

WILLIAM CAREY UNIVERSITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2019 and 2020

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, 2019 and 2020, and the related statements of activities, functional expenses, 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.



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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, 2019 and 2020, 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 accompanying Schedule of Expenditures of Federal Awards on page 38, is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal

To the Board of Trustees
William Carey University
Hattiesburg, Mississippi

Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 audit 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 Schedule of Expenditures of Federal Awards 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 14, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of William Carey University's 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.


Hattiesburg, Mississippi
September 14, 2020

EXHIBIT A

WILLIAM CAREY UNIVERSITY

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019**

| | ASSETS | | |
|---|---------------------------------------|------------------------------------|-----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 19,004,818 | \$ 4,351,111 | \$ 23,355,929 |
| Receivables, net | 5,336,014 | 184,753 | 5,520,767 |
| Prepaid expenses | 89,136 | - | 89,136 |
| Endowment investments | - | 21,123,451 | 21,123,451 |
| Other assets | 1,378,156 | - | 1,378,156 |
| Deferred compensation asset | 1,685,782 | - | 1,685,782 |
| Right of use - finance lease | 226,396 | - | 226,396 |
| Property, plant and equipment, net | 181,195,822 | - | 181,195,822 |
| Total assets | \$ 208,916,124 | \$ 25,659,315 | \$ 234,575,439 |
| | | | |
| | LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | | |
| Accounts payable | \$ 1,549,643 | \$ - | \$ 1,549,643 |
| Accrued liabilities | 1,266,642 | - | 1,266,642 |
| Deferred compensation liability | 1,685,782 | - | 1,685,782 |
| Deferred revenue and student refunds | 396,929 | - | 396,929 |
| Line of credit | 2,750,018 | - | 2,750,018 |
| Lease obligations - finance lease | 226,432 | - | 226,432 |
| Notes and bonds payable | 35,768,829 | - | 35,768,829 |
| Total liabilities | 43,644,275 | - | 43,644,275 |
| NET ASSETS | 165,271,849 | 25,659,315 | 190,931,164 |
| Total liabilities and net assets | \$ 208,916,124 | \$ 25,659,315 | \$ 234,575,439 |

The accompanying notes are an integral part of these financial statements.

EXHIBIT B

WILLIAM CAREY UNIVERSITY

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020**

| | ASSETS | | |
|---|---------------------------------------|------------------------------------|-----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 28,354,755 | \$ 4,405,718 | \$ 32,760,473 |
| Receivables, net | 6,698,605 | 2,168,390 | 8,866,995 |
| Prepaid expenses | 14,250 | - | 14,250 |
| Endowment investments | - | 22,412,127 | 22,412,127 |
| Other assets | 1,532,314 | - | 1,532,314 |
| Deferred compensation asset | 1,865,324 | - | 1,865,324 |
| Right of use - finance lease | 175,768 | - | 175,768 |
| Property, plant and equipment, net | 182,559,966 | - | 182,559,966 |
| Total assets | \$ 221,200,982 | \$ 28,986,235 | \$ 250,187,217 |
| | LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | | |
| Accounts payable | \$ 2,131,260 | \$ - | \$ 2,131,260 |
| Accrued liabilities | 363,301 | - | 363,301 |
| Deferred compensation liability | 1,865,324 | - | 1,865,324 |
| Deferred revenue and student refunds | 5,314,679 | 535,829 | 5,850,508 |
| Line of credit | 2,750,018 | - | 2,750,018 |
| Lease obligations - finance lease | 179,174 | - | 179,174 |
| Notes and bonds payable | 47,602,584 | - | 47,602,584 |
| Total liabilities | 60,206,340 | 535,829 | 60,742,169 |
| NET ASSETS | 160,994,642 | 28,450,406 | 189,445,048 |
| Total liabilities and net assets | \$ 221,200,982 | \$ 28,986,235 | \$ 250,187,217 |

The accompanying notes are an integral part of these financial statements.

EXHIBIT C

WILLIAM CAREY UNIVERSITY

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|--------------------|
| OPERATING REVENUES | | | |
| Tuition: | | | |
| Undergraduate | \$ 25,509,868 | \$ 90 | \$ 25,509,958 |
| Graduate | 9,527,927 | - | 9,527,927 |
| College of Medicine & Master of Biomedical Sciences | 17,738,094 | - | 17,738,094 |
| Physical Therapy & Pharmacy | 4,876,250 | - | 4,876,250 |
| Student fees | 3,406,421 | 21,485 | 3,427,906 |
| Less tuition waivers | (1,974,969) | - | (1,974,969) |
| Less student aid | (10,728,983) | - | (10,728,983) |
| Net tuition and fees | <u>48,354,608</u> | <u>21,575</u> | <u>48,376,183</u> |
| Private gifts and grants | 3,344,127 | 2,530,540 | 5,874,667 |
| Auxiliary income | 3,474,382 | 115,627 | 3,590,009 |
| Net assets released from donor restrictions | 2,424,503 | (2,424,503) | - |
| Total operating revenues | <u>57,597,620</u> | <u>243,239</u> | <u>57,840,859</u> |
| OPERATING EXPENSES | | | |
| Program | | | |
| Instructional: | | | |
| Regular | 16,018,812 | - | 16,018,812 |
| College of Medicine & Master of Biomedical Sciences | 9,728,980 | - | 9,728,980 |
| Physical Therapy & Pharmacy | 3,859,314 | - | 3,859,314 |
| Support: | | | |
| Academic | 1,025,370 | - | 1,025,370 |
| Student | 2,302,026 | - | 2,302,026 |
| Auxiliary | 4,830,267 | - | 4,830,267 |
| Total program | <u>37,764,769</u> | <u>-</u> | <u>37,764,769</u> |
| Management and general | | | |
| Institutional support | 7,273,872 | - | 7,273,872 |
| Facilities | 4,952,487 | - | 4,952,487 |
| Interest expense | 920,275 | - | 920,275 |
| Depreciation and amortization expense | 8,523,289 | - | 8,523,289 |
| Total management and general | <u>21,669,923</u> | <u>-</u> | <u>21,669,923</u> |
| Fundraising | 436,413 | - | 436,413 |
| Total operating expenses | <u>59,871,105</u> | <u>-</u> | <u>59,871,105</u> |
| Increase (decrease) in net assets from operating activities | <u>(2,273,485)</u> | <u>243,239</u> | <u>(2,030,246)</u> |

The accompanying notes are an integral part of these financial statements.

