THE CITADEL

THE MILITARY COLLEGE OF SOUTH CAROLINA

CHARLESTON, SOUTH CAROLINA

YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITOR'S REPORT

The Office of the State Auditor and
Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel), a department of the State of South Carolina, as of and for the year ended June 30, 2007, which collectively comprise The Citadel's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Citadel's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The Citadel Trust (a blended component unit), The Citadel Foundation, or The Citadel Brigadier Foundation (both discretely presented component units). The Citadel Trust's financial statements represent 32% of total assets, 43% percent of net assets, and 14% of total revenues of the business-type activities. The Citadel Foundation's and The Citadel Brigadier Foundation's financial statements reflect 100% of total assets, 100% of net assets, and 100% of total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these blended and discretely presented components units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of The Citadel are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the State of South Carolina that is attributable to the transactions of The Citadel. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of The Citadel as of June 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2007 on our consideration of The Citadel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 3 - 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Citadel's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Elliott Davis, LLC

Greenwood, South Carolina
September 21, 2007

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2007

Overview of the Financial Statements and Financial Analysis

The Citadel is pleased to present its financial statements for fiscal year 2007. While audited financial statements for fiscal year 2006 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. This discussion focuses on the combined operations and financial positions of the College, defined for purposes of this discussion as both the primary institution — The Citadel, and its blended component unit — The Citadel Trust. The discussion excludes the College's non-governmental component units – The Citadel Foundation and The Citadel Brigadier Foundation.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments,* and Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Colleges and Universities.* These financial statements focus on the financial condition of the College, the results of operations and cash flows of the College as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The College's net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year. The completion of Law Barracks, the College's fourth barracks in a decade, and the renovation of Johnson Hagood Football Stadium stand out throughout the College's statistics.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Assets presents end-of-year data concerning Assets (property that we own and what we are owed by others), Liabilities (what we owe to others and have collected from others before we have provided the service), and Net Assets (Assets minus Liabilities). It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the College. They are also able to determine how much the College owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net assets consist solely of the College's permanent endowment funds that are only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the College's unrestricted net assets have been designated for various academic and research programs and initiatives.

Condensed Summary of Net Assets (thousands of dollars)

Assets:	**2007**	**2006**	**Increase/ (Decrease)**	**Percent Change**
Current assets	$ 41,389	$ 33,283	$ 8,106	24.35%
Capital assets, net	125,622	117,728	7,894	6.71%
Other assets	64,971	68,761	(3,790)	-5.51%
Total Assets	231,982	219,772	12,210	5.56%
Liabilities:				
Current Liabilities	12,669	13,111	(442)	-3.37%
Noncurrent Liabilities	49,958	49,397	561	1.14%
Total Liabilities	62,627	62,508	119	0.19%
Net Assets:				
Invested in capital assets, net of debt	85,977	78,611	7,366	9.37%
Restricted - nonexpendable	30,283	25,568	4,715	18.44%
Restricted - expendable	39,491	39,984	(493)	-1.23%
Unrestricted	13,604	13,101	503	3.84%
Total Net Assets	$ 169,355	$ 157,264	$ 12,091	7.69%

Assets – increase of $12.2 million

- The $8.1 million increase in current assets is composed of a $3 million increase in The Citadel Trust and a $5.1 million increase in Citadel current assets. Approximately $2 million of the Trust increase is related to a contractual payment from ARAMARK received by The Trust on behalf of The Citadel and payable to The Citadel. The payment from ARAMARK was negotiated as part of a new 10 year food service contract. The remaining $1 million increase in Trust current assets is attributable to improved investment returns for fiscal year 2007. The total return for Trust investments was 16.5% in fiscal year 2007, up from 9.55% in the prior year. The $5.1 million increase in Citadel current assets relates to a $3.1 million operating surplus in the general fund in addition to the $2 million ARAMARK contract payment due to The Citadel from The Trust. The $3.1 million operating surplus was created by an overall fee increase of 6.9% and tight control of operating expenses, plus the recognition of $0.2 million of revenue associated with the Daktronics marketing/scoreboard contract and $0.2 million related to the ARAMARK contractual payment.

- Capital assets increased by approximately $7.9 million. Additional construction costs totaling over $12.4 million were capitalized for Law Barracks, the National Guard Readiness Center/ Sky Box facility at Johnson Hagood Stadium (Readiness Center), the west side grandstands, the scoreboard and work on artificial turf for the football practice field. The Trust used $2.1 million of noncurrrent assets to purchase land at the corner of Hagood and Fishburne Avenues as a site for potential commercial development. These increases were offset by $4.5 million of depreciation.

- Other assets decreased by $3.8 million, as bond proceeds and maintenance reserve funds were used to support the construction projects noted above. These decreases were partially offset by increases in the value of The Citadel Trust of $5.9 million. The Trust's increases related to $4.5 million of investment returns and $1.4 million of additions to permanent endowments.

Liabilities – no significant change

- Current liabilities decreased by $0.4 million due to decreases in accounts payable related to construction costs for Law Barracks and the west side grandstand project. These projects were in the construction phase at the end of the prior fiscal year, but were competed during fiscal year 2007. These significant reductions in accounts payable were partially offset by the $2 million due from The Trust to The Citadel related to the ARAMARK contract payment mentioned previously.

- Noncurrent liabilities increased by $0.6 million. The Citadel recognized deferred revenue of $1.4 million related to the Daktronics scoreboard and marketing contract and $1.6 of deferred revenue related to the ARAMARK advance. These increases were partially offset by debt service payments on long term debt of $2.4 million.

Net Assets – increase of $12.1 million

- Invested in capital assets increased by $7.4 million due to the completion of Law Barracks, west side grandstands, land improvements for the football practice field, and the purchase of land by The Citadel Trust. These increases were offset by current year's depreciation and debt payments.

- Restricted – non expendable assets increased by $4.7 million attributable directly to the investment returns and additions to permanent endowments in the Citadel Trust.

- Restricted – expendable assets decreased by $0.5 million. $1.9 million of restricted expendable assets were used to support capital projects, while Citadel Trust investment returns resulted in an increase of $1.3 million.

- Unrestricted net assets increased by $0.5 million due primarily to Citadel Trust activity noted previously and an operating fund surplus created by fee increases and tight control of expenditures. These increases in unrestricted net assets were partially offset by the recognition of $1.4 million of deferred revenue for the Daktronics scoreboard/marketing contract and $1.6 million of deferred revenue related to the ARAMARK advance.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public College's dependency on state aid and gifts will result in operating deficits. The GASB requires state appropriations and gifts to be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating and any other revenues, expenses, gains and losses received or spent by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor nonoperating revenues and are reported after "Income before other revenues expenses, gains or losses."

Condensed Summary of Revenues, Expenses and Changes in Net Assets *(thousands of dollars)*

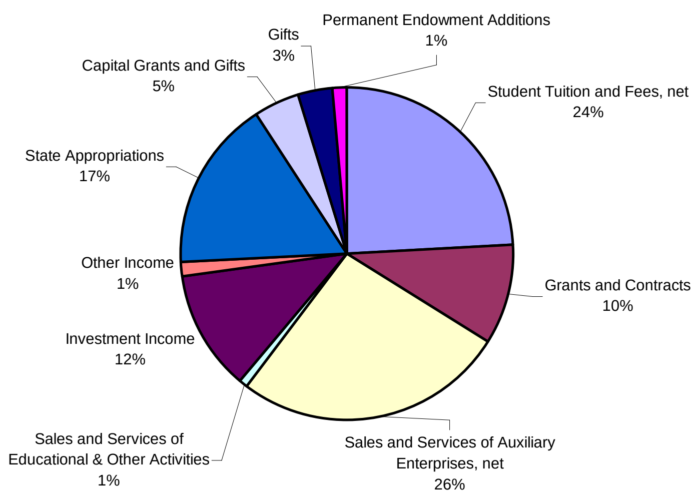
	2007	2006	Increase/ (Decrease)	Percent Change
Revenues:				
Student tuition and fees	$ 23,318	$ 21,205	$ 2,113	9.96%
Sales and services	26,274	24,563	1,711	6.97%
Grants and contracts	3,572	3,752	(180)	-4.80%
Investment income	9,663	5,182	4,481	86.47%
Other operating revenues	1,056	920	136	14.78%
Total Operating Revenues	63,883	55,622	8,261	14.85%
State appropriations	16,025	15,860	165	1.04%
Grants	5,786	5,720	66	1.15%
Gifts	3,018	2,751	267	9.71%
Investment income	1,553	775	778	100.39%
Other nonoperating revenues/expenses	173	113	60	53.10%
Total Nonoperating Revenues	26,555	25,219	1,336	5.30%
Total Revenues	90,438	80,841	9,597	11.87%
Expenses:				
Compensation and employee benefits	43,495	41,663	1,832	4.40%
Services and supplies	28,530	25,681	2,849	11.09%
Utilities	3,032	3,098	(66)	-2.13%
Depreciation	4,458	3,785	673	17.78%
Scholarships and fellowships	2,602	2,674	(72)	-2.69%
Total operating expenses	82,117	76,901	5,216	6.78%
Interest expense	2,176	1,719	457	26.59%
Total Nonoperating Expenses	2,176	1,719	457	26.59%
Total Expenses	84,293	78,620	5,673	7.22%
Income (loss) before capital contributions, additions to permanent endowments and transfers	6,145	2,221	3,924	176.68%
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	4,510	5,352	(842)	-15.73%
Permanent endowment additions	1,436	823	613	74.48%
Total capital contributions, additions to permanent endowments and transfers	5,946	6,175	(229)	-3.71%
Change in Net Assets	12,091	8,396	3,695	44.01%
Net Assets, Beginning	157,264	148,868	8,396	5.64%
Net Assets, Ending	$ 169,355	$ 157,264	$ 12,091	7.69%

Total Revenues – increase of $9.6 million

- Operating revenues increased by $8.3 million primarily because the College raised its overall cost of attendance by 6.9% generating additional revenues of $3.9 million. The overall cost of attendance is defined as all tuition and fees plus deposits required for uniforms, books, and other cadet necessities. Sales and services of educational departments declined by $0.2 because the College discontinued The Citadel Summer Camp. Additionally, the 16.5% overall return on Citadel Trust investments increased Trust operating income by $4.7 million.

- Nonoperating revenues increased by $1.3 million, primarily due to a $0.7 million increase in State appropriations and $0.5 million of investment income from Citadel auxiliary assets invested by the South Carolina State Treasurer in accordance with revenue bond covenants.

