# WILLIAM CAREY UNIVERSITY

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

**Years Ended June 30, 2014 and 2013**

# WILLIAM CAREY UNIVERSITY

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
William Carey University
Hattiesburg, Mississippi

### *Report on the Financial Statements*

We have audited the accompanying financial statements of William Carey University (a Mississippi nonprofit corporation) which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

To the Board of Trustees
William Carey University
Hattiesburg, Mississippi

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Combining Statements of Financial Position on pages 36 through 39 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is 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

To the Board of Trustees
William Carey University
Hattiesburg, Mississippi

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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2014, 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* in considering William Carey University's internal control over financial reporting and compliance.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
September 3, 2014

EXHIBIT A

# WILLIAM CAREY UNIVERSITY

## STATEMENTS OF FINANCIAL POSITION
## JUNE 30, 2014 AND 2013

### ASSETS

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Cash and cash equivalents: | | |
| Unrestricted | $ 15,215,455 | $ 10,205,589 |
| Temporarily restricted | 2,180,214 | 2,584,229 |
| Permanently restricted | 210,142 | 215,191 |
| Student accounts receivable, less allowance of $164,896 and $80,613 for June 30, 2014 and 2013, respectively | 2,995,857 | 3,312,406 |
| Other receivables | 266,387 | 265,930 |
| Prepaid expenses | 24,433 | 127,263 |
| Loans to students, less allowance of $110,664 and $110,495 for June 30, 2014 and 2013, respectively | 203,725 | 188,290 |
| Investments, at market value | 12,236,106 | 18,145,381 |
| Pooled investments – Mississippi Baptist Foundation | 13,528,188 | 10,016,821 |
| Other assets | 553,701 | 486,702 |
| Property held for resale | 64,500 | 64,500 |
| Deferred compensation asset | 860,769 | 639,706 |
| Property, plant and equipment, net of accumulated depreciation of $34,093,378 and $30,760,647 for 2014 and 2013, respectively | 73,511,715 | 68,375,184 |
| ***Total assets*** | $ 121,851,192 | $ 114,627,192 |

See accompanying notes to the financial statements.

## LIABILITIES AND NET ASSETS

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Accounts payable | $ 948,425 | $ 1,665,941 |
| Accrued liabilities | 810,705 | 1,050,880 |
| Deferred compensation liability | 860,769 | 639,706 |
| Student deposits and refunds | 690,022 | 791,497 |
| Line of credit | 1,000 | 125,000 |
| Notes payable | 36,120,546 | 36,323,719 |
| Total liabilities | 39,431,467 | 40,596,743 |
| Net assets: | | |
| Unrestricted | 65,382,460 | 60,124,031 |
| Temporarily restricted | 2,199,224 | 2,611,539 |
| Permanently restricted | 14,838,041 | 11,294,879 |
| Total net assets | 82,419,725 | 74,030,449 |
| ***Total liabilities and net assets*** | $ 121,851,192 | $ 114,627,192 |

EXHIBIT B

# WILLIAM CAREY UNIVERSITY

## STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| ***SUPPORT AND REVENUE*** | | | | |
| Tuition and fees | $ 45,745,503 | $ 45,462 | $ - | $ 45,790,965 |
| Auxiliary revenue | 3,155,629 | 260,088 | - | 3,415,717 |
| Private gifts and grants | 2,839,265 | 865,324 | 2,756,686 | 6,461,275 |
| Endowment income | 107,999 | 237,823 | 3,112 | 348,934 |
| Unrealized capital gains | 86,217 | - | 498,159 | 584,376 |
| Realized capital gains (losses) | (64,228) | - | 305,257 | 241,029 |
| Gain on sale of property, plant, and equipment | 937 | - | - | 937 |
| Governmental grants and contracts | 48,399 | 745,245 | - | 793,644 |
| Interest income | 96,946 | 9,693 | 372,278 | 478,917 |
| Net assets released from restrictions | 2,505,347 | (2,113,547) | (391,800) | - |
| Other revenues | 73,383 | 235,548 | 12,450 | 321,381 |
| Total support and revenue | 54,595,397 | 285,636 | 3,556,142 | 58,437,175 |
| ***EXPENSES AND LOSSES*** | | | | |
| Instructional and research | 20,781,932 | - | - | 20,781,932 |
| Academic support | 867,493 | - | - | 867,493 |
| Student services | 2,335,007 | - | - | 2,335,007 |
| Institutional support | 5,693,483 | - | - | 5,693,483 |
| Scholarships and fellowships | 8,724,253 | - | - | 8,724,253 |
| Operation and maintenance | 3,372,324 | - | - | 3,372,324 |
| Depreciation expense | 3,343,539 | - | - | 3,343,539 |
| Interest expense | 830,465 | - | - | 830,465 |

See accompanying notes to the financial statements.