EXHIBIT C
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WILLIAM CAREY UNIVERSITY

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|-----------------------|
| NON-OPERATING REVENUES | | | |
| Investment return | \$ 446,093 | \$ 1,720,428 | \$ 2,166,521 |
| Government grants and contracts | 38,219 | 315,445 | 353,664 |
| Other income | 659,255 | 731,179 | 1,390,434 |
| Net assets released from donor restrictions | 26,887 | (26,887) | - |
| Total non-operating revenues | <u>1,170,454</u> | <u>2,740,165</u> | <u>3,910,619</u> |
| NON-OPERATING EXPENSES | | | |
| Management and general | | | |
| Other expense | 18,282 | - | 18,282 |
| Government grants & contracts | 15,068 | - | 15,068 |
| Total non-operating expenses | <u>33,350</u> | <u>-</u> | <u>33,350</u> |
| <i>Increase in net assets from non-operating activities</i> | <u>1,137,104</u> | <u>2,740,165</u> | <u>3,877,269</u> |
| <i>Change in Net Assets before Transfers</i> | (1,136,381) | 2,983,404 | 1,847,023 |
| INTERFUND TRANSFERS | <u>5,112,907</u> | <u>(5,112,907)</u> | <u>-</u> |
| <i>Change in Net Assets</i> | <u>3,976,526</u> | <u>(2,129,503)</u> | <u>1,847,023</u> |
| NET ASSETS | | | |
| Beginning of year | <u>161,295,323</u> | <u>27,788,818</u> | <u>189,084,141</u> |
| End of year | <u>\$ 165,271,849</u> | <u>\$ 25,659,315</u> | <u>\$ 190,931,164</u> |

The accompanying notes are an integral part of these financial statements.

EXHIBIT D

WILLIAM CAREY UNIVERSITY

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|-------------------|
| OPERATING REVENUES | | | |
| Tuition: | | | |
| Undergraduate | \$ 14,799,777 | \$ 14,590 | \$ 14,814,367 |
| Graduate | 9,656,301 | - | 9,656,301 |
| College of Medicine & Master of Biomedical Sciences | 17,544,871 | - | 17,544,871 |
| Physical Therapy & Pharmacy | 6,642,750 | - | 6,642,750 |
| Student fees | 3,401,038 | 18,861 | 3,419,899 |
| Net tuition and fees | <u>52,044,737</u> | <u>33,451</u> | <u>52,078,188</u> |
| Private gifts and grants | 4,028,786 | 4,606,664 | 8,635,450 |
| Auxiliary income | 2,980,204 | 85,536 | 3,065,740 |
| Net assets released from donor restrictions | 1,606,479 | (1,606,479) | - |
| Total operating revenues | <u>60,660,206</u> | <u>3,119,172</u> | <u>63,779,378</u> |
| OPERATING EXPENSES | | | |
| Program | | | |
| Instructional: | | | |
| Regular | 16,603,845 | - | 16,603,845 |
| College of Medicine & Master of Biomedical Sciences | 9,541,173 | - | 9,541,173 |
| Physical Therapy & Pharmacy | 4,733,717 | - | 4,733,717 |
| Support: | | | |
| Academic | 1,079,895 | - | 1,079,895 |
| Student | 3,239,581 | - | 3,239,581 |
| Auxiliary | 4,602,741 | - | 4,602,741 |
| Total program | <u>39,800,952</u> | <u>-</u> | <u>39,800,952</u> |
| Management and general | | | |
| Institutional support | 7,620,799 | - | 7,620,799 |
| Facilities | 4,964,452 | - | 4,964,452 |
| Interest expense | 1,237,022 | - | 1,237,022 |
| Depreciation and amortization expense | 9,312,198 | - | 9,312,198 |
| Total management and general | <u>23,134,471</u> | <u>-</u> | <u>23,134,471</u> |
| Fundraising | <u>473,967</u> | <u>-</u> | <u>473,967</u> |
| Total operating expenses | <u>63,409,390</u> | <u>-</u> | <u>63,409,390</u> |
| <i>Increase (decrease) in net assets from operating activities</i> | <u>(2,749,184)</u> | <u>3,119,172</u> | <u>369,988</u> |

The accompanying notes are an integral part of these financial statements.

EXHIBIT D
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WILLIAM CAREY UNIVERSITY

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|-----------------------|
| NON-OPERATING REVENUES | | | |
| Investment return | \$ 131,384 | \$ 846,019 | \$ 977,403 |
| Other income | 155,166 | 1,113,628 | 1,268,794 |
| Net assets released from donor restrictions | 28,803 | (28,803) | - |
| Total non-operating revenues | <u>315,353</u> | <u>1,930,844</u> | <u>2,246,197</u> |
| NON-OPERATING EXPENSES | | | |
| Management and general | | | |
| Other expense | 110,396 | - | 110,396 |
| Total non-operating expenses | <u>110,396</u> | <u>-</u> | <u>110,396</u> |
| <i>Increase in net assets from non-operating activities</i> | <u>204,957</u> | <u>1,930,844</u> | <u>2,135,801</u> |
| <i>Change in Net Assets before Transfers</i> | <u>(2,544,227)</u> | <u>5,050,016</u> | <u>2,505,789</u> |
| INTERFUND TRANSFERS | <u>2,258,925</u> | <u>(2,258,925)</u> | <u>-</u> |
| <i>Change in Net Assets</i> | <u>(285,302)</u> | <u>2,791,091</u> | <u>2,505,789</u> |
| NET ASSETS | | | |
| Beginning of year | 165,271,849 | 25,659,315 | 190,931,164 |
| Prior period adjustment | <u>(3,991,905)</u> | <u>-</u> | <u>(3,991,905)</u> |
| Beginning of year, as restated | <u>161,279,944</u> | <u>25,659,315</u> | <u>186,939,259</u> |
| End of year | <u>\$ 160,994,642</u> | <u>\$ 28,450,406</u> | <u>\$ 189,445,048</u> |

The accompanying notes are an integral part of these financial statements.

EXHIBIT E

WILLIAM CAREY UNIVERSITY

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

| | <u>Total</u> | <u>Program</u> | <u>Management & General</u> | <u>Fundraising</u> |
|-------------------------------|----------------------|----------------------|-------------------------------------|--------------------|
| Salaries and wages | \$ 28,476,535 | \$ 24,068,828 | \$ 4,140,323 | \$ 267,384 |
| Retirement | 1,298,307 | 1,023,024 | 267,357 | 7,926 |
| Other employee benefits | 2,885,228 | 2,191,024 | 660,983 | 33,221 |
| Payroll taxes | 1,946,721 | 1,649,445 | 275,605 | 21,671 |
| Advertising and promotion | 292,233 | 174,013 | 103,526 | 14,694 |
| Office expenses | 145,003 | 110,093 | 32,497 | 2,413 |
| Travel | 677,955 | 644,637 | 26,208 | 7,110 |
| Interest | 920,275 | - | 920,275 | - |
| Depreciation and amortization | 8,523,289 | - | 8,523,289 | - |
| Insurance | 1,172,028 | 423,343 | 748,685 | - |
| Unrelated business income tax | 14,551 | - | 14,551 | - |
| Other | 13,552,330 | 7,480,362 | 5,989,974 | 81,994 |
| Total | \$ 59,904,455 | \$ 37,764,769 | \$ 21,703,273 | \$ 436,413 |

The accompanying notes are an integral part of these financial statements.

