

**WILLIAM CAREY UNIVERSITY**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Years Ended June 30, 2012 and 2011**

# WILLIAM CAREY UNIVERSITY

## TABLE OF CONTENTS

	<u>Page</u>
<b><i>INDEPENDENT AUDITOR'S REPORT</i></b>	1
<b><i>FINANCIAL STATEMENTS</i></b>	
Exhibit A - Statements of Financial Position	3
Exhibit B - Statement of Activities - June 30, 2012	5
Exhibit C - Statement of Activities - June 30, 2011	7
Exhibit D - Statements of Cash Flows	9
<b><i>NOTES TO FINANCIAL STATEMENTS</i></b>	11
<b><i>SUPPLEMENTARY INFORMATION</i></b>	
Schedule of Expenditures of Federal Awards	27
Notes to the Schedule of Expenditures of Federal Awards	28
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	31
Schedule of Findings and Questioned Costs	33
Supplemental Combining Statement of Financial Position - June 30, 2012	35
Supplemental Combining Statement of Financial Position - June 30, 2011	37

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  
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  
ANNETTE P. HERRIN, CPA/ABV, CVA, CFE, CFF  
LEIGH F. AGNEW, CPA  
SHELBY L. HOWARTH, CPA  
RENEE MOORE, CPA  
LACEY J. MILLER, CPA  
MICHAEL BRADLEY WOOD, CPA  
LESLIE C. BILANCIA, CPA/ABV, CVA  
WHITNEY J. BILLS, CPA  
SARAH P. ERWIN, CPA  
ADAM K. SMITH, 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](http://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  
498 Tuscan Avenue, WCU Box 1  
Hattiesburg, Mississippi 39401-5461

We have audited the accompanying statements of financial position of William Carey University (a Mississippi nonprofit corporation) as of June 30, 2012 and 2011, 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, 2012 and 2011, 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 August 28, 2012, 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 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 financial statements 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 as of June 30, 2012 and 2011, are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Nicholson & Company, PLLC*

Hattiesburg, Mississippi  
August 28, 2012

EXHIBIT A

**WILLIAM CAREY UNIVERSITY**

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2012 AND 2011**

**ASSETS**

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Cash and cash equivalents:		
Unrestricted	\$ 11,100,585	\$ 10,819,340
Temporarily restricted	2,133,993	2,318,906
Permanently restricted	181,953	178,909
Student accounts receivable, less allowance of \$94,268 and \$93,395 for June 30, 2012 and 2011, respectively	1,644,980	1,076,483
Other receivables	368,803	323,401
Prepaid expenses	118,441	149,190
Loans to students, less allowance of \$162,232 for both 2012 and 2011	243,244	261,684
Investments, at market value	20,566,954	18,195,212
Pooled investments – Mississippi Baptist Foundation	9,547,722	8,799,287
Other assets	449,275	378,956
Property held for resale	37,000	423,659
Deferred compensation asset	517,728	526,220
Property, plant and equipment, net of accumulated depreciation of \$27,756,655 and \$24,106,947 for 2012 and 2011, respectively	<u>62,604,617</u>	<u>62,195,459</u>
<b>Total assets</b>	<u><u>\$ 109,515,295</u></u>	<u><u>\$ 105,646,706</u></u>

See accompanying notes to the financial statements.

**LIABILITIES AND NET ASSETS**

	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
Accounts payable	\$ 609,649	\$ 745,729
Accrued liabilities	822,879	752,880
Deferred compensation liability	517,728	526,220
Student deposits and refunds	751,614	743,153
Line of credit	125,000	125,000
Capital leases payable	49,387	198,002
Notes payable	36,971,661	37,748,877
Total liabilities	<u>39,847,918</u>	<u>40,839,861</u>
Net assets:		
Unrestricted	56,569,636	52,291,319
Temporarily restricted	2,256,676	2,397,416
Permanently restricted	10,841,065	10,118,110
Total net assets	<u>69,667,377</u>	<u>64,806,845</u>
 <b>Total liabilities and net assets</b>	 <u><u>\$ 109,515,295</u></u>	 <u><u>\$ 105,646,706</u></u>

