

**THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA
CHARLESTON, SOUTH CAROLINA
YEAR ENDED JUNE 30, 2009**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

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INDEPENDENT AUDITORS' REPORT

The 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 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, 2009, 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), or The Citadel Brigadier Foundation (a discretely presented component unit). The Citadel Trust's financial statements represent 24% of total assets, 35% of net assets, and 5% of total revenues of the business-type activities. The Citadel Brigadier Foundation's financial statements reflect 5% of total assets, 5% of net assets, and 18% 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, 2009, 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, 2009, 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 30, 2009 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 30, 2009

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2009

Overview of the Financial Statements and Financial Analysis

The Citadel presents its financial statements for fiscal year 2009. While audited financial statements for fiscal year 2008 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.

Pervasive throughout this analysis is the global economic recession and its impact on The Citadel Trust (The Trust). The Trust had a terrible year as the nation and world dipped into an even deeper recession than the prior year. The depth of the recession, the various bailouts (such as the Troubled Asset Relief Program (TARP) for banks), and the bankruptcy of General Motors and Chrysler all had a tremendous negative impact on the financial markets. The recession's negative impact is reflected in the large negative changes in the Trust's position from the prior fiscal year. The Trust's managed investments had a negative return of 19.3% while the S&P 500 had a negative return of 24.5%, the Russell 1000 Value had a negative 29.0% return, and the EAFE index had a negative 31.0% return

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.

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 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.

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June 30, 2009

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: | 2009 | 2008 | Increase/ (Decrease) | Percent Change |
| Current assets | \$ 42,231 | \$ 44,582 | \$ (2,351) | -5.27% |
| Capital assets, net | 140,495 | 135,960 | 4,535 | 3.34% |
| Other assets | <u>48,832</u> | <u>61,572</u> | <u>(12,740)</u> | <u>-20.69%</u> |
| Total Assets | <u>231,558</u> | <u>242,114</u> | <u>(10,556)</u> | <u>-4.36%</u> |
| Liabilities: | | | | |
| Current Liabilities | 13,481 | 16,300 | (2,819) | -17.29% |
| Noncurrent Liabilities | <u>57,295</u> | <u>52,960</u> | <u>4,335</u> | <u>8.19%</u> |
| Total Liabilities | <u>70,776</u> | <u>69,260</u> | <u>1,516</u> | <u>2.19%</u> |
| Net Assets: | | | | |
| Invested in capital assets, net of related debt | 88,040 | 87,354 | 686 | 0.79% |
| Restricted - nonexpendable | 27,970 | 32,055 | (4,085) | -12.74% |
| Restricted - expendable | 26,424 | 35,448 | (9,024) | -25.46% |
| Unrestricted | <u>18,348</u> | <u>17,997</u> | <u>351</u> | <u>1.95%</u> |
| Total Net Assets | <u>\$ 160,782</u> | <u>\$ 172,854</u> | <u>\$ (12,072)</u> | <u>-6.98%</u> |

Assets – decrease of \$10.6 million

- The \$2.4 million decrease in current assets is composed of a \$4 million decrease in The Citadel Trust due to the world wide recession and its impact on the stock markets offset by a \$1.6 million increase in The Citadel's current assets. The \$1.6 million increase in Citadel current assets resulted from a \$1.3 million increase in current unrestricted cash primarily related to funds held for maintenance and repair for auxiliary enterprises, a \$.7 million increase in restricted cash related primarily to an increase in Institutional Capital Project funds (excess debt service), and a \$.1 million gift for Library renovation. These additions were offset by a \$1.0 million decrease in liabilities resulting from the timing of the transfer of Trust gifts to cover athletic scholarships. Over \$1 million was due to The Citadel at the end of the prior year, but in the current year the required transfer was completed before the end of the fiscal year.

The Citadel

The Military College of South Carolina

Management's Discussion and Analysis **June 30, 2009**

- Capital assets increased by approximately \$4.5 million, primarily due to construction costs for major projects that were completed early in the fiscal year: National Guard Readiness Center/Sky Box facility at Johnson Hagood Stadium (\$2.5 million) and Stevens Barracks Renovation (\$.9 million). In addition, the College embarked on a campus wide energy performance upgrade (\$3.6 million) and incurred \$2.5 million in equipment purchases, primarily related to software and computers needed in implementing the new administrative software system (Banner). These increases were offset by \$5.1 million of depreciation.
- The \$12.7 million decrease in other assets is composed of an \$11.1 million decrease in The Citadel Trust as a result of the massive worldwide recession and a \$1.6 million decrease in Citadel other assets. The \$1.6 million decrease in Citadel other assets were principally due to using cash and bond proceeds to fund the completion of the Readiness Center.

Liabilities – increase of \$1.5 million

- The \$2.8 million decrease in current liabilities is composed of a \$1 million decrease in Citadel Trust current liabilities and a \$.7 million decrease in Citadel current liabilities.
 - The Trust \$1 million reduction in current liabilities resulted from the timing of the Trust transfer of gifts to cover athletic scholarships. In the prior year this transfer was not completed prior to the end of the year, whereas in the current year the transfer was completed by June 30th.
 - Citadel accounts payable decreased by \$2.9 million as major construction projects such as Readiness Center and Stevens Barracks Renovation were completed during the current year. This \$2.9 million decrease was offset by a \$.3 million increase in current bonds payable for a full year's debt service on the sky box facility and \$.7 million increase in current notes payable for the new debt service on the energy performance and administrative software notes payable.
- The \$4.3 million increase in noncurrent liabilities is primarily due to changes in noncurrent bonds and notes payable. The noncurrent portion of notes payable increased by \$8.3 million as The Citadel borrowed to fund the administrative software system and the energy performance contract. This increase was partially offset by a \$3.4 million decrease in the noncurrent portion of bonds payable as bond principal payments were made during the current year.

Net Assets – decrease of \$12.1 million

- Capital assets, net of related debt, increased \$.7 million due to the increase in capital assets noted previously. These increases were partially offset by increases in notes payable.
- Restricted – non expendable assets decreased by \$4.1 million. This decrease is primarily related to a \$5.6 million decrease in Trust assets due to the impact of the global recession. This decrease was partially offset by The Citadel's increase in restricted cash primarily related to excess debt service funds.
- Restricted – expendable assets decreased by \$9 million. This decrease is primarily due to the \$8 million decrease in Citadel Trust restricted expendable assets caused by the recession. Additionally, Citadel current liabilities increased by \$1 million due to increases in current liabilities for the administrative software system and the energy performance project.

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Management's Discussion and Analysis
June 30, 2009

- Unrestricted net assets increased by \$.4 million. This increase is composed of a \$0.6 million decrease in Citadel Trust unrestricted net assets due to negative returns on invested unrestricted funds and a \$1.0 million increase in Citadel unrestricted net assets. The increase in Citadel unrestricted net assets is attributable to an operating fund surplus created by fee increases and tight control of expenditures as the College prepared for another year of the recession and continuing State appropriation cuts.

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."