EXHIBIT F

WILLIAM CAREY UNIVERSITY

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020**

| | <u>Total</u> | <u>Program</u> | <u>Management & General</u> | <u>Fundraising</u> |
|-------------------------------|----------------------|----------------------|-------------------------------------|--------------------|
| Salaries and wages | \$ 31,176,370 | \$ 26,518,691 | \$ 4,379,981 | \$ 277,698 |
| Retirement | 1,390,642 | 1,101,054 | 280,847 | 8,741 |
| Other employee benefits | 3,681,301 | 2,805,818 | 828,780 | 46,703 |
| Payroll taxes | 2,121,942 | 1,804,630 | 294,096 | 23,216 |
| Advertising and promotion | 246,181 | 162,682 | 80,395 | 3,104 |
| Office expenses | 91,255 | 76,021 | 13,096 | 2,138 |
| Travel | 502,433 | 480,209 | 21,135 | 1,089 |
| Interest | 1,237,024 | - | 1,237,024 | - |
| Depreciation and amortization | 9,312,198 | - | 9,312,198 | - |
| Insurance | 1,352,877 | 466,375 | 886,502 | - |
| Unrelated business income tax | 2,773 | - | 2,773 | - |
| Other | 12,404,790 | 6,385,472 | 5,908,030 | 111,278 |
| Total | \$ 63,519,786 | \$ 39,800,952 | \$ 23,244,857 | \$ 473,967 |

The accompanying notes are an integral part of these financial statements.

EXHIBIT G

WILLIAM CAREY UNIVERSITY

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2020**

| | <u>June 30,</u> | |
|---|---------------------|---------------------|
| | <u>2019</u> | <u>2020</u> |
| <i>CASH FLOWS FROM OPERATING ACTIVITIES</i> | | |
| Change in net assets | \$ 1,847,023 | \$ 2,505,789 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,531,229 | 9,328,125 |
| Net gain on sales of long-term endowment investments | (26,448) | (452,442) |
| Loss on involuntary conversion of property, plant, and equipment | - | 39,445 |
| Unrealized loss (gain) on investments | (1,127,314) | 293,779 |
| Cash contributions restricted for long-term investment | (1,203,044) | (596,031) |
| (Increase) decrease in: | | |
| Receivables | 6,426,526 | (3,346,228) |
| Prepaid expenses | 65,086 | 74,886 |
| Other assets | (36,330) | (154,158) |
| Deferred compensation asset | (243,247) | (179,542) |
| Increase (decrease) in: | | |
| Accounts payable | (1,326,202) | 581,617 |
| Accrued liabilities | 433,728 | (903,341) |
| Deferred compensation liability | 243,247 | 179,542 |
| Deferred revenue and student refunds | (232,938) | 1,461,674 |
| Net cash provided by operating activities | <u>13,351,316</u> | <u>8,833,115</u> |
| <i>CASH FLOWS FROM INVESTING ACTIVITIES</i> | | |
| Purchase of property and equipment | (20,034,897) | (10,673,361) |
| Purchase of endowment investments | (1,156,768) | (1,647,528) |
| Proceeds from sale of endowment investments | 128,014 | 517,515 |
| Proceeds from sale of property, plant, and equipment | - | 8,238 |
| Net cash used by investing activities | <u>(21,063,651)</u> | <u>(11,795,136)</u> |

The accompanying notes are an integral part of these financial statements.

EXHIBIT G
PAGE TWO

WILLIAM CAREY UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2020

| | <u>June 30,</u> | |
|--|----------------------|----------------------|
| | <u>2019</u> | <u>2020</u> |
| <i>CASH FLOWS FROM FINANCING ACTIVITIES</i> | | |
| Proceeds from gifts restricted for endowment | \$ 1,203,044 | \$ 596,031 |
| Proceeds from long-term debt | - | 28,241,653 |
| Proceeds from borrowings on line of credit | 750,000 | - |
| Payments on finance lease liabilities | (19,306) | (47,258) |
| Payments on long-term debt | (1,537,290) | (16,263,391) |
| Debt issuance costs | - | (160,470) |
| Net cash provided by financing activities | <u>396,448</u> | <u>12,366,565</u> |
| <i>NET INCREASE (DECREASE) IN CASH</i> | (7,315,887) | 9,404,544 |
| <i>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</i> | <u>30,671,816</u> | <u>23,355,929</u> |
| <i>CASH AND CASH EQUIVALENTS</i> | <u>\$ 23,355,929</u> | <u>\$ 32,760,473</u> |
| Displayed as: | | |
| Cash and cash equivalents, without donor restrictions | \$ 19,004,818 | \$ 28,354,755 |
| Cash and cash equivalents, with donor restrictions | <u>4,351,111</u> | <u>4,405,718</u> |
| <i>TOTAL CASH AND CASH EQUIVALENTS</i> | <u>\$ 23,355,929</u> | <u>\$ 32,760,473</u> |
| <i>SUPPLEMENTAL DISCLOSURES</i> | | |
| Interest paid | <u>\$ 912,335</u> | <u>\$ 1,221,061</u> |
| Income taxes paid | <u>\$ 14,551</u> | <u>\$ 2,773</u> |
| <i>NONCASH INVESTING AND FINANCING ACTIVITIES</i> | | |
| Capitalization of interest | <u>\$ 326,111</u> | <u>\$ 40,050</u> |
| Contributed stock | <u>\$ 671</u> | <u>\$ 558</u> |
| Leased assets obtained in exchange for new finance lease liabilities | <u>\$ 245,738</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principal Activity

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, Mississippi, Biloxi, Mississippi and Baton Rouge, 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.

Significant Accounting Policies

Basis of Presentation - The University prepares its financial statements using the accrual basis of accounting and accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the University's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The University's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its organizational documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions - Net assets are subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE TWO
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Classification of Transactions - All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

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. Cash is classified as either with or without donor restrictions. Cash with donor restrictions includes financial aid monies that the University has received but not disbursed and monies restricted for educational programs.

Receivables - 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.

Short Term Investments - The University invests cash in excess of its immediate needs in money market funds and U.S. Government and Government Agency issues. Short term investments are reported at fair value. The investment policy specific to these investments is monitored by the Committee on Budget, Finance, Investments, and Audit of the University's Board of Trustees.

Promises to Give - The University records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The University determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE THREE
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Property, Plant and Equipment - Property and equipment are carried at cost or, if donated, at the estimated fair market value at the date of donation. The University uses a \$1,000 threshold and the durability of the asset to last multiple years for capitalized fixed assets. Depreciation is expensed over the estimated useful life of depreciable assets, which is 15 to 20 years for land improvements, 20 to 40 years for buildings and improvements, 5 to 7 years for equipment and furniture and 20 years for library collections, and is computed using the straight line method. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Maintenance and repairs are charged to operations and significant purchases and improvements are capitalized. Property, plant and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

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 \$1,281,370 and \$1,437,262 as of June 30, 2019 and 2020, respectively.

