

Centenary College

Financial Statements

June 30, 2013 and 2012



Centenary College

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June 30, 2013

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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.

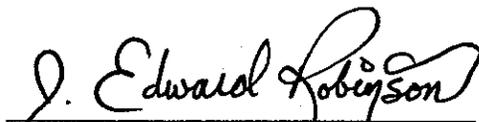
The financial statements have been audited by the independent accounting firm ParenteBeard, which was given unrestricted access to all financial records and related data, including minutes of all meetings of Trustees. The independent auditors' opinion is presented on page.5.

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


J. Edward Robinson
Controller

FY 2013 Financial Overview

FY 2013 was another challenging year for Centenary College. Enrollment was down almost 3% from the prior year, continuing a trend in which enrollment has declined approximately 27% over four years.

Despite the challenges, Centenary reported an Increase from Operating Activity of \$362,000, on total unrestricted revenues of \$45.2 million and operating expenses of \$44.8 million. Unrestricted revenues were approximately \$1.0 million below budget, while operating expenses were approximately \$1.6 million below budget. Centenary attributes its new zero-based budgeting process, along with improved budget monitoring, with enabling the College to keep expenses within available revenues. Non-operating activity, principally mark-to-market gains in the value of the College's interest rate swaps, added \$1.0 million, leading to an increase in net assets of \$1.4 million.

In FY 2012, 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 were due mostly to enrollment being slightly higher than was budgeted and spending being lower than budgeted. Non-operating activity, however, principally mark-to-market declines in the value of its interest rate swaps, caused the College to report a decline in net assets of \$397,000.

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 associates, bachelors and masters levels at Hackettstown, at locations in Parsippany and Metropark, NJ, at various corporate offices in the state and through online learning. The College stopped enrolling new students into its accelerated programs at Hackettstown during FY 2013, but will continue to teach students already enrolled in such programs in Hackettstown through the end of their programs. In addition, the College offers graduate classes in Education at Professional Development sites in the four county area around Hackettstown.

In FY 2013, the College had 1,781 full-time and 110 part-time undergraduate students. The comparable numbers were 1,800 and 115 in FY 2012. Centenary had 405 traditional graduate students in FY 2013, compared to 417 in FY 2012. Centenary had an average of 630 students in its accelerated and online programs in FY 2013, compared to an average of 695 in FY 2012.

	<u>Fall 07</u>	<u>Fall 08</u>	<u>Fall 09</u>	<u>Fall 10</u>	<u>Fall 11</u>	<u>Fall 12</u>
FT Undergraduate	1,976	2,100	1,964	1,840	1,800	1,781
PT Undergraduate	<u>262</u>	<u>183</u>	<u>177</u>	<u>153</u>	<u>115</u>	<u>110</u>
Total Undergraduate	2,238	2,283	2,141	1,993	1,915	1,891
FT Graduate	421	419	397	343	387	342
PT Graduate	<u>369</u>	<u>559</u>	<u>401</u>	<u>358</u>	<u>342</u>	<u>343</u>
Total Graduate	<u>790</u>	<u>978</u>	<u>798</u>	<u>701</u>	<u>729</u>	<u>685</u>
Total Enrollment	<u><u>3,028</u></u>	<u><u>3,261</u></u>	<u><u>2,939</u></u>	<u><u>2,694</u></u>	<u><u>2,644</u></u>	<u><u>2,576</u></u>

In order to reverse the 27% decline in enrollment since FY 2009, Centenary has taken action in each of FYs 2011, 2012 and 2013 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 2011, which the College believes has increased its name recognition and the number of completed applications. Of the 1,019 completed applications for freshman enrollment that the College received in FY 2013, 730 came through the Common Application.

Centenary created an Enrollment Objectives Committee in FY 2012 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.

In FY 2012, the College introduced a masters 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 2015.

In FY 2013, Centenary revised its admissions and financial aid policies in order to raise the academic standing of its incoming students. In particular, the College created a Presidential Scholars program for select students with high GPAs from secondary school and high scores on standardized tests. The program offers participants institutional aid equal to 75% of tuition and fees, and has additional academic opportunities and requirements for participants. Centenary expects that students with higher academic credentials will be more likely to complete their degree programs and will help raise the College's graduation rate.