EXHIBIT B
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# WILLIAM CAREY UNIVERSITY

## STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| ***EXPENSES AND LOSSES (Cont.)*** | | | | |
| Auxiliary enterprises | $ 3,351,283 | $ - | $ - | $ 3,351,283 |
| Other expenses | 466,163 | - | - | 466,163 |
| Other grants and contracts | 493,365 | - | - | 493,365 |
| Total expenses | 50,259,307 | - | - | 50,259,307 |
| Change in net assets before transfers | 4,336,090 | 285,636 | 3,556,142 | 8,177,868 |
| ***INTERFUND TRANSFERS*** | 710,931 | (697,951) | (12,980) | - |
| ***CHANGE IN NET ASSETS*** | 5,047,021 | (412,315) | 3,543,162 | 8,177,868 |
| ***NET ASSETS*** | | | | |
| Beginning of year | 60,124,031 | 2,611,539 | 11,294,879 | 74,030,449 |
| Prior period adjustment | 211,408 | - | - | 211,408 |
| Beginning of year, as restated | 60,335,439 | 2,611,539 | 11,294,879 | 74,241,857 |
| End of year | $ 65,382,460 | $ 2,199,224 | $ 14,838,041 | $ 82,419,725 |

See accompanying notes to the financial statements.

EXHIBIT C

# WILLIAM CAREY UNIVERSITY

## STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| ***SUPPORT AND REVENUE*** | | | | |
| Tuition and fees | $ 42,927,716 | $ 29,527 | $ - | $ 42,957,243 |
| Auxiliary revenue | 2,671,778 | 267,076 | - | 2,938,854 |
| Private gifts and grants | 2,625,814 | 644,326 | 149,006 | 3,419,146 |
| Endowment income | 95,136 | 174,729 | 2,712 | 272,577 |
| Unrealized capital gains (losses) | (106,754) | - | (81,736) | (188,490) |
| Realized capital gains (losses) | (1,161) | (71) | 307,918 | 306,686 |
| Loss on sale of property, plant, and equipment | 5,618 | - | - | 5,618 |
| Governmental grants and contracts | 37,784 | 797,612 | - | 835,396 |
| Interest income | 153,352 | 10,277 | 374,533 | 538,162 |
| Net assets released from restrictions | 2,208,305 | (1,857,909) | (350,396) | - |
| Other revenues | 40,121 | 279,365 | 9,733 | 329,219 |
| Total support and revenue | 50,657,709 | 344,932 | 411,770 | 51,414,411 |
| ***EXPENSES AND LOSSES*** | | | | |
| Instructional and research | 19,757,076 | - | - | 19,757,076 |
| Academic support | 953,484 | - | - | 953,484 |
| Student services | 2,368,074 | - | - | 2,368,074 |
| Institutional support | 5,064,403 | - | - | 5,064,403 |
| Scholarships and fellowships | 7,913,076 | - | - | 7,913,076 |
| Operation and maintenance | 3,098,016 | - | - | 3,098,016 |
| Depreciation expense | 3,046,125 | - | - | 3,046,125 |
| Interest expense | 861,924 | - | - | 861,924 |

See accompanying notes to the financial statements.

EXHIBIT C
PAGE TWO

# WILLIAM CAREY UNIVERSITY

## STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| ***EXPENSES AND LOSSES (Cont.)*** | | | | |
| Auxiliary enterprises | $ 3,028,722 | $ - | $ - | $ 3,028,722 |
| Other expenses | 370,629 | - | - | 370,629 |
| Other grants and contracts | 589,810 | - | - | 589,810 |
| Total expenses | 47,051,339 | - | - | 47,051,339 |
| Change in net assets before transfers | 3,606,370 | 344,932 | 411,770 | 4,363,072 |
| ***INTERFUND TRANSFERS*** | (51,975) | 9,931 | 42,044 | - |
| ***CHANGE IN NET ASSETS*** | 3,554,395 | 354,863 | 453,814 | 4,363,072 |
| ***NET ASSETS*** | | | | |
| Beginning of year | 56,569,636 | 2,256,676 | 10,841,065 | 69,667,377 |
| End of year | $ 60,124,031 | $ 2,611,539 | $ 11,294,879 | $ 74,030,449 |

See accompanying notes to the financial statements.

