan Program	93.264	48,874

During the year ended June 30, 2010, disbursements for new loans totaled $26,725 and disbursements for miscellaneous expenses totaled $3,792 for the Federal Perkins Loan Program. There were no disbursements for new loans or other miscellaneous expenses for the Nursing Faculty Loan Program during fiscal year 2010.

NOTE 3 - STATE FUNDS

Total funds expended under the Leveraging Educational Assistance Partnership were $31,145. Of this total, $22,296 was received from state appropriations.

NOTE 4 - FEDERAL PELL GRANT PROGRAM

Expenditures totaled $5,789,705, all of which was disbursed to students.

CARL L. NICHOLSON, JR., CPA
RICHARD D. HALBERT, CPA
RICHARD G. TOPP, CPA
FRANK H. McWHORTER, JR., CPA
T. JOHN HARVEY, CPA
WILLIAM T. KELLY, CPA/ABV, CVA
SUSAN A. RILEY, CPA
DAWN T. JONES, CPA
MICHAEL W. DAVIS, CPA
GREGORY L. FAIREY, CPA
JEFFREY M. ALLEN, CPA
JOHN S. HEATH, CPA
DONALD J. NESTER, CPA
PAIGE M. JOHNSON, CPA
SHANNON J. JONES, CPA
JANICE M. BATES, CPA
JOE C. TRAVIS, CPA, Cr.FA, CFF
JOSEPH C. TOWNSEND, CPA, CVA
TRACY W. HAYNES, CPA
JAMES E. POLK, CPA
STEPHEN W. GRAY, CPA
ROBBIN COURTNEY JONES, CPA
LEIGH F. AGNEW, CPA
ANNETTE P. HERRIN, CPA/ABV, CVA, CFE, CFF
SHELBY L. HOWARTH, CPA

NICHOLSON & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
2 SOUTHERN POINTE PARKWAY, SUITE 100
HATTIESBURG, MISSISSIPPI 39401
POST OFFICE DRAWER 15099
HATTIESBURG, MISSISSIPPI 39404-5099

TELEPHONE 601-264-3519
TOLL FREE 877-842-7137
FAX 601-264-3642

www.nicholsoncpas.com

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

MISSISSIPPI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

OTHER OFFICES:
150 OLD HWY 98 EAST
POST OFFICE BOX 609
COLUMBIA, MISSISSIPPI 39429
TELEPHONE: 601-736-3449
FAX 601-736-0501

450 EAST PASS ROAD, SUITE 108
GULFPORT, MISSISSIPPI 39507
POST OFFICE BOX 1842
GULFPORT, MISSISSIPPI 39502
TELEPHONE: 228-864-1779
FAX 228-864-3850

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 Trustees
William Carey University
Hattiesburg, Mississippi

We have audited the financial statements of William Carey University (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 2, 2010. 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 William Carey University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of William Carey University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

To the Board of Trustees
William Carey University

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether William Carey 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, 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.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
September 2, 2010

NICHOLSON & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
2 SOUTHERN POINTE PARKWAY, SUITE 100
HATTIESBURG, MISSISSIPPI 39401
POST OFFICE DRAWER 15099
HATTIESBURG, MISSISSIPPI 39404-5099

TELEPHONE 601-264-3519
TOLL FREE 877-842-7137
FAX 601-264-3642

www.nicholsoncpas.com

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

MISSISSIPPI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

OTHER OFFICES:
150 OLD HWY 98 EAST
POST OFFICE BOX 609
COLUMBIA, MISSISSIPPI 39429
TELEPHONE: 601-736-3449
FAX 601-736-0501

450 EAST PASS ROAD, SUITE 108
GULFPORT, MISSISSIPPI 39507
POST OFFICE BOX 1842
GULFPORT, MISSISSIPPI 39502
TELEPHONE: 228-864-1779
FAX 228-864-3850

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 Trustees
William Carey University
Hattiesburg, Mississippi

Compliance

We have audited the compliance of William Carey 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, 2010. William Carey 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 William Carey University's management. Our responsibility is to express an opinion on William Carey 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 William Carey 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 on William Carey University's compliance with those requirements.