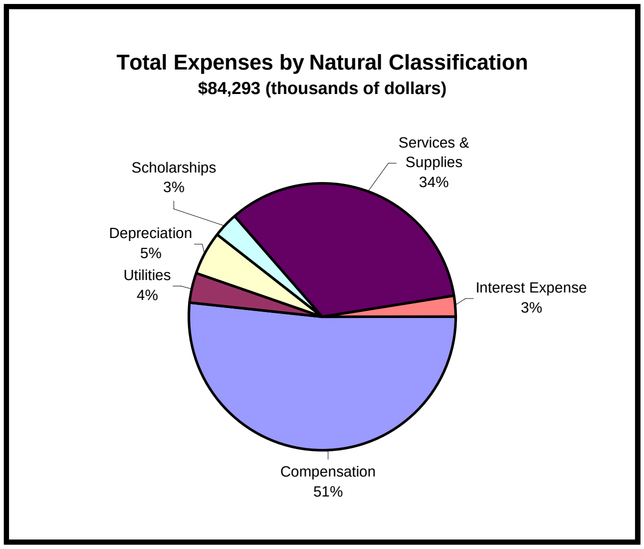
Total Revenues, Capital Contributions and Endowment Additions
$96,384 (thousands of dollars)

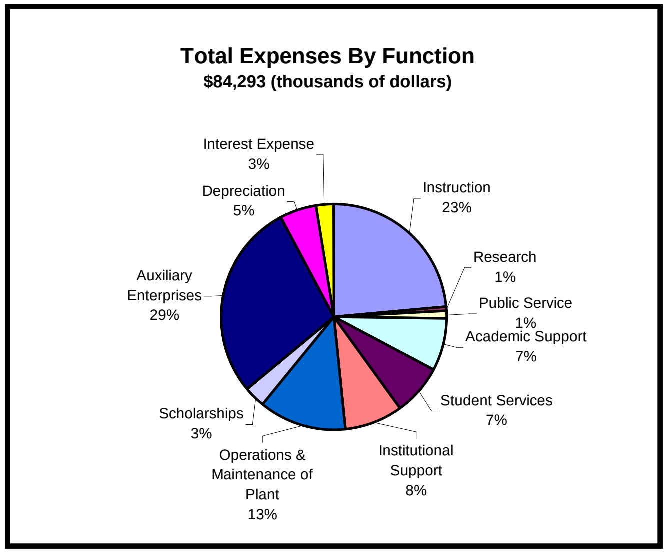


Total Expenses – increase of $5.7 million

- Operating expenses increased by $5.2 million. Compensation expenses increased by $1.8 million due to the implementation of a 3% cost of living increase along with a merit increase of up to 1%. Sales and services expenses increased by $2.8 million, primarily due to a $1.6 million increase in non-capital repairs costs, plus an increase of $0.5 million in auxiliary enterprises expenses caused by price increases related to inflation. The most significant increase in non-capital repair costs relates to renovations to the Infirmary facility. The incremental auxiliary costs were passed on to students and resulted in increased sales revenue, as noted above. Depreciation expense increased by $.7 million as new facilities were completed and occupied during the current year. Utility costs decreased by $0.1 million from the prior year.

- Interest expense increased by $0.5 million attributable to additional borrowing for stadium renovations.





Capital Contributions and Additions to Permanent Endowments – decrease of $0.2 million

- Capital grants and appropriations decreased by $1.3 million in the current fiscal year. In fiscal year 2006 The Citadel received a $3.1 million gift for construction of the Rifle Range. During the current year the College received $1 million of State Research Infrastructure Bond proceeds and $0.8 million of capital reserve funds for deferred maintenance and renovations to the Infirmary. The College also received capital gifts and grants in the current and prior years from its related parties to support football stadium construction. Permanent endowments increased by $0.6 million as The Citadel Trust received numerous small additions related to The Citadel Foundation's on-going capital campaign.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for nonoperating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, at June 30, 2007 and June 30, 2006 were as follows:

Capital Assets (net of accumulated depreciation)

	2007	2006	Increase/ (decrease)	Percent Change
Capital Assets:				
Land	$ 4,800,669	$ 2,645,540	$ 2,155,129	81.46%
Construction in Progress	2,547,567	24,832,065	(22,284,498)	-89.74%
Fine Arts	350,720	357,765	(7,045)	-1.97%
Land improvements	4,538,758	5,097,003	(558,245)	-10.95%
Buildings and improvements	111,651,631	83,053,830	28,597,801	34.43%
Equipment	1,581,451	1,576,894	4,557	0.29%
Vehicles	101,844	108,882	(7,038)	-6.46%
Intangibles	49,560	55,755	(6,195)	-11.11%
Total	$ 125,622,200	$ 117,727,734	$ 7,894,466	6.71%

During fiscal year 2007 The Citadel Trust purchased land at the corner of Hagood and Fishburne avenues for future commercial development. In addition, The Citadel capitalized buildings of $32.1 million reflecting the completion of Law Barracks, west side grandstands, and the new scoreboard at the football stadium. The decrease in construction in progress reflects the completion of these buildings and the addition of the initial construction costs for the Readiness Center and the football practice field. The Citadel has committed $9 million for construction of the Readiness Center and management expects to capitalize $7 million of construction costs on this facility in fiscal year 2008. In addition, management anticipates issuing another $6 million athletic facility bond to complete and furnish the skyboxes. Current plans are to issue this bond in the fall of 2007, if skybox sales are as robust as anticipated, so that the skybox "build out" can be completed along with the rest of the Readiness Center.

With the completion of Law Barracks the College has replaced all 4 barracks within a 10-year period. Three of the barracks were funded with bonded debt and one was funded with federal funds and state capital improvement bond proceeds. The College currently has $29.9 million in revenue bonds outstanding. Specific debt service fees charged to students pay the debt service on these bonds.

The College has made use of the State's credit rating to issue institution bonds to renovate education and general (E&G) facilities. No new bonds were issued during the current fiscal year and institution bond debt service payments dropped by almost one half in fiscal year 2007 when the 1991 Institution Bond was retired. The College currently has $2.0 million of institution bonds outstanding. Specific student fees pay the debt service on these bonds.

The College issued $8.7 million of taxable athletic facility revenue bonds in 2006 as its share of the funding for the Readiness Center. Total stadium debt is $13.7 million and total athletic bonded debt is $16.2. The College has pledged student athletic fees to fund the debt service for these bonds. The stadium renovation is part of the College's current capital campaign and management anticipates that most of the stadium debt service will be paid by gifts. As noted previously, management anticipates that all the sky boxes will be sold by the end of September and another $6 million bond will be issued to build out the skyboxes. Skybox rentals, club seat rentals, and stadium rentals will be pledged to make these debt service payments.

Economic Outlook

The economic position of The Citadel is closely tied to that of the State of South Carolina. The State Comptroller General issued a news release on 16 August 2007 titled, "Opps!! Budgeted Spending Hits The Wall: Revenue Collections Lag". The release noted that revenue growth "faltered" during the last two months of the fiscal year. Robust spending plans in the state budget had relied on anticipated revenues that did not occur and fell short by $80.8 million. As a result, funds in supplemental and contingent appropriations will not be authorized. State budget officers have informed The Citadel that its 2007-2008 appropriation will not be impacted. There are persistent signs that the state's economy is softening. The economy over the past two to three years has enabled the state to prepare for an economic slowdown and fund balances in the budgetary general fund are at an all time high. The Comptroller General urged all State financial officials to work together and recommit to the State's historically more conservative financial management practices. As a result of this press release, The Citadel looks positively forward to fiscal year 2007-2008, but has concern over the state funding for the following fiscal years, especially with respect to specially funded state projects.

The College experienced robust enrollment during fiscal year 2006 and again in fiscal year 2007. A new cadet company has been added to the Corps of Cadets in fiscal year 2008 to properly handle this increase. The barracks were overflowing when upperclassmen arrived for fall 2007 classes. Moody's Investors Service continued to rate The Citadel's long-term bond as "A1".

In August 2007, The Citadel was named the No. 1 best value in the South and the No. 2 best public university offering up to a master's degree in the South by U.S.News & World Report. The Citadel School of Engineering ranked No. 38 among the nation's best undergraduate engineering programs. These rankings help create a healthy economic outlook for the College.

The College finished fiscal year 2007 with a $12.1 million increase in net assets. Financial data indicates that the College is in excellent condition and other factors reinforce this finding. Fiscal year 2008 began with the barracks overflowing with cadets. The west side grandstands of Johnson Hagood Stadium have been completed and the construction of football sky boxes has begun. Management believes that the future is bright.

More Information

This financial report is designed to provide a general overview of The Citadel's finances and demonstrate The Citadel's accountability for the money it receives. Any questions about this report or requests for information may be addressed to the Director of Financial Services, The Citadel, 171 Moultrie Street, Charleston, SC 29409.

THE CITADEL
The Military College of South Carolina
Statement of Net Assets
June 30, 2007

	The Citadel	The Citadel Trust	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 13,528,060	$ 1,270,730	$ 14,798,790
Investments	-	3,716,699	3,716,699
Restricted Assets - Current			
Cash and cash equivalents	2,537,252	1,111,786	3,649,038
Investments	-	10,195,971	10,195,971
Contributions receivable, net	119,808	144,417	264,225
Student loans receivable, net	-	87,159	87,159
Accounts receivable, net	3,734,952	203,760	3,938,712
Due from other funds	1,826,155	-	1,826,155
Due from component units	100,061	-	100,061
Contributions receivable, net	-	83,516	83,516
Inventories	1,646,367	-	1,646,367
Prepaid expenses	1,080,848	1,255	1,082,103
Total current assets	24,573,503	16,815,293	41,388,796
Noncurrent Assets			
Investments	-	3,489,657	3,489,657
Contributions receivable, net	-	35,002	35,002
Cash surrender value of life insurance	-	31,699	31,699
Restricted Assets - Noncurrent			
Cash and cash equivalents	8,149,541	3,913,773	12,063,314
Investments	-	47,564,789	47,564,789
Contributions receivable, net	386,515	264,510	651,025
Student loans receivable, net	680,784	62,027	742,811
Cash surrender value of life insurance	-	392,472	392,472
Capital assets, net of accumulated depreciation	123,467,071	2,155,129	125,622,200
Total noncurrent assets	132,683,911	57,909,058	190,592,969
Total assets	$ 157,257,414	$ 74,724,351	$ 231,981,765
LIABILITIES			
Current Liabilities			
Accounts payable	$ 1,445,182	$ 161,366	$ 1,606,548
Due to other funds	-	1,826,155	1,826,155
Retainages payable	20,805	-	20,805
Accrued payroll and related liabilities	1,650,353	5,973	1,656,326
Accrued compensated absences and related liabilities	1,241,222	-	1,241,222
Accrued interest payable	687,170	-	687,170
Deferred revenues	1,956,161	53,000	2,009,161
Bonds payable	2,435,738	-	2,435,738
Capital leases payable	21,298	-	21,298
Notes payable	32,589	-	32,589
Deposits	1,124,104	-	1,124,104
Annuities payable	-	8,190	8,190
Total current liabilities	10,614,622	2,054,684	12,669,306
Noncurrent Liabilities			
Federal loan funds	477,103	-	477,103
Accrued compensated absences and related liabilities	1,067,485	-	1,067,485
Deposits	547,844	-	547,844
Deferred revenues	2,960,000	-	2,960,000
Bonds payable	44,817,690	-	44,817,690
Capital leases payable	35,218	-	35,218
Notes payable	34,806	-	34,806
Annuities payable	-	17,530	17,530
Total noncurrent liabilities	49,940,146	17,530	49,957,676
Total liabilities	$ 60,554,768	$ 2,072,214	$ 62,626,982
NET ASSETS			
Invested in capital assets, net of related debt	$ 83,822,209	$ 2,155,129	$ 85,977,338
Restricted for Nonexpendable:			
Scholarships	-	26,225,944	26,225,944
Other	-	3,964,216	3,964,216
Annuity	-	92,188	92,188
Restricted for Expendable:			
Scholarships, research, instruction and other	1,954,468	28,688,959	30,643,427
Loans	221,704	1,276,112	1,497,816
Capital projects	3,778,638	3,542,602	7,321,240
Debt service	28,779	-	28,779
Unrestricted	6,896,848	6,706,987	13,603,835
Total net assets	$ 96,702,646	$ 72,652,137	$ 169,354,783