EXHIBIT B

**WILLIAM CAREY UNIVERSITY**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><i>SUPPORT AND REVENUE</i></b>				
Tuition and fees	\$ 39,161,470	\$ 10,303	\$ -	\$ 39,171,773
Auxiliary revenue	2,363,569	148,080	-	2,511,649
Private gifts and grants	2,568,562	491,279	467,484	3,527,325
Endowment income (losses)	117,277	238,561	-	355,838
Unrealized capital gains (losses)	(34,719)	-	(73,527)	(108,246)
Realized capital gains (losses)	1,708	-	108,828	110,536
Loss on sale of property, plant, and equipment	(141,871)	-	-	(141,871)
Governmental grants and contracts	-	821,373	-	821,373
Interest income	158,761	13,203	395,979	567,943
Net assets released from restrictions	2,212,639	(1,807,210)	(405,429)	-
Other revenues	63,993	294,064	8,667	366,724
Total support and revenue	<u>46,471,389</u>	<u>209,653</u>	<u>502,002</u>	<u>47,183,044</u>
<b><i>EXPENSES AND LOSSES</i></b>				
Instructional and research	16,442,666	-	-	16,442,666
Academic support	923,929	-	-	923,929
Student services	2,065,569	-	-	2,065,569
Institutional support	4,306,164	-	-	4,306,164
Scholarships and fellowships	7,494,470	-	-	7,494,470
Operation and maintenance	3,068,933	-	-	3,068,933
Depreciation expense	3,656,569	-	-	3,656,569
Interest expense	979,096	-	-	979,096

See accompanying notes to the financial statements.

EXHIBIT B  
PAGE TWO

**WILLIAM CAREY UNIVERSITY**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><i>EXPENSES AND LOSSES (Cont.)</i></b>				
Auxiliary enterprises	\$ 2,675,741	\$ -	\$ -	\$ 2,675,741
Other expenses	104,266	-	-	104,266
Other grants and contracts	605,109	-	-	605,109
Total expenses	<u>42,322,512</u>	<u>-</u>	<u>-</u>	<u>42,322,512</u>
Change in net assets before transfers	4,148,877	209,653	502,002	4,860,532
<b><i>INTERFUND TRANSFERS</i></b>	<u>129,440</u>	<u>(350,393)</u>	<u>220,953</u>	<u>-</u>
<b><i>CHANGE IN NET ASSETS</i></b>	4,278,317	(140,740)	722,955	4,860,532
<b><i>NET ASSETS</i></b>				
Beginning of year	<u>52,291,319</u>	<u>2,397,416</u>	<u>10,118,110</u>	<u>64,806,845</u>
End of year	<u>\$ 56,569,636</u>	<u>\$ 2,256,676</u>	<u>\$ 10,841,065</u>	<u>\$ 69,667,377</u>

See accompanying notes to the financial statements.



EXHIBIT C

**WILLIAM CAREY UNIVERSITY**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><i>SUPPORT AND REVENUE</i></b>				
Tuition and fees	\$ 35,313,162	\$ 42,540	\$ -	\$ 35,355,702
Auxiliary revenue	2,218,663	73,969	-	2,292,632
Private gifts and grants	2,825,241	700,389	174,809	3,700,439
Endowment income	121,826	226,788	1,450	350,064
Unrealized capital gains (losses)	(47,263)	-	540,666	493,403
Realized capital gains (losses)	(4,369)	2,747	77,764	76,142
Gain on sale of property, plant, and equipment	5,112	-	-	5,112
(Loss) on sale of property held for resale	(2,650)	-	-	(2,650)
Governmental grants and contracts	26,293	836,079	-	862,372
Interest income	254,997	16,255	386,988	658,240
Net assets released from restrictions	2,112,647	(1,708,914)	(403,733)	-
Other revenues	131,934	311,746	3,574	447,254
Total support and revenue	<u>42,955,593</u>	<u>501,599</u>	<u>781,518</u>	<u>44,238,710</u>
<b><i>EXPENSES AND LOSSES</i></b>				
Instructional and research	14,316,622	-	-	14,316,622
Academic support	813,791	-	-	813,791
Student services	2,102,230	-	-	2,102,230
Institutional support	3,978,702	-	-	3,978,702
Scholarships and fellowships	7,373,111	-	-	7,373,111
Operation and maintenance	3,134,702	-	-	3,134,702
Depreciation expense	2,659,109	-	-	2,659,109
Interest expense	959,704	-	-	959,704

See accompanying notes to the financial statements.