To the Board of Trustees
William Carey University

As described in item 2010-1 in the accompanying schedule of findings and questioned costs, William Carey University did not comply with requirements regarding allowed activities and cash management that are applicable to its Teacher Education Assistance for College and Higher Education (TEACH) grants. Compliance with such requirements is necessary, in our opinion, for William Carey University to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, William Carey 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, 2010.

Internal Control Over Compliance

The management of William Carey University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered William Carey 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of William Carey University's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees
William Carey University

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, 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.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
September 2, 2010

WILLIAM CAREY UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Section I - Summary of Auditors' Results

Financial Statements	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	SFA Cluster – Unqualified TEACH Grants – Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	<u>Department of Education</u>
	Student Financial Aid Cluster
84.007	Federal Supplemental Ed. Opportunity Grant
84.032	Federal Family Education Loans
84.033	Federal Work Study Program
84.038	Federal Perkins Loan Program
84.063	Pell Grant Program
84.379	Teacher Education Assistance for College and Higher Education (TEACH) Grants

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	No

WILLIAM CAREY UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PAGE TWO
YEAR ENDED JUNE 30, 2010

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Awards Findings and Questioned Costs

DEPARTMENT OF EDUCATION

Finding 2010-1 - Teacher Education Assistance for College and Higher Education (TEACH Grants) – CFDA No. 84.379

Condition and Criteria: TEACH grant amounts were awarded at the maximum annual rate of $4,000 for students who met at least one-half time enrollment status. The Department of Education requires that the annual benefits be prorated for less than full-time students for each term. The University has calculated the resulting overpayment of TEACH awards to be $181,397 for the fiscal year ended June 30, 2010. As a result of these benefits not being prorated, there were corresponding premature drawdowns of TEACH awards for each of the applicable school terms through the Summer of 2010. A liability payable to the Department of Education has been recorded for the full amount of $181,397 as of June 30, 2010.

Cause:

Employees responsible for the administration of TEACH grants had based award amounts on their earlier understanding that the maximum amount was available for students who met at least one-half time enrollment status.

Effect:

Because of the above-noted misunderstanding of TEACH enrollment status requirements, overpayments were processed for some students during the fiscal year ended June 30, 2010, thus resulting in grant expenditures that were determined to be unallowed activities due to the fact that they exceeded allowable funding levels. Correspondingly, the premature drawdown of these amounts resulted in a cash management timing determination even if the student subsequently qualified for the full award amount.

WILLIAM CAREY UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PAGE THREE
YEAR ENDED JUNE 30, 2010

Section III - Federal Awards Findings and Questioned Costs (Cont.)

Recommendation:

The Financial Aid Office should implement procedures that will ascertain that the correct amounts for TEACH grants are processed each school term based upon the prescribed enrollment status requirements for qualifying students.

Views of Responsible Officials and Planned Corrective Actions:

The University agrees with the finding and the recommendation, and procedures will be implemented in order to correctly calculate TEACH awards each term for qualifying students.

The financial aid office has made corrections through the Department of Education website to reflect the 2009-2010 over-awards. On August 25, 2010, the University returned these over-awarded funds to the Department of Education through an electronic transfer of the amount due.

William Carey University
Office of the Vice President for Business Affairs/
Chief Financial Officer
498 Tuscan Avenue, Box 2
Hattiesburg, MS 39401
Phone: (601) 318-6433
Fax: (601) 318-6418
Email: lyork@wmcarey.edu

September 2, 2010

Finding 2010-1

CFDA #84.379 – Teacher Education Assistance for College and Higher Education (TEACH) Grants

Views of Responsible Officials and Corrective Action Plan:

The University agrees with the finding and the recommendation made by the auditors. Procedures have been implemented in order to correctly calculate TEACH awards in the future.

The financial aid office has made corrections through the Department of Education (COD) website to reflect the 2009-2010 over-awards. The University has returned all over-awarded funds through the G5 website, including the prior year over-awards.

The 2009-2010 over-awarded funds of $181,397 were returned through ACH on August 25, 2010. In addition, $3,977 in TEACH over-awards processed in July 2010 before the error was found were returned this same date.

Over-awarded funds in the amount of $59,130 from the 2008-2009 fiscal year were returned on August 30, 2010 through ACH. The financial aid office is in the process of making corrections to these over-awards, and these adjustments will be reflected in the federal COD system before September 30, 2010.