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June 30, 2009

| Condensed Summary of Revenues, Expenses and Changes in Net Assets (thousands of dollars) | | | | |
|---|-------------------|-------------------|---------------------------------|---------------------------|
| Revenues: | 2009 | 2008 | Increase/ (Decrease) | Percent Change |
| Student tuition and fees | \$ 28,148 | \$ 25,863 | \$ 2,285 | 8.84% |
| Sales and services | 29,180 | 27,079 | 2,101 | 7.76% |
| Grants and contracts | 4,442 | 3,828 | 614 | 16.04% |
| Investment loss | (11,574) | (4,413) | (7,161) | -162.27% |
| Other operating revenues | <u>1,624</u> | <u>1,591</u> | <u>33</u> | 2.07% |
| Total Operating Revenues | <u>51,820</u> | <u>53,948</u> | <u>(2,128)</u> | -3.94% |
| State appropriations | 12,887 | 16,895 | (4,008) | -23.72% |
| Grants | 6,243 | 6,044 | 199 | 3.29% |
| Gifts | 2,137 | 3,302 | (1,165) | -35.28% |
| Investment income | 1,225 | 1,216 | 9 | 0.74% |
| Other nonoperating revenues/expenses | <u>159</u> | <u>225</u> | <u>(66)</u> | -29.33% |
| Total Nonoperating Revenues | <u>22,651</u> | <u>27,682</u> | <u>(5,031)</u> | -18.17% |
| Total Revenues | <u>74,471</u> | <u>81,630</u> | <u>(7,159)</u> | -8.77% |
| Expenses: | | | | |
| Compensation and employee benefits | 48,344 | 46,396 | 1,948 | 4.20% |
| Services and supplies | 27,832 | 28,810 | (978) | -3.39% |
| Utilities | 3,254 | 3,278 | (24) | -0.73% |
| Depreciation | 5,089 | 4,571 | 518 | 11.33% |
| Scholarships and fellowships | <u>3,031</u> | <u>2,707</u> | <u>324</u> | 11.97% |
| Total operating expenses | <u>87,550</u> | <u>85,762</u> | <u>1,788</u> | 2.08% |
| Interest expense | <u>2,715</u> | <u>2,173</u> | <u>542</u> | 24.94% |
| Total Nonoperating Expenses | <u>2,715</u> | <u>2,173</u> | <u>542</u> | 24.94% |
| Total Expenses | <u>90,265</u> | <u>87,935</u> | <u>2,330</u> | 2.65% |
| Loss before capital contributions, additions to permanent endowments and transfers | <u>(15,794)</u> | <u>(6,305)</u> | <u>(9,489)</u> | -150.50% |
| Capital Contributions, Additions to Permanent Endowments, and Transfers: | | | | |
| Capital grants and appropriations | 2,572 | 4,765 | (2,193) | -46.02% |
| Permanent endowment additions | <u>1,150</u> | <u>5,039</u> | <u>(3,889)</u> | -77.18% |
| Total capital contributions, additions to permanent endowments and transfers | <u>3,722</u> | <u>9,804</u> | <u>(6,082)</u> | -62.04% |
| Change in Net Assets | <u>(12,072)</u> | <u>3,499</u> | <u>(15,571)</u> | -445.01% |
| Net Assets, Beginning | <u>172,854</u> | <u>169,355</u> | <u>3,499</u> | 2.07% |
| Net Assets, Ending | <u>\$ 160,782</u> | <u>\$ 172,854</u> | <u>\$ (12,072)</u> | -6.98% |

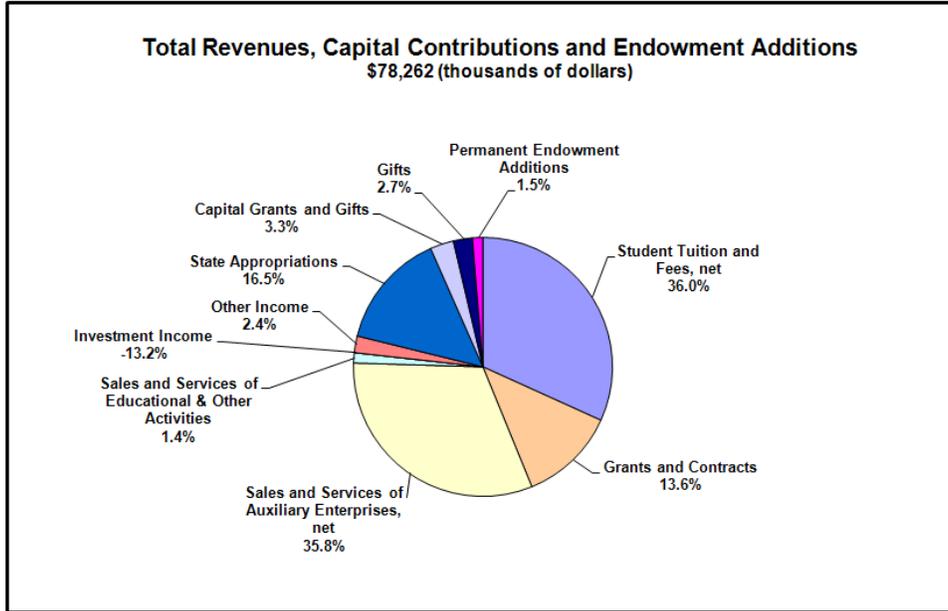
Total Revenues – decrease of \$7.1 million

- Operating revenues decreased by \$2.1 million. This decrease is composed of a \$7.1 million decrease in Citadel Trust operating income caused by the recession and a \$5 million increase in Citadel operating income. Citadel operating revenues increased primarily because the College raised its overall cost of attendance by 8.0% thereby generating increased revenues of \$4.3 million. The overall cost of attendance is defined as all tuition and fees plus deposits required for uniforms, books, and other cadet necessities. Grants and contracts increased by \$0.5 million, primarily attributable to increased State funding for State scholarship programs.
- Nonoperating revenues decreased by \$5.0 million. This decrease is composed of a \$4.0 million decrease in State general fund appropriations as the State responded to the recession, and a \$1 million decrease in gift giving—also related to the recession.

The Citadel

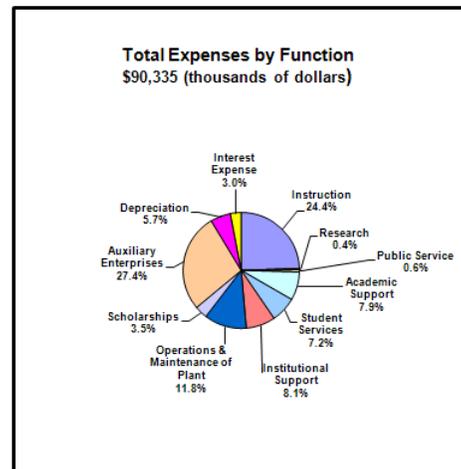
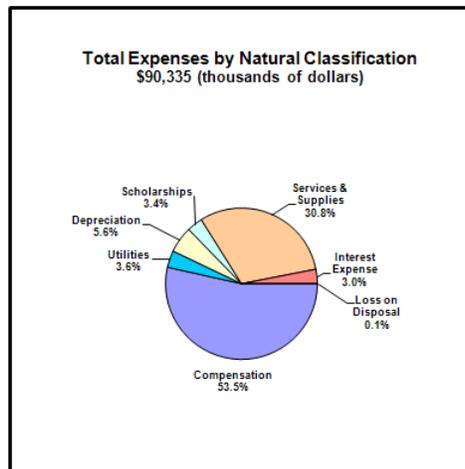
The Military College of South Carolina

Management's Discussion and Analysis June 30, 2009



Total Expenses – increase of \$2.3 million

- Operating expenses increased by \$1.8 million. Compensation expense increased by \$1.9 million due to the annualization of prior year pay raises. In addition, depreciation increased by \$.5 million as the new stadium complex was completed and depreciation initiated, and scholarships increased by \$.3 million due to the increase in the cost of attendance. These increases were partially offset by a decrease in spending for supplies and services as the College reacted to the recession and State budget cuts.
- Interest expense increased \$.5 million as the College borrowed to fund the administrative software system and the energy performance contract.