See accompanying Notes to the Financial Statements

THE CITADEL
The Military College of South Carolina
Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2007

	The Citadel	The Citadel Trust	Total
REVENUES			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of $5,306,659)	$ 23,318,294	$ -	$ 23,318,294
Federal grants and contracts	1,429,852	-	1,429,852
State grants and contracts	1,919,530	-	1,919,530
Nongovernmental grants and contracts	222,729	-	222,729
Sales and services of educational and other activities	822,558	-	822,558
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of $2,991,531)	22,841,047	-	22,841,047
Sales and services of auxiliary enterprises - not pledged	2,610,222	-	2,610,222
Other fees	685,248	-	685,248
Investment income (net of investment expenses of $228,944)	-	8,424,896	8,424,896
Endowment income	-	1,238,218	1,238,218
Other operating revenues	370,456	-	370,456
Total operating revenues	54,219,936	9,663,114	63,883,050
EXPENSES			
Operating Expenses			
Compensation and employee benefits	43,425,608	69,913	43,495,521
Services and supplies	28,470,590	59,189	28,529,779
Utilities	3,031,542	-	3,031,542
Depreciation expense	4,457,776	-	4,457,776
Scholarships and fellowships	2,602,356	-	2,602,356
Total operating expenses	81,987,872	129,102	82,116,974
Operating income (loss)	(27,767,936)	9,534,012	(18,233,924)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	16,025,367	-	16,025,367
State grants and contracts	44,803	-	44,803
Nongovernmental grants	5,657,150	84,427	5,741,577
Gifts	544,793	2,473,391	3,018,184
Investment income	1,552,697	-	1,552,697
Interest on capital asset-related debt	(2,176,018)	-	(2,176,018)
Loss on disposal of capital assets	(52,291)	-	(52,291)
Other nonoperating revenues	72,000	153,146	225,146
Net nonoperating revenues	21,668,501	2,710,964	24,379,465
Income (loss) before other revenues, expenses, gains or losses	(6,099,435)	12,244,976	6,145,541
State capital appropriations	1,766,689	-	1,766,689
Capital grants and gifts	2,742,869	-	2,742,869
Additions to permanent endowments	-	1,435,844	1,435,844
Transfers to/from The Citadel Trust	4,188,416	(4,188,416)	-
Total other revenues	8,697,974	(2,752,572)	5,945,402
Increase in net assets	2,598,539	9,492,404	12,090,943
NET ASSETS			
Net assets-beginning of year	94,104,107	63,159,733	157,263,840
Net assets-end of year	$ 96,702,646	$ 72,652,137	$ 169,354,783

See accompanying Notes to the Financial Statements

THE CITADEL

The Military College of South Carolina

Statement of Cash Flows

For the year ended June 30, 2007

	The Citadel	The Citadel Trust	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	$ 23,176,517	$ -	$ 23,176,517
Grants and contracts	3,708,979	-	3,708,979
Sales and services of educational and other activities	637,029	-	637,029
Sales and services of auxiliary enterprises	26,845,423	-	26,845,423
Other operating receipts	377,001	-	377,001
Payments to employees for salaries and benefits	(43,562,963)	(69,913)	(43,632,876)
Payments to suppliers	(28,171,006)	(59,189)	(28,230,195)
Payments for utilities	(3,058,886)	-	(3,058,886)
Payments to students for scholarships and fellowships	(2,602,356)	-	(2,602,356)
Loans issued to students	(125,750)	-	(125,750)
Collection of loans to students	83,989	-	83,989
Funds held for others	(52,168)	-	(52,168)
Student direct lending receipts	16,891,613	-	16,891,613
Student direct lending disbursements	(16,973,561)	-	(16,973,561)
Net cash used by operating activities	(22,826,139)	(129,102)	(22,955,241)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	16,025,367	-	16,025,367
Gifts and grants for other than capital purposes	6,276,926	4,043,315	10,320,241
Collections on note receivable	9,000	-	9,000
Other non-operating revenues/expenses	72,000	1,653,953	1,725,953
Transfers from (to) component unit	4,188,416	(4,188,416)	-
Net cash provided by noncapital financing activities	26,571,709	1,508,852	28,080,561
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
State capital appropriations	1,404,375	-	1,404,375
Capital grants and gifts received	965,599	-	965,599
Proceeds from sale of capital assets	7,285	-	7,285
Purchases of capital assets	(10,392,775)	(2,155,129)	(12,547,904)
Principal paid on capital debt and leases	(2,572,715)	-	(2,572,715)
Interest paid on capital related debt	(1,946,678)	-	(1,946,678)
Net cash used by capital and related financing activities	(12,534,909)	(2,155,129)	(14,690,038)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	35,466,305	35,466,305
Interest and dividends on investments	1,564,626	1,365,330	2,929,956
Purchase of investments	-	(32,900,397)	(32,900,397)
Net cash provided by investing activities	1,564,626	3,931,238	5,495,864
Net change in cash	(7,224,713)	3,155,859	(4,068,854)
Cash and cash equivalents - beginning of year	31,439,566	3,140,430	34,579,996
Cash and cash equivalents - end of year	$ 24,214,853	$ 6,296,289	$ 30,511,142

	The Citadel	The Citadel Trust	Total
Reconciliation of net operating revenues (expense) to net cash used by operating activities:			
Operating income (loss)	$ (27,767,936)	$ 9,534,012	$ (18,233,924)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation expense	4,457,776	-	4,457,776
Interest and dividends on investments	-	(1,449,280)	(1,449,280)
Realized and unrealized gains and losses on investments	-	(8,213,834)	(8,213,834)
Funds held for others	(134,116)	-	(134,116)
Changes in assets and liabilities			
Accounts receivable, net	(2,451,835)	-	(2,451,835)
Inventories	254,538	-	254,538
Student loans receivable	(47,250)	-	(47,250)
Prepaid expenses	(129,697)	-	(129,697)
Accounts payable and accrued expenses	(235,394)	-	(235,394)
Accrued salaries and related expenses	102,158	-	102,158
Accrued compensated absences and related liabilities	155,314	-	155,314
Deferred revenue	3,110,331	-	3,110,331
Student and other deposits	(140,028)	-	(140,028)
Net cash provided used by operating activities	$ (22,826,139)	(129,102)	$ (22,955,241)

(continued)

THE CITADEL

The Military College of South Carolina

Statement of Cash Flows (continued)

For the year ended June 30, 2007

	The Citadel	The Citadel Trust	Total
Non-cash transactions			
Increase (decrease) in fair value of investments	$ (93,505)	$ 4,151,436	$ 4,057,931
Capital assets acquired through gifts	37,655	-	37,655
Capital assets acquired through sale of future revenues	1,700,000	-	1,700,000
Reconciliation of Cash and Cash Equivalent Balances:			
Current assets			
Cash and cash equivalents	$ 13,528,060	$ 1,270,730	$ 14,798,790
Restricted cash and cash equivalents	2,537,252	1,111,786	3,649,038
Noncurrent assets			
Restricted cash and cash equivalents	8,149,541	3,913,773	12,063,314
Total cash and cash equivalents	$ 24,214,853	$ 6,296,289	$ 30,511,142

See accompanying Notes to the Financial Statements

THE CITADEL

The Military College of South Carolina
Non-Governmental Discretely Presented Component Units
Statements of Financial Position

	The Citadel Foundation December 31, 2006	The Citadel Brigadier Foundation June 30, 2007
ASSETS		
Cash and cash equivalents	$ 1,591,314	$ 699,443
Unconditional promises to give/receivable, net	7,197,129	230,417
Interest receivable	144,146	-
Prepaid expenses	21,232	-
Long-term investments (at fair value)	155,643,801	7,541,252
Investments related to split-interest agreements	2,819,132	-
Notes receivable	-	20,000
Investment note receivable - Citadel Alumni Association	1,559,650	-
Other investments	5,933	-
Other receivables	27,124	7,665
Cash value of life insurance	548,538	224,067
Office equipment and improvements (net of accumulated depreciation)	129,425	27,631
Land and improvements held for investment	1,430,476	-
Other assets	142,625	-
Total assets	$ 171,260,525	$ 8,750,475
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 410,367	$ 8,698
Compensated absences payable	-	49,796
Grants payable - The Citadel	3,489,666	-
Notes payable	105,585	-
Annuities and life income funds payable	1,477,721	-
Charitable gift annuities	1,344,504	-
Total liabilities	6,827,843	58,494
Net Assets		
Unrestricted	124,003,005	410,939
Temporarily restricted	15,933,668	5,294,089
Permanently restricted	24,496,009	2,986,953
Total net assets	164,432,682	8,691,981
Total Liabilities and Net Assets	$ 171,260,525	$ 8,750,475

See accompanying Notes to the Financial Statements

THE CITADEL

The Military College of South Carolina

Non-Governmental Discretely Presented Component Units

Statements of Activities

	The Citadel Foundation Year Ended December 31, 2006	The Citadel Brigadier Foundation Year Ended June 30, 2007
REVENUES, GAINS AND OTHER SUPPORT		
Unrestricted		
Contributions	$ 502,433	$ -
Investment income	2,709,024	18,888
Net unrealized and realized gain on investments	17,253,847	-
Membership revenue	-	841,745
Fundraising activities	-	172,831
Miscellaneous	716	7,646
Other investment income	6,075	-
Loss on disposal of assets	(98,744)	-
Changes in value of split interest agreements	115,523	-
Net assets released from program restrictions	2,053,588	378,614
Total unrestricted	22,542,462	1,419,724
Temporarily Restricted		
Contributions	6,734,036	449,686
Investment income	-	174,073
Net unrealized and realized gain on investments	117,476	60,341
Gain on disposal of assets	-	431,284
Unrealized loss on land held for investment	(1,500,000)	-
Changes in value of split interest agreements	113,706	-
Net assets released from program restrictions	(2,053,588)	(378,614)
Total temporarily restricted	3,411,630	736,770
Permanently Restricted		
Contributions	1,432,268	599,321
Investment income	4,149	-
Net unrealized and realized gain on investments	840	-
Total permanently restricted	1,437,257	599,321
Total revenue, gains and other support	27,391,349	2,755,815
EXPENSES AND LOSSES		
Unrestricted		
Grants to The Citadel	7,153,457	1,198,237
Other gift grants to The Citadel	4,453,048	-
Contributions	-	300
General and administrative	876,539	309,188
Fund-raising	2,135,445	309,740
Total unrestricted	14,618,489	1,817,465
Temporarily Restricted		
Contributions	-	480,000
Total temporarily restricted	-	480,000
Total expenses and losses	14,618,489	2,297,465
CHANGE IN NET ASSETS		
Unrestricted	7,923,973	(397,741)
Temporarily restricted	3,411,630	256,770
Permanently restricted	1,437,257	599,321
Total change in net assets	12,772,860	458,350
Net assets at beginning of period		
Unrestricted	116,079,032	808,680
Temporarily restricted	12,522,038	5,037,319
Permanently restricted	23,058,752	2,387,632
Total net assets at beginning of period	151,659,822	8,233,631
Net assets at end of period		
Unrestricted	124,003,005	410,939
Temporarily restricted	15,933,668	5,294,089
Permanently restricted	24,496,009	2,986,953
Total net assets at end of period	$ 164,432,682	$ 8,691,981

See accompanying Notes to the Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Citadel is a State-assisted, coeducational institution of higher education. The College is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of The Citadel. The Citadel was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The College is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-assisted universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoint most of their board members and budgets a significant portion of their funds.