EXHIBIT D

# WILLIAM CAREY UNIVERSITY

## STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2014 AND 2013

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| ***CASH FLOWS FROM OPERATING ACTIVITIES*** | | |
| Change in net assets | $ 8,177,868 | $ 4,363,072 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,343,539 | 3,046,125 |
| Net losses on sales of long-term investments | 241,029 | 306,686 |
| (Gain) on sale of property, plant, and equipment | (937) | (5,618) |
| Unrealized (gain) loss on investments | (584,376) | 188,490 |
| Contributions of property and equipment | - | (27,500) |
| Cash contributions restricted for long-term investment | (2,751,403) | (146,366) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in student accounts receivable | 316,549 | (1,667,426) |
| (Increase) decrease in loans to students | (15,435) | 54,954 |
| (Increase) decrease in other receivables | (461) | 102,873 |
| (Increase) decrease in prepaid expenses | 102,833 | (8,822) |
| (Increase) decrease in other assets | (66,999) | (37,427) |
| (Increase) decrease in deferred compensation asset | (221,063) | (121,978) |
| Increase (decrease) in accounts payable | (717,519) | 1,056,292 |
| Increase (decrease) in accrued liabilities | (28,767) | 228,001 |
| Increase (decrease) in student deposits and refunds | (101,475) | 39,883 |
| Increase (decrease) in deferred compensation liability | 221,063 | 121,978 |
| Net cash provided by operating activities | 7,914,446 | 7,493,217 |
| ***CASH FLOWS FROM INVESTING ACTIVITIES*** | | |
| Purchases of property and equipment | (8,480,070) | (8,816,692) |
| Purchase of investments | (22,197,568) | (31,683,719) |
| Proceeds from sale of investments | 24,938,827 | 33,141,027 |
| Proceeds from sale of property, plant, and equipment | 937 | 5,618 |
| Net cash (used by) investing activities | (5,737,874) | (7,353,766) |

See accompanying notes to the financial statements.

EXHIBIT D
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# WILLIAM CAREY UNIVERSITY

## STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2014 AND 2013

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| ***CASH FLOWS FROM FINANCING ACTIVITIES*** | | |
| Proceeds from gifts restricted for endowment | $ 2,751,403 | $ 146,356 |
| Proceeds from long-term debt | 464,712 | - |
| Payments on long-term debt | (791,885) | (697,329) |
| Net cash provided by (used by) financing activities | 2,424,230 | (550,973) |
| ***NET INCREASE (DECREASE) IN CASH*** | 4,600,802 | (411,522) |
| ***CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR*** | 13,005,009 | 13,416,531 |
| ***CASH AND CASH EQUIVALENTS, END OF YEAR*** | $ 17,605,811 | $ 13,005,009 |
| ***SUPPLEMENTAL DISCLOSURE*** | | |
| Interest paid | $ 830,465 | $ 861,924 |

See accompanying notes to the financial statements.

## *NOTES TO FINANCIAL STATEMENTS*

# WILLIAM CAREY UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS
## YEARS ENDED JUNE 30, 2014 AND 2013

### *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. 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 activities; 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:

<u>Unrestricted</u> - 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.

<u>Temporarily Restricted</u> - 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.

<u>Permanently Restricted</u> - 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, 2014 AND 2013

***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 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. Interest income is not accrued on outstanding accounts receivable.

***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, 2014 AND 2013

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

***Contributed Services -*** The University receives contributed services related to general legal counsel. These services have not been recorded in the statement of activities, as they do not meet the requirements for recognition under FASB ASC 958-605.

***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 $462,690 and $398,218 as of June 30, 2014 and 2013, 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.

| | |
|---|---|
| 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. 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, 2014 and 2013, for cash, receivables, accounts payable and accrued liabilities are a reasonable estimate of their fair values.

***Compensated Absences -*** Employees are entitled to paid vacations, sick days, and personal days off depending on length of service and other factors. It is impractical to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. It is the University's policy to recognize the cost of compensated absence when actually paid.

# WILLIAM CAREY UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS
## PAGE FOUR
## YEARS ENDED JUNE 30, 2014 AND 2013

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

***Advertising Costs -*** Costs for advertising, including radio, television, and newspaper advertisements, are expensed as incurred. Total advertising costs for the years ended June 30, 2014 and 2013, were $150,503 and $226,544, respectively.