EXHIBIT C  
PAGE TWO

**WILLIAM CAREY UNIVERSITY**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><i>EXPENSES AND LOSSES (Cont.)</i></b>				
Auxiliary enterprises	\$ 2,502,683	\$ -	\$ -	\$ 2,502,683
Other expenses	156,032	-	-	156,032
Other grants and contracts	568,656	-	-	568,656
Total expenses	<u>38,565,342</u>	<u>-</u>	<u>-</u>	<u>38,565,342</u>
Change in net assets before transfers	4,390,251	501,599	781,518	5,673,368
<b><i>INTERFUND TRANSFERS</i></b>	<u>346,576</u>	<u>(403,526)</u>	<u>56,950</u>	<u>-</u>
<b><i>CHANGE IN NET ASSETS</i></b>	4,736,827	98,073	838,468	5,673,368
<b><i>NET ASSETS :</i></b>				
Beginning of year	<u>47,554,492</u>	<u>2,299,343</u>	<u>9,279,642</u>	<u>59,133,477</u>
End of year	<u>\$ 52,291,319</u>	<u>\$ 2,397,416</u>	<u>\$ 10,118,110</u>	<u>\$ 64,806,845</u>

See accompanying notes to the financial statements.

EXHIBIT D

**WILLIAM CAREY UNIVERSITY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,860,532	\$ 5,673,368
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,656,569	2,659,109
Net losses (gains) on sales of long-term investments	110,536	(76,142)
(Gain) Loss on sale of property, plant, and equipment	(2,129)	(1,112)
(Gain) Loss on property held for resale	144,000	2,650
Unrealized loss (gain) on investments	108,246	(493,403)
Contributions of property held for resale	-	(202,309)
Contributions of property and equipment	(29,000)	-
Cash contributions restricted for long-term investment	(461,908)	(169,605)
Changes in assets and liabilities:		
(Increase) decrease in student accounts receivable	(568,497)	(9,138)
(Increase) decrease in loans to students	18,440	19,261
(Increase) decrease in other receivables	(45,402)	224,844
(Increase) decrease in prepaid expenses and other assets	7,930	(50,481)
(Increase) decrease in deferred compensation asset	8,492	(162,213)
Increase (decrease) in accounts payable	(136,080)	(110,414)
Increase (decrease) in accrued liabilities	69,999	9,130
Increase (decrease) in student deposits and refunds	8,461	98,811
Increase (decrease) in deferred compensation liability	(8,492)	162,213
Net cash provided by operating activities	<u>7,741,697</u>	<u>7,574,569</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(3,981,983)	(6,298,497)
Purchase of investments	(36,830,639)	(46,424,810)
Proceeds from sale of investments	33,491,519	47,092,453
Proceeds from property held for resale	130,000	50,000
Proceeds from sale of property, plant, and equipment	12,705	1,112
Net cash (used by) investing activities	<u>(7,178,398)</u>	<u>(5,579,742)</u>

See accompanying notes to the financial statements.

EXHIBIT D  
PAGE TWO

**WILLIAM CAREY UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from gifts restricted for endowment	\$ 461,908	\$ 169,605
Proceeds from long-term debt	-	1,000,000
Payments on long-term debt	<u>(925,831)</u>	<u>(1,879,264)</u>
Net cash (used by) financing activities	<u>(463,923)</u>	<u>(709,659)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	99,376	1,285,168
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>13,317,155</u>	<u>12,031,987</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 13,416,531</u>	<u>\$ 13,317,155</u>
<b>SUPPLEMENTAL DISCLOSURE</b>		
Interest paid	<u>\$ 979,096</u>	<u>\$ 959,704</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Purchase of property and equipment	\$ -	\$ 180,100
Lines of credit converted to long-term debt	-	24,000,000
Refinance of lease payable to note payable	<u>12,377,515</u>	<u>-</u>
	<u>\$ 12,377,515</u>	<u>\$ 24,180,100</u>

See accompanying notes to the financial statements.

***NOTES TO FINANCIAL STATEMENTS***

**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 1 - ORGANIZATION**

William Carey University (the "University") is a private, coeducational institution of higher learning which was founded in 1892. The University operates campuses in Hattiesburg and Biloxi, Mississippi, and 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, 2012 AND 2011**

**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, the economic lives of the property and equipment, and the fair value of investments. 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 4 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, 2012 AND 2011**

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

**Property, Plant and Equipment** - Property is stated at cost at date of acquisition or fair value at date of donation in the case of gifts. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. 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 \$365,050 and \$297,134 as of June 30, 2012 and 2011, 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.