The Citadel is governed by the Board of Visitors, which has seven members appointed by the General Assembly, three by The Citadel Alumni Association, and one by the Governor. The Board administers, has jurisdiction over, and is responsible for the management of The Citadel.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement Number 39, *Determining Whether Certain Organizations are Component Units,* consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of the College, as the primary government, and the accounts of the following entities as component units:

The Citadel Trust (the Trust) was formed in 1991 as a non-profit eleemosynary corporation for the purpose of investing funds in order to provide scholarship and other financial assistance or support to The Citadel. The Trust is governed by a board of trustees appointed by The Citadel Board of Visitors. In addition, Citadel employees and facilities are used for virtually all activities of the Trust. The Trust has been reported as a blended component unit in the financial statements. The Trust is considered governmental in nature and, therefore, is subject to the governmental accounting model. Separate financial statements of the Trust can be requested from the College's controller at the following address: The Citadel, 171 Moultrie St., Charleston, SC 29409.

The Citadel Foundation (TCF) was established in 1961 as The Citadel Development Foundation, a separately chartered corporation. The Foundation's original goal was to support academic programs at The Citadel. In August 2000, The Citadel Development Foundation amended its charter to establish The Citadel Foundation as the College's official fundraising entity. TCF handles all gifts to the Foundation; gifts to restricted accounts, programs, and activities at the College; and gifts to The Citadel Brigadier Foundation and The Citadel Alumni Association for their specific activities and programs. TCF is governed by a board comprised of directors of the former Citadel Development Foundation, plus three other ex-officio members: the chairman of The Citadel Board of Visitors, the president of The Citadel, and a representative from The Citadel Brigadier Foundation. Although the College does not control the timing or amount of receipts from TCF, the majority of resources, or income thereon, that TCF holds and invests, is restricted to the activities of The Citadel by the donors. Because these restricted resources held by TCF can only be used by, or for the benefit of, the College, TCF is considered a component unit of the College. TCF reports its financial results on a calendar-year basis. Copies of TCF's separately issued financial statements can be obtained by sending a request to the following address: The Citadel Foundation, 171 Moultrie St., Charleston, SC 29409.

The Citadel Brigadier Foundation (TCBF) is a separately chartered corporation organized exclusively to receive and manage private funds for support of athletic programs at The Citadel. A board elected by members of TCBF governs the organization. The Citadel Athletic Director is an ex-officio member of the TCBF Board of Directors. Funds raised by TCBF are used to provide scholarships for varsity athletes at The Citadel. Although the College does not control the timing or amount of receipts from TCBF, the majority of resources, or income thereon, that TCBF holds and invests, is restricted to the activities of The Citadel by the donors. Because these restricted resources held by TCBF can only be used by, or for the benefit of, the College, TCBF is considered a component unit of the College. TCBF's fiscal year ends on June 30. Copies of TCBF's separately issued financial statements can be obtained by sending a request to the following address: The Citadel Brigadier Foundation, 171 Moultrie St., Charleston, SC 29409.

TCF and TCBF are private not-for-profit organizations that report under Financial Accounting Standard Board (FASB) standards. Because these organizations are deemed not to be governmental entities and use a different reporting model, their balances and transactions are reported on separate financial statements. Most significant to TCF's and TCBF's operations and reporting model are FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made,* FASB Statement No. 117, *Financial Reporting for Not-for-Profit-Organizations,* and FASB Statement No. 136, *Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to TCF's and TCBF's financial information in the College's financial reporting entity for these differences.

The Citadel is part of the primary government of the State of South Carolina because it is financially accountable to and fiscally dependent on the State.

Financial Statements: The financial statements of The Citadel have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus.* The College has also adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures.* The financial statement presentation provides a comprehensive, entity-wide perspective of the College's net assets, revenues, expenses and changes in net assets and cash flows that replaces the fund-group perspective previously required.

Basis of Accounting: For financial reporting purposes, The Citadel, along with its governmental component unit, is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intrafund transactions and balances have been eliminated.

The Citadel and its governmental component unit apply all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, the State of South Carolina has elected to apply only those

Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

The Citadel Foundation (TCF) and The Citadel Brigadier Foundation (TCBF) are deemed not to be governmental entities because a controlling majority of their governing bodies are not appointed or approved by governmental officials. TCF and TCBF use the accrual basis of accounting and have adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations.* Under SFAS No. 117, TCF and TCBF are required to report information regarding financial position and activities accounting to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. TCF has also adopted Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others.* Under SFAS No. 136 TCF recognizes contribution revenue, and any related contributions receivable, when it receives gifts or promises of gifts that are specified for The Citadel or The Citadel Trust

Cash and Cash Equivalents: For purposes of the statement of cash flows, The Citadel considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents. Restricted cash and cash equivalents are comprised of bond proceeds, debt service funds and externally restricted funds.

Investments: The Citadel accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

The Citadel Foundation carries its investments in marketable equity investments with readily determinable fair values and all investments in debt securities at fair value. Unrealized gains and losses are included in the change in net assets in the statements of activities. Other investments are carried at cost; these assets include equity securities without readily determinable fair values.

The Citadel Brigadier Foundation accounts for its investments at fair value based on quoted market prices. The increase or decrease in the fair value of investments is recorded on a quarterly basis and are included in the change in net assets in the statements of activities. TCBF carries its investments in real estate at fair market value as of the date the real estate was donated to TCBF.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to The Citadel's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories, which consist of bookstore and gift shop inventories for resale, are carried at the lower of cost or market. The cost of inventory items is reported on a weighted average basis

Noncurrent Cash and Investments. Noncurrent cash and investments primarily consist of permanently endowed funds and federal student loan funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net assets.

Prepaid Expenses: Expenditures for services paid in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of insurance, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Citadel follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The College capitalizes movable personal property with a unit value in excess of $5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of $100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of $5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

The Citadel capitalizes as a component of construction in progress interest cost in excess of earnings on debt proceeds associated with the capital projects; therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2007 was $294,579.

Deferred Revenues and Deposits: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences: Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year, and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets: The Citadel's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which The Citadel is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The Citadel's policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Income Taxes: The Citadel is a political subdivision of the State of South Carolina and is, therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of The Citadel may be subject to taxation as unrelated business income.

The Citadel Trust is a not-for-profit organization as described in Internal Revenue Code Section 501(c) (3) and related income is exempt from federal income tax under Code Section 501(a).

The Citadel Foundation (TCF) and The Citadel Brigadier Foundation (TCBF) are not-for-profit organizations described in Internal Revenue Code Section 501(c) (3) and are exempt from federal income tax under Code Section 501(a). TCF and TCBF are classified by the Internal Revenue Service as other than private foundations and base their tax-exempt status on their support of the College.

Classification of Revenues and Expenses: The Citadel has classified its revenues and expenses as either operating or nonoperating revenues according to the following criteria:

Operating revenues and expenses*:* Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarships discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) grants and contracts that are essentially the same as contracts for services that finance programs The Citadel would not otherwise undertake. For The Citadel Trust, operating revenues consist of investment income and net increases or decreases in fair value of investments. Operating expenses include all expense transactions incurred other than those related to investing, capital, or noncapital financing activities.

Nonoperating revenues and expenses*:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income (except investment income for The Citadel Trust as mentioned above), and any grants and contracts that are not classified as operating revenue or are not restricted by the grantor to be used exclusively for capital purposes. Nonoperating expenses include interest paid on capital asset related debt, losses on disposal of assets, and refunds to grantors.

Sales and Services of Educational and Other Activities: Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public.

Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by intercollegiate athletics, cadet store, gift shop, barracks, dining hall, and infirmary and printing services. Revenues of internal service and auxiliary enterprise activities and the related expenditures of College departments have been eliminated.

Scholarship Discounts and Allowances: Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in The Citadel's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Rebatable Arbitrage: Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than $5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Citadel has no rebatable arbitrage liability at June 30, 2007.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses, and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS

Most deposits and investments of The Citadel are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Deposits and investments of The Citadel Trust, the College's blended component unit, are not under the State Treasurer's control and are deposited or invested by financial institutions and brokers.

The following schedule reconciles deposits and investments within the footnotes to the statement of net assets amounts:

Statement of Net Assets:	**Citadel**	**Citadel Trust**	**Total**
Current assets			
Cash and cash equivalents	$ 13,528,060	$ 1,270,730	$ 14,798,790
Investments	-	3,716,699	3,716,699
Restricted assets			
Cash and cash equivalents	2,537,252	1,111,786	3,649,038
Investments	-	10,195,971	10,195,971
Noncurrent assets			
Investments	-	3,489,657	3,489,657
Restricted assets			
Cash and cash equivalents	8,149,541	3,913,773	12,063,314
Investments	-	47,564,789	47,564,789
Total Statement of Net Assets	$ 24,214,853	$ 71,263,405	$ 95,478,258
Notes: Deposits and Investments			
Cash on hand	$ 45,800	$ -	$ 45,800
Deposits held by State Treasurer	24,151,762	316,356	24,468,118
Other deposits	17,291	80,807	98,098
Investments	-	70,866,242	70,866,242
Total Notes	$ 24,214,853	$ 71,263,405	$ 95,478,258

Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, The Citadel's deposits may not be returned to the College**.** For deposits held by the State Treasurer, State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

With respect to The Citadel's and The Trust's other deposits at year-end, all of these deposits are either insured or collateralized with securities held by the entity or by its agent in the entity's name, or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. The Trust has a formal investment policy that requires all cash deposits held at banks to be held in a bank trust department in a collateralized form.