Endowment and Long-term Investments - The University records purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return or loss is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. Purchases and sales of investments are reported on the trade date. The investment and spending policies for the Endowment Fund are discussed in Note 5.

Endowment investments consist of investments purchased with the following resources:

- Donor-restricted perpetual endowments, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the University's activities.

Endowment investments also include investments purchased with unspent investment income and net gains on these resources.

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WILLIAM CAREY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Tuition and Fee Revenue - The University recognizes revenue from student tuition and fees within the fiscal year in which educational services are provided. Payment is due in full by the Thursday before the semester starts. Institutional aid, in the form of scholarships and grants-in-aid, reduces the price of tuition for students receiving such aid. As such, institutional aid is referred to as a tuition discount and represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. Financial aid provided to students was \$10,728,983 in 2019 and \$11,953,056 in 2020.

The University's summer term consists of ten instructional weeks offered during portions of June, July, and August each year. Payments of tuition and housing for all of the summer terms are recognized as performance obligations are met. Because the academic term spans two reporting periods, a portion of the payments for the term is included in deferred revenue at June 30. Under Accounting Standards Codification (ASC) 606, contract liabilities are measured at the amount of consideration received from the student prior to services being delivered and are classified as deferred revenues (see Note 7).

Auxiliary Services Revenue - Auxiliary services exist to furnish goods or services to students, faculty, staff, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of auxiliary services is that they are managed as an essentially self-supporting activity.

Auxiliary services revenue includes revenues from contracts with customers to provide student housing and dining facilities, ticket sales for athletic and community events, a coffee house, and other miscellaneous activities. Payments for these services are due during the week prior to the start of the academic term. Performance obligations for housing and dining services are delivered over the academic terms. Consequently, revenue from housing and dining services is recognized ratably as services are rendered. Ticket sales and coffee house revenue are recognized at the time of sale.

Accounting for Contributions - Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE FIVE
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The University is a beneficiary under several donors' wills. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and the University has an irrevocable right to the bequest.

Gifts-in-Kind Contributions - The University receives contributions other than cash or investments. Donated use of facilities is reported as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is reported as a contribution and an unconditional promise to give at the date of gift, and the expense is reported over the term of use.

The University benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the University's program operations. However, the majority of the contributed services do not meet the criteria for recognition in the financial statements. GAAP allows recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. The University did not receive any volunteer services meeting requirements for recognition as of June 30, 2020.

Grant Revenue - Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants.

Functional Allocation of Expenses - The costs of program and supporting services have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs - Costs for advertising, including radio, television and newspaper advertisements, are expensed as incurred. Total advertising costs for the years ended June 30, 2019 and 2020, were \$96,789 and \$76,996, respectively.

Tax Status - The University is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as "other than a private foundation". However, income from certain activities not directly related to the University's tax-exempt purpose is subject to taxation as unrelated business income.

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE SIX
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred Financing Costs - Deferred financing costs are being amortized over the life of the note, using the straight-line method. Pursuant to ASU 2015-03, amortization costs are included in interest expense and debt is presented net of these costs. See Note 10 - Notes and Bonds Payable, for additional information.

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 absences when actually paid.

Changes in Accounting Principles Adopted - As of June 1, 2019, the University adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended, using the modified retrospective application method. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

Results for reporting the 2019-2020 fiscal year are presented under ASC 606. The comparative information has not been restated and continues to be reported under the accounting standards in effect in those reporting periods.

The University recorded an adjustment to reduce opening net assets without donor restrictions by \$3,991,905 due to the impact of adopting ASC 606, related to the tuition and housing revenue for the 2019 summer term performance obligations that spanned two reporting periods.

The impact of adoption of the University's Statement of Financial Position as of June 30, 2019 and the Statement of Activities for the year ended June 30, 2020 was as follows:

| | As of June 30, 2019 | | |
|--|---|--------------------------------------|---|
| | Balances without Adoption of ASC 606 | Change due to ASC 606 | Balances following the adoption of ASC 606 |
| Statement of Financial Position | | | |
| Deferred revenue and student refunds | \$ 396,929 | \$ 3,991,905 | \$ 4,388,834 |
| Net assets without donor restrictions | 165,271,849 | (3,991,905) | 161,279,944 |

(Table Continued on Next Page)

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

| | <u>As of June 30, 2020</u> | | |
|--------------------------------|---|--------------------------------------|---|
| | <u>Balances without Adoption of ASC 606</u> | <u>Change due to ASC 606</u> | <u>Balances following the adoption of ASC 606</u> |
| Statement of Activities | | | |
| Net tuition and fees | \$ 51,307,090 | \$ 737,647 | \$ 52,044,737 |

Recent Accounting Pronouncements - In March 2019, FASB issued ASU 2019-03, Not-for-Profit Entities (Topic 958): Updating the Definition of Collections. The standard is effective for the year ending June 30, 2021. Management is currently evaluating the impact of this standard on our financial statements.

Reclassifications - Certain accounts in the prior year's financial statements have been reclassified to conform to the presentation of the current year financial statements.

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets without donor or other restrictions available for general expenditure within one year of June 30, 2020 are:

| | |
|---------------------------|-----------------------------|
| Cash and cash equivalents | \$ 28,354,755 |
| Receivables, net | <u>6,698,605</u> |
| Total | <u><u>\$ 35,053,360</u></u> |

NOTE 3 - RECEIVABLES

Receivables consist of the following:

| | <u>June 30,</u> | |
|---------------------------------------|------------------|------------------|
| | <u>2019</u> | <u>2020</u> |
| Student accounts receivable | \$ 5,362,778 | \$ 7,006,726 |
| Less: Allowance for doubtful accounts | <u>(365,038)</u> | <u>(725,981)</u> |
| Student accounts receivable, net | <u>4,997,740</u> | <u>6,280,745</u> |

(Table Continued on Next Page)

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE EIGHT
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 3 - RECEIVABLES (Cont.)

| | June 30, | |
|---------------------------------------|----------------------------|----------------------------|
| | 2019 | 2020 |
| Loans to students | \$ 170,191 | \$ 141,207 |
| Less: Allowance for doubtful accounts | <u>(90,590)</u> | <u>(76,000)</u> |
| Loans to students, net | <u>79,601</u> | <u>65,207</u> |
| Other receivables | <u>443,426</u> | <u>2,521,043</u> |
| Total receivables | <u>\$ 5,520,767</u> | <u>\$ 8,866,995</u> |

For the year end June 30, 2019 and 2020, other receivables included grants of \$-0- and \$2,000,000, respectively.

NOTE 4 - FAIR VALUE MEASUREMENTS

The University reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the primary, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets that we can access at the measurement date.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 4 - FAIR VALUE MEASUREMENTS (Cont.)

