

# **Centenary College**

Financial Statements

June 30, 2012



# Centenary College

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## Management's Responsibility for Financial Statements

The management of Centenary College is responsible for the preparation, integrity and fair presentation of these financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States, and, consequently, they reflect certain amounts based upon the best estimates and judgments of management.

The financial statements have been audited by the independent accounting firm ParenteBeard, which was given unrestricted access to all financial records and related data, including minutes of all meetings of Trustees. The independent auditors' opinion is presented on page 5.

The College maintains a system of internal controls over financial reporting, which is designed to provide a reasonable assurance to the College's management and Board of Trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures and by the selection and training of qualified personnel. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

The Audit Committee of the Board of Trustees is responsible for engaging the independent auditors and meeting with management and the independent auditors to ensure that each carries out its responsibilities. The independent auditors have full and free access to the Audit Committee.



Barbara-Jayne Lewthwaite  
President



Roger L. Anderson  
Chief Financial Officer/  
Chief Operating Officer

## FY 2012 Financial Overview

FY 2012 was another challenging year for Centenary College. Enrollment was down slightly from the prior year, continuing a trend in which enrollment has declined approximately 23% over three years.

Despite the challenges, Centenary reported an increase from operating activity of \$1.3 million on total unrestricted revenues of \$46.7 million and operating expenses of \$45.4 million. These positive results are due to a combination of enrollment being slightly higher than was budgeted and spending being lower than budgeted. Non-operating activity, however, principally mark-to-market losses on two of the College's interest rate swaps, caused the College to report a loss in non-operating activity of \$1.7 million, leading to a loss from operations of \$.5 million. A mark-to-market loss on the third of the College's interest rate swaps has caused a decline in net unrestricted assets of \$397,000.

In FY 2012, Centenary reported a decrease in net unrestricted assets of \$397,285, on total unrestricted revenues of \$46.7 million and operating expenses of \$45.3 million. These results were due mostly to enrollment being slightly higher than was budgeted.

Centenary provides traditional, on-campus education at both the bachelors and masters levels at locations in Hackettstown and Long Valley, NJ. The College also provides accelerated education programs at the associate, bachelor and master levels at Hackettstown, at locations in Parsippany and Metropark, NJ, at various corporate offices in the state and through online learning. The College plans to discontinue providing such accelerated programs at Hackettstown during FY 2013. In addition, the College offers graduate classes in education at professional development sites in the four-county area around Hackettstown.

In FY 2012, the College had 1,800 full-time and 115 part-time undergraduate students. The comparable numbers were 1,840 and 153 in FY 2011. Centenary had 387 traditional graduate students in FY 2012, compared to 343 in FY 2011. Centenary had an average of 695 students in its accelerated and online programs in FY 2012, compared to an average of 722 in FY 2011.

	Fall 06	Fall 07	Fall 08	Fall 09	Fall 10	Fall 11
FT Undergraduate	1,732	1,976	2,100	1,964	1,840	1,800
PT Undergraduate	220	262	183	177	153	115
<b>Total Undergraduate</b>	<b>1,952</b>	<b>2,238</b>	<b>2,283</b>	<b>2,141</b>	<b>1,993</b>	<b>1,915</b>
FT Graduate	372	421	419	397	343	387
PT Graduate	338	369	559	401	358	342
<b>Total Graduate</b>	<b>710</b>	<b>790</b>	<b>978</b>	<b>798</b>	<b>701</b>	<b>729</b>
<b>Total Enrollment</b>	<b>2,662</b>	<b>3,028</b>	<b>3,261</b>	<b>2,939</b>	<b>2,694</b>	<b>2,644</b>

In order to reverse the 23% decline in enrollment since FY 2009, Centenary took action in both FY 2011 and 2012 to restructure its enrollments efforts both for traditional students and for the accelerated and online programs. Among other changes, the College joined the Common Application in FY 2012, which the College expects will increase Centenary's name recognition and the number of completed applications. Of the 2,126 applications for full-time undergraduate enrollment that the College received in FY 2012, 622 came through the Common Application.

Centenary created an Enrollment Objectives Committee to coordinate and promote recruitment efforts across the College's operating units and, in FY 2013, consolidated all enrollment activities within the Provost's Office.

The College introduced a bachelor degree program in Sociology in its accelerated program and a masters degree program in Education with a Concentration in Reading in its traditional program. The College expects to introduce a masters degree program in Health Care Administration through its accelerated program during FY 2014.

Because Centenary was founded before the State Department of Education, it is one of only a few colleges in New Jersey that do not have to obtain various state bureaucratic approvals to introduce new programs. Centenary believes this is a competitive advantage, and the College continues to evaluate the introduction of other areas of study to increase enrollment.

Following a 3% tuition increase for FY 2012, gross tuition and fees revenue was \$54.0 million, \$.9 million or 1.8% higher than in FY 2011. Financial aid and tuition discounts totaled \$16.6 million in FY 2012, \$1.1 million or 7.2% higher than in FY 2011. As a result, net tuition and fee revenue was \$37.4 million, \$.2 million or .4% lower than in FY 2011.

Approximately 1,819 Centenary students received financial aid in FY 2012, with an average award of \$10,614. In FY 2011, approximately 1,555 students received financial aid, with an average award of \$8,632.

Other sources of unrestricted revenue totaled \$8.4 million in FY 2012, \$7.8 million or 8.3% higher than in FY 2011. Total gift revenues of \$1.0 million were down 34% from the prior year. Total unrestricted revenues of \$46.7 million were \$.7 million or 1.5% higher than in FY 2011.

Unrestricted operating expenses in FY 2012 were \$45.3 million, \$.3 million or .7% lower than FY 2011.

Non-operating activity in FY 2012, principally the mark-to-market losses on interest rate swaps mentioned above, was (\$1.7 million), compared to positive results of \$.7 million in FY 2011.

Results from operations in FY 2012 were \$.1.3 million, compared to \$.9 million in FY 2011. Due to other changes in net assets, the College's net assets decreased by \$.4 million in FY 2012, compared to an increase of \$1.5 million in FY 2011.