***Capitalized Interest -*** The University capitalizes interest costs incurred as part of the cost of acquiring or constructing an asset. As of June 30, 2014 and 2013, the University has capitalized interest of $10,262 and $0, respectively, which is included in the total for construction in progress.

***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. During fiscal year 2014, the Development Foundation was dissolved.

***Income Taxes -*** FASB ASC 740, *Accounting for Uncertainty in Income Taxes,* clarifies the accounting for uncertainty in tax positions and recognition of such income tax positions taken or expected to be taken in the University's income tax return. The University's income tax returns are subject to examination by taxing authorities, generally for three years after they are filed. The University's open tax periods are 2012 – 2014. The University believes their estimates are appropriate based on current facts and circumstances and that no uncertain tax positions were taken.

### *NOTE 3 - PRIOR PERIOD ADJUSTMENT*

Per FAS 43, paragraph 6, employers are required to record a liability for compensated absences based on the following criteria: (a) the employer's obligation related to employee's rights to receive compensation for future absences is attributable to employee's services already rendered, (b) the obligation relates to rights that vest or accumulate, (c) payment of the compensation is probable, and (d) the amount can be reasonably estimated.

It was determined that the University is not required to record a liability for compensated absences related to vacation benefits because these rights are non-vesting. Therefore, during fiscal year 2014, a prior period adjustment was made in the amount of $211,408 to adjust the liability to zero.

## WILLIAM CAREY UNIVERSITY

### NOTES TO FINANCIAL STATEMENTS
### PAGE FIVE
### YEARS ENDED JUNE 30, 2014 AND 2013

***NOTE 4 - INVESTMENTS***

At June 30, 2014 and 2013, investments are comprised of the following:

| June 30, 2014 | Cost | Market Value | Unrealized Gain* | Unrealized Loss* | Other than Temporary Loss |
|---|---|---|---|---|---|
| Equity securities | $ 135,180 | $ 190,059 | $ 54,879 | $ - | $ - |
| Corporate bonds | 31,750 | 31,332 | - | 418 | - |
| Pooled marketable securities | 12,679,375 | 13,527,987 | 848,612 | - | - |
| Fixed income securities | 11,975,605 | 12,014,916 | 39,311 | - | - |
| ***Total*** | $ 24,821,910 | $ 25,764,294 | $ 942,802 | $ 418 | $ - |

| June 30, 2013 | Cost | Market Value | Unrealized Gain* | Unrealized Loss* | Other than Temporary Loss |
|---|---|---|---|---|---|
| Equity securities | $ 462,569 | $ 479,145 | $ 16,576 | $ - | $ - |
| Corporate bonds | 41,550 | 40,112 | - | 1,438 | - |
| Pooled marketable securities | 9,629,691 | 10,016,821 | 387,129 | - | - |
| Fixed income securities | 17,670,741 | 17,626,124 | - | 44,617 | - |
| ***Total*** | $ 27,804,551 | $ 28,162,202 | $ 403,705 | $ 46,055 | $ - |

* Unrealized gains and losses are shown net.

# WILLIAM CAREY UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS
## PAGE SIX
## YEARS ENDED JUNE 30, 2014 AND 2013

***NOTE 4 - INVESTMENTS (Cont.)***

The University has invested $12,679,576 and $9,629,692 as of June 30, 2014 and 2013, respectively, in pooled funds held at the Mississippi Baptist Foundation (the Foundation). The market value allocated to the University ($13,528,188 and $10,016,821 as of June 30, 2014 and 2013, 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, 2014:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment income | $ 107,999 | $ 237,823 | $ 3,112 | $ 348,934 |
| Interest income | 96,946 | 9,693 | 372,278 | 478,917 |
| Realized (losses) gains | (64,228) | - | 305,257 | 241,029 |
| Unrealized (losses) gains | 86,217 | - | 498,159 | 584,376 |
| Distribution of earnings | - | - | (364,088) | (364,088) |
| Fiduciary fees | (74,939) | - | (9,043) | (83,982) |
| ***Net investment return*** | $ 151,995 | $ 247,516 | $ 805,675 | $ 1,205,186 |

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2013:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment income | $ 95,136 | $ 174,729 | $ 2,712 | $ 272,577 |
| Interest income | 153,352 | 10,277 | 374,533 | 538,162 |
| Realized (losses) gains | (1,161) | (71) | 307,918 | 306,686 |
| Unrealized (losses) gains | (106,754) | - | (81,736) | (188,490) |
| Distribution of earnings | - | - | (290,003) | (290,003) |
| Fiduciary fees | (72,004) | - | (8,649) | (80,653) |
| ***Net investment return*** | $ 68,569 | $ 184,935 | $ 304,775 | $ 558,279 |