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The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2009

Capital Contributions and Additions to Permanent Endowments – decrease of \$6.1 million

- Capital grants and appropriations decreased by \$2.2 million. The State did not appropriate capital and deferred maintenance funds due to the economic recession and no major capital grants were received during the year.
- Contributions to permanent endowments decreased by \$3.9 million, perhaps due to the effect of the worldwide recession.

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, 2009 and June 30, 2008 were as follows:

| Capital Assets (net of accumulated depreciation) | | | | |
|---|-----------------------|-----------------------|---------------------------------|---------------------------|
| | <u>2009</u> | <u>2008</u> | <u>Increase/ (decrease)</u> | <u>Percent Change</u> |
| Capital Assets: | | | | |
| Land | \$ 4,827,669 | \$ 4,800,669 | \$ 27,000 | 0.56% |
| Construction in Progress | 3,818,817 | 15,390,376 | (11,571,559) | -75.19% |
| Fine Arts | 357,120 | 350,720 | 6,400 | 1.82% |
| Land improvements | 3,896,299 | 4,491,008 | (594,709) | -13.24% |
| Buildings and improvements | 123,389,156 | 108,474,610 | 14,914,546 | 13.75% |
| Equipment | 2,037,625 | 1,517,109 | 520,516 | 34.31% |
| Vehicles | 104,216 | 106,838 | (2,622) | -2.45% |
| Intangibles | <u>2,064,089</u> | <u>829,381</u> | <u>1,234,708</u> | 148.87% |
| Total | <u>\$ 140,494,991</u> | <u>\$ 135,960,711</u> | <u>\$ 4,534,280</u> | 3.33% |

The increase in the rate of change in capital assets slowed in the current year as the stadium facility and Stevens Barracks improvements were completed. With the recession, the College did not initiate any major construction projects in fiscal year 2009, though plans are being considered now to use the federal stimulus funds for one time capital activities. The only major capital project underway at the close of the current year was the energy performance infrastructure upgrades (energy project).

The College borrowed \$4.75 million from the State Master Lease program in fiscal year 2009 to fund the energy project. The goal of the project is to install energy upgrades to save energy and better manage its use on campus. The note is interest only for the first 12 months to give time for the energy savings to reduce energy costs to pay the debt service. The College also finalized the \$4.32 million note to fund the administrative software system that the Board of Visitors approved in fiscal year 2008. This note is also interest only for the first year.

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Management's Discussion and Analysis
June 30, 2009

Economic Outlook

The economic position of The Citadel is closely tied to that of the State of South Carolina. South Carolina is currently in the midst of the nationwide recession. The State issued 4 mid-year budget cuts during FY09. The State cut The Citadel \$3.9 million or 24.19% of its appropriation. In September 2009 the State Budget and Control Board issued a 4% cut for fiscal year 2010. The economic outlook for the State is not good. The College experienced robust enrollment during fiscal year 2009 and again in fiscal year 2010. The enrollment is carrying the College through the recession and management is exploring a myriad of additional initiatives to increase non-cadet enrollment. Cadet enrollment is limited by barracks and dining hall limitations whereas those constraints do not impact non-cadet enrollment.

In August 2009, The Citadel was named the No. 1 best value among masters degree granting institutions in the South by [U.S. News & World Report](#). In the category of institutions that award up to a masters degree, The Citadel was the only public College in South Carolina and one of two public institutions in the nation in the "Great Schools, Great prices" category. The ranking in other categories was No. 2 best public university offering up to a master's degree in the South, No 5 among all masters degree – granting college and universities in the South, both public and private, and No. 26 best undergraduate engineering programs.

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, 2009

| | <u>The Citadel</u> | <u>The Citadel Trust</u> | <u>Total</u> |
|--|------------------------|------------------------------|-----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 15,676,301 | \$ 424,962 | \$ 16,101,263 |
| Investments | - | 1,336,325 | 1,336,325 |
| Restricted Assets - Current | | | |
| Cash and cash equivalents | 5,948,557 | 987,572 | 6,936,129 |
| Investments | - | 6,935,353 | 6,935,353 |
| Contributions receivable, net | 90,179 | 153,721 | 243,900 |
| Student loans receivable, net | - | 83,136 | 83,136 |
| Accounts receivable, net | 8,011,507 | 173,863 | 8,185,370 |
| Due from component units | 30,169 | - | 30,169 |
| Contributions receivable, net | - | 30,601 | 30,601 |
| Inventories | 1,762,272 | - | 1,762,272 |
| Prepaid expenses | <u>581,887</u> | <u>4,825</u> | <u>586,712</u> |
| Total current assets | <u>32,100,872</u> | <u>10,130,358</u> | <u>42,231,230</u> |
| Noncurrent Assets | | | |
| Investments | - | 3,463,115 | 3,463,115 |
| Contributions receivable, net | - | 11,401 | 11,401 |
| Cash surrender value of life insurance | - | 10,959 | 10,959 |
| Restricted Assets - Noncurrent | | | |
| Cash and cash equivalents | 4,433,422 | 2,876,731 | 7,310,153 |
| Investments | - | 36,948,263 | 36,948,263 |
| Contributions receivable, net | 212,162 | 112,978 | 325,140 |
| Student loans receivable, net | 648,361 | 57,288 | 705,649 |
| Cash surrender value of life insurance | - | 56,995 | 56,995 |
| Capital assets not being depreciated | 6,821,477 | 2,182,129 | 9,003,606 |
| Capital assets, net of accumulated depreciation | <u>131,491,385</u> | <u>-</u> | <u>131,491,385</u> |
| Total noncurrent assets | <u>143,606,807</u> | <u>45,719,859</u> | <u>189,326,666</u> |
| Total assets | <u>\$ 175,707,679</u> | <u>\$ 55,850,217</u> | <u>\$ 231,557,896</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 2,111,080 | \$ 6,755 | \$ 2,117,835 |
| Accrued payroll and related liabilities | 1,785,866 | 5,854 | 1,791,720 |
| Accrued compensated absences and related liabilities | 1,413,451 | - | 1,413,451 |
| Accrued interest payable | 781,788 | - | 781,788 |
| Deferred revenues | 2,070,174 | 5,000 | 2,075,174 |
| Bonds payable | 3,372,520 | - | 3,372,520 |
| Capital leases payable | 15,997 | - | 15,997 |
| Notes payable | 735,503 | - | 735,503 |
| Deposits | 1,169,179 | - | 1,169,179 |
| Annuities payable | <u>-</u> | <u>8,190</u> | <u>8,190</u> |
| Total current liabilities | <u>13,455,558</u> | <u>25,799</u> | <u>13,481,357</u> |
| Noncurrent Liabilities | | | |
| Federal loan funds | 490,655 | - | 490,655 |
| Accrued compensated absences and related liabilities | 1,151,270 | - | 1,151,270 |
| Deposits | 581,001 | - | 581,001 |
| Deferred revenues | 2,220,000 | - | 2,220,000 |
| Bonds payable | 44,387,478 | - | 44,387,478 |
| Capital leases payable | 51,574 | - | 51,574 |
| Notes payable | 8,334,497 | - | 8,334,497 |
| Annuities payable | - | 16,685 | 16,685 |
| Funds held for others | <u>61,339</u> | <u>-</u> | <u>61,339</u> |
| Total noncurrent liabilities | <u>57,277,814</u> | <u>16,685</u> | <u>57,294,499</u> |
| Total liabilities | <u>\$ 70,733,372</u> | <u>\$ 42,484</u> | <u>\$ 70,775,856</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | \$ 85,857,431 | \$ 2,182,129 | \$ 88,039,560 |
| Restricted for Nonexpendable: | | | |
| Scholarships | - | 23,097,255 | 23,097,255 |
| Other | - | 3,274,831 | 3,274,831 |
| Annuity | - | 51,586 | 51,586 |
| Restricted for Expendable: | | | |
| Scholarships, research, instruction and other | 2,452,647 | 19,413,921 | 21,866,568 |
| Loans | 207,759 | 1,093,816 | 1,301,575 |
| Capital projects | 2,771,809 | 1,401,409 | 4,173,218 |
| Debt service | 629,040 | - | 629,040 |
| Unrestricted | <u>13,055,621</u> | <u>5,292,786</u> | <u>18,348,407</u> |
| Total net assets | <u>\$ 104,974,307</u> | <u>\$ 55,807,733</u> | <u>\$ 160,782,040</u> |