	<u>Estimated Useful Lives</u>
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, 2012 and 2011, 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, 2012 and 2011, were \$197,112 and \$81,511, respectively.



**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE FOUR**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

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

**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.

**Income Taxes** - 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 2010 – 2012. 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 August 28, 2012, which is the date the financial statements were available to be issued.

**Reclassifications** - Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. There was no effect to the 2011 net income related to the reclassifications.

**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE FIVE**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 3 - INVESTMENTS**

At June 30, 2012 and 2011, investments are comprised of the following:

<u>June 30, 2012</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Other than Temporary Loss</u>
Equity securities	\$ 156,428	\$ 183,529	\$ 27,101	\$ -	\$ -
Corporate bonds	151,849	152,335	486	-	-
Pooled marketable securities	9,085,615	9,547,722	462,107	-	-
Fixed income securities	20,174,118	20,231,090	56,972	-	-
<b>Total</b>	<u>\$ 29,568,010</u>	<u>\$ 30,114,676</u>	<u>\$ 546,666</u>	<u>\$ -</u>	<u>\$ -</u>
<u>June 30, 2011</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Other than Temporary Loss</u>
Equity securities	\$ 146,892	\$ 179,725	\$ 32,833	\$ -	\$ -
Corporate bonds	39,613	41,003	1,390	-	-
Pooled marketable securities	8,274,046	8,799,287	525,241	-	-
Fixed income securities	17,879,037	17,974,484	95,447	-	-
<b>Total</b>	<u>\$ 26,339,588</u>	<u>\$ 26,994,499</u>	<u>\$ 654,911</u>	<u>\$ -</u>	<u>\$ -</u>

**WILLIAM CAREY UNIVERSITY**

**NOTES TO FINANCIAL STATEMENTS**

**PAGE SIX**

**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 3 - INVESTMENTS (Cont.)**

The University has invested \$9,085,615 and \$8,274,045 as of June 30, 2012 and 2011, in pooled funds held at the Mississippi Baptist Foundation (the Foundation). The market value allocated to the University (\$9,547,722 and \$8,799,287 as of June 30, 2012 and 2011, 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, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment income	\$ 117,277	\$ 238,561	\$ -	\$ 355,838
Interest income	158,761	13,203	395,979	567,943
Realized (losses) gains	1,708	-	108,828	110,536
Unrealized (losses) gains	(34,719)	-	(73,527)	(108,246)
Distribution of earnings	-	-	(363,282)	(363,282)
Fiduciary fees	(95,090)	-	(9,216)	(104,306)
<b>Net investment return</b>	<u>\$ 147,937</u>	<u>\$ 251,764</u>	<u>\$ 58,782</u>	<u>\$ 458,483</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment income	\$ 121,826	\$ 226,788	\$ 1,450	\$ 350,064
Interest income	254,997	16,255	386,988	658,240
Realized (losses) gains	(4,369)	2,747	77,764	76,142
Unrealized (losses) gains	(47,263)	-	540,666	493,403
Distribution of earnings	-	-	(351,598)	(351,598)
Fiduciary fees	(103,897)	-	(8,046)	(111,943)
<b>Net investment return</b>	<u>\$ 221,294</u>	<u>\$ 245,790</u>	<u>647,224</u>	<u>\$ 1,114,308</u>

**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE SEVEN**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**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.

**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, 2012.

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.

**WILLIAM CAREY UNIVERSITY**

**NOTES TO FINANCIAL STATEMENTS  
PAGE EIGHT  
YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 4 - FAIR VALUE MEASUREMENTS (Cont.)**

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, 2012 and 2011:

<b>Assets at Fair Value as of June 30, 2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Government Bonds	\$ 18,959,391	\$ -	\$ -	\$ 18,959,391
Corporate bonds	152,335	-	-	152,335
Pooled marketable securities	9,547,722	-	-	9,547,722
Equity securities	183,529	-	-	183,529
Debt securities	1,271,699	-	-	1,271,699
<b>Total assets at fair value</b>	<b>\$ 30,114,676</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,114,676</b>

  