# WILLIAM CAREY UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS
## PAGE SEVEN
## YEARS ENDED JUNE 30, 2014 AND 2013

### *NOTE 5 - 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, 2014.

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, 2014 AND 2013

***NOTE 5 - 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, 2014 and 2013:

| | Assets at Fair Value as of June 30, 2014 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| U.S. Government Bonds | $ 10,859,676 | $ - | $ - | $ 10,859,676 |
| Corporate bonds | 31,332 | - | - | 31,332 |
| Pooled marketable securities | 13,527,987 | - | - | 13,527,987 |
| Equity securities | 190,059 | - | - | 190,059 |
| Debt securities | 1,155,240 | - | - | 1,155,240 |
| ***Total assets at fair value*** | $ 25,764,294 | $ - | $ - | $ 25,764,294 |

| | Assets at Fair Value as of June 30, 2013 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| U.S. Government Bonds | $ 15,825,790 | $ - | $ - | $ 15,825,790 |
| Corporate bonds | 40,112 | - | - | 40,112 |
| Pooled marketable securities | 10,016,821 | - | - | 10,016,821 |
| Equity securities | 479,145 | - | - | 479,145 |
| Debt securities | 1,800,334 | - | - | 1,800,334 |
| ***Total assets at fair value*** | $ 28,162,202 | $ - | $ - | $ 28,162,202 |

***NOTE 6 - 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, 2014 AND 2013

### *NOTE 7 - PROPERTY, PLANT AND EQUIPMENT*

Property, plant and equipment consist of the following:

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Land and improvements | $ 10,600,285 | $ 9,982,358 |
| Buildings and improvements | 70,493,540 | 63,724,800 |
| Equipment | 16,493,806 | 15,306,880 |
| Library books | 3,839,832 | 3,724,377 |
| Construction in process | 6,177,630 | 6,397,416 |
| | 107,605,093 | 99,135,831 |
| Less: Accumulated depreciation | (34,093,378) | (30,760,647) |
| ***Total*** | $ 73,511,715 | $ 68,375,184 |

Total depreciation and amortization expense for the periods ended June 30, 2014 and 2013, was $3,343,539 and $3,046,125, respectively.

### *NOTE 8 - LINE OF CREDIT*

As of June 30, 2014, 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 $1,000 and $125,000 as of June 30, 2014 and 2013, respectively. Advances under the agreement are based upon a fluctuating rate equal to the 30 day LIBOR rate plus 1.450% per annum with a floor interest rate of 1.714% and are secured 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, 2014 and 2013, the available and outstanding balances under the University’s line of credit were as follows:

| | 2014 | 2013 |
|---|---|---|
| Available balance | $ 3,000,000 | $ 3,000,000 |
| Outstanding balance | $ 1,000 | $ 125,000 |

### *NOTE 9 - CAPITAL LEASES*

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 were paid in the amount of $49,387. The lease was amortized over a three year period beginning May 14, 2010. This lease was paid in full during the fiscal year ended June 30, 2013.

### *NOTE 10 - 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 beach front 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 30 day LIBOR interest rate plus 1.450% per annum. The interest rates at June 30, 2014 and 2013, were 1.605% and 1.645%, respectively. 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. This loan is secured by the University's Hattiesburg and beach front campus properties, and all furniture and fixtures. The maturity date of this loan is January 14, 2015. This loan has a variable rate of interest equal to the 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 approximately $24,500. The balance outstanding at June 30, 2014 and 2013, was $4,260,609 and $4,482,273, respectively. The interest rates at June 30, 2014 and 2013, were 1.605% and 1.645%, respectively.

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 began making monthly payments of $72,935 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, 2014 and 2013, was $11,395,225 and $11,841,446, respectively.

# WILLIAM CAREY UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS
## PAGE ELEVEN
## YEARS ENDED JUNE 30, 2014 AND 2013

***NOTE 10 - NOTES PAYABLE (Cont.)***

On November 18, 2013, the University entered into a $12,000,000 promissory note with BancorpSouth for construction of the gymnasium which is secured by buildings, land, and furniture and equipment. The loan is based on a fixed interest rate of 3.750%. Monthly interest only payments began on December 18, 2013 and will continue for the following eighteen months. Thereafter, principal and interest payments on the outstanding balance will begin on June 18, 2015, and monthly thereafter based on a 20 year amortization. The note matures on November 18, 2023. The outstanding balance on this loan as of June 30, 2014 was $464,712.