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, 2009

| | <u>The Citadel</u> | <u>The Citadel Trust</u> | <u>Total</u> |
|---|------------------------|------------------------------|-----------------------|
| REVENUES | | | |
| Operating Revenues (Losses) | | | |
| Student tuition and fees (net of scholarship allowances of \$6,599,334) | \$ 28,148,181 | \$ - | \$ 28,148,181 |
| Federal grants and contracts | 1,606,806 | - | 1,606,806 |
| State grants and contracts | 2,542,760 | - | 2,542,760 |
| Nongovernmental grants and contracts | 292,237 | - | 292,237 |
| Sales and services of educational and other activities | 1,122,541 | - | 1,122,541 |
| Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of \$3,603,250) | 25,268,852 | - | 25,268,852 |
| Sales and services of auxiliary enterprises - not pledged | 2,788,747 | - | 2,788,747 |
| Other fees | 978,450 | - | 978,450 |
| Investment loss (including investment expenses of \$231,334) | - | (12,861,147) | (12,861,147) |
| Endowment income | - | 1,287,260 | 1,287,260 |
| Other operating revenues | 645,704 | - | 645,704 |
| Total operating revenues | <u>63,394,278</u> | <u>(11,573,887)</u> | <u>51,820,391</u> |
| EXPENSES | | | |
| Operating Expenses | | | |
| Compensation and employee benefits | 48,238,536 | 105,876 | 48,344,412 |
| Services and supplies | 27,781,874 | 49,921 | 27,831,795 |
| Utilities | 3,254,225 | - | 3,254,225 |
| Depreciation expense | 5,089,229 | - | 5,089,229 |
| Scholarships and fellowships | <u>3,030,675</u> | <u>-</u> | <u>3,030,675</u> |
| Total operating expenses | <u>87,394,539</u> | <u>155,797</u> | <u>87,550,336</u> |
| Operating loss | <u>(24,000,261)</u> | <u>(11,729,684)</u> | <u>(35,729,945)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| State appropriations | 12,886,711 | - | 12,886,711 |
| State grants and contracts | 53,020 | - | 53,020 |
| Nongovernmental grants | 6,037,078 | 170,452 | 6,207,530 |
| Gifts | 357,312 | 1,752,982 | 2,110,294 |
| Investment income | 1,224,565 | - | 1,224,565 |
| Interest on capital asset-related debt | (2,715,541) | - | (2,715,541) |
| Loss on disposal of capital assets | (68,872) | - | (68,872) |
| Refunds to grantors | (17,305) | - | (17,305) |
| Other nonoperating revenues | <u>72,000</u> | <u>155,850</u> | <u>227,850</u> |
| Net nonoperating revenues | <u>17,828,968</u> | <u>2,079,284</u> | <u>19,908,252</u> |
| Loss before other revenues, expenses, gains or losses | <u>(6,171,293)</u> | <u>(9,650,400)</u> | <u>(15,821,693)</u> |
| State capital appropriations | 624,731 | - | 624,731 |
| Capital grants and gifts | 1,947,216 | 27,000 | 1,974,216 |
| Additions to permanent endowments | - | 1,150,280 | 1,150,280 |
| Transfers to/from The Citadel Trust | <u>5,636,167</u> | <u>(5,636,167)</u> | <u>-</u> |
| Total other revenues, expenses, gains or losses | <u>8,208,114</u> | <u>(4,458,887)</u> | <u>3,749,227</u> |
| Increase (decrease) in net assets | <u>2,036,821</u> | <u>(14,109,287)</u> | <u>(12,072,466)</u> |
| NET ASSETS | | | |
| Net assets-beginning of year | <u>102,937,486</u> | <u>69,917,020</u> | <u>172,854,506</u> |
| Net assets-end of year | <u>\$ 104,974,307</u> | <u>\$ 55,807,733</u> | <u>\$ 160,782,040</u> |