	<u>2012</u>	<u>2011</u>
Net tuition and fees	37,396,030	37,553,478
Other revenues	8,476,571	7,825,392
Total revenues	45,872,601	45,378,870
Education and general expenses	38,622,493	38,985,129
Auxiliary expenses	6,737,214	6,708,758
Total operating expenses	45,359,707	45,693,888
Non-operating activity	(1,735,240)	310,686
(Decrease) Increase in net assets	(397,285)	625,414

At the beginning of FY 2012, the fair value of Centenary's General Endowment Fund was \$2.9 million. The College had budgeted for a normal endowment distribution for FY 2012, but elected not to do so. The fair value of the General Endowment Fund finished FY 2012 down 2.8% at \$2.8 million. The College has budgeted a normal endowment distribution for FY 2013.

Looking forward, the College expects FY 2013 to be another challenging year. Enrollment aid. In addition, the weak global economy continues to (a) put pressure on all small, private colleges to attract students, (b) limit the ability to raise tuition and fees and (c) create a difficult fundraising environment.

The College is heavily dependent on student revenues. In response to the challenges mentioned above, the College has continued to revise its budgeting practices to ensure that expenses are in line with enrollment and expected student revenues. In FY 2011, the College professionalized its purchasing activities to reduce expenses.

Centenary believes it will continue to be able to meet the challenges before it and to provide quality education to its students within balanced operating results.

## Independent Auditors' Report

Audit Committee of Centenary College  
Hackettstown, New Jersey

We have audited the accompanying statements of financial position of Centenary College (the "College") as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the College. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College, as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of expressing an opinion on the basic financial statements taken as a whole. The Introductory Section is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*ParenteBeard LLC*

Clark, New Jersey  
December 7, 2012

# Centenary College

Statement of Financial Position  
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 19,831,694	\$ 15,571,180
Investments	124,711	124,461
Accounts receivable:		
Students (less allowance of \$774,605 and \$603,282 in 2012 and 2011, respectively)	2,575,476	3,528,649
Pledges	1,201,893	2,120,158
Notes (less allowance of \$229,467 and \$225,297 in 2012 and 2011, respectively)	995,397	1,025,883
Other	35,918	131,604
Funds held for payment of long-term debt	455,216	442,881
Other current assets	647,438	863,552
	<u>25,867,743</u>	<u>23,808,368</u>
<b>Noncurrent Assets</b>		
Property and equipment - net	63,084,108	63,997,318
Pledges receivable - long-term portion	2,054,116	2,839,895
Deferred financing costs	815,097	853,084
Long-term investments	3,969,018	4,112,387
	<u>69,922,339</u>	<u>71,802,683</u>
Total assets	<u>\$ 95,790,082</u>	<u>\$ 95,611,051</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 2,197,149	\$ 1,913,160
Accrued payroll and payroll taxes	959,044	1,002,091
Current portion of long-term debt	1,221,213	924,733
Deferred revenue	2,032,559	2,368,716
	<u>6,409,965</u>	<u>6,208,700</u>
Total current liabilities	<u>6,409,965</u>	<u>6,208,700</u>
<b>Long-Term Liabilities</b>		
Asset retirement obligation	70,875	70,875
Fair value of swap	3,603,637	1,978,443
Refundable loan programs	1,172,085	1,047,930
Long-term portion of debt	36,629,555	37,929,965
	<u>41,476,152</u>	<u>41,027,212</u>
Total long-term liabilities	<u>41,476,152</u>	<u>41,027,212</u>
Total liabilities	<u>47,886,117</u>	<u>47,235,913</u>
<b>Net Assets</b>		
Unrestricted	10,313,461	10,710,746
Temporarily restricted	34,748,017	34,937,891
Permanently restricted	2,842,487	2,726,501
	<u>47,903,965</u>	<u>48,375,138</u>
Total net assets	<u>47,903,965</u>	<u>48,375,138</u>
Total liabilities and net assets	<u>\$ 95,790,082</u>	<u>\$ 95,611,051</u>

See notes to financial statements

**Centenary College**

Statement of Activities

Years Ended June 30, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenues and Other Support</b>								
Tuition and fees	\$ 54,020,759	\$ -	\$ -	\$ 54,020,759	\$ 53,068,135	\$ -	\$ -	\$ 53,068,135
Institutional financial aid/tuition discounts	(16,624,729)	-	-	(16,624,729)	(15,514,657)	-	-	(15,514,657)
Net tuition and fees	37,396,030			37,396,030	37,553,478	-	-	37,553,478
Investment return designated for current operations	-	113,898	-	113,898	-	116,186	-	116,186
Gifts and grants	436,575	417,571	115,986	970,132	441,368	893,857	35,663	1,481,074
Auxiliary enterprises	7,400,888	602,209	-	8,003,097	6,924,340	110,186	-	6,924,340
Other sources	639,108	245,200	-	884,308	459,684	159,542	-	619,226
Total revenues, gains, and other support	45,872,601	1,378,878	115,986	47,367,465	45,378,870	1,279,771	35,663	46,694,305
<b>Net Assets Released from Restrictions for Operations</b>	825,061	(825,061)	-	-	629,745	(629,745)	-	-
Total revenues, gains, and other support	46,697,662	553,817	115,986	47,367,465	46,008,615	650,026	35,663	46,694,305
<b>Operating Expenses</b>								
Educational and general:								
Instruction	14,962,419	-	-	14,962,419	13,514,231	-	-	13,514,231
Library	538,320	-	-	538,320	692,794	-	-	692,794
General institution support	15,961,516	-	-	15,961,516	17,136,865	-	-	17,136,865
Loss on disposition of assets	-	-	-	-	160,262	-	-	160,262
Operation and maintenance of plant	3,707,605	-	-	3,707,605	3,988,010	-	-	3,988,010
Depreciation	3,402,337	-	-	3,402,337	3,486,721	-	-	3,486,721
Student aid	50,296	-	-	50,296	6,246	-	-	6,246
Total educational and general	38,622,493	-	-	38,622,493	38,985,129	-	-	38,985,129
Auxiliary enterprises	6,737,214	622,884	-	7,360,098	6,708,758	141,584	-	6,850,342
Total operating expenses	45,359,707	622,884	-	45,982,591	45,693,887	141,584	-	45,835,471
<b>Change in Net Assets from Operations</b>	1,337,955	(69,067)	115,986	1,384,874	314,728	508,442	35,663	858,833
<b>Non-Operating Activity</b>								
Investment gain (loss) less amounts designated for current operations	(110,046)	(120,807)	-	(230,853)	365,896	360,382	-	726,278
Net loss on swap	(1,625,194)	-	-	(1,625,194)	(55,210)	-	-	(55,210)
Increase (decrease) from non-operating activity	(1,735,240)	(120,807)	-	(1,856,047)	310,686	360,382	-	671,068
<b>Increase (Decrease) in Net Assets</b>	(397,285)	(189,874)	115,986	(471,173)	625,414	868,824	35,663	1,529,901
<b>Net Assets - Beginning</b>	10,710,746	34,937,891	2,726,501	48,375,138	10,085,332	34,069,067	2,690,838	46,845,237
<b>Net Assets - Ending</b>	\$ 10,313,461	\$ 34,748,017	\$ 2,842,487	\$ 47,903,965	\$ 10,710,746	\$ 34,937,891	\$ 2,726,501	\$ 48,375,138