Approximate maturities of the notes payable during the next five years ending June 30th are as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2015 | $ 24,728,132 |
| 2016 | 528,482 |
| 2017 | 548,296 |
| 2018 | 568,853 |
| 2019 | 590,181 |
| Thereafter | 9,156,602 |
| ***Total*** | $ 36,120,546 |

***NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS***

Temporarily restricted net assets are available for the following purposes at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Current Restricted Fund (pledges and other) | $ 2,173,355 | $ 2,581,153 |
| Title IV Grant Programs | 25,869 | 30,386 |
| ***Total temporarily restricted net assets*** | $ 2,199,224 | $ 2,611,539 |

## WILLIAM CAREY UNIVERSITY

### NOTES TO FINANCIAL STATEMENTS
### PAGE TWELVE
### YEARS ENDED JUNE 30, 2014 AND 2013

***NOTE 12 - 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, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Perkins Loan Program | $ 170,711 | $ 188,000 |
| Pearson Loan Fund | 11,304 | 11,136 |
| Bass Loan Fund | 169,862 | 159,060 |
| Bobby Wingo Loan Fund | 4,396 | 4,395 |
| Otis Seale Loan Fund | 4,529 | 4,529 |
| Nursing Faculty Loan Program | 29,634 | 26,546 |
| Endowment Fund | 14,447,605 | 10,901,213 |
| ***Total permanently restricted net assets*** | $ 14,838,041 | $ 11,294,879 |

***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.

***NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS (Cont.)***

Changes in endowment net assets as of June 30, 2014 are as follows:

| | 2014 | 2013 |
|---|---|---|
| ***Endowment net assets, beginning of year*** | $ 11,294,879 | $ 10,841,065 |
| Contributions | 2,756,686 | 149,006 |
| Investment income | 372,278 | 374,533 |
| Other revenue | 15,562 | 11,978 |
| Transfers | (12,980) | 42,044 |
| Net appreciation (depreciation) | 803,416 | 226,182 |
| Amounts appropriated for expenditure | (391,800) | (349,929) |
| ***Endowment net assets, end of year*** | $ 14,838,041 | $ 11,294,879 |

***NOTE 13 - DESIGNATED UNRESTRICTED NET ASSETS***

The University has designated portions of the unrestricted net asset balance as of June 30, 2014 and 2013, 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 $3,800,928, and $3,796,753 as of June 30, 2014 and 2013, respectively, and the cash, cash equivalents, and investment balances, at market value, for the College of Osteopathic Medicine Teach Out Reserve are $15,194,942 and $15,184,909 as of June 30, 2014 and 2013, 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. See Note 19 for details on the liquidation of these two escrow accounts.

***NOTE 14 - 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 $1,060,299 and $1,032,928 in 2014 and 2013, respectively, to these plans.

# WILLIAM CAREY UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS
## PAGE FOURTEEN
## YEARS ENDED JUNE 30, 2014 AND 2013

### *NOTE 15 - OPERATING LEASES*

During the normal course of conducting business, the University leases certain property and equipment under both long-term, non-cancelable and month-to-month, cancelable operating leases.

Property located on the campus of New Orleans Baptist Theological Seminary was leased under a long-term, non-cancelable operating lease that required monthly payments of $15,021 with a rental period that expired December 31, 2013.

Payments made under this operating lease were $90,126 and $180,250 for both years ended June 30, 2014 and 2013.

Total rental expenses paid for all operating leases, including the property lease described above, amounted to $343,265 and $357,031, for the years ended June 30, 2014 and 2013, respectively.

### *NOTE 16 - 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 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 $2,374,044 and $2,326,455 in fiscal years 2014 and 2013, respectively.

# WILLIAM CAREY UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS
## PAGE FIFTEEN
## YEARS ENDED JUNE 30, 2014 AND 2013

### *NOTE 17 - 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. The University had $16,344,528 and $11,538,014 over the FDIC federally insured limits as of June 30, 2014 and 2013, respectively.

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 53% 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.

### *NOTE 18 - RELATED PARTIES*

Payments for general construction were made to a construction company owned by a member of the Board of Trustees. Payments for the years ended June 30, 2014 and 2013 totaled $93,205 and $100,459, respectively.

Payments for construction supplies were made to a vendor partially owned by a member of the Board of Trustees. Payments for the years ended June 30, 2014 and 2013 were $6,566 and $-0-, respectively.