Investments

All investments are owned by The Citadel Trust, a component unit of The Citadel. Investments are stated at fair value based on quoted market prices. Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each fund's beginning fair value to the total. Investments contributed to the Trust are recorded at the fair value on the date of the gift. Purchases and sales are accounted for on the settlement date. The increase or decrease in the fair value of investments is recorded on a monthly basis. Earnings are recorded monthly. Authorized investments include U.S. government/government-insured securities, corporate stocks and bonds, and open-ended mutual funds, as authorized by trust agreements and The Citadel Trust Board of Directors.

At June 30, 2007, The Trust had investments and maturities as shown below:

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More than 10**
Money Market Funds	$ 5,899,126	$ 5,899,126	$ -	$ -	$ -
U.S. Treasury Bonds	2,194,862	94,060	1,181,949	769,547	149,306
U.S. Agency Bonds	2,380,971	358,685	1,620,605	351,356	50,325
Corporate Bonds	4,192,848	336,754	2,971,534	746,866	137,694
Mutual Bond Funds	110,576	-	24,474	86,102	-
Exchange Traded Bond Funds	4,278,514	-	4,278,514	-	-
Total fixed income investments	19,056,897	$ 6,688,625	$ 10,077,076	$ 1,953,871	$ 337,325
Common Stocks	29,983,836				
Mutual Equity Funds	9,587,296				
Exchange Traded Equity Funds	12,238,213				
Total investments	$ 70,866,242				

The investment types listed above include all investment types in which monies were held throughout the fiscal year and the balances therein fluctuated minimally in excess of the fiscal year-end balances.

Custodial Credit Risk: Custodial credit risk is risk that the investor will not be able to recover the value of its investments that are in the possession of its safekeeping custodian. All of The Trust's investments are either insured or collateralized with securities held by the entity or by its agent in the entity's name, or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. The Trust has a formal investment policy that requires all investments held at banks to be held in a bank trust department in a collateralized form.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Citadel Trust investment policy states, "The Trust Board of Directors is aware of interest rate risk to bond principal valuation. Long dated bonds, which have the most principal risk in a rising interest rate environment, may be used by investment managers whose style utilizes strategies which include long dated bonds."

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of The Trust's investment in a single issuer. The Trust's policy for reducing this risk of loss is to require each investment manager to limit the investment in any one issuer to a maximum of 5% for equity investments (with the exception of one manager who manages approximately $3.6 million) and 10% for fixed income investments (except for securities issued by the U.S. government and its agencies). The Trust's Board of Directors reviews substantial equity positions for the entire investment pool on a quarterly basis. At June 30, 2007 there were no single issuer investments that exceeded 5%.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Citadel Trust's investment policy addresses credit risk by requiring that each fixed income portfolio manager for its pooled investment fund maintain an overall weighted average credit rating of Baa/BBB or better by Moody's and Standard and Poors rating services, respectively. In addition, the minimum acceptable credit quality rating for a new purchase is investment grade (Baa/BBB). In the event a bond is downgraded below investment grade, the investment manager shall immediately evaluate the fixed income portfolio position and take appropriate action. An exception to holding below investment grade bonds is the ownership by The Trust of bond index pooled vehicles.

At June 30, 2007 The Citadel Trust had debt securities and quality ratings as shown below:

		Quality Rating				
Investment Type	**Fair Value**	**Aaa/Aa**	**A**	**Baa**	**Unrated**	**N/A**
Money Market Funds	$ 5,899,126	$ -	$ -	$ -	$ 5,899,126	$ -
U.S. Treasury Bonds	2,194,862	-	-	-	-	2,194,862
U.S. Agency Bonds	2,380,971	2,322,337	-	-	58,634	-
Corporate Bonds	4,192,848	1,182,443	2,331,291	461,771	217,343	-
Mutual Bond Funds	110,576	86,102	24,474	-	-	-
Exchange Traded Bond Funds	4,278,514	-	-	-	-	4,278,514
Totals	$ 19,056,897	$ 3,590,882	$ 2,355,765	$ 461,771	$ 6,175,103	$ 6,473,376

Unrated investments include Money Market Funds which are invested in commercial paper and other short-term obligations rated by a nationally recognized rating organization in the highest short-term rating category, or, if unrated, of equivalent quality, and in other corporate obligations and municipal obligations rated in the two highest rating categories, or if unrated, of equivalent quality.

Foreign Currency Risk. Foreign currency risk is the risk of loss arising from changes in exchange rates for investments denominated in foreign currencies. The Trust's international investment allocation is invested in U.S. dollar denominated mutual funds – the American Funds EuroPacific Growth Fund and the American Funds Capital World Growth and Income Fund. These funds invest in companies based chiefly in Europe and the Pacific Basin. The market value of these holdings at June 30, 2007 was $11,742,796. The Trust foreign currency risk policy states: "The Trust Board of Directors is aware of the risk from fluctuating currency values in that portion of the fund which is invested in international securities. Investment managers who invest in international securities may purchase and sell currencies to facilitate currency exchange rates. Such currency transactions are at the discretion of the international investment manager(s) and it is recognized by the Board of Directors of The Citadel Trust that while entering into forward currency transactions could minimize the risk of loss due to decline in the value of the hedged currency, such transactions could also limit any potential gain that may result from an increase in the value of the currency."

Investments – Non Governmental Discretely Presented Component Units

The Citadel Brigadier Foundation
Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each funds beginning fair value to the total.

At June 30, 2007, TCBF's investments are as follows:

Investments carried at fair value	**Cost**	**Fair Value**
Equity funds and individual securities	$ 4,313,818	$ 5,608,601
Fixed income funds and individual debt securities	1,955,693	1,883,221
Certificates of deposit	49,430	49,430
Total investments	$ 6,318,941	$ 7,541,252

The Citadel Foundation

TCF maintains master investment accounts for its individual accounts. Realized and unrealized gains and losses and income from securities in the master investment accounts are allocated periodically to the individual accounts based on the relationship of the market value of each individual account to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Long-term investments held by TCF are carried at fair value and as of December 31, 2006, were composed of the following:

Equity Securities	**Cost**	**Fair Value**
Various equity securities	$ 49,291,678	$ 55,534,464
International funds	30,387,300	38,367,169
Mutual funds	30,996,869	37,573,479
Total equity securities	110,675,847	131,475,112
Debt Securities		
Corporate debt securities	3,790,859	3,756,486
Government bonds	17,250,845	16,753,482
International bonds	160,443	160,157
Mortgage backed securities	1,078,824	1,015,414
Total debt securities	22,280,971	21,685,539
Money funds – temporarily held	3,878,940	3,878,941
Cash – temporarily held	1,423,341	1,423,341
Total money funds and cash	5,302,281	5,302,282
Total	$ 138,259,099	$ 158,462,933

NOTE 3—RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2007, are summarized as follows:

	Citadel	**Citadel Trust**	**Total**
Receivables:			
Student fees	$ 2,918,986	$ -	$ 2,918,986
Grants and contracts	175,747	961	176,708
Accrued interest	171,699	202,799	374,498
Capital Reserve Fund proceeds	362,314	-	362,314
Other	309,379	-	309,379
Gross receivables	3,938,125	203,760	4,141,885
Less allowance for uncollectibles:			
Student fees	203,173	-	203,173
Accounts receivable, net	$ 3,734,952	$ 203,760	$ 3,938,712

Allowances for losses for accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio.

Contributions Receivable

Contributions receivable are comprised of pledges for gifts to support College programs and construction projects. Contributions receivable are accounted for at their estimated net realizable value or the present value of long-term pledges. Discount to present value was calculated using a 5% and 4% interest rate for 2007 and 2006, respectively. The composition of contributions receivable at June 30, 2007, is summarized as follows:

	Citadel	Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	$ 570,000	$ 619,662	$ 1,189,662
Capital	-	25,000	25,000
Total gift pledges outstanding	570,000	644,662	1,214,662
Less:			
Unamortized discount to present value	63,677	63,729	127,406
Allowance for doubtful accounts	-	53,488	53,488
Total pledges receivable, net	$ 506,323	$ 527,445	$ 1,033,768

Payments on contributions receivable as of June 30, 2007, are expected to be received in the following years ending June 30:

	Citadel	Citadel Trust	Total
2008	$ 119,808	$ 251,490	$ 371,298
2009	116,889	128,726	245,615
2010	70,917	73,420	144,337
2011	69,405	53,638	123,043
2012	65,292	6,297	71,589
Due after 2012	64,012	13,874	77,886
	$ 506,323	$ 527,445	$ 1,033,768

Pledges for permanent endowments do not meet the eligibility requirements, as defined by GASB Statement 33, until the related gift is received. Accordingly, permanent endowment pledges to the Trust totaling $734,205 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

No allowance for uncollectible pledges receivable has been recorded for the above pledges because The Citadel believes all pledges are collectible.

Student Loans Receivable

Loans receivable consists of loans made through the Trust's loan program and loans made through the Federal Perkins Loan Program. Citadel Trust student loans receivable are broken down into two classifications – (1) those payments that will be received within the following fiscal year are classified as "current portion of loans receivable", (2) the remaining payments are classified as noncurrent loans receivable. All Perkins student loans receivable are classified as noncurrent loans receivable.

The Perkins Loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the College determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education. The Trust's loan program is administered similarly; except these loans are non-cancelable and written-off loans are not assigned to the US Department of Education. The Trust has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off.

Student loans receivable at June 30, 2007 are summarized as follows:

	Citadel	Citadel Trust	Total
Loans receivable	$ 680,784	$ 445,273	$ 1,126,057
Less allowance for uncollectible loans	-	296,087	296,087
Net loans receivable	$ 680,784	$ 149,186	$ 829,970

NOTE 4 – RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2007 are as follows:

Asset /Restricted for	Citadel	Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	$ 2,512,267	$ 1,025,753
Debt service	24,985	-
College administered loan program	-	86,033
Total cash and cash equivalents	$ 2,537,252	$ 1,111,786
Investments:		
Donor/sponsor specified	$ -	$ 10,195,971
Contributions Receivable:		
Donor/sponsor specified	$ 119,808	$ 144,417
Student Loans Receivable:		
College administered loan program	$ -	$ 87,159
Noncurrent:		
Cash and cash equivalents		
Endowment	$ 254,164	$ 672,354
Federal Perkins loan program	22,011	-
Capital projects	7,891,458	3,241,419
Cash held for other parties	(18,092)	-
Total cash and cash equivalents	$ 8,149,541	$ 3,913,773
Investments:		
Endowment	$ -	$ 46,520,595
College administered loan program	-	1,037,931
Capital projects	-	6,263
Total investments	$ -	$ 47,564,789
Contributions Receivable		
Donor/sponsor specified	$ 386,515	$ 240,952
Capital projects	-	23,558
Total contributions receivable	386,515	$ 264,510
Student Loans Receivable		
College administered loan program	$ -	$ 62,027
Federal Perkins Loan Program	680,784	-
Total student loans receivable	$ 680,784	$ 62,027
Cash Surrender Value of Life Insurance:		
Endowments	$ -	$ 392,472

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, is summarized as follows:

	July 1, 2006	Increases	Decreases	June 30, 2007
Capital assets not being depreciated:				
Land and improvements	$ 2,645,540	$ 2,155,129	$ -	$ 4,800,669
Construction-in-progress	24,832,065	9,948,814	32,233,312	2,547,567
Fine arts	357,765	7,955	15,000	350,720
Total capital assets not being depreciated	27,835,370	12,111,898	32,248,312	7,698,956
Other capital assets:				
Land improvements	8,420,447	-	-	8,420,447
Buildings and improvements	121,172,114	32,062,611	-	153,234,725
Machinery, equipment, and other	4,881,235	429,681	190,326	5,120,590
Vehicles	770,384	40,940	113,641	697,683
Intangibles	154,875	-	-	154,875
Total other capital assets at historical cost	135,399,055	32,533,232	303,967	167,628,320
Less accumulated depreciation for:				
Land improvements	3,323,444	558,245	-	3,881,689
Buildings and improvements	38,118,284	3,464,810	-	41,583,094
Machinery, equipment, and other	3,304,341	386,815	152,017	3,539,139
Vehicles	661,502	41,711	107,374	595,839
Intangibles	99,120	6,195	-	105,315
Total accumulated depreciation	45,506,691	4,457,776	259,391	49,705,076
Other capital assets, net	89,892,364	28,075,456	44,576	117,923,244
Capital assets, net	$ 117,727,734	$ 40,187,354	$ 32,292,888	$ 125,622,200

The gain (loss) on disposal of assets consisted of the following:

Gain on disposal	$ 7,285
Loss on disposal	(59,576)
Net gain (loss) on disposal	$ (52,291)

NOTE 6—DEFERRED REVENUES

The composition of deferred revenues at June 30, 2007, is summarized as follows:

	Citadel	Citadel Trust	Total
Student fees	$ 1,093,087	$ -	$ 1,093,087
Sales and services of auxiliary enterprises	3,597,705	-	3,597,705
Federal grants and contracts	75,467	-	75,467
Private grants and contracts	149,902	53,000	202,902
Total deferred revenue	$ 4,916,161	$ 53,000	$ 4,969,161

During fiscal year 2007 The Citadel entered into a ten year contract with Daktronics Inc. under which Daktronics agreed to provide and install certain equipment and concourse elements at Citadel athletic facilities in exchange for advertising rights at athletic events. In fiscal year 2007, Daktronics furnished a scoreboard system valued at $1,700,000. Additional equipment anticipated in future years include a scoreboard for the basketball arena and an electronic billboard for the football stadium. The contract with Daktronics establishes an annual revenue threshold. When advertising revenues exceed the threshold, Daktronics and The Citadel split the excess revenue equally. If athletic advertising does not meet the threshold in any year, that deficit is carried over to the next year and added to the threshold for the following year. Should a deficiency remain at the end of the ten year contractual period, the deficiency will be carried over to the next contract period if the contract with Daktronics is extended. If another contractor is chosen management anticipates that contractor will pay The Citadel the amount of the deficiency and The Citadel will pay that amount to Daktronics. Management believes that the contract is structured so that The Citadel is not required to fund any deficiency that may exist at the end of the 10 year contract period.

The Citadel treated this transaction as a sale of future revenues. The College will not maintain an active involvement in the future generation of advertising revenues. In fiscal year 2007, the College recognized a stadium asset and deferred revenue totaling $1,700,000. The College is amortizing the deferred revenues in a straight line fashion over the ten years of the contract period. In fiscal year 2007 $170,000 of the deferred amount was recognized as revenue. $170,000 of the remaining Daktronics' deferred revenue is recorded as current deferred revenue, and the remaining $1,360,000 is recorded as noncurrent deferred revenue.

Also during fiscal year 2007 The Citadel entered into a ten year contract with ARAMARK for campus food service. The contract required ARAMARK to pay The Citadel $2 million at the beginning of the contract period. This payment will be amortized over the life of the contract and in the case of early termination the unamortized portion will be returned to ARAMARK. $200,000 of this contractual payment was recognized as revenue in the current year. $200,000 of the remaining ARAMARK contractual revenue is recorded as current deferred revenue, and the remaining $1,600,000 is recorded as noncurrent deferred revenue.

NOTE 7—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2007:

	Interest Rate	Maturity Dates	Balance June 30, 2007	Debt Retired in Fiscal Year 2007
Institution Bonds				
Series 1991	5.5% to 7.50%	12/01/2006	$ -	$ 200,000
Series 2001D	4.25% to 5.50%	12/01/2016	2,035,000	155,000
			2,035,000	
Revenue Bonds				
Series 1997	4.875% to 5.125%	04/01/2013	4,590,000	1,085,000
Series 2005	2.5% to 4.5%	04/01/2029	25,320,000	525,000
			29,910,000	
Athletic Facilities Revenue Bonds				
Series 2003	4.19%	02/15/2018	2,490,639	175,513
Series 2005	4.19%	02/15/2015	4,983,542	514,576
Series 2006	7.17%	02/01/2031	8,680,000	-
			16,154,181	
Subtotal Bonds Payable			48,099,181	2,655,089
Less unamortized bond discount and deferred loss on bonds			845,753	132,013
Total Bonds Payable			$ 47,253,428	$ 2,523,076

State institution bonds are general obligations bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. S.C. Code of Laws section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. Tuition fees for the preceding year were $585,214 which results in a legal debt margin at June 30, 2007, of $526,693. The Citadel's maximum annual debt service, which occurred in fiscal year 2005, was $460,326.

General revenue bonds are payable from and secured by a pledge of net revenues derived by The Citadel from the operation of the facilities constructed with the bond proceeds. These bonds are additionally secured by a pledge of additional funds. Additional funds are all available funds and academic fees of The Citadel which are not (1) otherwise designated or restricted; (2) funds derived from appropriations; and (3) tuition funds pledged to the repayment of State institution bonds. Athletic facilities revenue bonds are payable from and secured by a pledge of two sources of revenue: the Athletic Facility Fee and the Athletic Fee.

The Citadel has secured insurance contracts for The Series 1997 and Series 2007 Revenue Bonds that guarantee payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds. Certain of the bonds payable are callable at the option of The Citadel.

As of June 30, 2007, management believes it is in compliance with all related bond covenants of its issued debt.

All bonds are payable in semiannual installments plus interest, with the exception of the Athletic Facilities Revenue Bonds, Series 2003, which are payable in annual installments, and the Athletic Facilities Taxable Revenue Bonds, Series 2006, which require interest only payments for the first three years. The scheduled maturities of bonds payable by type are as follows:

State Institution Bonds	**Principal**	**Interest**	**Payments**
2008	165,000	89,041	254,041
2009	170,000	81,775	251,775
2010	180,000	74,006	254,006
2011	185,000	65,678	250,678
2012	200,000	56,900	256,900
2013 – 2017	1,135,000	137,671	1,272,671
	$ 2,035,000	$ 505,071	$ 2,540,071

Revenue and Athletic Facilities Bonds	**Principal**	**Interest**	**Payments**
2008	2,399,229	2,131,602	4,530,831
2009	2,499,601	2,029,549	4,529,150
2010	2,776,254	1,930,695	4,706,949
2011	2,884,245	1,815,057	4,699,302
2012	3,013,628	1,688,192	4,701,820
2013 – 2017	15,500,550	6,537,021	22,037,571
2018 – 2022	5,510,674	4,127,680	9,638,354
2023 – 2027	6,780,000	2,570,264	9,350,264
2028 – 2031	4,700,000	763,548	5,463,548
	$ 46,064,181	$ 23,593,608	$ 69,657,789

The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2007:

Bond Type	Principal	Interest
State Institution Bonds	$ 355,000	$ 102,133
Revenue Bonds	1,610,000	1,267,656
Athletic Facilities Revenue Bonds	690,089	708,433
	$ 2,655,089	$ 2,078,222

Note Payable
At June 30, 2007, notes payable consisted of the following:

Note payable secured by Athletic ticket sales, facility rentals and student fees, dated 8/01/81, revised 12/08/89, payable in annual installments of $37,172, matures December 2009, interest rate of 6.8%	$67,395

The scheduled maturities of the note payable are as follows:

Note Payable	Principal	Interest	Payments
2008	$ 32,589	$ 4,583	$ 37,172
2009	34,806	2,366	37,172
	$ 67,395	$ 6,949	$ 74,344

Total principal paid on the note payable was $30,514 for the year ended June 30, 2007. Total interest paid on the note payable was $6,658.

NOTE 8—LEASE OBLIGATIONS

The Citadel's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2007 were as follows:

Year ending June 30,	Capital Leases/ Equipment	Operating Leases/ Equipment
2008	$ 40,960	$ 639
2009	40,958	639
2010	15,629	-
Total minimum lease payments	97,547	$ 1,278
Less: Interest	13,701	
Executory and other costs	27,330	
Present value of minimum lease payments	$ 56,516	

All leases are with parties outside state government.

Capital Leases
Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2007 were $40,960, of which $11,980 represented interest and $11,106 represented executory costs. Total principal paid on capital leases was $17,874 for the year

ended June 30, 2007. The following is a summary of the carrying values of assets held under capital lease at June 30, 2007.

Equipment acquired under capital leases	$ 87,304
Less accumulated amortization	42,329
Equipment acquired under capital leases, net	$ 44,975

Operating Leases
The Citadel's noncancelable operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Total operating lease expense in fiscal year 2007 was $639.

In the current fiscal year, The Citadel incurred expenses of $75,703 for office copier service on a cost-per-copy basis.

NOTE 9—RETIREMENT PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System
The majority of employees of The Citadel are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost-of-living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 2006 employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. Effective July 1, 2006, the employer contribution rate became 11.40 percent which included a 3.35 percent surcharge to fund retiree health and dental insurance coverage. The Citadel's actual contributions to the SCRS for the three most recent fiscal years ended June 30, 2005, 2006, and 2007, were $1,731,252, $1,790,810 and $1,766,776 respectively, and equaled the required contributions of 8.05 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of $32,921 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System
The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2006, the employer contribution rate became 13.65 percent which, as for the SCRS, included the 3.35 percent surcharge. The Citadel's actual contributions to the PORS for the years ended June 30, 2005, 2006, and 2007, were $56,528, $56,575 and $58,505 respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of $1,136 and accidental death insurance contributions of $1,136 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program
Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is available to all permanent employees of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 8.05 percent plus the retiree surcharge of 3.35 percent from the employer in fiscal year 2007.

Certain of The Citadel's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were $694,567 (excluding the surcharge) from The Citadel as employer and $522,881 from its employees as plan members. In addition, The Citadel paid $12,942 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans
Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of The Citadel have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive
Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost-of-living adjustments granted during the TERI period.

TERI participants are eligible to receive group life insurance benefits, but are not eligible for disability retirement benefits. Effective July 1, 2006 TERI participants are required to pay the same pre-tax contribution to the SC Retirement System during the TERI period, but they do not earn service credit.