See notes to financial statements

# Centenary College

## Statement of Cash Flows

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (471,173)	\$ 1,529,901
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,402,337	3,486,721
Realized and unrealized (gain) loss on investments	154,588	(804,319)
(Gain) loss on disposition of assets	(6)	230,596
Contributions received for long-term investment	(655,960)	(1,422,809)
Amortization of bond issuance costs	37,987	34,513
Allowance for doubtful accounts- students	171,322	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable - students	781,851	(710,345)
Decrease (increase) in other receivables	95,686	(111,836)
Decrease in pledges receivables	1,704,045	1,230,460
Decrease in current assets	216,114	74,238
Increase in accounts payable	283,988	170,566
Decrease (increase) in student loans advanced	30,486	(117,350)
(Decrease ) increase in accrued payroll and payroll taxes	(43,047)	8,566
Decrease in deferred revenue	(336,157)	(1,485,767)
Increase fair value of swap	1,625,194	55,210
	<u>6,997,255</u>	<u>2,168,345</u>
Net cash provided by operating activities		
<b>Cash Flows from Investing Activities</b>		
Increase in funds held for payment of long-term debt	(12,335)	(10,474)
Purchase of investments	(2,084,812)	(2,451,277)
Purchase of property, plant, and equipment	(2,489,122)	(2,349,023)
Proceeds from sale of investments	2,171,551	2,498,063
	<u>(2,414,718)</u>	<u>(2,312,711)</u>
Net cash used in investing activities		
<b>Cash Flows from Financing Activities</b>		
Repayment of construction loan	-	(14,196,899)
Proceeds from bond issuance	-	13,974,000
Change in advances for government loan funds	124,155	8,355
Repayments of long-term debt	(961,430)	(786,671)
Payment of financing costs	-	(165,025)
Payment of State loan for construction	(42,500)	(40,000)
Contributions received for long-term investments	655,960	1,422,809
Payments made to charitable gift annuitants	(98,208)	(91,410)
	<u>(322,023)</u>	<u>125,159</u>
Net cash (used in) provided by financing activities		
Net increase (decrease) in cash and cash equivalents	4,260,514	(19,207)
<b>Cash and Cash Equivalents, Beginning</b>	<u>15,571,180</u>	<u>15,590,387</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 19,831,694</u>	<u>\$ 15,571,180</u>
<b>Supplemental Disclosures - Interest Paid</b>	<u>\$ 1,455,034</u>	<u>\$ 1,092,011</u>

See notes to financial statements

# Centenary College

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Notes to Financial Statements  
June 30, 2012 and 2011

## 1. Organization Summary

Centenary College (the "College") is an independent college offering bachelor's degree programs and associate degree programs in liberal arts and career areas and master's degree programs.

## 2. Summary of Significant Accounting Policies

The significant accounting policies of the College are described below.

### Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Under the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, Not-For-Profit Organizations, scholarships are to be reported as "scholarship allowances," which offset revenue. The Guide defines a scholarship allowance as the difference between stated charges for goods and services provided by a college and the amount that is billed to the student and/or third party making payments on behalf of the student.

### Basis of Presentation

These financial statements present financial information showing the financial position, the activities, and the cash flows of the College reflecting the presence or absence of donor-imposed restrictions. Accordingly, the amounts of net assets are classified according to the nature of restrictions, as follows:

#### Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

#### Temporarily Restricted Net Assets

Net assets which are subject to donor-imposed restrictions that will be met when expenditures are made for the designed purposes or with passage of time. The expiration of temporary restrictions on net assets is reported in the statements of activities as net assets released from restrictions. Temporarily restricted contributions and temporarily restricted endowment income whose restrictions are not met in the same period as received or earned are reported as increases in temporarily restricted net assets.

#### Permanently Restricted Net Assets

Net assets which are subject to donor-imposed restrictions that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

# Centenary College

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Notes to Financial Statements

June 30, 2012 and 2011

## Nonoperating Activities

Nonoperating activities reflect gains and losses on investments, less amount designated for current operation and loss on fair value of interest rate swap.

## Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments (e.g. Certificate of Deposits) that have a maturity of three months or less at the time of purchase to be cash equivalents. Included in the cash balance are restricted funds in the amounts of \$660,952 and \$658,894 for the years ended June 30, 2012 and 2011, respectively.

## Investments

Equity securities with readily determinable fair values and debt securities are valued at fair value based on quoted market prices. The College's alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The College reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used to determine the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Adjustments to reflect increases or decreases in fair value, referred to as unrealized gains and losses, are reported in the statement of activities.

The College's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

All realized gains and losses arising from the sale of investments and ordinary income from investments are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations.

# Centenary College

Notes to Financial Statements

June 30, 2012 and 2011

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## Student Accounts and Notes Receivable

Accounts receivable are not collateralized. Reserves have been provided for based on management's estimate of credit losses. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The reserve for losses on accounts receivable was approximately \$774,605 and \$603,282 at June 30, 2012 and 2011, respectively.