- Level 3 - Unobservable inputs for the asset. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset.

All of the University's investment assets are classified within Level 1 because they comprise funds with readily determinable fair values based on daily redemption values.

The following sets forth by level, within the fair value hierarchy, the University's assets at fair value:

| | Assets at Fair Value as of June 30, 2019 | | | |
|---------------------------------------|---|----------------|----------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Equity securities | \$ 343,242 | \$ - | \$ - | \$ 343,242 |
| Pooled cash and marketable securities | 20,238,549 | - | - | 20,238,549 |
| Fixed income securities | 488,351 | - | - | 488,351 |
| Cash portion of investments | 53,309 | - | - | 53,309 |
| Total assets at fair value | \$ 21,123,451 | \$ - | \$ - | \$ 21,123,451 |

| | Assets at Fair Value as of June 30, 2020 | | | |
|---------------------------------------|---|----------------|----------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Equity securities | \$ 267,879 | \$ - | \$ - | \$ 267,879 |
| Pooled cash and marketable securities | 21,504,935 | - | - | 21,504,935 |
| Fixed income securities | 616,784 | - | - | 616,784 |
| Cash portion of investments | 22,529 | - | - | 22,529 |
| Total assets at fair value | \$ 22,412,127 | \$ - | \$ - | \$ 22,412,127 |

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE TEN
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 5 - ACCOUNTING FOR ENDOWMENTS

Endowment - William Carey University's endowment consists of approximately 279 donor-restricted individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, if any, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's Board of Trustees has interpreted the Mississippi Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2019 and 2020, there were no such donor stipulations. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the University and the donor-restricted endowment funds, (3) general economic conditions, (4) the expected total return from income and the appreciation of investments, and (5) the University's investment policy.

The net asset composition of the University's perpetual endowments as of June 30, 2019 and 2020 are \$21,123,451 and \$22,412,127, respectively.

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE ELEVEN
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 5 - ACCOUNTING FOR ENDOWMENTS (Cont.)

Endowment investments are comprised of the following:

| <u>June 30, 2019</u> | <u>Cost</u> | <u>Market Value</u> | <u>Unrealized Gain*</u> | <u>Unrealized Loss*</u> | <u>Other than Temporary Loss</u> |
|---------------------------------------|----------------------|----------------------|-------------------------|-------------------------|----------------------------------|
| Equity securities | \$ 307,860 | \$ 343,242 | \$ 35,382 | \$ - | \$ - |
| Pooled cash and marketable securities | 19,276,349 | 20,238,549 | 962,200 | - | - |
| Fixed income securities | 482,744 | 488,351 | 5,607 | - | - |
| Cash portion of investments | 53,309 | 53,309 | - | - | - |
| Total | <u>\$ 20,120,262</u> | <u>\$ 21,123,451</u> | <u>\$ 1,003,189</u> | <u>\$ -</u> | <u>\$ -</u> |

* Unrealized gains and losses are shown net.

| <u>June 30, 2020</u> | <u>Cost</u> | <u>Market Value</u> | <u>Unrealized Gain*</u> | <u>Unrealized Loss*</u> | <u>Other than Temporary Loss</u> |
|---------------------------------------|----------------------|----------------------|-------------------------|-------------------------|----------------------------------|
| Equity securities | \$ 254,840 | \$ 267,879 | \$ 13,039 | \$ - | \$ - |
| Pooled cash and marketable securities | 20,836,066 | 21,504,935 | 668,869 | - | - |
| Fixed income securities | 589,281 | 616,784 | 27,503 | - | - |
| Cash portion of investments | 22,529 | 22,529 | - | - | - |
| Total | <u>\$ 21,702,716</u> | <u>\$ 22,412,127</u> | <u>\$ 709,411</u> | <u>\$ -</u> | <u>\$ -</u> |

* Unrealized gains and losses are shown net.

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 5 - ACCOUNTING FOR ENDOWMENTS (Cont.)

The University has invested \$19,276,349 and \$20,836,006 as of June 30, 2019 and 2020, respectively, in pooled funds held at the Mississippi Baptist Foundation (the Foundation). The market value allocated to the University (\$20,238,549 and \$21,504,935 as of June 30, 2019 and 2020, respectively) for these pooled funds represents the University's portion of the cash and 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.

When unfavorable market fluctuations cause the fair value of certain donor-restricted endowments to be less than the historical cost (original gift/book value) of such funds, the fund is considered to be underwater, and this deficiency is recorded in unrestricted net assets. As of June 30, 2019 and 2020, there were no endowments that were underwater.

Endowment Investment Policy - The University has adopted an investment and spending policy, approved by the Board of Trustees, for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowed funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix which includes cash, equity, and debt securities.

Endowment Spending Policy - The University has a policy of appropriating for distribution each year all interest and dividends, together with a minority of realized gains, earned over the four fiscal quarters immediately prior to distribution. In establishing this policy, the University considered the long-term expected return on its investment assets as well as the nature and duration of the individual endowment funds. The University expects the current spending policy to allow its endowment funds to grow while providing returns for designated scholarships and programs.

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 5 - ACCOUNTING FOR ENDOWMENTS (Cont.)

Changes in endowment net assets are as follows:

| | June 30, | |
|---|-----------------------------|-----------------------------|
| | 2019 | 2020 |
| <i>Endowment net assets, beginning of year</i> | \$ 18,940,935 | \$ 21,123,451 |
| Contributions | 1,203,044 | 596,031 |
| Investment income | 547,259 | 669,776 |
| Other revenue | 13,359 | 7,369 |
| Transfers | (380,486) | (133,280) |
| Net appreciation | 1,152,782 | 158,503 |
| Amounts appropriated for expenditure | (353,442) | (9,723) |
| <i>Endowment net assets, end of year</i> | <u>\$ 21,123,451</u> | <u>\$ 22,412,127</u> |

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| | <u>June 30,</u> | |
|--|------------------------------|------------------------------|
| | <u>2019</u> | <u>2020</u> |
| Property, plant and equipment not being depreciated: | | |
| Land | \$ 12,590,937 | \$ 14,804,290 |
| Construction in process | 966,222 | 7,515,771 |
| Total property, plant and equipment not being depreciated | <u>13,557,159</u> | <u>22,320,061</u> |
| Property, plant and equipment being depreciated: | | |
| Land improvements | 5,670,376 | 6,131,407 |
| Buildings and improvements | 176,961,048 | 176,965,790 |
| Equipment and furniture | 27,400,541 | 28,695,832 |
| Library collections | 4,292,400 | 4,386,593 |
| Total property, plant and equipment being depreciated | 214,324,365 | 216,179,622 |
| Less: Accumulated depreciation | <u>(46,685,702)</u> | <u>(55,939,717)</u> |
| Total property, plant and equipment being depreciated, net | <u>167,638,663</u> | <u>160,239,905</u> |
| Total | <u><u>\$ 181,195,822</u></u> | <u><u>\$ 182,559,966</u></u> |

Total depreciation expense for the periods ended June 30, 2019 and 2020 was \$8,503,947 and \$9,261,570, respectively.