Furniture was purchased from a supplier owned by a member of the Board of Trustees. Payments for the years ended June 30, 2014 and 2013 were $2,795 and $-0-, respectively.

Payments for information technology services were made to a vendor owned by a member of the Board of Trustees. Payments for the years ended June 30, 2014 and 2013 were $94,507, and $-0-, respectively.

### *NOTE 19 - SUBSEQUENT EVENTS*

Management has evaluated subsequent events through September 3, 2014, which is the date the financial statements were available to be issued.

# WILLIAM CAREY UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS
## PAGE SIXTEEN
## YEARS ENDED JUNE 30, 2014 AND 2013

***NOTE 19 - SUBSEQUENT EVENTS (Cont.)***

In July 2014, the University liquidated and closed two escrow accounts associated with the medical school accreditation. When the investment accounts were closed and the funds were transferred to the General Fund, the University paid $18,000,000 of the $20,000,000 outstanding note to BancorpSouth.

*SUPPLEMENTARY INFORMATION*

# WILLIAM CAREY UNIVERSITY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2014

| 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 Supplemental Educational Opportunity Grants | 84.007 | -- | $ 126,146 |
| Federal Work-Study Program | 84.033 | -- | 377,472 |
| Federal Perkins Loan Program | 84.038 | -- | 253,776 |
| Federal Pell Grant Program | 84.063 | -- | 5,587,053 |
| Federal Direct Student Loans | 84.268 | -- | 53,033,238 |
| Teacher Education Assistance for College and Higher Education (TEACH) Grants | 84.379 | -- | 259,337 |
| Nurse Faculty Loan Program (NFLP) | 93.264 | -- | 12,462 |
| Total Student Financial Aid Cluster | | | 59,649,484 |
| TRIO - Student Support Services | 84.042A | -- | 234,072 |
| Total U.S. Department of Education direct programs | | | 59,883,556 |
| ***Total Expenditures of Federal Awards*** | | | $ 59,883,556 |

See the independent auditor’s report.

# WILLIAM CAREY UNIVERSITY

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2014

### *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, 2014. 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 | $ 251,023 |
| Nurse Faculty Loan Program | 93.264 | 12,462 |

During the year ended June 30, 2014, disbursements for new loans totaled $53,771 and disbursements for miscellaneous expenses totaled $2,753 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 2014.

### *NOTE 3 - FEDERAL PELL GRANT PROGRAM*

During the year ended June 30, 2014, expenditures for the Federal Pell Grant Program totaled $5,587,218, of which $5,579,663 was disbursed to students.

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## INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of William Carey University (a Mississippi nonprofit corporation) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 3, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered William Carey University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

To the Board of Trustees
William Carey University
Hattiesburg, Mississippi

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether William Carey University's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
September 3, 2014

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees
William Carey University
Hattiesburg, Mississippi

## Report on Compliance for Each Major Federal Program

We have audited William Carey University's compliance with the types 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, 2014. 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.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of William Carey University's major federal programs based on our audit of the types of compliance requirements referred to above. 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

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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 on compliance for each major federal program. However, our audit does not provide a legal determination of William Carey University's compliance.

***Opinion on Each Major Federal Program***

In our opinion, William Carey University complied, in all material respects, with the types of 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, 2014.

**Report on Internal Control Over Compliance**

Management of William Carey University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered William Carey University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
September 3, 2014

# WILLIAM CAREY UNIVERSITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS
## YEAR ENDED JUNE 30, 2014

***Section I - Summary of Auditor's Results***

**Financial Statements**

| | |
|---|---|
| Type of auditor's report issued: | Unmodified |
| 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? | None reported |
| Type of auditor's report issued on compliance for major programs: | Student Financial Aid Cluster - Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | No |

**Identification of Major Programs:**

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| | *Student Financial Aid Cluster* |
| 84.007 | Federal Supplemental Educational Opportunity Grants |
| 84.033 | Federal Work-Study Program |
| 84.038 | Federal Perkins Loan Program |
| 84.063 | Federal Pell Grant Program |
| 84.268 | Federal Direct Student Loans |
| 84.379 | 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? | Yes |