<b>Assets at Fair Value as of June 30, 2011</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Government Bonds	\$ 16,472,341	\$ -	\$ -	\$ 16,472,341
Corporate bonds	41,003	-	-	41,003
Pooled marketable securities	9,669,983	-	-	9,669,983
Equity securities	179,725	-	-	179,725
Debt securities	631,447	-	-	631,447
<b>Total assets at fair value</b>	<b>\$ 26,994,499</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 26,994,499</b>

**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.

**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE NINE**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
Land and improvements	\$ 9,180,495	\$ 6,691,628
Buildings and improvements	62,361,914	52,325,856
Equipment	14,201,200	13,140,234
Library books	3,606,306	3,503,630
Construction in process	1,011,357	10,641,058
	<u>90,361,272</u>	<u>86,302,406</u>
Less: Accumulated depreciation	<u>(27,756,655)</u>	<u>(24,106,947)</u>
<b>Total</b>	<b><u>\$ 62,604,617</u></b>	<b><u>\$ 62,195,459</u></b>

Total depreciation and amortization expense for the periods ended June 30, 2012 and 2011, was \$3,656,569 and \$2,659,109, respectively.

**NOTE 7 - LINE OF CREDIT**

As of June 30, 2012, the University has available one line of credit in the amount of \$3,000,000 related to the College of Osteopathic Medicine with an outstanding balance of \$125,000. During the fiscal year ended June 30, 2011, the \$20,000,000 operating line of credit was refinanced as a single payment loan, and the \$4,000,000 operating line of credit for capital improvements to the University's College of Osteopathic Medicine was refinanced as a \$5,000,000 term loan. Advances under the agreements are based upon a fluctuating rate equal to the one-month LIBOR interest rate plus 1.450% per annum with a floor interest rate of 1.714% and 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. See Note 9 for details on the above mentioned agreements.

**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE TEN**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 7 - LINE OF CREDIT (Cont.)**

At June 30, 2012 and 2011, the available and outstanding balances under the University's line of credit was as follows:

	<u>2012</u>	<u>2011</u>
Available	\$ 3,000,000	\$ 3,000,000
Outstanding balance	125,000	125,000

**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 \$7,163 are based upon level principal and interest payments in the amounts of \$7,097 and \$66, respectively. The lease is to be amortized over a three (3) year period beginning April 1, 2009, at an interest rate of 0.600%. This lease was paid in full during the fiscal year ended June 30, 2012.

During fiscal year 2010, the University finalized a non-interest bearing 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. This lease was paid in full during the fiscal year ended June 30, 2012.

**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE ELEVEN**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 8 - CAPITAL LEASE PAYABLE (Cont.)**

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

<u>Year Ending June 30,</u>	<u>Principal</u>
2013	\$ 49,387
2014	-
2015	-
2016	-
2017	-
Thereafter	-
<b>Total</b>	<u><u>\$ 49,387</u></u>

**NOTE 9 - NOTES PAYABLE**

On January 14, 2011 the University refinanced the operating line of credit for the College of Osteopathic Medicine with a \$20,000,000 single payment loan with BancorpSouth. This loan is secured by a deed of trust security interest and liens upon the University's Hattiesburg and beachfront campus properties as well as 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. The loan is based upon a fluctuating rate equal to the one-month LIBOR interest rate plus 1.450% per annum. Pursuant to the terms of the loan, the University began making monthly interest payments on February 14, 2011 with the principal due on January 14, 2015.

On January 14, 2011, the \$4,000,000 operating line of credit for capital improvements was refinanced as a \$5,000,000 term loan. The maturity date of this loan is January 14, 2015. This loan has a variable rate of interest equal to the thirty (30) day LIBOR rate plus 1.450% on the outstanding principal balance, with an interest rate ceiling of 5.000% and requires monthly payments of \$24,871.58. The balance outstanding at June 30, 2012 and 2011, was \$4,699,399 and \$4,911,998, respectively. The interest rates at June 30, 2012 and 2011 were 1.696% and 1.636%, respectively.

On May 17, 2011, the University executed an unsecured promissory note in the amount of \$180,100 with BSB with a maturity date of May 17, 2012, and with a variable interest rate equal to WSJ prime. Proceeds of this note were used for the purchase of real estate. This note was paid in full during the fiscal year ended June 30, 2012.