Notes receivable represent loans to students funded by advances to the College by the federal government under the Federal Perkins Loan Program (the "Program"). In the event that the College ceases to participate in the Program, the amount is refundable to the federal government. Such funds may be re-loaned by the College after collection, but in the event that the College no longer participates in the Program, the amount is refundable to the federal government. The federal government's portion of these funds at June 30, 2012 and 2011 was \$992,897 and \$1,023,832, respectively. The College matches and contributes one-third of the amount contributed by the U.S. Government.

The prescribed practices for the Program do not provide for accrual of interest on student loans receivable. Accordingly, interest on loans is recorded as received and is reinvested to support additional loans; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with the Program's requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.

## Pledges

Pledges are recorded at the net present value, determined using a risk adjusted discount rate (ranging from .2% to 5.72%) whose maturities correspond to the maturities of the pledges, as receivables in the year made. Restricted pledges are reported as additions to the appropriate restricted net assets.

## Contributions

Contributions are considered to be unrestricted and available for use unless specifically restricted by the donor, and are recognized during the period in which they are pledged. Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

## Donor-Restricted Gifts

Gifts of cash and other assets are reported as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

# Centenary College

Notes to Financial Statements

June 30, 2012 and 2011

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## Split-Interest Agreements

The College is the beneficiary of charitable gift annuities. The College's interest in these split-interest agreements is reported as a contribution in the year received and is calculated as the difference between the fair value of the assets contributed to the College, and the estimated liability to the beneficiary. This liability is computed using actuarially determined rates and is adjusted annually resulting in a decrease in the liability of \$98,208 and an increase in the liability of \$78,089 for 2012 and 2011, respectively.

## Deferred Financing Costs

Costs incurred in connection with debt financing are deferred and amortized over the term of the related debt using the straight-line method, which approximates the interest method. Amortization expense was \$37,987 and \$34,513 in 2012 and 2011, respectively.

## Deferred Revenue

The College records as deferred revenue prepayments of summer and fall session tuition.

## Property and Equipment

Land, land improvements, buildings, and leasehold improvements are stated principally at cost. Donated horses are recorded at an appraisal supplied by a certified appraiser, or if none is available, they are recorded at a value of \$1. Library books are not capitalized.

Depreciation is calculated under the straight-line method (assuming no salvage value) based on the following estimated useful lives.

Land improvements (after 1980) and buildings	40 years
Equipment, furniture, and fixtures	8 years
Automobiles	3-5 years
Computer equipment	3-6 years
Livestock (horses)	10 years

## Impairment of Long-Lived Assets

Management of the College reviews long-lived assets (including property and equipment and other assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management considers the undiscounted cash flow expected to be generated by the use of the asset and its eventual disposition to determine when, and if, an impairment has occurred. An impairment loss is recognized to the extent that the carrying value of assets exceeds their fair value. Any write-downs due to impairment are charged to operations at the time impairment is identified. No such write-downs were required during the years ended June 30, 2012 and 2011.

# Centenary College

Notes to Financial Statements

June 30, 2012 and 2011

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## Financial Instruments

The College has entered into interest rate swap agreements to hedge interest rate risk associated with its long-term debt. The College accounts for derivative financial instruments in accordance with ASC 815, and records the fair values of these instruments within its Statements of Financial Position as Fair Value of Swap. Changes in the fair value of derivative instruments are recorded in its Statements of Activities as a Non-Operating Activity.

Refer to Note 10, "Interest Rate Swaps" for more information. The College did not have significant credit risk related to financial instruments at June 30, 2012 and 2011.

## Title IV Requirements

The College participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education ("ED") for the payment of student tuitions. A substantial number of College students are dependent upon the College's continued participation in the Title IV programs for assistance in tuition payment.

Institutions participating in Title IV programs are also required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.5 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2012 and 2011 for the years then ended, the College's composite score exceeded 1.5.

## Taxes

The College is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it generates revenue from activities unrelated to its exempt purpose. Accordingly, no provision for federal income tax has been recorded in the accompanying financial statements. The College has received a favorable determination letter from the Internal Revenue Service indicating that it qualifies for tax-exempt status. The College is also exempt from New Jersey income taxes under the related state provisions. Management believes that the College will continue to be exempt from taxes.

## Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

## Subsequent Events

Subsequent events were evaluated through December 7, 2012, the date the financial statements were issued.

## Adoption of Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," ("ASU 2011-04") which amends FASB ASC Topic 820, "Fair Value Measurements," to bring accounting principles generally accepted in the United States of America for fair value measurements in line with International Accounting Standards by clarifying existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholder's equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of Level 3 assets. ASU 2011-04 is effective for fiscal years and interim reporting periods beginning after December 15, 2011. Management is evaluating the impact of adopting ASU 2011-04 and believes it will not be material to the financial statements but will provide additional disclosures.

## Reclassification

Certain items in the financial statements have been reclassified to conform with the current year presentation.

## 3. Pledges Receivable

Contributions receivable, net at June 30, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Amounts due in:		
Less than one year	\$ 1,201,893	\$ 2,359,157
In one to five years	2,505,500	2,614,895
Over five years	-	225,000
	<u>3,707,393</u>	<u>5,199,052</u>
Gross pledges receivable	3,707,393	5,199,052
Allowance for net present value	<u>(451,384)</u>	<u>(238,999)</u>
Net pledges receivable	<u>\$ 3,256,009</u>	<u>\$ 4,960,053</u>

## Centenary College

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### Notes to Financial Statements

June 30, 2012 and 2011

Risk adjusted interest rates are used to discount contributions receivable. The College considers these yields to be a Level 3 input in the context of the SFAS 157 hierarchy. Refer to Note 5 for SFAS 157 discussion.

The table below summarizes the changes in carrying values associated with the pledges for the year ended June 30, 2012.