NOTE 10—POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of The Citadel are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to The Citadel for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of The Citadel for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 21,400 State retirees meet these eligibility requirements.

The Citadel recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of $2,247,638 for the year ended June 30, 2007. As discussed in Note 9, The Citadel paid $1,043,314 applicable to the 3.35 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to The Citadel’s retirees is not available. By State law, The Citadel has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost-of-living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 11—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007, was as follows:

	July 1, 2006	Additions	Reductions	June 30, 2007	Due Within One Year
Bonds and Notes Payable and Capital Lease Obligations:					
State Institution Bonds	$ 2,390,000	$ -	$ 355,000	$ 2,035,000	$ 165,000
Less unamortized bond discount	5,240	-	816	4,424	758
Total State Institution Bonds	2,384,760	-	354,184	2,030,576	164,242
Revenue Bonds	31,520,000	-	1,610,000	29,910,000	1,680,000
Athletic Facilities Revenue Bonds	16,844,270	-	690,089	16,154,181	719,229
Less deferred loss on refunding	559,651	-	82,911	476,740	82,911
Less unamortized bond discount	411,625	1,250	48,286	364,589	44,822
Total Revenue Bonds Payable	47,392,994	1,250	2,168,892	45,222,852	2,271,496
Total Bonds Payable	49,777,754	1,250	2,523,076	47,253,428	2,435,738
Notes Payable	97,909	-	30,514	67,395	32,589
Capital Lease Obligations	74,391	-	17,875	56,516	21,298
Total Bonds, Notes & Capital Leases	49,950,054	1,250	2,571,465	47,377,339	2,489,625
Other Liabilities					
Retainages Payable	594,795	20,805	594,795	20,805	20,805
Accrued compensated absences	2,153,393	1,396,536	1,241,222	2,308,707	1,241,222
Federal loan funds	470,558	6,545	-	477,103	-
Deferred revenue	-	6,974,991	2,005,830	4,969,161	2,009,161
Deposits	1,811,976	1,133,874	1,273,902	1,671,948	1,124,104
Annuities payable	26,844	7,066	8,190	25,720	8,190
Funds held for others	134,116	-	134,116	-	-
Total Other Liabilities	5,191,682	9,539,817	5,258,055	9,473,444	4,403,482
Total Noncurrent Liabilities	$ 55,141,736	$ 9,538,567	$ 7,829,520	$ 56,850,783	$ 6,893,107

Additional information regarding Bonds and Notes Payable is included in Note 7. Additional information regarding Capital Lease Obligations is included in Note 8. Additional information regarding Deferred Revenues is included in Note 6.

NOTE 12—CONSTRUCTION COSTS AND COMMITMENTS

Capitalized

The Citadel has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that The Citadel has sufficient resources available and/or future resources identified to satisfactorily complete the construction of these projects which are expected to be completed in varying phases over the next five years at an estimated cost of $19,856,141. Of the total estimated cost, approximately $17,310,000 is unexpended at June 30, 2007. Of the unexpended balance at June 30, 2007, The Citadel had remaining commitment balances of approximately $6,900,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. During the current year The Citadel capitalized substantially complete and in-use projects in the amount of $32,062,611.

Major capital projects at June 30, 2007,which constitute construction in progress that will be capitalized when completed, are listed below.

Project Title	Estimated Cost	Amount Expended
Wilson Field Turf	$ 392,858	$ 153,583
Charleston Readiness Center	$ 19,463,283	$ 2,393,984
	$ 19,856,141	$ 2,547,567

The amount expended includes only capitalized project expenditures and capitalized interest on construction debt for projects that are less than 90% complete and does not include any noncapitalized expenditures.

Non-Capitalized

At June 30, 2007 The Citadel had in progress other capital projects which are not to be capitalized when complete. These projects are for replacements, repairs, and/or renovations to existing facilities. Estimated costs on these non-capitalized projects total $7,548,464. This amount includes costs incurred to date of $4,644,682 and estimated costs to complete of $2,903,782. The Citadel has remaining commitment balances with certain parties related to these projects of $1,753,026. Retainages payable on the non-capitalized projects as of June 30, 2007, were $20,805.

The Citadel anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state bond proceeds. The State has provided capital reserve funds and research infrastructure bonds to fund improvements and expansion of state facilities. The Citadel is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. At June 30, 2007 The Citadel had $943,203 of authorized research infrastructure bonds and $755,854 of capital reserve funds remaining.

NOTE 13—DONOR RESTRICTED ENDOWMENTS

The Citadel Trust manages most donor-restricted endowments. If a donor has not provided specific instructions, State law permits The Citadel Trust Board of Directors to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The Citadel Trust chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Trust Board of Directors, 5 percent of the average market value of endowment investments at the end of the previous twelve quarters has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. At June 30, 2007, net appreciation of $4,813,945 is available to be spent, of which $4,741,321 is restricted to specific purposes.

NOTE 14—SPLIT INTEREST AGREEMENTS

In December 1993 a benefactor established a charitable remainder uni-trust, consisting of publicly traded common stock valued at $60,000,000, to which The Citadel Trust, Inc., is entitled to one-third of the remaining assets upon the benefactor's death. During fiscal year 2003 the above donor distributed approximately $1 million of stock from this charitable remainder uni-trust to each of the three beneficiaries. Annually the uni-trust is to pay to the benefactor 6% of the net fair market value of the assets in the charitable remainder trust, valued as of the first day of each taxable year of such trust. If income from these assets is insufficient to pay this amount, it will be paid from principal. The uni-trust is irrevocable and is not managed by The Citadel or The Citadel Trust. Since the ultimate amount received cannot be reasonably estimated and the eligibility requirement for the gift has not been met, these uni-trust assets are not included in these financial statements.

During fiscal year 1999 another donor established a charitable remainder trust (CRT), consisting of assets valued at less than $600,000, to which the Trust is entitled to all of the remaining assets upon the death of the CRT beneficiaries. The pledge for the CRT is restricted for scholarships. The CRT is irrevocable and is not managed by The Citadel or The Citadel Trust. Since the ultimate amount received cannot be reasonably estimated and the eligibility requirement for this gift has not been met, these trust assets are not included in these financial statements.

During fiscal year 2000 a donor established a charitable gift annuity that provides for fixed payments to the donor for his lifetime. At the termination of the agreement the remaining assets of the gift annuity will become available to The Citadel Trust for general institutional purposes. This annuity fund is held and separately managed by The Citadel Trust. At the end of each fiscal year an adjustment is made between the liability and the nonexpendable net asset value to record the actuarial gain or loss due to the recomputation of the present value of the liability based on the revised life expectancy of the donor. At June 30, the present value of the annuity payable was $25,720.

NOTE 15—BLENDED COMPONENT UNITS

The following is a summary of the receivables and payables between The Citadel and its blended component unit at June 30, 2007:

	Due from	Due to
The Citadel		
The Citadel Trust	$ 1,826,155	
The Citadel Trust		
The Citadel		$ 1,826,155

NOTE 16—DISCRETELY PRESENTED COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of The Citadel exist primarily to provide financial assistance and other support to the College and its educational program. They include The Citadel Foundation (TCF) and The Citadel Brigadier Foundation (TCBF). Because the activities and resources of these entities are for the sole benefit of The Citadel, they are considered component units of the College and are discretely presented in The Citadel's financial statements as non-governmental reporting entities. Following is a more detailed discussion of each of these entities and a summary of the significant transactions between these entities and The Citadel for the year ended June 30, 2007.

***The Citadel Foundation* (TCF)**
The Citadel Foundation was established in 1961 as The Citadel Development Foundation, a separately chartered corporation. The Foundation's original goal was to support academic programs at The Citadel. In August 2000, The Citadel Development Foundation amended its charter to establish The Citadel Foundation as the College's official fundraising entity. TCF handles all gifts to the Foundation; gifts to restricted accounts, programs, and activities at the College; and gifts to The Citadel Brigadier Foundation and The Citadel Alumni Association for their specific activities and programs. TCF is governed by a board comprised of directors of the former Citadel Development Foundation, plus three other ex-officio members: the chairman of The Citadel Board of Visitors, the president of The Citadel, and a representative from The Citadel Brigadier Foundation.

For the fiscal year ended June 30, 2007, TCF received current year contributions of $4,445,639 on behalf of The Citadel and The Citadel Trust -- $2,972,290 of this total was recorded as gifts, $1,435,844 was recorded as additions to permanent endowments, and $37,505 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of $285,818 for its fundraising services.

In addition, The Citadel and The Citadel Trust recorded non-governmental grants of $4,543,339 and capital grants of $2,050,796 from TCF for the fiscal year ended June 30, 2007. These funds were used to support scholarships and various academic programs and construction projects at the College.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled $81,193 for the year ended June 30, 2007.

The amount due from TCF varies during the fiscal year based on amounts due for grants and expenses incurred on behalf of TCF and contributions collected by TCF on behalf of The Citadel. TCF's balance sheet dated December 31, 2006, shows a grant payable to The Citadel of $3,489,666. The amount due to The Citadel from TCF at June 30, 2007, is $100,061.

***The Citadel Brigadier Foundation* (TCBF)**
The Citadel Brigadier Foundation is a separately chartered corporation organized exclusively to receive and manage private funds for support of athletic programs at The Citadel. A board elected by members of TCBF governs the organization. The Citadel Athletic Director is an ex-officio member of the TCBF Board of Directors. Funds raised by TCBF are used to provide scholarships for varsity athletes at The Citadel.

The Citadel recorded non-governmental grants of $1,198,237 and capital grants of $480,000 from TCBF in the fiscal year ended June 30, 2007. These grants were used to support athletic scholarships and construction projects at the College.

TCBF reimburses The Citadel for certain expenses incurred on behalf of TCBF. The reimbursement totaled $335,559 for the year ended June 30, 2007. TCBF did not owe The Citadel at June 30, 2007.

NOTE 17 – RELATED PARTIES

Citadel Alumni Association (CAA**)** is a separately chartered corporation organized exclusively to promote alumni activities at The Citadel. CAA's activities are governed by its Board of Directors. CAA net assets totaled $4,510,437 at December 31, 2006.

The activities of CAA are not included in The Citadel's financial statements. However, The Citadel's statements include transactions between the College and the CAA. Following is a summary of the significant transactions between The Citadel and CAA for the year ended June 30, 2007.

The College shares the costs of operating the newly renovated John Monroe Holliday Alumni Center building with CAA. Expenses related to routine operations of the alumni center are allocated based on the joint use of the building by Citadel staff who function as both the College Alumni Office and the Alumni Association Office. All expenses related to income production are borne by the CAA. CAA prepares an annual accounting of the net income of rental activities each May. After covering CAA income producing costs, any amount remaining is split on the same basis as building operating expenses. For the year ended June 30, 2007, The Citadel's share of John Monroe Holliday Alumni operating profits was $72,000 and is recorded as other nonoperating revenue.

In addition, The Citadel recorded a capital grant of $120,000 from CAA for the fiscal year ended June 30, 2007. This grant was used to support construction projects at the College.