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, 2009

| | <u>The Citadel</u> | <u>The Citadel Trust</u> | <u>Total</u> |
|---|------------------------|------------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Student tuition and fees | \$ 28,543,208 | \$ - | \$ 28,543,208 |
| Grants and contracts | 4,449,233 | - | 4,449,233 |
| Sales and services of educational and other activities | 1,190,399 | - | 1,190,399 |
| Sales and services of auxiliary enterprises | 27,643,275 | - | 27,643,275 |
| Other operating receipts | 651,596 | - | 651,596 |
| Payments to employees for salaries and benefits | (47,526,232) | (49,921) | (47,576,153) |
| Payments to suppliers | (29,050,358) | (105,876) | (29,156,234) |
| Payments for utilities | (3,265,975) | - | (3,265,975) |
| Payments to students for scholarships and fellowships | (3,030,675) | - | (3,030,675) |
| Loans issued to students | (109,810) | - | (109,810) |
| Collection of loans to students | 71,951 | - | 71,951 |
| Funds held for others | (26,200) | - | (26,200) |
| Student direct lending receipts | 18,252,035 | - | 18,252,035 |
| Student direct lending disbursements | (18,300,912) | - | (18,300,912) |
| Net cash used by operating activities | <u>(20,508,465)</u> | <u>(155,797)</u> | <u>(20,664,262)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| State appropriations | 12,654,323 | - | 12,654,323 |
| Gifts and grants for other than capital purposes | 6,569,520 | 3,153,443 | 9,722,963 |
| Other non-operating revenues/expenses | 72,000 | 157,946 | 229,946 |
| Transfers from (to) component unit | <u>6,675,582</u> | <u>(6,675,582)</u> | <u>-</u> |
| Net cash provided (used) by noncapital financing activities | <u>25,971,425</u> | <u>(3,364,193)</u> | <u>22,607,232</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Proceeds from capital debt | 9,134,387 | - | 9,134,387 |
| State capital appropriations | 1,446,435 | - | 1,446,435 |
| Capital grants and gifts received | 1,935,495 | - | 1,935,495 |
| Proceeds from sale of capital assets | 43,440 | - | 43,440 |
| Purchases of capital assets | (12,239,908) | - | (12,239,908) |
| Principal paid on capital debt and leases | (3,114,970) | - | (3,114,970) |
| Interest paid on capital related debt | <u>(2,760,253)</u> | <u>-</u> | <u>(2,760,253)</u> |
| Net cash used by capital and related financing activities | <u>(5,555,374)</u> | <u>-</u> | <u>(5,555,374)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sales and maturities of investments | - | 33,277,874 | 33,277,874 |
| Interest and dividends on investments | 1,250,680 | 1,370,092 | 2,620,772 |
| Purchase of investments | <u>-</u> | <u>(34,262,529)</u> | <u>(34,262,529)</u> |
| Net cash provided by investing activities | <u>1,250,680</u> | <u>385,437</u> | <u>1,636,117</u> |
| Net change in cash | 1,158,266 | (3,134,553) | (1,976,287) |
| Cash and cash equivalents - beginning of year | <u>24,900,014</u> | <u>7,423,818</u> | <u>32,323,832</u> |
| Cash and cash equivalents - end of year | <u>\$ 26,058,280</u> | <u>\$ 4,289,265</u> | <u>\$ 30,347,545</u> |
| Reconciliation of net operating revenues (expense) to net cash used by operating activities: | | | |
| Operating loss | \$ (24,000,261) | \$ (11,729,684) | \$ (35,729,945) |
| Adjustments to reconcile operating loss to net cash used by operating activities | | | |
| Depreciation expense | 5,089,229 | - | 5,089,229 |
| Interest and dividends on investments | - | (1,327,310) | (1,327,310) |
| Realized and unrealized gains and losses on investments | - | 12,901,197 | 12,901,197 |
| Funds held for others | (75,077) | - | (75,077) |
| Changes in assets and liabilities | | | |
| Accounts receivable, net | (576,610) | - | (576,610) |
| Inventories | (47,782) | - | (47,782) |
| Student loans receivable | (42,512) | - | (42,512) |
| Prepaid expenses | (91,720) | - | (91,720) |
| Accounts payable and accrued expenses | (485,653) | - | (485,653) |
| Accrued salaries and related expenses | 65,140 | - | 65,140 |
| Accrued compensated absences and related liabilities | 104,521 | - | 104,521 |
| Deferred revenue | (310,059) | - | (310,059) |
| Student and other deposits | (137,681) | - | (137,681) |
| Net cash used by operating activities | <u>\$ (20,508,465)</u> | <u>\$ (155,797)</u> | <u>\$ (20,664,262)</u> |

(continued)

THE CITADEL
The Military College of South Carolina
Statement of Cash Flows (continued)
For the year ended June 30, 2009

| | <u>The</u> <u>Citadel</u> | <u>The</u> <u>Citadel Trust</u> | <u>Total</u> |
|---|------------------------------|------------------------------------|----------------------|
| Non-cash transactions | | | |
| Increase (decrease) in fair value of investments | \$ 400,768 | \$ (6,833,628) | \$ (6,432,860) |
| Capital assets acquired through gifts | \$ 11,721 | \$ 27,000 | \$ 38,721 |
| Capital assets acquired through capital leases | \$ 64,387 | \$ - | \$ 64,387 |
| Disposal of capital assets | \$ 12,101 | - | \$ 12,101 |
| Reconciliation of Cash and Cash Equivalent Balances: | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 15,676,301 | \$ 424,962 | \$ 16,101,263 |
| Restricted cash and cash equivalents | 5,948,557 | 987,572 | 6,936,129 |
| Noncurrent assets | | | |
| Restricted cash and cash equivalents | <u>4,433,422</u> | <u>2,876,731</u> | <u>7,310,153</u> |
| Total cash and cash equivalents | <u>\$ 26,058,280</u> | <u>\$ 4,289,265</u> | <u>\$ 30,347,545</u> |

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 <u>December 31, 2008</u> | The Citadel Brigadier Foundation <u>June 30, 2009</u> |
|---|--|--|
| ASSETS | | |
| Cash and cash equivalents | \$ 4,520,312 | \$ 739,312 |
| Unconditional promises to give/receivable, net | 9,246,531 | 623,500 |
| Interest receivable | 4,475 | - |
| Prepaid expenses | 67,486 | - |
| Long-term investments (at fair value) | - | 5,630,413 |
| Long-term investments (at equity) | 118,641,677 | - |
| Investments related to split-interest agreements (at fair value) | 112,899 | - |
| Investments related to split-interest agreements (at equity) | 2,811,573 | - |
| Notes receivable | - | 20,000 |
| Other investments | 5,933 | - |
| Cash value of life insurance | 559,633 | 288,160 |
| Office equipment and improvements (net of accumulated depreciation) | 74,257 | 34,332 |
| Land and improvements held for investment | 457,456 | - |
| Other assets | <u>102,954</u> | <u>-</u> |
| Total assets | <u>\$ 136,605,186</u> | <u>\$ 7,335,717</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 219,867 | \$ 16,478 |
| Compensated absences payable | - | 30,645 |
| Grants payable - The Citadel | 3,037,791 | - |
| Notes payable | 39,981 | - |
| Annuities and life income funds payable | 1,421,991 | - |
| Charitable gift annuities | <u>1,412,791</u> | <u>-</u> |
| Total liabilities | <u>6,132,421</u> | <u>47,123</u> |
| Net Assets | | |
| Unrestricted | 77,854,098 | 243,977 |
| Temporarily restricted | 23,266,060 | 1,269,491 |
| Permanently restricted | <u>29,352,607</u> | <u>5,775,126</u> |
| Total net assets | <u>130,472,765</u> | <u>7,288,594</u> |
| Total Liabilities and Net Assets | <u>\$ 136,605,186</u> | <u>\$ 7,335,717</u> |

See accompanying Notes to the Financial Statements

THE CITADEL
The Military College of South Carolina
Non-Governmental Discretely Presented Component Units
Statements of Activities