	<u>Pledges</u>
Beginning balance - June 30, 2011	\$ 4,960,053
New pledges in 2012	22,500
Write-off of pledge	(723,088)
Pledge payments received	(791,071)
Change in present value	<u>(212,385)</u>
Ending balance - June 30, 2012	<u>\$ 3,256,009</u>

The College has been informed that it has been named as beneficiary in the wills of numerous donors totaling \$2,207,094 and \$2,018,980 as of June 30, 2012 and 2011, respectively. These bequests are considered to be intentions to give and, therefore, are not included in the financial statements.

Management has not established an allowance for doubtful collections at June 30, 2012 and 2011 based on information currently known. However, events impacting donors can occur in subsequent years that may cause a material change in the allowance for doubtful collections.

# Centenary College

Notes to Financial Statements

June 30, 2012 and 2011

## 4. Investments

Investments are reported at fair value. Unrealized gains and losses in the change in fair value are reflected in the statement of activities. Fair values of securities are based on quotations. There were net unrealized (losses)/gains of \$(268,927) and \$782,128 for the years ended June 30, 2012 and 2011, respectively.

Investments at June 30, 2012 and 2011 comprised the following:

	<u>2012</u>	<u>2011</u>
Short-term investments	<u>\$ 124,711</u>	<u>\$ 124,461</u>
Long-term investments:		
Charitable gift annuity:		
Equities	551,615	583,262
Fixed income	587,099	592,311
Money market	1,407	25,518
Endowment Fund:		
Equity index fund	2,296,092	2,458,915
Fixed income	262,386	281,142
Other mutual funds	230,028	139,141
Money market	<u>40,391</u>	<u>32,098</u>
Total	<u>\$ 3,969,018</u>	<u>\$ 4,112,387</u>

## Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

Investments by major category consisted of the following at June 30, 2012 and 2011:

	2012		2011	
	Market Value	Cost	Market Value	Cost
<b>Charitable Gift Annuity</b>				
Cash and equivalent	\$ 1,407	\$ 1,407	\$ 25,518	\$ 25,518
Equity mutual funds:				
Large cap	347,110	344,472	363,383	292,666
Small/Mid cap	85,777	92,008	100,532	90,550
Developed International	75,782	86,631	89,295	83,533
Emerging International	42,936	35,150	30,052	15,447
Fixed income mutual funds	587,109	551,524	592,311	562,875
<b>Total</b>	<b>\$ 1,140,121</b>	<b>\$ 1,111,192</b>	<b>\$ 1,201,091</b>	<b>\$ 1,070,589</b>
<b>Endowment</b>				
Cash and equivalent	\$ 40,391	\$ 40,392	\$ 32,098	\$ 32,098
Marketable equity securities:				
Consumer discretionary	143,314	96,729	157,017	102,670
Consumer staples	127,480	97,348	93,492	77,183
Energy	69,949	68,262	52,893	42,112
Financial	27,383	24,410	24,712	21,171
Health care	171,626	139,125	122,992	102,907
Industrials	125,472	99,907	159,563	114,507
Information technology	252,374	175,121	259,250	193,807
Materials	23,485	21,398	23,310	13,825
Telecommunication	57,555	44,076	50,244	39,531
Utilities	46,323	38,468	47,556	41,070
Equity mutual funds:				
Large cap	460,316	500,000	513,641	543,354
Small/Mid cap	281,307	307,702	394,332	332,952
Developed International	332,325	441,950	411,281	469,869
Emerging International	126,888	122,738	148,632	122,738
Other International	50,295	50,000	-	-
Fixed income mutual funds	262,386	240,191	282,142	266,849
Other mutual funds	230,028	202,214	139,141	146,410
<b>Total</b>	<b>\$ 2,828,897</b>	<b>\$ 2,710,031</b>	<b>\$ 2,911,296</b>	<b>\$ 2,663,053</b>

## Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

The following schedule summarizes the investment of resources and its classification in the statement of activities:

<u>2012</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Interest and dividends - net of expense of \$17,590	\$ 13,300	\$ 24,333	\$ 37,633
Net realized gain	37,092	77,247	114,339
Unrealized loss	<u>(160,438)</u>	<u>(108,489)</u>	<u>(268,927)</u>
Gain on long-term investments	(110,046)	(6,909)	(116,955)
Allocation of endowment value to current operations	<u>-</u>	<u>(113,898)</u>	<u>(113,898)</u>
Total investment gain less amounts designated for current operations	<u>\$ (110,046)</u>	<u>\$ (120,807)</u>	<u>\$ (230,853)</u>
<u>2011</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Interest and dividends - net of expense of \$16,886	\$ 13,480	\$ 24,665	\$ 38,145
Net realized gain	7,199	14,992	22,191
Unrealized gain	<u>345,217</u>	<u>436,911</u>	<u>782,128</u>
Gain on long-term investments	365,896	476,568	842,464
Allocation of endowment value to current operations	<u>-</u>	<u>(116,186)</u>	<u>(116,186)</u>
Total investment gain less amounts designated for current operations	<u>\$ 365,896</u>	<u>\$ 360,382</u>	<u>\$ 726,278</u>

### 5. Fair Value Measurements

The College adopted ASC 820, subject to the deferral provisions of FSP 157-2 as discussed in Note 2 of the notes to these financial statements. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The fair value hierarchy is as follows:

Level 1 - Quoted (unadjusted) prices for identical assets or liabilities in active markets as of the measurement date.

## Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in non-active markets (few transactions, limited information, non-current prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data. Fair values of debt and equity securities are based on quoted market prices where available.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The College's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

The following table presents information as of June 30, 2012 and 2011, about the College's financial assets that are measured at fair value on a recurring basis, according to the valuation techniques the College used to determine such fair values.