**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE TWELVE**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 9 - NOTES PAYABLE (Cont.)**

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, issued 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 was secured by collateral listed in the corresponding Guaranty Agreement, including the buildings, improvements, personal property and fixtures at the Tradition Campus. On March 26, 2012, the University repaid the outstanding Financing and Lease Agreement balance and executed a \$12,377,515 note payable with Regions Capital Advantage, Inc. Under the terms of this note, the University will make monthly payments of \$72,935 beginning on April 26, 2012 at a fixed rate of 3.680% with the final payment due on March 26, 2022. The balance of this note at June 30, 2012 was \$12,272,262.

Approximate maturities of the notes payable during the next five (5) years ending June 30<sup>th</sup> are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 650,664
2014	670,579
2015	24,719,560
2016	481,021
2017	499,024
Thereafter	<u>9,950,813</u>
<b>Total</b>	<u><u>\$ 36,971,661</u></u>

**NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Current Restricted Fund (pledges and other)	\$ 2,203,440	\$ 2,370,199
Title IV Grant Programs	<u>53,236</u>	<u>27,217</u>
<b>Total temporarily restricted net assets</b>	<u><u>\$ 2,256,676</u></u>	<u><u>\$ 2,397,416</u></u>

**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE THIRTEEN**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS**

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.

Net assets were permanently restricted for the following purposes at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Perkins Loan Program	\$ 225,045	\$ 238,258
Pearson Loan Fund	10,900	10,791
Bass Loan Fund	141,918	130,721
Bobby Wingo Loan Fund	4,395	4,394
Otis Seale Loan Fund	4,529	4,527
Nursing Faculty Loan Program	30,517	41,934
Endowment Fund	<u>10,423,761</u>	<u>9,687,485</u>
<b>Total permanently restricted net assets</b>	<u>\$ 10,841,065</u>	<u>\$ 10,118,110</u>

**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 7.000%. Actual returns in any given year may vary from this percentage.

**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE FOURTEEN**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS (Cont.)**

Changes in endowment net assets as of June 30, 2012 are as follows:

<b>Endowment net assets, beginning of year</b>	\$ 10,118,110
Contributions	467,484
Investment income	395,979
Other revenue	8,667
Transfers	220,953
Net appreciation (depreciation)	35,301
Amounts appropriated for expenditure	<u>(405,429)</u>
<b>Endowment net assets, end of year</b>	<u><u>\$ 10,841,065</u></u>

**NOTE 12 - DESIGNATED UNRESTRICTED NET ASSETS**

The University has designated portions of the unrestricted net asset balance as of June 30, 2012 and 2011, 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 are \$3,805,114, and \$3,824,156 as of June 30, 2012 and 2011, respectively, and the cash, cash equivalents, and investment balances, at market value, for the College of Osteopathic Medicine Teach Out Reserve are \$15,208,889 and \$15,258,068 as of June 30, 2012 and 2011, respectively. 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 13 - 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 (3.000% to 15.000%) of participating employee's salaries depending on years of service. The University contributed \$916,711 and \$866,519 in 2012 and 2011, respectively, to these plans.

**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE FIFTEEN**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 14 - 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 3.000% 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:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 180,250
2014	90,125
2015	-
2016	-
2017	-
Thereafter	-
<b>Total</b>	<b>\$ 270,375</b>

Payments made under the operating lease for the year ended June 30, 2012 and 2011, were \$180,250.

Total expenses under month-to-month and other cancelable leases for the years ended June 30, 2012 and 2011, were \$180,250.

**NOTE 15 - 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.

**WILLIAM CAREY UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**PAGE SIXTEEN**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

***NOTE 15 - COMMITMENTS AND CONTINGENCIES (Cont.)***

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 works in cooperation with the Mississippi Baptist Convention (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 \$2,286,312 in 2012 and \$2,250,106 in 2011.

***NOTE 16 - 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, 2012, the University had \$11,352,205 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 33.000% 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, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA#</u>	<u>Agency or Passthrough #</u>	<u>Federal Expenditures</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Direct programs:			
<b>Student Financial Aid Cluster</b>			
Federal Family Supplemental Educational Opportunity Grant	84.007	--	\$ 134,562
Federal Work-Study Program	84.033	--	420,090
Federal Perkins Loan Program	84.038	--	353,145
Federal Pell Grant Program	84.063	--	6,189,503
Federal Direct Student Loans	84.268	--	42,229,365
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	--	1,333
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379	--	434,407
Nurse Faculty Loan Program (NFLP)	93.264	--	31,141
Total SFA Cluster			<u>49,793,546</u>
TRIO - Student Support Services	84.042A	--	<u>216,245</u>
Total direct programs			<u>50,009,791</u>
<b>Total Federal Awards</b>			<u><u>\$ 50,009,791</u></u>

See the independent auditor's report.