Because Centenary was founded earlier than 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 and means of study to increase enrollment. In particular, the College has entered into an arrangement designed to increase the marketing of and enrollment in certain of the College's on-line graduate programs.

Following a 3% tuition increase for FY 2013, gross tuition and fees revenue was \$52.4 million, \$1.6 million or 3.0% lower than in FY 2012. Financial aid and tuition discounts totaled \$17.0 million in FY 2013, \$400,000 or 2.1% higher than in FY 2012. As a result, net tuition and fee revenue was \$35.5 million, \$1.9 million or 5.1% lower than in FY 2012.

Approximately 2,054 Centenary students received either institutional financial aid or a tuition discount in FY 2013, compared to approximately 2,142 students in FY 2012.

Other sources of unrestricted revenue totaled \$1.1 million in FY 2013, \$.5 million or 75.7% higher than in FY 2012. Total gift revenues of \$1.4 million were up 48.1% from the prior year, due primarily to a successful campaign to fund a turf field for athletics. Total unrestricted revenues of \$45.2 million were \$1.5 million or 3.2% lower than in FY 2012.

Unrestricted operating expenses in FY 2013 were \$44.8 million, \$.6 million or 1.3% lower than FY 2012.

Nonoperating activity in FY 2013, principally the mark-to-market gains on the interest rate swaps mentioned above, was \$692,000, compared to negative results of \$1.1 million in FY 2012.

The increase in net assets from operating and non-operating activity in FY 2013 was \$1.1 million, compared to \$211,000 in FY 2012, and other changes in net assets were \$323,000 in FY 2013, compared to a decline of \$609,000 in FY 2012. As a result, unrestricted net assets increased by \$1.4 million in FY 2013, compared to a decrease of \$397,000 in FY 2012.

	<u>FY2013</u>	<u>FY2012</u>
Net tuition and fees	35,482,769	37,396,030
Other revenues	9,083,534	8,476,571
Total revenues	45,195,355	46,697,662
Education and general expenses	38,458,797	38,622,493
Auxiliary expenses	6,374,647	6,737,214
Total operating expenses	44,833,444	45,359,707
Non-operating activity	691,974	(1,126,596)
Other changes	323,007	(608,672)
Increase (decrease) in net assets	1,376,892	(397,285)

During FY 2013, the fair value of Centenary's General Endowment Fund rose 18.0% from \$2.8 million to \$3.3 million. The College has begun a five-year Endowment Campaign intended to raise the level of the General Endowment Fund significantly, so that the Endowment can produce more revenue for the annual operating budget and reduce the College's heavy reliance on student revenues.

Looking forward, the College expects FY 2014 to be another challenging year. Enrollment has fallen for the fifth consecutive year. 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. As a result, the College's budget for FY 2014 is significantly lower than that for FY 2013.

Independent Auditors' Report

Audit Committee of Centenary College
Hackettstown, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of Centenary College (the "College"), which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 the College as of June 30, 2013 and 2012, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Introductory Section 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 not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Parente Beard LLC".