The University believes we have returned all funds that have been incorrectly processed since the TEACH grants were first awarded in the 2008-2009 school year. We have implemented additional training requirements for the financial aid employees, including attending the Department of Education Federal Student Aid Conference in Orlando in December 2010. The University will stress the importance of continuing education and online federal workshops in the future.

Linda T York

Linda T York, CPA
Vice President for Business Affairs, CFO

WILLIAM CAREY UNIVERSITY

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and cash equivalents	$ 9,658,001	$ 2,167,493	$ 206,493	$ 12,031,987
Student accounts receivable, net	1,067,345	-	-	1,067,345
Other receivables	429,902	118,343	-	548,245
Prepaid expenses and other current assets	116,561	-	-	116,561
Loans to students, net	-	-	280,943	280,943
Investments, at market value	17,433,237	-	809,625	18,242,862
Pooled investments – Mississippi Baptist Foundation	853,426	13,531	7,982,581	8,849,538
Other assets	361,104	-	-	361,104
Property held for resale	274,000	-	-	274,000
Deferred compensation asset	364,007	-	-	364,007
Property, plant and equipment, net	58,375,971	-	-	58,375,971
Total assets	$ 88,933,554	$ 2,299,367	$ 9,279,642	$ 100,512,563

See the independent auditor's report.

WILLIAM CAREY UNIVERSITY

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION
PAGE TWO
JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
LIABILITIES AND NET ASSETS				
Accounts payable	$ 856,119	$ 24	$ -	$ 856,143
Accrued liabilities	743,749	-	-	743,749
Deferred compensation liability	364,007	-	-	364,007
Student deposits and refunds	644,144	-	-	644,144
Line of credit	24,125,000	-	-	24,125,000
Capital lease payable	360,812	-	-	360,812
Notes payable	1,086,314	-	-	1,086,314
Tradition campus lease payable	13,198,917	-	-	13,198,917
Total liabilities	41,379,062	24	-	41,379,086
NET ASSETS				
Unrestricted	47,554,492	-	-	47,554,492
Temporarily restricted	-	2,299,343	-	2,299,343
Permanently restricted	-	-	9,279,642	9,279,642
Total net assets	47,554,492	2,299,343	9,279,642	59,133,477
Total liabilities and net assets	$ 88,933,554	$ 2,299,367	$ 9,279,642	$ 100,512,563

See the independent auditor’s report.

WILLIAM CAREY UNIVERSITY

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and cash equivalents	$ 13,930,076	$ 2,459,999	$ 171,012	$ 16,561,087
Student accounts receivable, net	1,047,734	-	-	1,047,734
Other receivables	545,271	145,675	-	690,946
Prepaid expenses and other current assets	97,441	-	-	97,441
Loans to students, net	-	-	327,430	327,430
Investments, at market value	14,795,253	-	754,516	15,549,769
Pooled investments – Mississippi Baptist Foundation	1,150,463	13,457	7,166,535	8,330,455
Other assets	351,370	-	-	351,370
Property held for resale	26,500	-	-	26,500
Deferred compensation asset	247,234	-	-	247,234
Property, plant and equipment, net	51,458,074	-	-	51,458,074
Total assets	$ 83,649,416	$ 2,619,131	$ 8,419,493	$ 94,688,040

See the independent auditor's report.

WILLIAM CAREY UNIVERSITY

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION
PAGE TWO
JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
LIABILITIES AND NET ASSETS				
Accounts payable	$ 728,190	$ -	$ -	$ 728,190
Accrued liabilities	2,112,375	-	-	2,112,375
Deferred compensation liability	247,234	-	-	247,234
Student deposits and refunds	298,594	1,478	-	300,072
Line of credit	20,125,000	-	-	20,125,000
Capital lease payable	248,402	-	-	248,402
Notes payable	1,422,150	-	-	1,422,150
Tradition campus lease payable	13,952,000	-	-	13,952,000
Total liabilities	39,133,945	1,478	-	39,135,423
NET ASSETS				
Unrestricted	44,515,472	-	-	44,515,472
Temporarily restricted	-	2,617,652	-	2,617,652
Permanently restricted	-	-	8,419,493	8,419,493
Total net assets	44,515,472	2,617,652	8,419,493	55,552,617
Total liabilities and net assets	$ 83,649,417	$ 2,619,130	$ 8,419,493	$ 94,688,040

See the independent auditor's report.