| | Citadel Foundation Year Ended <u>December 31, 2008</u> | Citadel Brigadier Foundation Year Ended <u>June 30, 2009</u> |
|---|--|--|
| REVENUES, GAINS AND OTHER SUPPORT | | |
| Unrestricted | | |
| Contributions and membership revenue | \$ 486,202 | \$ 936,223 |
| Investment income | 242,004 | - |
| Net unrealized and realized gains (losses) on investments | (7,632,138) | - |
| Fundraising activities | - | 222,925 |
| Miscellaneous | 7,357 | 2,532 |
| Other investment income | 78,000 | - |
| Loss on disposal of property and equipment | (1,517) | - |
| Realized and unrealized loss on land held for investment | (86,180) | - |
| Equity loss of The Richmond Fund, LP | (18,271,886) | - |
| Changes in value of split interest agreements | (97,520) | - |
| Net assets released from program restrictions | 10,475,976 | 399,303 |
| Transfers of net assets | (60,430) | - |
| Total unrestricted | <u>(14,860,132)</u> | <u>1,560,983</u> |
| Temporarily Restricted | | |
| Contributions and membership revenue | 8,551,997 | 399,303 |
| Investment income | 118,266 | 380,440 |
| Net unrealized and realized gains (losses) on investments | (3,729,795) | (1,548,621) |
| Equity loss of The Richmond Fund, LP | (8,929,397) | - |
| Changes in value of split interest agreements | 510,699 | - |
| Net assets released from program restrictions | (10,475,976) | (399,303) |
| Transfers of net assets | (396,805) | - |
| Total temporarily restricted | <u>(14,351,011)</u> | <u>(1,168,181)</u> |
| Permanently Restricted | | |
| Contributions | 2,235,545 | 377,958 |
| Investment income | (34) | - |
| Net unrealized and realized gain on investments | 1,050 | - |
| Equity gain of The Richmond Fund, LP | 2,513 | - |
| Transfers of net assets | 457,235 | - |
| Total permanently restricted | <u>2,696,309</u> | <u>377,958</u> |
| Total revenue, gains and other support | <u>(26,514,834)</u> | <u>770,760</u> |
| EXPENSES AND LOSSES | | |
| Unrestricted | | |
| Grants to The Citadel | 6,904,685 | 1,105,000 |
| Other gift grants to The Citadel | 6,598,211 | - |
| General and administrative | 940,048 | 426,154 |
| Fund-raising | 2,460,938 | 306,673 |
| Total unrestricted | <u>16,903,882</u> | <u>1,837,827</u> |
| Total expenses | <u>16,903,882</u> | <u>1,837,827</u> |
| CHANGE IN NET ASSETS | | |
| Unrestricted | (31,764,014) | (276,844) |
| Temporarily restricted | (14,351,011) | (1,168,181) |
| Permanently restricted | 2,696,309 | 377,958 |
| Total change in net assets | <u>(43,418,716)</u> | <u>(1,067,067)</u> |
| Reclassification based on change in accounting principal | | |
| Unrestricted | (19,156,053) | 338,771 |
| Temporarily restricted | 19,153,053 | (2,069,149) |
| Permanently restricted | - | 1,730,378 |
| Total reclassification | <u>-</u> | <u>-</u> |
| Net assets at beginning of period | | |
| Unrestricted | 126,691,410 | 182,050 |
| Temporarily restricted | 20,543,773 | 4,506,821 |
| Permanently restricted | 26,656,298 | 3,666,790 |
| Total net assets at beginning of period | <u>173,891,481</u> | <u>8,355,661</u> |
| Net assets at end of period | | |
| Unrestricted | 77,854,098 | 243,977 |
| Temporarily restricted | 23,266,060 | 1,269,491 |
| Permanently restricted | 29,352,607 | 5,775,126 |
| Total net assets at end of period | <u>\$ 130,472,765</u> | <u>\$ 7,288,594</u> |

See accompanying Notes to the Financial Statements

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2009

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2009

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 Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, SFAS No. 117, *Financial Reporting for Not-for-Profit Organizations*, and SFAS 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 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.

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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.

Most Citadel Foundation investments are in a limited partnership which is accounted for under the equity method. The carrying value, which approximates fair value, is determined by adding the historical investment cost, the amount of any income allocated to TCF, and deducting any expenses allocated to TCF. Other investments in marketable equity investments with readily determinable fair values and all investments in debt securities are carried at fair value. Some 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.

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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 2009 was \$159,717.

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.

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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.

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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, 2009.

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.

Recently Issued Accounting Pronouncements: The Citadel has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, or Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statements 51 and 53 are effective for The Citadel's year ending June 30, 2010. The Citadel is therefore unable to disclose the impact, if any, which adopting these GASB statements will have on its financial position and the results of its operations when the Statements are adopted.

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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 | \$ 15,676,301 | \$ 424,962 | \$ 16,101,263 |
| Investments | - | 1,336,325 | 1,336,325 |
| Restricted assets | | | |
| Cash and cash equivalents | 5,948,557 | 987,572 | 6,936,129 |
| Investments | - | 6,935,353 | 6,935,353 |
| Noncurrent assets | | | |
| Investments | - | 3,463,115 | 3,463,115 |
| Restricted assets | | | |
| Cash and cash equivalents | 4,433,422 | 2,876,731 | 7,310,153 |
| Investments | - | 36,948,263 | 36,948,263 |
| Total Statement of Net Assets | <u>\$ 26,058,280</u> | <u>\$ 52,972,321</u> | <u>\$ 79,030,601</u> |
| Notes: Deposits and Investments | | | |
| Cash on hand | \$ 27,800 | \$ - | \$ 27,800 |
| Deposits held by State Treasurer | 25,980,426 | 309,985 | 26,290,411 |
| Other deposits | 50,054 | 323,943 | 373,996 |
| Investments | - | 52,338,393 | 52,338,393 |
| Total Notes | <u>\$ 26,058,280</u> | <u>\$ 52,972,321</u> | <u>\$ 79,030,600</u> |

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, interest rate 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.

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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.

As of June 30, 2009, The Trust had investments and maturities as shown below:

| Investment Type | Fair Value | Investment Maturities (in years) | | | |
|--------------------------------|----------------------|----------------------------------|---------------------|---------------------|-------------------|
| | | Less Than 1 | 1-5 | 6-10 | More than 10 |
| Money Market Funds | \$ 3,655,338 | \$ 3,655,338 | \$ - | \$ - | \$ - |
| U.S. Treasury Bonds | 1,951,264 | - | 1,167,219 | 649,810 | 134,235 |
| U.S. Agency Bonds | 3,510,876 | 60,757 | 1,731,814 | 1,295,093 | 423,212 |
| Corporate Bonds | 7,851,734 | 498,585 | 5,980,229 | 1,131,679 | 241,241 |
| Municipal Bonds | 484,408 | - | 299,593 | 184,815 | - |
| Mutual Bond Funds | 117,199 | - | 37,531 | 79,668 | - |
| Total fixed income investments | 17,570,819 | <u>\$ 4,214,680</u> | <u>\$ 9,216,386</u> | <u>\$ 3,341,065</u> | <u>\$ 798,688</u> |
| Common Stocks | 19,720,290 | | | | |
| Mutual Equity Funds | 12,907,374 | | | | |
| Exchange Traded Equity Funds | 2,139,910 | | | | |
| Total investments | <u>\$ 52,338,393</u> | | | | |

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."

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.

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At June 30, 2009, The Trust had debt securities and quality ratings as shown below:

| Investment Type | Fair Value | Quality Rating | | | | |
|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | | Aaa/Aa | A | Ba-Baa | Unrated | N/A |
| Money Market Funds | \$ 3,655,338 | \$ - | \$ - | \$ - | \$ 3,655,338 | \$ - |
| U.S. Treasury Bonds | 1,951,264 | - | - | - | - | 1,951,264 |
| U.S. Agency Bonds | 3,510,876 | - | - | - | 3,510,876 | - |
| Corporate Bonds | 7,851,734 | 1,759,739 | 3,841,324 | 2,002,008 | 248,663 | - |
| Municipal Bonds | 484,408 | 412,610 | 71,798 | - | - | - |
| Mutual Bond Funds | 117,199 | 117,199 | - | - | - | - |
| Totals | <u>\$ 17,570,819</u> | <u>\$ 2,289,548</u> | <u>\$ 3,913,122</u> | <u>\$ 2,002,008</u> | <u>\$ 7,414,877</u> | <u>\$ 1,951,264</u> |

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.

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 \$3.7 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, 2009 there were no single issuer investments that exceeded 5%.

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 and exchange traded funds – the American Funds EuroPacific Growth Fund, American Funds Capital World Growth and Income Fund, and Vanguard Emerging Markets ETF. These funds invest in companies based chiefly in Europe, the Pacific Basin, Asia and Latin America. The market value of these holdings at June 30, 2009 was \$8,826,586. 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.