Clark, New Jersey
October 31, 2013

Centenary College

Statement of Financial Position
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 20,759,173	\$ 19,831,694
Investments	129,760	124,711
Accounts receivable:		
Students (less allowance of \$890,233 and \$774,605)	2,976,140	2,575,476
Pledges	2,905,492	1,201,893
Notes (less allowance of \$228,467 and \$225,297 in 2013 and 2012, respectively)	993,279	995,397
Other	233,365	35,918
Funds held for payment of long term debt	428,530	455,216
Other current assets	502,815	647,438
	<u>28,928,554</u>	<u>25,867,743</u>
Noncurrent Assets		
Property, plant and equipment - net	61,185,132	63,084,108
Pledges receivable - long term portion	172,144	2,054,116
Deferred financing costs	780,101	815,097
Long term investments	4,415,519	3,969,018
	<u>66,552,896</u>	<u>69,922,339</u>
Total assets	<u>\$ 95,481,450</u>	<u>\$ 95,790,082</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,379,325	\$ 2,197,149
Accrued payroll and payroll taxes	1,068,973	959,044
Current portion of long term debt	1,233,459	1,221,213
Deferred revenue	1,973,510	2,032,559
	<u>5,655,267</u>	<u>6,409,965</u>
Total current liabilities	<u>5,655,267</u>	<u>6,409,965</u>
Long-Term Liabilities		
Asset retirement obligation	70,875	70,875
Fair value of swap interest	2,474,691	3,603,637
Refundable loan programs	1,056,031	1,172,085
Long term debt	35,396,096	36,629,555
	<u>38,997,693</u>	<u>41,476,152</u>
Total long term liabilities	<u>38,997,693</u>	<u>41,476,152</u>
Total liabilities	<u>44,652,960</u>	<u>47,886,117</u>
Net Assets		
Unrestricted	11,690,353	10,313,461
Temporarily restricted	36,222,863	34,748,017
Permanently restricted	2,915,274	2,842,487
	<u>50,828,490</u>	<u>47,903,965</u>
Total net assets	<u>50,828,490</u>	<u>47,903,965</u>
Total liabilities and net assets	<u>\$ 95,481,450</u>	<u>\$ 95,790,082</u>

See notes to financial statements

Centenary College

Statement of Activities

Years Ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues and Other Support								
Tuition and fees	\$ 52,436,136	\$ -	\$ -	\$ 52,436,136	\$ 54,020,759	\$ -	\$ -	\$ 54,020,759
Institutional financial aid/tuition discounts	(16,953,367)	-	-	(16,953,367)	(16,624,729)	-	-	(16,624,729)
Net tuition and fees	35,482,769	-	-	35,482,769	37,396,030	-	-	37,396,030
Investment return designated for current operations	-	113,056	-	113,056	-	113,898	-	113,898
Gifts and grants	374,747	989,313	72,787	1,436,847	436,575	417,571	115,986	970,132
Auxiliary enterprises	7,585,888	590,856	-	8,176,744	7,400,888	602,209	-	8,003,097
Other sources	1,122,899	135,898	-	1,258,797	639,108	245,200	-	884,308
Total revenues, gains, and other support	44,566,303	1,829,123	72,787	46,468,213	45,872,601	1,378,878	115,986	47,367,465
Net Assets Released from Restrictions for Operations	629,052	(629,052)	-	-	825,061	(825,061)	-	-
Total revenues, gains, and other support	45,195,355	1,200,071	72,787	46,468,213	46,697,662	553,817	115,986	47,367,465
Operating Expenses								
Educational and general:								
Instruction	15,227,109	-	-	15,227,109	14,962,419	-	-	14,962,419
Library	600,692	-	-	600,692	538,320	-	-	538,320
General institution support	15,149,015	-	-	15,149,015	15,961,516	-	-	15,961,516
Operation and maintenance of plant	3,978,187	-	-	3,978,187	3,707,605	-	-	3,707,605
Depreciation	3,494,009	-	-	3,494,009	3,402,337	-	-	3,402,337
Student aid	9,785	-	-	9,785	50,296	-	-	50,296
Total educational and general	38,458,797	-	-	38,458,797	38,622,493	-	-	38,622,493
Auxiliary enterprises	6,374,647	-	-	6,374,647	6,737,214	622,884	-	7,360,098
Total expenses	44,833,444	-	-	44,833,444	45,359,707	622,884	-	45,982,591
Increase (decrease) from Operating Activity	361,911	1,200,071	72,787	1,634,769	1,337,955	(69,067)	115,986	1,384,874
Non-Operating Activity								
Investment return less amounts designated for current operations	88,234	274,775	-	363,009	(110,046)	(120,807)	-	(230,853)
Loss on sale of asset	(202,199)	-	-	(202,199)	-	-	-	-
Fair value of swaps	805,939	-	-	805,939	(1,016,522)	-	-	(1,016,522)
Increase from non-operating activity	691,974	274,775	-	966,749	(1,126,568)	(120,807)	-	(1,247,375)
Increase (Decrease) in Net Assets from Operating and Non-operating Activity	1,053,885	1,474,846	72,787	2,601,518	211,387	(189,874)	115,986	137,499
Other Changes in Net Assets								
Change in fair value of interest rate swap agreement	323,007	-	-	323,007	(608,672)	-	-	(608,672)
Increase (decrease) in net assets	1,376,892	1,474,846	72,787	2,924,525	(397,285)	(189,874)	115,986	(471,173)
Net Assets - Beginning	10,313,461	34,748,017	2,842,487	47,903,965	10,710,746	34,937,891	2,726,501	48,375,138
Net Assets - Ending	\$ 11,690,353	\$ 36,222,863	\$ 2,915,274	\$ 50,828,490	\$ 10,313,461	\$ 34,748,017	\$ 2,842,487	\$ 47,903,965