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 7 - DEFERRED REVENUE AND STUDENT REFUNDS

The activity and balances for deferred revenue and student refunds from contracts with customers are shown in the following table:

| | <u>Summer Tuition and Housing</u> | <u>Other Deferred Revenue</u> | <u>Total</u> |
|---|---|---------------------------------------|----------------------------|
| Deferred revenue balance at June 30, 2019 | \$ - | \$ 313,530 | \$ 313,530 |
| Revenue recognized | - | (313,530) | (313,530) |
| Payments received for future performance obligations | <u>4,729,552</u> | <u>399,513</u> | <u>5,129,065</u> |
| Deferred revenue balance at June 30, 2020 | <u>4,729,552</u> | <u>399,513</u> | <u>5,129,065</u> |
| Student refunds | <u>-</u> | <u>721,443</u> | <u>721,443</u> |
| Total deferred revenue and student refunds | <u><u>\$ 4,729,552</u></u> | <u><u>\$ 1,120,956</u></u> | <u><u>\$ 5,850,508</u></u> |

NOTE 8 - LINE OF CREDIT

The University has available one line of credit in the amount of \$3,000,079 for general operations which matures on April 23, 2023. The line of credit carries a variable rate of interest equal to 1.00% below the Wall Street Journal (WSJ) Prime Rate as reflected on the WSJ Market Page, on any outstanding principal balance adjusted daily. The line of credit is secured by real estate located in Hattiesburg and Gulfport, MS and all of the University's present and after-acquired furniture, fixtures and equipment located at the Hattiesburg campus. All unpaid principal and interest shall be due at the date of maturity.

The available and outstanding balances under the University's line of credit were as follows:

| | <u>June 30,</u> | |
|---------------------|-----------------|--------------|
| | <u>2019</u> | <u>2020</u> |
| Available balance | \$ 3,000,000 | \$ 3,000,079 |
| Outstanding balance | \$ 2,750,018 | \$ 2,750,018 |

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE SIXTEEN
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 9 - LEASES

The University has finance leases for equipment and vehicles used in operations. The University's leases have remaining lease terms from approximately 1 to 4 years, some of which include options to extend the leases. The exercise of lease renewal options is at management's sole discretion. Management has determined it is unlikely that the leases will be renewed.

The University recognizes a finance lease right-of-use asset and a finance lease obligation that represents the present value of the University's obligation to make payments over the lease terms. The present value of the lease payments is calculated using the incremental borrowing rate for finance leases, which was determined using a portfolio approach based on the rate of interest that the University would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term.

The University's lease cost consists of the following:

| | June 30, | |
|---|------------------|------------------|
| | 2019 | 2020 |
| Lease cost: | | |
| Amortization of right-of-use - finance lease | \$ 19,342 | \$ 50,628 |
| Interest on lease obligations - finance lease | 3,683 | 8,207 |
| Total lease cost | \$ 23,025 | \$ 58,835 |

Other lease information is as follows:

| | June 30, | |
|---|-----------------|-------------|
| | 2019 | 2020 |
| Weighted-average remaining lease term - finance lease | 4.53 years | 3.59 years |
| Weighted-average discount rate - finance lease | 4.5% | 4.5% |

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE SEVENTEEN
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 9 - LEASES (Cont.)

The aggregate annual lease obligations are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-------------------------------------|--------------------------|
| 2021 | \$ 49,184 |
| 2022 | 48,465 |
| 2023 | 47,363 |
| 2024 | <u>34,162</u> |
| Total finance leases payable | <u>\$ 179,174</u> |

NOTE 10 - NOTES AND BONDS PAYABLE

Notes and bonds payable consist of the following:

| | <u>June 30,</u> | |
|--|-----------------|-------------|
| | <u>2019</u> | <u>2020</u> |
| Note payable, due in monthly installments of \$30,594, including interest at a fixed rate of 3.90%, to January 15, 2020, with a final balloon payment of \$3,037,870, secured the University's Hattiesburg Campus, including all furnitures and fixtures and the University's beach front property located in Gulfport, Mississippi. | \$ 3,171,092 | \$ - |
| Note payable, due in monthly installments of \$32,609, including interest at a fixed rate of 3.75%, to November 18, 2023, with a final balloon payment of \$3,722,181, secured by real and personal property located on the Hattiesburg Campus. | 4,683,607 | - |

(Table Continued on Next Page)

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE EIGHTEEN
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 10 - NOTES AND BONDS PAYABLE (Cont.)

| | <u>June 30,</u> | |
|---|-----------------|-------------|
| | <u>2019</u> | <u>2020</u> |
| Note payable, due in monthly installments of \$47,189, including interest at a fixed rate of 3.69%, to December 23, 2020, with a final balloon payment of \$7,036,137, secured by a deed of trust security interest and liens upon the University's Hattiesburg Campus property and furniture, fixtures and equipment. | \$ 7,448,947 | \$ - |
| Note payable, due in monthly installments of \$81,250, including interest at a fixed rate of 2.89% through to April 23, 2025, thereafter converting to a variable interest rate equal to 0.50% below the WSJ Prime Rate as reflected on the WSJ Market Page, on any outstanding principal balance adjusted daily, secured by the University's Hattiesburg Campus, including all furnitures and fixtures. | - | 14,651,204 |
| Bond payable, due in monthly installments of \$56,392, including interest at a fixed rate of 2.84%, to December 26, 2026, with a final balloon payment of \$5,982,652. A prepayment penalty equal to 1% of the outstanding balance is required if paid within the first five years. The bond is secured by the Tradition Campus property, accounts with lender or lender's affiliate, Regions Bank, and all tangible personal property owned, acquired, created or placed on property for which bond proceeds are used. | 9,356,891 | 8,940,529 |
| Bond payable, due in monthly installments of \$63,865, including interest at a fixed rate of 2.84%, to June 26, 2028, with a final balloon payment of \$6,728,670. A prepayment penalty equal to 1% of the outstanding balance is required if paid within the first five years. The bond is secured by the Tradition Campus property, accounts with lender or lender's affiliate, Regions Bank, and all tangible personal property owned, acquired, created or placed on property for which bond proceeds are used. | 11,243,266 | 10,790,332 |

(Table Continued on Next Page)

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE NINETEEN
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 10 - NOTES AND BONDS PAYABLE (Cont.)