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At June 30, 2009, TCBF's investments are as follows:

| Investments carried at fair value | Cost | Fair Value |
|---|---------------------|---------------------|
| Equity funds and individual securities | \$ 4,051,567 | \$ 3,755,814 |
| Fixed income funds and individual debt securities | 1,868,225 | 1,874,599 |
| Total investments | \$ 5,919,792 | \$ 5,630,413 |

The Citadel Foundation

In February 2008 TCF initiated a co-investment relationship with Spider Management Company (a wholly owned subsidiary of the University of Richmond). TCF acquired limited partnership interests in The Richmond Fund, LP, which is managed by Spider Management Company, through contributions of capital. TCF accounts for this investment using the equity method. Investments related to split-interest agreements held by TCF are carried at fair value.

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.

TCF investments were composed of the following at December 31, 2008:

| | Cost | Fair Value |
|--|-----------------------|-----------------------|
| Investment in limited partnership interest-equity method | \$ 148,652,020 | \$ 121,453,250 |
| Various equity securities | 141,843 | 112,899 |
| Total | \$ 148,793,863 | \$ 121,566,149 |

NOTE 3—RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2009, are summarized as follows:

| | Citadel | Citadel Trust | Total |
|------------------------------------|---------------------|----------------------|---------------------|
| Receivables: | | | |
| Student fees | \$ 7,391,638 | \$ - | \$ 7,391,638 |
| Grants and contracts | 112,715 | 597 | 113,312 |
| Accrued interest | 158,446 | 173,266 | 331,712 |
| Other | 550,778 | - | 550,778 |
| Gross receivables | 8,213,577 | 173,863 | 8,387,440 |
| Less allowance for uncollectibles: | | | |
| Student fees | 202,070 | - | 202,070 |
| Accounts receivable, net | <u>\$ 8,011,507</u> | <u>\$ 173,863</u> | <u>\$ 8,185,370</u> |

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

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Contributions Receivable

Contributions receivable are comprised of pledges for gifts to support the College. 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 2% interest rate for 2009 and 2008. The composition of contributions receivable at June 30, 2009, is summarized as follows:

| | Citadel | Citadel Trust | Total |
|---------------------------------------|-------------------|-------------------|-------------------|
| Gift Pledges Outstanding: | | | |
| Operations | \$ 345,500 | \$ 398,342 | \$ 743,842 |
| Total gift pledges outstanding | 345,500 | 398,342 | 743,842 |
| Less: | | | |
| Unamortized discount to present value | 43,159 | 41,203 | 84,362 |
| Allowance for doubtful accounts | - | 48,438 | 48,438 |
| Total contributions receivable, net | <u>\$ 302,341</u> | <u>\$ 308,701</u> | <u>\$ 611,042</u> |

Payments on contributions receivable as of June 30, 2009, are expected to be received in the following years ending June 30:

| | Citadel | Citadel Trust | Total |
|----------------|-------------------|-------------------|-------------------|
| 2010 | \$ 90,179 | \$ 184,322 | \$ 274,501 |
| 2011 | 76,198 | 83,734 | 159,932 |
| 2012 | 71,952 | 26,939 | 98,891 |
| 2013 | 64,012 | 11,551 | 75,563 |
| 2014 | - | 1,088 | 1,088 |
| Due after 2014 | - | 1,067 | 1,067 |
| | <u>\$ 302,341</u> | <u>\$ 308,701</u> | <u>\$ 611,042</u> |

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 \$706,049 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.

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.

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Student loans receivable at June 30, 2009 are summarized as follows:

| | Citadel | Citadel Trust | Total |
|--|-------------------|-------------------|-------------------|
| Loans receivable | \$ 648,361 | \$ 384,754 | \$ 1,033,115 |
| Less allowance for uncollectible loans | - | 244,330 | 244,330 |
| Net loans receivable | <u>\$ 648,361</u> | <u>\$ 140,424</u> | <u>\$ 788,785</u> |

NOTE 4—RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2009 are as follows:

| Asset /Restricted for | Citadel | Citadel Trust |
|---|---------------------|----------------------|
| Current: | | |
| Cash and cash equivalents: | | |
| Donor/sponsor specified | \$ 5,330,511 | \$ 861,705 |
| Debt service | 618,046 | - |
| College administered loan program | - | 125,867 |
| Total cash and cash equivalents | <u>\$ 5,948,557</u> | <u>\$ 987,572</u> |
| Investments: | | |
| Donor/sponsor specified | \$ - | \$ 6,935,353 |
| Contributions Receivable: | | |
| Donor/sponsor specified | \$ 90,179 | \$ 153,721 |
| Student Loans Receivable: | | |
| College administered loan program | \$ - | \$ 83,136 |
| Noncurrent: | | |
| Cash and cash equivalents | | |
| Endowment | \$ 258,874 | \$ 1,570,738 |
| Federal Perkins loan program | 50,053 | - |
| Capital projects | 4,063,156 | 1,305,993 |
| Cash held for other parties | 61,339 | - |
| Total cash and cash equivalents | <u>\$ 4,433,422</u> | <u>\$ 2,876,731</u> |
| Investments: | | |
| Endowment | \$ - | \$ 36,123,467 |
| College administered loan program | - | 824,796 |
| Total investments | <u>\$ -</u> | <u>\$ 36,948,263</u> |
| Contributions Receivable | | |
| Donor/sponsor specified | \$ 212,162 | \$ 112,978 |
| Total contributions receivable | <u>\$ 212,162</u> | <u>\$ 112,978</u> |
| Student Loans Receivable | | |
| College administered loan program | \$ - | \$ 57,288 |
| Federal Perkins Loan Program | 648,361 | - |
| Total student loans receivable | <u>\$ 648,361</u> | <u>\$ 57,288</u> |
| Cash Surrender Value of Life Insurance: | | |
| Endowments | \$ - | \$ 56,995 |

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NOTE 5—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, is summarized as follows:

| | <u>July 1, 2008</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2009</u> |
|---|-----------------------|----------------------|----------------------|-----------------------|
| Capital assets not being depreciated: | | | | |
| Land and improvements | \$ 4,800,669 | \$ 27,000 | \$ - | \$ 4,827,669 |
| Construction-in-progress | 15,390,376 | 7,235,259 | 18,806,818 | 3,818,817 |
| Fine arts | 350,720 | 6,400 | - | 357,120 |
| Total capital assets not being depreciated | <u>20,541,765</u> | <u>7,268,659</u> | <u>18,806,818</u> | <u>9,003,606</u> |
| Other capital assets: | | | | |
| Land improvements | 8,967,406 | - | - | 8,967,406 |
| Buildings and improvements | 153,528,387 | 18,806,818 | - | 172,335,205 |
| Machinery, equipment, and other | 5,290,363 | 1,111,017 | 934,071 | 5,467,309 |
| Vehicles | 636,210 | 35,215 | 72,351 | 599,074 |
| Intangibles | 973,642 | 1,329,030 | - | 2,302,672 |
| Total other capital assets at historical cost | <u>169,396,008</u> | <u>21,282,080</u> | <u>1,006,422</u> | <u>189,671,666</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 4,476,398 | 594,709 | - | 5,071,107 |
| Buildings and improvements | 45,053,777 | 3,892,272 | - | 48,946,049 |
| Machinery, equipment, and other | 3,773,254 | 473,123 | 816,693 | 3,429,684 |
| Vehicles | 529,372 | 34,803 | 69,317 | 494,858 |
| Intangibles | 144,261 | 94,322 | - | 238,583 |
| Total accumulated depreciation | <u>53,977,062</u> | <u>5,089,229</u> | <u>886,010</u> | <u>58,180,281</u> |
| Other capital assets, net | <u>115,418,946</u> | <u>16,192,851</u> | <u>120,412</u> | <u>131,491,385</u> |
| Capital assets, net | <u>\$ 135,960,711</u> | <u>\$ 23,461,510</u> | <u>\$ 18,927,230</u> | <u>\$ 140,494,991</u> |