See notes to financial statements

Centenary College

Statement of Cash Flows

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 2,924,525	\$ (471,173)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,494,009	3,402,337
Realized and unrealized (gain) loss on investments	(366,184)	154,588
Loss (gain) on disposition of assets	202,199	(6)
Contributions received for long-term investments	(218,568)	(655,960)
Allowance for doubtful accounts- students	115,628	171,322
Amortization of bond issuance costs	34,996	37,987
Change in fair value of swap activity	(1,128,946)	1,625,194
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable - student	(516,292)	781,851
Decrease (increase) in pledges receivable	178,373	1,704,045
Decrease (increase) in student loans advances	2,117	30,486
Decrease (increase) in receivables-other	(197,447)	95,686
Decrease (increase) in other current assets	144,624	216,114
(Decrease) increase in accounts payables	(817,825)	283,988
(Decrease) increase in accrued payroll and paroll taxes	109,929	(43,047)
(Decrease) increase in deferred revenue	(59,049)	(336,157)
Net cash provided by operating activities	<u>3,902,089</u>	<u>6,997,255</u>
Cash Flows from Investing Activities		
Decrease (increase) in funds held for payment of long-term debt	26,686	(12,335)
Purchase of properly, plant, and equipment	(1,797,233)	(2,489,122)
Proceeds from sale of investments	2,204,186	2,171,551
Purchase of investments	(2,183,770)	(2,084,812)
Net cash used in investing activities	<u>(1,750,131)</u>	<u>(2,414,718)</u>
Cash Flows from Financing Activities		
Change in advances for government loan funds	(116,054)	124,155
Contributions received for long-term investments	-	655,960
Repayments of long term debt	(1,221,212)	(961,430)
Contributions (payments) from (to) chartiabile gift annuitants	112,787	(98,208)
Payment of State loan for construction	-	(42,500)
Net cash (used in) provided by financing activities	<u>(1,224,479)</u>	<u>(322,023)</u>
Net increase in cash and cash equivalents	927,479	4,260,514
Cash and Cash Equivalents, Beginning	<u>19,831,694</u>	<u>15,571,180</u>
Cash and Cash Equivalents, Ending	<u>\$ 20,759,173</u>	<u>\$ 19,831,694</u>
Supplemental Disclosures - Interest Paid	<u>\$ 1,406,746</u>	<u>\$ 1,455,034</u>

See notes to financial statements

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

1. Nature of Operations

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

2. Summary of Significant Accounting Policies

The significant accounting policies of the College are described below.

Basis of Accounting

The financial statements of the College 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

The financial statements of the College have been prepared on the accrual basis of accounting. 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

Notes to Financial Statements
Year Ended June 30, 2013

Student Tuition Revenue

Student tuition revenue is recorded at the established rates net of financial aid provided directly by the College, endowed scholarships, and certain federal and state grants. The College recognizes tuition revenue in the semester that it is earned. Any payments received in advance for the subsequent year are classified as deferred revenue, in the statement of financial position.