| | <u>June 30,</u> | |
|---|-----------------------------|-----------------------------|
| | <u>2019</u> | <u>2020</u> |
| Bond payable, due in monthly installments of \$66,897, including interest at a fixed rate of 1.78%, to October 24, 2031, with a final balloon payment of \$7,348,728. Interest only payments begin May 24, 2020 and end October 24, 2021. The bond is secured by the Tradition Campus property, accounts with lender or lender affiliate, Regions Bank, and all tangible personal property owned, acquired, created or placed on property for which bond proceeds are used. | \$ - | \$ 13,500,000 |
| | 35,903,803 | 47,882,065 |
| Less: Unamortized loan origination fees | <u>(134,974)</u> | <u>(279,481)</u> |
| Total notes and bond payable | <u>\$ 35,768,829</u> | <u>\$ 47,602,584</u> |

Approximate maturities of the notes and bonds payable during the next five years are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|---|-----------------------------|
| 2021 | \$ 1,453,727 |
| 2022 | 1,872,452 |
| 2023 | 2,112,682 |
| 2024 | 2,167,555 |
| 2025 | 2,222,355 |
| Thereafter | <u>38,053,294</u> |
| Total | 47,882,065 |
| Less: Unamortized loan origination fees | <u>(279,481)</u> |
| Total notes and bonds payable | <u>\$ 47,602,584</u> |

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 11 - COMPOSITE FINANCIAL INDEX

The University's Composite Financial Index consists of the following:

| | June 30, | |
|----------------------------|------------|----------|
| | 2019 | 2020 |
| Primary reserve ratio | 0.3900 A | 0.4601 |
| Strength factor | 0.1330 | 0.1330 |
| Weight | 35% | 35% |
| CFI score | 1.03 A | 1.21 |
| Viability ratio | 0.6488 A | 0.6106 |
| Strength factor | 0.4170 | 0.4170 |
| Weight | 35% | 35% |
| CFI score | 0.54 A | 0.51 |
| Return on net assets ratio | 0.0098 A | 0.1310 |
| Strength factor | 0.0200 | 0.0200 |
| Weight | 20% | 20% |
| CFI score | 0.10 A | 0.13 |
| Return on revenue ratio | (0.0395) A | (0.0453) |
| Strength factor | 0.0070 | 0.0070 |
| Weight | 10% | 10% |
| CFI score | (0.56) A | (0.65) |
| Total CFI | 1.11 A | 1.20 |

- A. These calculations changed from the amounts presented in the University's 2019 Audit Report as a result of the primary reserve ratio now subtracting out restricted gifts and pledges for plant, the net operating revenue ratio numerator is now unrestricted operating income, and the University's debt related to PP&E amount now includes capital lease obligations.

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-ONE
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 12 - NET ASSETS WITHOUT DONOR RESTRICTIONS EXCLUSIVE OF PLANT

Net assets without donor restrictions exclusive of plant consist of the following:

| | <u>June 30,</u> | |
|---|-----------------------------|-----------------------------|
| | <u>2019</u> | <u>2020</u> |
| Net assets without donor restrictions | \$ 165,271,849 | \$ 160,994,642 |
| Less: Non-depreciable plant | (1,281,370) | (1,437,262) |
| Property, plant, and equipment, net | (181,195,822) | (182,559,966) |
| Property, plant, and equipment related debt | 35,995,261 | 47,781,758 |
| Construction accounts payable | 1,455,297 | 1,085,671 |
| Total | <u>\$ 20,245,215</u> | <u>\$ 25,864,843</u> |

NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

| | <u>June 30,</u> | |
|---|-----------------------------|-----------------------------|
| | <u>2019</u> | <u>2020</u> |
| Subject to expenditure for specified purpose: | | |
| Building programs | \$ 839,450 | \$ 2,662,900 |
| Educational programs | 2,643,382 | 2,457,450 |
| Financial aid | 1,053,032 | 917,929 |
| Total subject to expenditure for specified purpose | <u>4,535,864</u> | <u>6,038,279</u> |
| Endowments: | | |
| Subject to appropriation and expenditure when a specified event occurs: | | |
| Restricted by donors for: | | |
| General use | 3,966,468 | 4,020,540 |
| Educational programs | 2,681,870 | 8,019,931 |
| Financial aid | 14,475,113 | 10,371,656 |
| Total endowments | <u>21,123,451</u> | <u>22,412,127</u> |
| Total net assets with donor restrictions | <u>\$ 25,659,315</u> | <u>\$ 28,450,406</u> |

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WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-TWO
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS (Cont.)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows:

| | <u>June 30,</u> | |
|--|---------------------|---------------------|
| | <u>2019</u> | <u>2020</u> |
| Net assets released from donor restrictions | | |
| Satisfaction of purpose restrictions: | | |
| Building programs | \$ 1,170 | \$ - |
| Educational programs | 1,474,603 | 1,193,100 |
| Financial aid | 975,617 | 442,182 |
| | | |
| Total net assets released from donor restrictions | <u>\$ 2,451,390</u> | <u>\$ 1,635,282</u> |

NOTE 14 - RETIREMENT PLAN

The University's employees participate in two 403(b) defined contribution retirement plans. Substantially all of the University's employees participate in one of these plans. The University contributes a percentage (3.00% to 15.00%) of participating employee's salaries depending on years of service. The University contributed \$1,298,306 and \$1,390,642, for the years ended June 30, 2019 and 2020, respectively, to these plans.

NOTE 15 - OPERATING LEASES

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

Short-term and month-to-month rental agreements excluded from lease calculations amounted to \$397,916 and \$350,412, for the years ended June 30, 2019 and 2020.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Grant revenue from federal agencies is subject to independent audit under the Office of Management and Budget's audit requirements for federal awards and review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the University's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the University.

WILLIAM CAREY UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-THREE
YEARS ENDED JUNE 30, 2019 AND 2020

NOTE 16 - 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 \$2,674,391 and \$2,588,753 in fiscal years 2019 and 2020, respectively.

NOTE 17 - CONCENTRATIONS OF RISK

Financial instruments that potentially subject the University to concentrations of credit and market 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 \$21,454,524 and \$30,590,685 over the FDIC federally insured limits as of June 30, 2019 and 2020, respectively. Cash equivalents, other securities, and limited amounts of cash held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage account, with a limit of \$250,000 for claims of uninvested cash balances. Additional brokerage insurance, in addition to SIPC protection, is provided through private insurers. The SIPC insurance does not protect against market losses on investments.

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.

The University's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the University's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Although 96% of the total fair value of investments is held with the MBF, management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

WILLIAM CAREY UNIVERSITY

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-FOUR
YEARS ENDED JUNE 30, 2019 AND 2020**

NOTE 18 - SUBSEQUENT EVENTS

In preparing the financial statements, management has evaluated and disclosed all material subsequent events up to September 14, 2020, which is the date the financial statements were available to be issued.