# WILLIAM CAREY UNIVERSITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS
## PAGE TWO
## YEAR ENDED JUNE 30, 2014

***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, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| ***ASSETS*** | | | | |
| Cash and cash equivalents | $ 15,215,455 | $ 2,180,214 | $ 210,142 | $ 17,605,811 |
| Student accounts receivable, net | 2,995,857 | - | - | 2,995,857 |
| Other receivables | 246,053 | 19,010 | 1,324 | 266,387 |
| Prepaid expenses | 24,433 | - | - | 24,433 |
| Loans to students, net | - | - | 203,725 | 203,725 |
| Investments, at market value | 11,341,444 | - | 894,662 | 12,236,106 |
| Pooled investments – Mississippi Baptist Foundation | - | - | 13,528,188 | 13,528,188 |
| Other assets | 553,701 | - | - | 553,701 |
| Property held for resale | 64,500 | - | - | 64,500 |
| Deferred compensation asset | 860,769 | - | - | 860,769 |
| Property, plant and equipment, net | 73,511,715 | - | - | 73,511,715 |
| ***Total assets*** | $ 104,813,927 | $ 2,199,224 | $ 14,838,041 | $ 121,851,192 |

See the independent auditor's report.

# WILLIAM CAREY UNIVERSITY

## SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION
## PAGE TWO
## JUNE 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| ***LIABILITIES AND NET ASSETS*** | | | | |
| Accounts payable | $ 948,425 | $ - | $ - | $ 948,425 |
| Accrued liabilities | 810,705 | - | - | 810,705 |
| Deferred compensation liability | 860,769 | - | - | 860,769 |
| Student deposits and refunds | 690,022 | - | - | 690,022 |
| Line of credit | 1,000 | - | - | 1,000 |
| Notes payable | 36,120,546 | - | - | 36,120,546 |
| Total liabilities | 39,431,467 | - | - | 39,431,467 |
| ***NET ASSETS*** | | | | |
| Unrestricted | 65,382,460 | - | - | 65,382,460 |
| Temporarily restricted | - | 2,199,224 | - | 2,199,224 |
| Permanently restricted | - | - | 14,838,041 | 14,838,041 |
| Total net assets | 65,382,460 | 2,199,224 | 14,838,041 | 82,419,725 |
| ***Total liabilities and net assets*** | $ 104,813,927 | $ 2,199,224 | $ 14,838,041 | $ 121,851,192 |

See the independent auditor’s report.

# WILLIAM CAREY UNIVERSITY

## SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION
## JUNE 30, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| ***ASSETS*** | | | | |
| Cash and cash equivalents | $ 10,205,589 | $ 2,584,229 | $ 215,191 | $ 13,005,009 |
| Student accounts receivable, net | 3,312,406 | - | - | 3,312,406 |
| Other receivables | 237,294 | 27,310 | 1,326 | 265,930 |
| Prepaid expenses | 127,263 | - | - | 127,263 |
| Loans to students, net | - | - | 188,290 | 188,290 |
| Investments, at market value | 17,272,130 | - | 873,251 | 18,145,381 |
| Pooled investments – Mississippi Baptist Foundation | - | - | 10,016,821 | 10,016,821 |
| Other assets | 486,702 | - | - | 486,702 |
| Property held for resale | 64,500 | - | - | 64,500 |
| Deferred compensation asset | 639,706 | - | - | 639,706 |
| Property, plant and equipment, net | 68,375,184 | - | - | 68,375,184 |
| ***Total assets*** | $ 100,720,774 | $ 2,611,539 | $ 11,294,879 | $ 114,627,192 |

See the independent auditor's report.

# WILLIAM CAREY UNIVERSITY

## SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION
## PAGE TWO
## JUNE 30, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| ***LIABILITIES AND NET ASSETS*** | | | | |
| Accounts payable | $ 1,665,941 | $ - | $ - | $ 1,665,941 |
| Accrued liabilities | 1,050,880 | - | - | 1,050,880 |
| Deferred compensation liability | 639,706 | - | - | 639,706 |
| Student deposits and refunds | 791,497 | - | - | 791,497 |
| Line of credit | 125,000 | - | - | 125,000 |
| Notes payable | 36,323,719 | - | - | 36,323,719 |
| Total liabilities | 40,596,743 | - | - | 40,596,743 |
| ***NET ASSETS*** | | | | |
| Unrestricted | 60,124,031 | - | - | 60,124,031 |
| Temporarily restricted | - | 2,611,539 | - | 2,611,539 |
| Permanently restricted | - | - | 11,294,879 | 11,294,879 |
| Total net assets | 60,124,031 | 2,611,539 | 11,294,879 | 74,030,449 |
| ***Total liabilities and net assets*** | $ 100,720,774 | $ 2,611,539 | $ 11,294,879 | $ 114,627,192 |

See the independent auditor’s report.