Government Grants and Student Aid

The government grants and student aid amounts reported do not include funds credited to students under various federal and state grant programs. These grants are similar to agency funds as the College acts only as custodian and disbursing agent. Had these amounts been included, revenues and expenses would have increased by \$22,136,007 in 2013 and \$20,200,138 in 2012.

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. Substantial portions of the revenue and collections of accounts receivable as of June 30, 2013 and 2012 are dependent upon the College's continued participation in the Title IV programs.

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, 2013 and 2012 for the years then ended, the College's composite score exceeded 1.5.

Nonoperating Activities

Nonoperating activities reflect gains and losses on investments, less amount designated for current operation and gain (or 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 \$662,606 and \$660,952 for the years ended June 30, 2013 and 2012, respectively. Certain accounts are maintained by the College which are, at times, in excess of the FDIC insured limit.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

Student Accounts Receivable

Student accounts receivable are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on management's estimate of credit losses. Student accounts receivable are written off when they are determined to be uncollectible based on management's assessment of individual accounts. The allowance for doubtful accounts was \$890,233 and \$774,606 at June 30, 2013 and 2012, respectively.

Student Loans

The student loan 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, 2013 and 2012 was \$990,780 and \$992,897, 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 or for a provision of allowance for doubtful loans. 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.

Investments

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.

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.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

Contributions

In accordance with authoritative guidance, the College records certain promises to give as revenue when the promise is made. In addition, the authoritative guidance requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the College to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Donor-restricted contributions are reported as unrestricted operating revenue when the restriction is satisfied within the same year that the contribution is received.

Contributions are reported as an increase in the appropriate net asset category in the year received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at their net present value. The discount is computed using a credit-adjusted interest rate. Conditional promises to give are not included as support until such time as the conditions are substantially met.

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.

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 \$23,858 and a decrease in the liability of \$44,676 for 2013 and 2012, 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 \$34,996 and \$37,987 in 2013 and 2012, respectively.

Deferred Revenue

The College records any payments received in advance for the subsequent year classes as deferred revenue.

Property and Equipment

Land, land improvements, buildings, leasehold improvements and building 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.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

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, and building improvements	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, 2013 and 2012.

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, 2013 and 2012.

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.

Subsequent Events

The College evaluated subsequent events for recognition or disclosure through October 31, 2013, the date the financial statements were issued.

New Accounting Standards

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, *Fair Value Measurements and Disclosures (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 includes new and clarified guidance on fair value measurements and required additional disclosures. The adoption of the amended guidance required certain additional disclosures regarding fair value measurements in the notes to the financial statements on a prospective basis.

Reclassification

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

3. Fair Value Measurements, Investments and other Financial Instruments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets that are accessible to the Corporation for identical instruments.

Level 2 – Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 – Significant unobservable inputs.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

The following tables present information as of June 30, 2013 and 2012, about the College's financial assets that are measured at fair value by caption on the statement of financial position by the valuation hierarchy defined above.

	2013			
	Level I	Level II	Level III	Total Fair Value
Reported at Fair Value				
Assets:				
Investments:				
Money market	\$ 158,156	\$ -	\$ -	\$ 158,156
Mutual funds:				
Fixed income	773,872	-	-	773,872
Equities	3,483,491	-	-	3,483,491
Certificate of deposit	129,760	-	-	129,760
Total investment at fair value	<u>\$ 4,545,279</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,545,279</u>
Derivative financial instruments	<u>\$ -</u>	<u>\$ 2,474,691</u>	<u>\$ -</u>	<u>\$ 2,474,691</u>

	2013			
	Level I	Level II	Level III	Total Fair Value
Disclosed at Fair Value				
Cash and cash equivalent	<u>\$ 20,759,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,759,173</u>
Pledges receivable	<u>\$ 2,778,920</u>	<u>\$ -</u>	<u>\$ 298,716</u>	<u>\$ 3,077,636</u>
Loans receivable, net	<u>\$ -</u>	<u>\$ 993,280</u>	<u>\$ -</u>	<u>\$ 993,280</u>
Funds held for payment of long term debt	<u>\$ 428,530</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 428,530</u>
U.S. government refundable loan program	<u>\$ -</u>	<u>\$ 1,056,031</u>	<u>\$ -</u>	<u>\$ 1,056,031</u>
Long-term debt	<u>\$ -</u>	<u>\$ 36,629,554</u>	<u>\$ -</u>	<u>\$ 36,629,554</u>