The spread of a novel strain of coronavirus (COVID-19) in the United States of America has caused economic uncertainties which may negatively impact the University's operational and financial performance. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the University expects that this matter may negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

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SUPPLEMENTARY INFORMATION

WILLIAM CAREY UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA #</u> | <u>Agency or Passthrough #</u> | <u>Federal Expenditures</u> |
|---|---------------------------|------------------------------------|---------------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Direct programs: | | | |
| Student Financial Aid Cluster | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | -- | \$ 317,308 |
| Federal Work-Study Program | 84.033 | -- | 417,921 |
| Federal Perkins Loan Program | 84.038 | -- | 126,414 |
| Federal Pell Grant Program | 84.063 | -- | 5,385,587 |
| Federal Direct Student Loans | 84.268 | -- | 56,130,355 |
| Teacher Education Assistance for College and Higher Education (TEACH) Grants | 84.379 | -- | 129,665 |
| Total Student Financial Aid Cluster | | | <u>62,507,250</u> |
| CARES Act: Higher Education Emergency Relief Fund | 84.425 | -- | <u>1,834,828</u> |
| Total CARES Act: Higher Education Emergency Relief Fund | | | <u>1,834,828</u> |
| Total Expenditures of Federal Awards | | | <u><u>\$ 64,342,078</u></u> |

See the independent auditor's report.

WILLIAM CAREY UNIVERSITY

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 - DE MINIMIS COST RATE

The University did not recover indirect costs using the 10% de minimis cost rate.

NOTE 3 - LOANS OUTSTANDING

The University had the following loan balances outstanding at June 30, 2020. 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 | \$ 126,414 |

During the year ended June 30, 2020, there were no disbursements for new loans and miscellaneous expenses totaled \$5,352 for the Federal Perkins Loan Program.

NOTE 4 - FEDERAL PELL GRANT PROGRAM

During the year ended June 30, 2020, expenditures for the Federal Pell Grant Program totaled \$5,385,587, of which \$5,385,587 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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 14, 2020.

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 opinions 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 William Carey 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 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.



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To the Board of Trustees
William Carey University
Hattiesburg, Mississippi

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Hattiesburg, Mississippi
September 14, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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 Compliance Supplement* that could have a direct and material effect on each of William Carey University's major federal programs for the year ended June 30, 2020. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance 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



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To the Board of Trustees
William Carey University
Hattiesburg, Mississippi

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, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on each major federal program is not modified with respect to this matter.

William Carey University's response to the noncompliance finding identified in our audit is described in the accompanying Auditee Corrective Action Plan. William Carey University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance, 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.

To the Board of Trustees
William Carey University
Hattiesburg, Mississippi

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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a significant deficiency.

William Carey University's response to the internal control over compliance finding identified in our audit is described in the accompanying Auditee Corrective Action Plan. William Carey University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Hattiesburg, Mississippi
September 14, 2020

WILLIAM CAREY UNIVERSITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020**

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 weakness? | 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 weakness? | Yes |
| Type of auditor's report issued on compliance for major program: | |
| Student Financial Aid Cluster | Unmodified |
| CARES Act: Higher Education Emergency Relief Fund | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)? | Yes |

Identification of Major Programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.007 | Student Financial Aid Cluster: Federal Supplemental Educational Opportunity Grants |
| 84.033 | Federal Work-Study Program |
| 84.038 | Federal Perkins Loan Program |

(Table Continued on Next Page)

WILLIAM CAREY UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE TWO

YEAR ENDED JUNE 30, 2020

Section I - Summary of Auditor's Results (Cont.)

Identification of Major Programs (Cont.)

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---|---|
| 84.063 | Student Financial Aid Cluster (Cont.): |
| 84.268 | Federal Pell Grant Program |
| 84.379 | Federal Direct Student Loans |
| | Teacher Education Assistance for College and Higher Education (TEACH) Grants |
| 84.425 | CARES Act: Higher Education Emergency Relief Fund |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| Auditee qualified as low-risk auditee? | Yes |

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Awards Findings and Questioned Costs

Finding:

Finding # 2020-001 Special Test (N) (Return of Title IV Funds)

Finding Type: Significant Deficiency

Program Tested: Student Financial Aid Cluster

Criteria - According to 34 CFR 668.22(j)(1), a school must return unearned funds for which it is responsible as soon as possible but no later than 45 day from the determination of a student's withdrawal.

WILLIAM CAREY UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE THREE

YEAR ENDED JUNE 30, 2020

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

Condition - The University does not have adequate internal control procedures in place to monitor compliance with the regulations for return of Title IV funds.

Questioned Costs - Undetermined.

Effect - The University could fail to return unearned funds in the time allowed by 34 CFR 668.22(j)(1).

Cause - The University has not established a framework to ensure the timely return of Title IV Funds for the Student Financial Aid Cluster programs.

Recommendation - The University should implement procedures to ensure compliance with the return of unearned funds in a timely manner.

Views of Management - See the University's Corrective Action Plan.

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Office of Business Affairs
Grant Guthrie, MA, MBA, CMA
Vice President and Chief Financial Officer

AUDITEE CORRECTIVE ACTION PLAN

The University respectfully submits the following corrective action plan.

Audit Period: June 30, 2020

The finding discussed below is numbered consistently with the numbers assigned in the schedule of findings and questioned costs.

Corrective Action Plan for Federal Awards Findings and Questioned Costs

2020-001 Special Test (N) (Return of Title IV Funds)

The University has implemented a process that provides greater control over the return of any unearned funds following a student's withdrawal. The updated process and enhanced internal controls significantly decrease the likelihood of the University's failure to return funds within the time allowed by 34 CFR 668.22(j)(1).

A student may withdraw from the University via his/her online student portal or written letter of request. Email notifications are sent to the Refund Specialist, Student Account Supervisor, and Controller when a student submits a withdrawal request using the online student portal. When a request is received, the Refund Specialist enters specific information in a worksheet. This information includes the following:

- Student's identifying information
- Term
- Date of request
- If student has completed 60% of the term
- If student has Pell Grant
- If student has Federal loans
- If the student is withdrawing or voiding
- Effective date in CAMS

When this information has been entered, the worksheet indicates if any financial aid should be returned to the Department of Education. The worksheet also tracks the number of days since the date of request and changes the color of a cell based upon this number; going from green to red as the 45 day mark approaches. The worksheet ceases counting when the date and amount of the return has been entered.

Each week the Student Account Supervisor generates a report from the student management system that lists students with financial aid whose enrollment dropped below five credit hours compared to the prior week. The Student Account Supervisor compares this report to the worksheet to ensure the correct tracking information is entered. Any discrepancies are investigated, and the worksheet is updated as necessary. The Student Account Supervisor will also research any student who has funds to be returned.

Each term the Controller reviews the worksheet, the report of students with a change in hours, and a separate log of any paper requests received by the Registrar. The Controller tests random students to check accuracy of the date and amount returned to the Department of Education. Additionally, the Controller reviews several random withdrawal requests received throughout the term to ensure the request was completed and entered into the worksheet. Any anomalies are analyzed and corrected prior to the end of the 45 day period.

Name of Responsible Person: Grant Guthrie, Vice President and Chief Financial Officer

Expected Date of Completion: Current

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