**WILLIAM CAREY UNIVERSITY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012**

**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, 2012. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA#</u>	<u>Amount</u>
Federal Perkins Loan Program	84.038	\$ 348,636
Nurse Faculty Loan Program	93.264	31,141

During the year ended June 30, 2012, disbursements for new loans totaled \$46,595 and disbursements for miscellaneous expenses totaled \$4,509 for the Federal Perkins Loan Program. There were no disbursements for new loans or other miscellaneous expenses for the Nurse Faculty Loan Program during fiscal year 2012.

**NOTE 3 - FEDERAL PELL GRANT PROGRAM**

Expenditures totaled \$6,189,503 of which \$6,180,228 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  
JANICE M. BATES, CPA  
JOE C. TRAVIS, CPA, C.F.A., CFF  
JOSEPH C. TOWNSEND, CPA, CVA  
TRACY W. HAYNES, CPA  
JAMES E. POLK, CPA  
STEPHEN W. GRAY, CPA  
ANNETTE P. HERRIN, CPA/ABV, CVA, CFE, CFF  
LEIGH F. AGNEW, CPA  
SHELBY L. HOWARTH, CPA  
RENEE MOORE, CPA  
LACEY J. MILLER, CPA  
MICHAEL BRADLEY WOOD, CPA  
LESLIE C. BILANCIA, CPA/ABV, CVA  
WHITNEY J. BILLS, CPA  
SARAH P. ERWIN, CPA  
ADAM K. SMITH, 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  
498 Tuscan Avenue, WCU Box 1  
Hattiesburg, Mississippi 39401-5461

We have audited the financial statements of William Carey University (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated August 28, 2012. 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**

Management of William Carey University is responsible for establishing and maintaining effective 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

To the Board of Trustees  
William Carey University

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 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.

A handwritten signature in black ink that reads "Nicholson & Company, PLLC". The signature is written in a cursive, flowing style.

Hattiesburg, Mississippi  
August 28, 2012

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  
JANICE M. BATES, CPA  
JOE C. TRAVIS, CPA, C.F.A., CFF  
JOSEPH C. TOWNSEND, CPA, CVA  
TRACY W. HAYNES, CPA  
JAMES E. POLK, CPA  
STEPHEN W. GRAY, CPA  
ANNETTE P. HERRIN, CPA/ABV, CVA, CFE, CFF  
LEIGH F. AGNEW, CPA  
SHELBY L. HOWARTH, CPA  
RENEE MOORE, CPA  
LACEY J. MILLER, CPA  
MICHAEL BRADLEY WOOD, CPA  
LESLIE C. BILANCIA, CPA/ABV, CVA  
WHITNEY J. BILLS, CPA  
SARAH P. ERWIN, CPA  
ADAM K. SMITH, 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](http://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  
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees  
William Carey University  
498 Tuscan Avenue, WCU Box 1  
Hattiesburg, Mississippi 39401-5461

**Compliance**

We have audited William Carey University's compliance with the type of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2012. 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

In our opinion, William Carey University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

### **Internal Control over Compliance**

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the 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.

Handwritten signature in black ink that reads "Nicholson & Company, PLLC". The signature is written in a cursive, flowing style.

Hattiesburg, Mississippi  
August 28, 2012

**WILLIAM CAREY UNIVERSITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

**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
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

**Identification of Major Programs:**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	<u>Department of Education</u>
	<i>Student Financial Aid Cluster</i>
84.007	Federal Family Supplemental Educational Opportunity Grant
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.376	National Science and Math Access To Retain Talent (SMART) Grants
84.379	Teacher Education Assistance for College and Higher Education (TEACH) Grants
93.264	Nurse Faculty Loan Program (NFLP)

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, 2012**

***Section II - Financial Statement Findings***

No matters were reported.

***Section III - Federal Awards Findings and Questioned Costs***

No matters were reported.