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

	2012			Total Fair Value
	Level I	Level II	Level III	
Reported at Fair Value				
Money market	\$ 41,798	\$ -	\$ -	\$ 41,798
Mutual funds:				
Fixed income	847,532	-	-	847,532
Equities	3,079,388	-	-	3,079,388
Certificate of deposit	124,711	-	-	124,711
Total investment at fair value	<u>\$ 4,093,729</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,093,729</u>
Derivative financial instruments	<u>\$ -</u>	<u>\$ 3,603,637</u>	<u>\$ -</u>	<u>\$ 3,603,637</u>
Disclosed at Fair Value				
Cash and cash equivalents	<u>\$ 19,831,694</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,831,694</u>
Pledges receivable	<u>\$ 1,201,893</u>	<u>\$ -</u>	<u>\$ 2,054,116</u>	<u>\$ 3,256,009</u>
Loans receivable, net	<u>\$ -</u>	<u>\$ 995,397</u>	<u>\$ -</u>	<u>\$ 995,397</u>
Funds held for payment of long term debt	<u>\$ 455,216</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 455,216</u>
U.S. government refundable loan program	<u>\$ -</u>	<u>\$ 1,172,085</u>	<u>\$ -</u>	<u>\$ 1,172,085</u>
Long-term debt	<u>\$ -</u>	<u>\$ 37,850,768</u>	<u>\$ -</u>	<u>\$ 37,850,768</u>

Valuation Methodologies

Equity securities, mutual funds, fixed income funds, and funds held in trust by others in the investment portfolio are measured at fair value using quoted market prices for identical assets, which are considered Level 1 inputs. Certificate of deposit is valued at face value plus accrued interest which approximates fair value. These are considered level 1 due to their liquidity.

The carrying amounts of cash and cash equivalents are reasonable estimates of their fair values due to the short-term nature of these financial instruments. These are considered Level 1 measurements due to their liquidity.

The carrying amount of pledges receivable to be received in less than one year approximates fair value because of the short maturity of these instruments, which is considered a Level 1 input. The fair value of pledges receivable to be received in more than one year is estimated based on future cash flows discounted at risk adjusted rates between 1.0% and 5.0%, which are considered to be Level 3 inputs.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

The carrying amounts of loans receivable, net and U.S. government grants refundable loan program approximate the fair value of these instruments. The fair value of these loans receivable and advances from the federal government are based upon management's best estimate of the indicated future cash flows discounted at interest rates required by market participants, which are considered to be Level 2 measurements.

The carrying value of long-term debt and bonds payable approximates fair value of those instruments. The fair value is estimated based on current rates offered for similar issues with similar security terms and maturities, which are considered to be Level 2 measurements. The following schedule summarizes the investment of resources and its classification in the statement of activities:

	June 30, 2013		
	Unrestricted	Restricted	Total
Interest and dividends - net of expense of \$25,132	\$ 19,836	\$ 51,374	\$ 71,210
Net realized gain	22,097	16,574	38,671
Unrealized gain	46,301	319,883	366,184
Gain on long-term investments	88,234	387,831	476,065
Allocation of endowment value to current operations	-	(113,056)	(113,056)
Total investment gain less amounts designated for current operations	\$ 88,234	\$ 274,775	\$ 363,009
	June 30, 2012		
	Unrestricted	Restricted	Total
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	(160,438)	(108,489)	(268,927)
Gain on long-term investments	(110,046)	(6,909)	(116,955)
Allocation of endowment value to current operations	-	(113,898)	(113,898)
Total investment gain less amounts designated for current operations	\$ (110,046)	\$ (120,807)	\$ (230,853)

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 was net unrealized gain/(loss) of \$366,184 and (\$268,927) for the years ended June 30, 2013 and 2012, respectively.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

4. Pledges Receivable

Contributions receivable, net at June 30, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
Amounts due in:		
Less than one year	\$ 2,778,920	\$ 1,201,893
In one to five years	750,100	2,505,500
Over five years	-	-
	<hr/>	<hr/>
Gross pledges receivable	3,529,020	3,707,393
Allowance for doubtful accounts	(161,909)	(238,999)
Allowance for net present value	(289,475)	(212,385)
	<hr/>	<hr/>
Net pledges receivable	<u>\$ 3,077,636</u>	<u>\$ 3,256,009</u>

The table below summarizes the changes in carrying values associated with the pledges for the year ended June 30, 2013.