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled $483,203 for the year ended June 30, 2007.

NOTE 18 – TRANSACTIONS WITH STATE ENTITIES

The Citadel is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the College receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is The Citadel's base budget amount presented in the General Funds column of Section 5C, Part IA, of the 2006-07 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2007:

State Appropriations	
Original appropriation	$ 14,754,261
Supplemental appropriations (Proviso 73.8)	141,326
State Budget and Control Board allocations:	
Employee Base Pay Increases and Related Employee Benefits	530,922
Appropriation allocations from the State Commission on Higher Education	
For Academic Endowment Match	19,811
For Technology Grant Program	494,047
Appropriation allocation from the Lowcountry Graduate Center	85,000
Total State Appropriation Revenues	$ 16,025,367

The following is a reconciliation of state capital appropriations The Citadel received during the fiscal year ended June 30,2007:

State Capital Appropriations	**Capital Reserve Fund Proceeds**	**Research Infrastructure Bond Proceeds**	**Total**
Proceeds drawn during the current fiscal year	$ 401,920	$ 1,002,455	$ 1,404,375
Plus: Expenses incurred but not drawn during the current fiscal year	342,226	20,088	362,314
Less: Proceeds drawn but not expended during the current fiscal year	-	-	-
Total State Bond Proceeds	$ 744,146	$ 1,022,543	$ 1,766,689

The Citadel received substantial funding from the Commission on Higher Education (CHE) for scholarships on behalf of students that is accounted for as operating State grants and contracts. Additional amounts received from CHE are accounted for as nonoperating revenue. The Citadel also receives State funds from various other State agencies for public service projects. The following is a summary of amounts received from State agencies for scholarships, sponsored research and public service projects for the fiscal year ended June 30, 2007:

Other amounts received from State agencies	**Operating Revenue**	**Nonoperating Revenue**
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	$ 1,422,499	$ -
Palmetto Fellows Scholarships	137,350	-
Need-Based Grants	220,434	-
Hope Scholarships	128,525	-
Access and Equity Competitive Grants	-	9,803
Education and Economic Development Act Grant	-	30,000
Higher Education Awareness Program		2,000
Received from various other state agencies	10,722	3,000
	$ 1,919,530	$ 44,803

The Citadel provided no significant services free of charge to any State agency during the fiscal year. Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, bond trustee and investment services from the State Treasurer; legal services from the Attorney General; and grants services from the Governor's Office.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plan administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The Citadel had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, insurance coverage, office supplies, and interagency mail. Significant payments were also made for unemployment and workers′ compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2007 expenditures applicable to related transactions with State entities are not readily available.

The Citadel and the South Carolina National Guard (SCNG) are working together to construct a joint National Guard Readiness Center/ Press Box/Skybox facility at Johnson Hagood Football Stadium. The Citadel is leasing the land to the National Guard for 25 years and the National Guard is constructing the facility. The Citadel will capitalize the entire facility once it is completed. The estimated cost of the completed facility will be approximately $25 million. The National Guard is funding $10 million of the project total and The Citadel is funding the remainder. The Citadel issued $8,680,000 in athletic facility taxable revenue bonds in June 2006 that combined with gifts provided $9 million for The Citadel's share of the construction costs. The first phase of the $19 million project will construct the National Guard Readiness Center, joint use space, and a press box, with a shell for skyboxes. Management anticipates issuing a $6 million revenue bond in the fall of 2007 to fund the build out and furnishing of the sky boxes. Skybox rentals, stadium rentals, and club seat income will be pledged to pay the debt service on this anticipated revenue bond.

NOTE 19—RISK MANAGEMENT

The Citadel is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

Unemployment compensation benefits
Worker's compensation benefits for job-related illnesses or injuries
Health and dental insurance benefits
Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The Citadel and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

Theft, damage to, or destruction of assets
Real property, its contents, and other equipment
Motor vehicles and watercraft
Torts
Natural disasters
Medical malpractice claims against the Infirmary

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The Citadel obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely and, if incurred, would be insignificant to the College's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

NOTE 20—CONTINGENCIES AND LITIGATION

The Citadel currently has one lawsuit pending. It is a function of the normal course of business and if lost, does not represent a material impact to the College's financial statements.

The Citadel participates in certain Federal programs. These programs are subject to financial and compliance audits by the grantor or its representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

NOTE 21—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2007, are summarized as follows:

	Compensation and Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 18,528,238	$ 1,244,328	$ -	$ 121,426	$ -	$ 19,893,992
Research	75,436	342,838	-	-	-	418,274
Public Service	422,469	638,570	-	29,124	-	1,090,163
Academic Support	4,216,474	2,066,514	-	19,192	-	6,302,180
Student Services	4,134,047	1,781,622	21,726	27,443	-	5,964,838
Institutional Support	5,567,141	1,576,546	-	3,440	-	7,147,127
Operations & Maint. of Plant	3,739,288	4,925,085	1,890,557	-	-	10,554,930
Scholarships & Fellowships	53,756	116,133	-	2,401,731	-	2,571,620
Auxiliary Enterprises	6,758,672	15,838,143	1,119,259	-	-	23,716,074
Depreciation	-	-	-	-	4,457,776	4,457,776
Total Operating Expenses	$ 43,495,521	$ 28,529,779	$ 3,031,542	$ 2,602,356	$ 4,457,776	$ 82,116,974

NOTE 22—INFORMATION FOR INCLUSION IN THE STATE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The Citadel's transactions are reported in the Higher Education Fund, an enterprise fund, of the State of South Carolina. The following is information needed to present the College's business-type activities in the State's government-wide Statement of Activities.

The Citadel	**2007**	**2006**	**Increase/ (Decrease)**
Charges for services	$ 53,849,480	$ 50,080,634	$ 3,768,846
Operating grants and contributions	8,241,899	7,223,660	1,018,239
Capital grants and contributions	2,742,869	4,165,944	(1,423,075)
Less expenses	84,216,181	78,509,891	5,706,290
Net program revenue (expense)	(19,381,933)	(17,039,653)	(2,342,280)
General revenues:			
Transfers:			
State appropriations	16,025,367	15,859,567	165,800
State capital appropriations	744,146	-	744,146
Capital improvement bond proceeds	-	488,927	(488,927)
Research infrastructure bond proceeds	1,022,543	657,406	365,137
Transfers from The Citadel Trust	4,188,416	3,185,277	1,003,139
Total general revenue and transfers	21,980,472	20,191,177	1,789,295
Change in net assets	2,598,539	3,151,524	(552,985)
Net assets - beginning	94,104,107	90,952,583	3,151,524
Net assets - ending	$ 96,702,646	$ 94,104,107	$ 2,598,539

The Citadel Trust	**2007**	**2006**	**Increase/ (Decrease)**
Operating grants and contributions	$ 12,374,078	$ 7,695,948	$ 4,678,130
Capital grants and contributions	-	40,000	(40,000)
Less expenses	129,102	129,134	(32)
Net program revenue (expense)	12,244,976	7,606,814	4,638,162
General revenues:			
Contributions to permanent endowments	1,435,844	822,547	613,297
Transfers:			
Transfers to The Citadel	(4,188,416)	(3,185,277)	(1,003,139)
Total general revenue and transfers	(2,752,572)	(2,362,730)	(389,842)
Change in net assets	9,492,404	5,244,084	4,248,320
Net assets - beginning	63,159,733	57,915,649	5,244,084
Net assets - ending	$ 72,652,137	$ 63,159,733	$ 9,492,404

THE CITADEL

The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Expenditures
U.S Department of Education			
Federal Supplemental Educational Opportunity Grant	84.007	P007A043769	95,415
Federal Work Study	84.033	P033A043769	32,256
Federal Perkins Loan Program	84.038	P038A73769	3,521
Federal Pell Grant Program	84.063	P063P060375	875,701
Academic Competitive Grants	84.375	P375A060375	61,659
National Smart Grants	84.376	P376S060375	19,198
William D. Ford Direct Loan Program	84.268	None	16,973,561
Total U. S. Department of Education			18,061,311
U.S. Department of Commerce			
Passed through SC Sea Grant Consortium:			
Coastal Stormwater Pond Sediments	11.419	NA05NOS4191093	9,820
Passed through SC Department of Natural Resources			
Edisto Beach Causeway	11.463	NA03N0S4630167	6,917
Sweetgrass Research Program	99.999	None	142
Total U. S. Department of Commerce			16,879
Passed through Clemson University			
Clemson Research	20.205	886-7557-223-2004587	4,760
NASA			
Passed through The College of Charleston:			
SC Space Grant Consortium	43.001	NNG05G168G	1,909
Total NASA			1,909
National Science Foundation			
Passed through The College of Charleston:			
Automatic Telescope	47.049	AST-0507381	21,288
CCD Spectrophotometer	47.049	AST-0115612	54,564
Hypercapnic Hypoxia Impacts Shrimp Immune Defenses	47.074	MCB-0421929	47,244
Passed through The Colorado School of Mines			
Professional Ethics and Engineering	47.076	CCLI-ND	476
Total National Science Foundation			123,572
U.S. Department of Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	P334A050032	223,431
Passed through The SC Commission on Higher Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	P334A990172	9,471
Passed through the National Writing Project Corp.			
National Writing Project	84.928A		22,533
Total U.S. Department of Education			255,435
Total Federal Assistance Expended			$ 18,463,866

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

Note 1 - Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of The Citadel and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The Federal Perkins Loan Program (CFDA Number 84.038) is administered directly by The Citadel and balances and transactions relating to the program are included in the loan fund of The Citadel's financial statements. The balance of loans outstanding under the Federal Perkins Loan Program was $680,784 as of June 30, 2007.

The Federal Direct Student Loan program provides loan capital directly from the federal government (rather than through private lenders) to vocational, undergraduate, and graduate students and their parents. The loans are made directly from the federal government; therefore there is no loan balance recorded at the university level.

Note 3 - Matching

Under the Federal Work Study program, The Citadel matched $2,716 for the year ended June 30, 2007 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Under the Federal Supplemental Education Opportunity Grant program, The Citadel matched $31,805 for the year ended June 30, 2007 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Note 4 - Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, The Citadel provided no federal awards to subrecipients.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Office of the State Auditor and
Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel) as of and for the year ended June 30, 2007, which collectively comprise The Citadel's basic financial statements and have issued our report thereon dated September 21, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of The Citadel Trust, as described in our report on The Citadel's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Other auditors audited the financial statements of The Citadel Foundation and The Citadel Brigadier Foundation, as described in our report on The Citadel's financial statements. The financial statements of The Citadel Foundation and The Citadel Brigadier Foundation were not audited in accordance with *Government Auditing Standards.*

Internal control over financial reporting

In planning and performing our audit, we considered The Citadel's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of The Citadel's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Citadel's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and other matters

As part of obtaining reasonable assurance about whether The Citadel's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of The Citadel in a separate letter dated September 21, 2007.

This report is intended solely for the information and use of the audit committee, management, and the federal awarding agencies and pass-through entities of The Citadel and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

Greenwood, South Carolina
September 21, 2007