	<b>Assets at Fair Value as of June 30, 2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market	\$ 41,798	\$ -	\$ -	\$ 41,798
Mutual funds				
Fixed income	847,832	-	-	847,832
Equities	3,079,388	-	-	3,079,388
Total cash, cash equivalents and investment at fair value	<u>\$ 3,969,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,969,018</u>
Fair value of swap	<u>\$ -</u>	<u>\$ 3,603,637</u>	<u>\$ -</u>	<u>\$ 3,603,637</u>
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 3,603,637</u>	<u>\$ -</u>	<u>\$ 3,603,637</u>

## Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

	Assets at Fair Value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Money market	\$ 57,616	\$ -	\$ -	\$ 57,616
Mutual funds				
Fixed income	871,370	-	-	871,370
Equities	3,183,401	-	-	3,183,401
Total cash, cash equivalents and investment at fair value	\$ 4,112,387	\$ -	\$ -	\$ 4,112,387
Fair value of swap	\$ -	\$ 1,978,443	\$ -	\$ 1,978,443
Total liabilities at fair value	\$ -	\$ 1,978,443	\$ -	\$ 1,978,443

### 6. Property and Equipment

As of June 30, 2012 and 2011, property, plant, and equipment was composed of the following:

	2012	2011
Land, buildings and improvements	\$ 78,343,334	\$ 77,404,196
Equipment and other	15,737,345	14,354,153
Construction in progress	1,958,470	1,791,678
Gross fixed assets	96,039,149	93,550,027
Less accumulated depreciation	(32,955,041)	(29,552,709)
Net property, plant, and equipment	\$ 63,084,108	\$ 63,997,318

### 7. Line of Credit

The College has a line of credit with a bank for \$950,000 that is available for interim financing of operations and renovations. The line of credit is secured by student accounts receivable, bears interest at the variable rate of the Wall Street Journal prime rate of interest in effect, but never less than 4%, and matures on November 30, 2013. At June 30, 2012 and 2011, the College had no borrowings against the line of credit.

# Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

## 8. Lease Obligations

During 2011, the College entered into operating lease arrangements for the purpose of providing laptop computers to students, faculty, and staff and certain office equipment, as well as vehicles for key personnel. The College is committed to minimum annual rent payments under these operating leases as follows:

Operating Lease Payments	Total
2013	\$ 336,413
2014	192,986
2015	43,230
2016	<u>11,977</u>
Total	<u>\$ 584,606</u>

Lease expense under these agreements was approximately \$1,190,749 and \$962,843 for the years ended June 30, 2012 and 2011, respectively.

## 9. Long-Term Debt

**State of New Jersey Capital Improvement Fund** - In fiscal year 2000, the College received a refundable grant of \$1,728,633 from the State of New Jersey Capital Improvement Fund (CIF). The grant partially funded the Seay Building Restoration Project. The terms of the grant include a provision that the College is required to pay back an amount equal to one half of the grant. The College recorded half this amount as a grant receivable in fiscal 2000, and recorded the remaining half in fiscal 2001. The amount recorded in fiscal 2001 was offset by a loan. The College received the entire refundable grant in fiscal 2001.

The grant bears interest at 5%, payable semi-annually beginning August 15, 2000, and requires annual principal payments through August 15, 2020. The obligation to pay the State of New Jersey Capital Improvement Fund on a periodic basis, in the amounts sufficient to cover principal and interest due on the bonds, is a general obligation of the College. As of June 30, 2012, the outstanding principal balance is \$500,000.

**New Jersey Educational Facilities Authority (NJEFA) Bond 2003 Series A** - In January 2003, the College received proceeds of the NJEFA offering of \$14,775,000 Revenue Bonds, 2003 Series A. A portion of the proceeds, \$5,270,000, was used to refund all of the NJEFA's outstanding revenue bonds (2000 Series F). A portion of the bonds was used to finance the construction of a new student residence hall, capital improvements to existing campus buildings, and the acquisition of laptop computers.

The bonds bear interest at a variable rate, payable annually beginning October 1, 2003; are subject to redemption at various prices; and require principal payments through October 1, 2033. At June 30, 2012 the interest rate was .15%. The obligation to pay the NJEFA on a periodic basis, in the amounts sufficient to cover principal and interest due on the bonds, is a general obligation of the College.

## Centenary College

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Notes to Financial Statements  
June 30, 2012 and 2011

The College's obligations are secured by first lien mortgages on both its Hackettstown and Long Valley campuses and security interests in all rents and leases relating to such property (excluding room and board fees) and in all fixtures, equipment and other property purchased with such bond funds.

The bonds are collateralized by a letter of credit with TD Bank, which expires on April 30, 2013 and is based on outstanding principal balances. Management anticipates the letter of credit will be renewed upon expiration. The bond agreement requires maintenance of the letter of credit. As of June 30, 2012, the outstanding principal balance is \$9,975,000.

**New Jersey Educational Facilities Authority (NJEFA) Dormitory Safety Trust Fund** - In May 2001, the College entered into a \$780,000 loan agreement with the NJEFA. In October 2003, the College entered into an additional loan agreement for \$350,000 with the NJEFA. These agreements have been financed through the issuance of State Facilities Authority bonds, which bear zero percent interest 0% per annum. The funds were used to finance the cost of the construction, reconstruction, development, extension, or improvement of dormitory safety facilities, including fire prevention and sprinkler systems.

As of June 30, 2012, the outstanding principal on the 2001 loan is \$222,856, and the outstanding principal on the 2003 loan is \$140,000.

**New Jersey Educational Facilities Authority (NJEFA) Bond 2006 Series J** - In October 2006, the College received proceeds of \$9,154,113 Revenue Bonds, 2006 Series J. A portion of the proceeds, \$9,013,990, was used to pay down the construction loan. The funds were used for the construction of Founders Hall.

The bonds bear interest at a variable rate. The rates are calculated at 72.5% of the sum of 30-day LIBOR, plus 200 basis points. At June 30, 2012, the interest rate was 1.623%. The bonds are payable annually beginning April 1, 2008, are subject to redemption at various prices, and require principal payments through November 1, 2036. The obligation to pay the NJEFA on a periodic basis, in the amounts sufficient to cover principal and interest due on the bonds, is a general obligation of the College.

The College's obligations are secured *pari passu* with its obligations related to the 2007 Series B Bonds by a second lien mortgage on its Hackettstown campus and a second lien security interest in all rents and leases relating to such property (excluding room and board fees) and in all fixtures, equipment and other property purchased with such bond funds.

As of June 30, 2012, the outstanding principal is \$8,719,113.