	<u>Pledges</u>
Beginning balance - June 30, 2012	\$ 3,256,009
New pledges in 2013	-
Pledge payments received	<u>(178,373)</u>
	<hr/>
Ending balance - June 30, 2013	<u>\$ 3,077,636</u>

The College has been informed that it has been named as beneficiary in the wills of numerous donors totaling \$3,600,694 and \$2,207,094 as of June 30, 2013 and 2012, 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, 2013 and 2012 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
Year Ended June 30, 2013

5. Property and Equipment

As of June 30, 2013 and 2012, property, plant, and equipment was composed of the following:

	<u>2013</u>	<u>2012</u>
Land, buildings and improvements	\$ 79,911,550	\$ 78,343,334
Equipment and other	16,582,190	15,737,345
Construction in progress	<u>1,140,443</u>	<u>1,958,470</u>
Gross fixed assets	97,634,183	96,039,149
Less accumulated depreciation	<u>(36,449,051)</u>	<u>(32,955,041)</u>
Net property, plant, and equipment	<u>\$ 61,185,132</u>	<u>\$ 63,084,108</u>

Depreciation expense for the years ended June 30, 2013 and 2012 was \$3,494,009 and \$3,402,337, respectively.

6. 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 April 30, 2015. At June 30, 2013 and 2012, the College had no borrowings against the line of credit.

7. Lease Obligations

The College is obligated under operating lease arrangements for office equipment.

The following is a summary of the minimum rental commitments of long term leases over the remaining years:

<u>Operating Lease Payments</u>	<u>Total</u>
2014	\$ 29,435
2015	20,095
2016	<u>11,977</u>
Total	<u>\$ 61,507</u>

Lease expense under these agreements was approximately \$29,435 and \$1,190,749 for the years ended June 30, 2013 and 2012, respectively.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

8. 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, 2013, the outstanding principal balance is \$455,000.

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.

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, 2015 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, 2013, the outstanding principal balance is \$9,445,000.

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, 2013, the outstanding principal on the 2001 loan is \$167,142, and the outstanding principal on the 2003 loan is \$115,000.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

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, 2013, 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, 2013, the outstanding principal is \$8,576,613.

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.

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, 2013, the outstanding principal is \$4,380,799.

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.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

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, 2013, the outstanding principal is \$13,490,000.

Interest expense aggregated \$723,232 and \$724,952 for the years ended June 30, 2013 and 2012, respectively.

The bonds contain, among other provisions, certain defined financial requirements including a minimum cash flow coverage ratio. At June 30, 2013 and 2012, the College was in compliance with its minimum cash flow coverage ratio covenant.

At June 30, 2013, approximately \$428,530 has been restricted for payment of obligations due in the fiscal year ending June 30, 2013.

Aggregate annual principal payments applicable to long-term debts for the years subsequent to June 30, 2013, are:

	Capital Improvement Fund	Bonds Payable	Total
2014	\$ 47,500	\$ 1,184,689	\$ 1,232,189
2015	50,000	1,222,054	1,272,054
2016	52,500	1,269,352	1,321,852
2017	55,000	1,283,739	1,338,739
Thereafter	250,000	31,214,721	31,464,721
Total	<u>\$ 455,000</u>	<u>\$ 36,174,555</u>	<u>\$ 36,629,555</u>

9. 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.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

For the year ended June 30, 2013, the College recorded a non-operating gain of \$1,128,946 to reflect a decrease in the liability of the fair value of the swaps. For the year ended June 30, 2012, the College recorded a non-operating loss of \$1,625,194 to reflect an increase in such liability

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.