**WILLIAM CAREY UNIVERSITY**

**SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,100,585	\$ 2,133,993	\$ 181,953	\$ 13,416,531
Student accounts receivable, net	1,644,980	-	-	1,644,980
Other receivables	244,803	122,683	1,317	368,803
Prepaid expenses and other current assets	118,441	-	-	118,441
Loans to students, net	-	-	243,244	243,244
Investments, at market value	19,700,125	-	866,829	20,566,954
Pooled investments – Mississippi Baptist Foundation	-	-	9,547,722	9,547,722
Other assets	449,275	-	-	449,275
Property held for resale	37,000	-	-	37,000
Deferred compensation asset	517,728	-	-	517,728
Property, plant and equipment, net	62,604,617	-	-	62,604,617
<b>Total assets</b>	<u>\$ 96,417,554</u>	<u>\$ 2,256,676</u>	<u>\$ 10,841,065</u>	<u>\$ 109,515,295</u>

See the independent auditor's report.

WILLIAM CAREY UNIVERSITY

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION  
PAGE TWO  
JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 609,649	\$ -	\$ -	\$ 609,649
Accrued liabilities	822,879	-	-	822,879
Deferred compensation liability	517,728	-	-	517,728
Student deposits and refunds	751,614	-	-	751,614
Line of credit	125,000	-	-	125,000
Capital lease payable	49,387	-	-	49,387
Notes payable	36,971,661	-	-	36,971,661
Total liabilities	<u>39,847,918</u>	<u>-</u>	<u>-</u>	<u>39,847,918</u>
<b>NET ASSETS</b>				
Unrestricted	56,569,636	-	-	56,569,636
Temporarily restricted	-	2,256,676	-	2,256,676
Permanently restricted	-	-	10,841,065	10,841,065
Total net assets	<u>56,569,636</u>	<u>2,256,676</u>	<u>10,841,065</u>	<u>69,667,377</u>
<b>Total liabilities and net assets</b>	<u>\$ 96,417,554</u>	<u>\$ 2,256,676</u>	<u>\$ 10,841,065</u>	<u>\$ 109,515,295</u>

See the independent auditor's report.



WILLIAM CAREY UNIVERSITY

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 10,819,340	\$ 2,318,906	\$ 178,909	\$ 13,317,155
Student accounts receivable, net	1,076,483	-	-	1,076,483
Other receivables	258,481	64,920	-	323,401
Prepaid expenses and other current assets	149,190	-	-	149,190
Loans to students, net	-	-	261,684	261,684
Investments, at market value	16,446,281	-	878,236	17,324,517
Pooled investments – Mississippi Baptist Foundation	857,111	13,590	8,799,281	9,669,982
Other assets	378,956	-	-	378,956
Property held for resale	423,659	-	-	423,659
Deferred compensation asset	526,220	-	-	526,220
Property, plant and equipment, net	62,195,459	-	-	62,195,459
<b>Total assets</b>	<u>\$ 93,131,180</u>	<u>\$ 2,397,416</u>	<u>\$ 10,118,110</u>	<u>\$ 105,646,706</u>

See the independent auditor's report.

WILLIAM CAREY UNIVERSITY

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION  
PAGE TWO  
JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 745,729	\$ -	\$ -	\$ 745,729
Accrued liabilities	752,880	-	-	752,880
Deferred compensation liability	526,220	-	-	526,220
Student deposits and refunds	743,153	-	-	743,153
Line of credit	125,000	-	-	125,000
Capital lease payable	198,002	-	-	198,002
Notes payable	25,092,098	-	-	25,092,098
Tradition campus lease payable	12,656,779	-	-	12,656,779
Total liabilities	<u>40,839,861</u>	<u>-</u>	<u>-</u>	<u>40,839,861</u>
<b>NET ASSETS</b>				
Unrestricted	52,291,319	-	-	52,291,319
Temporarily restricted	-	2,397,416	-	2,397,416
Permanently restricted	-	-	10,118,110	10,118,110
Total net assets	<u>52,291,319</u>	<u>2,397,416</u>	<u>10,118,110</u>	<u>64,806,845</u>
<b>Total liabilities and net assets</b>	<u>\$ 93,131,180</u>	<u>\$ 2,397,416</u>	<u>\$ 10,118,110</u>	<u>\$ 105,646,706</u>

See the independent auditor's report.