**New Jersey Educational Facilities Authority (NJEFA) Bond 2007 Series B** - In March 2007, the College received proceeds of \$4,784,617 Revenue Bonds, 2007 Series B. The funds were used for the renovation of the Reeves Recreational Center.

The bonds bear interest at a variable rate. The rates are calculated at 72.5% of the sum of 30-day LIBOR, plus 200 basis points. At June 30, 2012, the interest rate was 1.623%. The bonds are payable annually beginning April 1, 2008, are subject to redemption at various prices, and require principal payments through November 1, 2036. The obligation to pay the NJEFA on a periodic basis, in the amounts sufficient to cover principal and interest due on the bonds, is a general obligation of the College.

## Centenary College

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Notes to Financial Statements  
June 30, 2012 and 2011

The College's obligations are secured *pari passu* with its obligations related to the 2006 Series J Bonds by a second lien mortgage on its Hackettstown campus and a second lien security interest in all rents and leases relating to such property (excluding room and board fees) and in all fixtures, equipment and other property purchased with such bond funds.

As of June 30, 2012, the outstanding principal is \$4,468,735.

**New Jersey Educational Facilities Authority (NJEFA) Bond 2010 Series D** - In December 2010, the College received proceeds of the NJEFA offering of \$13,974,000 Revenue Bond, 2010 Series D. The proceeds were used (i) to repay a construction loan the College received in 2008 from TD Bank to finance the David and Carol Lackland Center and an addition to the Reeves Student Center, and (ii) to construct a manure storage facility.

The bond bears interest at the rate of 3.105% for five years. Every five years thereafter, the rate will reset to equal 68% of the sum of (a) the yield on the Five Year Treasury Note, rounded upward to the nearest 1/8 of one percent, plus (b) 1.90%, but in no event less than 3.105%. Interest on the bond is payable monthly. The bond is subject to redemption at various prices and requires monthly principal payments, beginning January 1, 2012 through January 1, 2041. The obligation to pay the NJEFA in the amounts sufficient to cover principal of and interest on the bond is a general obligation of the College.

The College's obligations are secured *pari passu* with its obligations related to the 2006 Series J Bonds and the 2007 Series B Bonds by a second lien mortgage on its Hackettstown campus and a second lien security interest in all rents and leases relating to such property (excluding room and board fees) and in all fixtures, equipment and other property purchased with such bond funds.

As of June 30, 2012, the outstanding principal is \$13,825,065.

**Back Barn Restoration Project Loan** - On June 2, 2011, the College received a \$50,000 loan from Mr. James A. Salerno, one of its Trustees, to finance the completion of the Back Barn Restoration Project at its Equestrian Center. Such loan bore an interest at the rate of 0%. The loan was repaid, from donations, on June 30, 2012.

Interest expense aggregated \$724,952 and \$496,901 for the years ended June 30, 2012 and 2011, respectively.

The bonds contain, among other provisions, certain defined financial requirements including a minimum cash flow coverage ratio. At June 30, 2012 and 2011, the College was in compliance with its minimum cash flow coverage ratio covenant.

At June 30, 2012, approximately \$455,216 has been restricted for payment of obligations due in the fiscal year ending June 30, 2012.

## Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

Aggregate annual principal payments applicable to long-term debts for the years subsequent to June 30, 2012, are:

	<b>Capital Improvement Fund</b>	<b>Bonds Payable</b>	<b>Total</b>
2013	\$ 45,000	\$ 1,176,213	\$ 1,221,213
2014	47,500	1,185,958	1,233,458
2015	50,000	1,223,323	1,273,323
2016	52,500	1,270,622	1,323,122
Thereafter	305,000	32,494,652	32,799,652
Total	<u>\$ 500,000</u>	<u>\$ 37,350,768</u>	<u>\$ 37,850,768</u>

### 10. Interest Rate Swaps

The College entered into interest rate swap agreements (“swaps”) prior to 2009 to mitigate its exposure to fluctuations in interest rates on the NJEFA’s 2006 Series J Bonds and 2007 Series B Bonds issued on behalf of the College. Pursuant to these swaps, the College receives periodic payments based on LIBOR, which payments are structured to match the College’s liabilities on such bonds. In return, the College makes fixed rate payments of 5.265% and 5.32%, respectively. These receipts and payments are reflected in interest expense.

ASC 825 requires the College to record the swaps at fair value on the balance sheet. Changes in such fair value are recorded in the statement of operations as non-operating income (loss).

The NJEFA engaged DerivActiv, LLC, as its swap monitor through January 2011 and selected BondLogistix, LLC as the successor swap monitor. The NJEFA’s swap monitor provides the College with estimates of the swaps’ fair value on a daily basis.

For the year ended June 30, 2012, the College recorded a non-operating loss of \$1,016,522 to reflect an increase in such liability. For the year ended June 30, 2011, the College recorded a non-operating gain of \$327,911 to reflect a decrease in the liability of the fair value of the swaps.

On December 16, 2010, the College entered into a swap to mitigate its exposure to fluctuations in interest rates on the NJEFA’s 2003 Series A Bonds issued on behalf of the College. Pursuant to this swap, the College receives periodic payments equal to the Municipal Swap Index of the Securities Industry and Financial Markets Association, which payments are structured to match the College’s liabilities on such bonds. In return, the College makes fixed rate payments equal to 2.816%. The swap will terminate on January 1, 2021.

The College elected to treat this swap as a hedge of its interest liabilities on the 2003 Series A Bonds. The change in the fair value of this swap is recorded as other changes in net assets.

All three swaps have certain credit-related contingent features. Under each swap, the counterparty could require termination and settlement if an event of default occurs under the 2003, 2006 or 2007 Bonds or under the Reimbursement Agreement relating to the letter of credit supporting the 2003 Bonds.

## Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

The following table summarizes the terms of the swaps on the 2006 and 2007 Bonds:

	As of June 30, 2012				Estimated Fair Value
	Notional Amount	Maturities	Average Pay Rate	Average Receive Rate	
2012 Swaps	\$ 12,228,000	2026-27	5.29 %	1.65 %	\$ (2,611,844)
2011 Swaps	\$ 12,425,363	2026-27	5.29 %	1.67 %	\$ (1,595,322)

The following table summarizes the terms of the swap on the 2003 Bonds:

	As of June 30, 2012				Estimated Fair Value
	Notional Amount	Maturities	Average Pay Rate	Average Receive Rate	
2012 Swap	\$ 9,975,000	2021	2.82 %	0.15 %	\$ (991,793)
2011 Swap	\$ 10,490,000	2021	2.82 %	0.25 %	\$ (383,121)

There were no other swap agreements as of June 30, 2012.

### 11. Employee Benefit Plans

The College has an externally administered contributory pension plan covering substantially all full-time employees meeting eligibility requirements. The plan is a defined contribution plan that operates under Section 403(b) of the Internal Revenue Code. The cost of this plan was \$671,039 and \$666,289 for the years ended June 30, 2012 and 2011, respectively.

### 12. Contingencies

The College's bookstore is managed by a bookstore management company under a license granted by the College. The College executed a new agreement with the bookstore on July 13, 2012 and continues until July 31, 2022. Either party may terminate the agreement without cause by giving the other party at least 120 days prior written notice of termination. The College is contingently liable to purchase the existing inventory of the bookstore upon the termination of the license. On any termination, expiration or non-renewal of this agreement, the College shall pay the management company the unamortized book value of all store remodeling paid by the management company.

The College is involved in litigation in the normal course of business. Management believes that these matters would not have a significant impact on the financial statements.

## Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

### 13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Instruction	\$ 26,729	\$ 27,297
Academic support	160,170	212,258
Student services	615,567	601,984
Student aid	482,436	357,872
Other institutional (principally for facilities)	33,463,115	33,738,480
Total	<u>\$ 34,748,017</u>	<u>\$ 34,937,891</u>

Temporarily restricted net assets that have been received and for which the donor restriction is met are reported as assets released from temporarily restricted to unrestricted net assets, and are expensed to unrestricted net assets.

Permanently restricted net assets are restricted for the following purposes:

	<u>2012</u>	<u>2011</u>
Instruction	\$ 408,400	\$ 425,068
Academic support	182,661	187,842
Student aid	1,152,552	1,053,990
Other institutional (principally for facilities)	1,098,874	1,059,601
Total	<u>\$ 2,842,487</u>	<u>\$ 2,726,501</u>

### 14. Endowment Fund

The College's endowment consists of approximately one individual fund established for a variety of purposes, including donor restricted endowment funds. At June 30, 2012 and 2011, the fair value of the endowment account was less than its original value (underwater) by a total of approximately \$174,580 and \$7,318, respectively.

The College employs an asset allocation spending model of 5% on a three-year moving average of the fair market value of the fund. The calculated 5% for spending in fiscal year 2012 was based on the fair market value as of June 30, 2011, 2010, and 2009. The College manages its long-term investments in accordance with the total return concept and the goal of maximizing long-term return within acceptable levels of risks. The College's spending policy is designed to provide a stable level of financial support and to preserve the real value of its endowment. The College compares the performance of its investments against several benchmarks, including its asset allocation spending model policy index.

The College has interpreted the Uniform Management of Institutional Funds Act of 1972 (UMIFA) as requiring the preservation of the original gift of the donor restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies permanently restricted net assets as the original value of gifts donated to the permanent endowment.

# Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. Donor restricted amounts reported below include the investments amount that are below their costs of the endowment fund reported as unrestricted net assets.

		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2012	Donor-restricted	\$ 160,990	\$ (174,580)	\$ 2,842,487	\$ 2,827,897
2011	Donor-restricted	192,114	(7,318)	2,726,501	2,911,297

Changes in endowment net assets for the fiscal years ended June 30, 2012 and 2011 were as follows:

	<u>2012</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets - June 30, 2011	\$ 192,114	\$ (7,318)	\$ 2,726,501	\$ 2,911,297
Interest and dividends	14,015	25,642		39,657
Net appreciation	(45,139)	(79,006)		(124,145)
Distribution		(113,898)		(113,898)
Contribution			115,986	115,986
Net assets - June 30, 2012	<u>\$ 160,990</u>	<u>\$ (174,580)</u>	<u>\$ 2,842,487</u>	<u>\$ 2,828,897</u>
	<u>2011</u>			
Net assets - June 30, 2010	\$ (47,335)	\$ (211,635)	\$ 2,690,838	\$ 2,431,868
Interest and dividends	13,286	24,308	-	37,594
Net appreciation	226,163	410,605	-	636,768
Distribution	-	(230,596)	-	(230,596)
Contribution	-	-	35,663	35,663
Net assets - June 30, 2011	<u>\$ 192,114</u>	<u>\$ (7,318)</u>	<u>\$ 2,726,501</u>	<u>\$ 2,911,297</u>

## Centenary College

Notes to Financial Statements  
June 30, 2012 and 2011

### 15. Allocation of Certain Expenses

The College allocates operation and maintenance of plant and depreciation based on building square footage, as follows:

	<u>2012</u>	<u>2011</u>
Instruction expense	\$ 503,149	\$ 541,202
Academic support - including library	174,211	187,387
Student services	1,026,353	1,103,976
General institutional support	515,235	554,202
Student aid	20,733	22,301
Auxiliary enterprises	<u>1,467,924</u>	<u>1,578,942</u>
Total operation and maintenance of plant expense	<u>\$ 3,707,605</u>	<u>\$ 3,988,010</u>
Instruction expense	\$ 461,722	\$ 473,174
Academic support - including library	159,867	163,832
Student services	941,848	965,208
General institutional support	472,812	484,539
Student aid	19,026	19,497
Auxiliary enterprises	<u>1,347,062</u>	<u>1,380,471</u>
Total depreciation expense	<u>\$ 3,402,337</u>	<u>\$ 3,486,721</u>

### 16. Release From Restrictions

Net assets of \$825,061 and \$629,745 were released from donor restrictions in 2012 and 2011, respectively, by incurring expenses for instruction and scholarships, library, plant operation, and maintenance, and other general and administration purposes and for capital expenditures that satisfied the restricted purposes specified by donors.