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

	As of June 30, 2013				
	Notional Amount	Maturities	Average Pay Rate	Average Receive Rate	Estimated Fair Value
2013 Swaps	\$ 12,020,000	2026-27	5.29 %	1.63 %	\$ (1,805,903)
2012 Swaps	\$ 12,228,000	2026-27	5.29 %	1.65 %	\$ (2,611,844)

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

	As of June 30, 2012				
	Notional Amount	Maturities	Average Pay Rate	Average Receive Rate	Estimated Fair Value
2013 Swap	\$ 9,445,000	2021	2.83 %	0.15 %	\$ (668,786)
2012 Swap	\$ 9,975,000	2021	2.82 %	0.15 %	\$ (991,793)

There were no other swap agreements as of June 30, 2013.

10. 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 \$692,992 and \$671,039 for the years ended June 30, 2013 and 2012, respectively.

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

11. 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.

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Instruction	\$ 27,743	\$ 26,729
Academic support	313,894	160,170
Student services	1,203,297	615,567
Student aid	596,448	482,436
Other institutional (principally for facilities)	<u>34,032,440</u>	<u>33,463,115</u>
Total	<u>\$ 36,222,863</u>	<u>\$ 34,748,017</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>2013</u>	<u>2012</u>
Instruction	\$ 408,400	\$ 408,400
Academic support	182,661	182,661
Student aid	1,206,614	1,152,552
Other institutional (principally for facilities)	<u>1,166,642</u>	<u>1,098,874</u>
Total	<u>\$ 2,915,274</u>	<u>\$ 2,842,487</u>

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

13. 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, 2013 and 2012, the fair value of the endowment account was greater than (less than) its original value by a total of approximately \$68,785 and (\$174,580), 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.

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>
2013	Donor-restricted	\$ 303,833	\$ 117,827	\$ 2,915,274	\$ 3,336,934
2012	Donor-restricted	160,990	(174,580)	2,842,487	2,828,897

Changes in endowment net assets for the fiscal years ended June 30, 2013 and 2012 were as follows:

	<u>2013</u>			
Net assets - June 30, 2012	\$ 160,990	\$ (174,580)	\$ 2,842,487	\$ 2,828,897
Interest and dividends	24,788	45,352	-	70,140
Net appreciation	118,055	360,111	-	478,166
Distribution	-	(113,056)	-	(113,056)
Contribution	-	-	72,787	72,787
Net assets - June 30, 2013	<u>\$ 303,833</u>	<u>\$ 117,827</u>	<u>\$ 2,915,274</u>	<u>\$ 3,336,934</u>

Centenary College

Notes to Financial Statements
Year Ended June 30, 2013

	2012			
	<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>

14. Allocation of Certain Expenses

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

	<u>2013</u>	<u>2012</u>
Instruction expense	\$ 539,868	\$ 503,149
Academic support - including library	186,925	174,211
Student services	1,101,257	1,026,353
General institutional support	552,837	515,235
Student aid	22,247	20,733
Auxiliary enterprises	1,575,043	1,467,924
Total operation and maintenance of plant expense	<u>\$ 3,978,187</u>	<u>\$ 3,707,605</u>
Instruction expense	\$ 474,162	\$ 461,722
Academic support - including library	164,175	159,867
Student services	967,225	941,848
General institutional support	485,552	472,812
Student aid	19,539	19,026
Auxiliary enterprises	1,383,356	1,347,062
Total depreciation expense	<u>\$ 3,494,009</u>	<u>\$ 3,402,337</u>

15. Release From Restrictions

Net assets of \$629,052 and \$825,061 were released from donor restrictions in 2013 and 2012, 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.

Centenary College

Notes to Financial Statements

Year Ended June 30, 2013

16. Income Taxes

The College qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes.

The College accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2013 and 2012.

The College's federal Exempt Organization Business Income Tax Returns remain subject to examination by the IRS for the years subsequent to June 30, 2009.

The College's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.