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

| | |
|-----------------------------|--------------------|
| Gain on disposal | \$ 28,217 |
| Loss on disposal | <u>(97,089)</u> |
| Net gain (loss) on disposal | <u>\$ (68,872)</u> |

NOTE 6—DEFERRED REVENUES

The composition of deferred revenues at June 30, 2009, is summarized as follows:

| | <u>Citadel</u> | <u>Citadel Trust</u> | <u>Total</u> |
|---|---------------------|----------------------|---------------------|
| Student fees | \$ 1,365,887 | \$ - | \$ 1,365,887 |
| Sales and services, educational & other | - | 5,000 | 5,000 |
| Sales and services, auxiliary enterprises | 2,879,664 | - | 2,879,664 |
| Federal grants and contracts | 44,623 | - | 44,623 |
| Total deferred revenue | <u>\$ 4,290,174</u> | <u>\$ 5,000</u> | <u>\$ 4,295,174</u> |

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. Daktronics furnished a scoreboard system valued at \$1,700,000 in fiscal year 2007 and anticipates furnishing additional equipment in future years,

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including 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. The College is amortizing the deferred revenues in a straight line fashion over the ten years of the contract period. In fiscal year 2009 \$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 \$1,020,000 is recorded as noncurrent deferred revenue.

The Citadel entered into a ten year contract with ARAMARK for campus food service in fiscal year 2007. 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 \$1,200,000 is recorded as noncurrent deferred revenue.

NOTE 7—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2009:

| | | Interest Rate | Maturity Dates | Balance June 30, 2009 | Debt Retired in Fiscal Year 2009 |
|--|-----------------|------------------|-------------------|--------------------------|-------------------------------------|
| Institution Bonds | | | | | |
| Series 2001D | adjustable from | 4.25% to 5.50% | 12/01/2016 | \$ 1,700,000 | \$ 170,000 |
| | | | | <u>1,700,000</u> | |
| Revenue Bonds | | | | | |
| Series 1997 | adjustable from | 4.875% to 5.125% | 04/01/2013 | 2,720,000 | 735,000 |
| Series 2005 | adjustable from | 2.5% to 4.5% | 04/01/2029 | 23,760,000 | 1,015,000 |
| | | | | <u>26,480,000</u> | |
| Athletic Facilities Revenue Bonds | | | | | |
| Series 2003 | | Fixed at 4.19% | 02/15/2018 | 2,117,243 | 190,529 |
| Series 2005 | | Fixed at 4.19% | 02/15/2015 | 3,888,108 | 559,071 |
| Series 2006 | | Fixed at 7.17% | 02/01/2031 | 8,680,000 | - |
| Series 2007 | | Fixed at 6.81% | 02/01/2017 | 5,495,000 | 505,000 |
| | | | | <u>20,180,351</u> | |
| Subtotal Bonds Payable | | | | 48,360,351 | 3,174,600 |
| Less unamortized bond discount and deferred loss on bonds | | | | 600,353 | 126,471 |
| Total Bonds Payable | | | | <u>\$ 47,759,998</u> | <u>\$ 3,048,129</u> |

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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 \$648,659 which results in a legal debt margin at June 30, 2009, of \$583,793. The Citadel's maximum annual debt service, which occurs in fiscal year 2015, is \$258,210.

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, 2009, 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 until fiscal year 2010. The scheduled maturities of bonds payable by type are as follows:

| State Institution Bonds | Principal | Interest | Payments |
|--|----------------------|----------------------|----------------------|
| 2010 | \$ 180,000 | \$ 74,006 | \$ 254,006 |
| 2011 | 185,000 | 65,678 | 250,678 |
| 2012 | 200,000 | 56,900 | 256,900 |
| 2013 | 205,000 | 47,787 | 252,787 |
| 2014 | 215,000 | 38,338 | 253,338 |
| 2015 – 2017 | 715,000 | 51,545 | 766,545 |
| | <u>\$ 1,700,000</u> | <u>\$ 334,254</u> | <u>\$ 2,034,254</u> |
| Revenue and Athletic Facilities Bonds | | | |
| 2010 | 3,315,254 | 2,304,905 | 5,620,159 |
| 2011 | 3,460,245 | 2,152,561 | 5,612,806 |
| 2012 | 3,628,628 | 1,986,470 | 5,615,098 |
| 2013 | 3,801,464 | 1,815,906 | 5,617,370 |
| 2014 | 3,973,812 | 1,646,781 | 5,620,593 |
| 2015 – 2019 | 13,705,948 | 5,689,570 | 19,395,518 |
| 2020 – 2024 | 5,790,000 | 3,557,263 | 9,347,263 |
| 2025 – 2029 | 7,550,000 | 1,935,943 | 9,485,943 |
| 2030 – 2031 | 1,435,000 | 155,948 | 1,590,948 |
| | <u>\$ 46,660,351</u> | <u>\$ 21,245,347</u> | <u>\$ 67,905,698</u> |

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The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2009:

| Bond Type | Principal | Interest |
|-----------------------------------|---------------------|---------------------|
| State Institution Bonds | \$ 170,000 | \$ 81,775 |
| Revenue Bonds | 1,750,000 | 1,129,956 |
| Athletic Facilities Revenue Bonds | 1,254,601 | 1,308,193 |
| | <u>\$ 3,174,601</u> | <u>\$ 2,519,924</u> |

Notes Payable

At June 30, 2009, notes payable consisted of the following:

Note payable secured by enterprise information system dated July 2008. Interest only for the first year, thereafter payable in quarterly principal and interest payments of \$201,306, matures July 2015, fixed interest rate of 3.66%. \$4,320,000

Note payable secured by energy management system dated November 2008. Interest only for the first year, thereafter payable in monthly principal and interest payments of \$55,071, matures November 2018, fixed interest rate of 5.1584%. 4,750,000

\$9,070,000

The scheduled maturities of the notes payable are as follows:

| Notes Payable | Principal | Interest | Payments |
|----------------------|---------------------|---------------------|----------------------|
| 2010 | \$ 735,503 | \$ 395,531 | \$ 1,131,034 |
| 2011 | 1,112,998 | 353,074 | 1,466,072 |
| 2012 | 1,161,192 | 304,880 | 1,466,072 |
| 2013 | 1,211,538 | 254,534 | 1,466,072 |
| 2014 | 1,264,137 | 201,935 | 1,466,072 |
| 2015 - 2019 | 3,584,632 | 340,645 | 3,925,277 |
| | <u>\$ 9,070,000</u> | <u>\$ 1,850,599</u> | <u>\$ 10,920,599</u> |

Total principal paid on notes payable was \$34,806 for the year ended June 30, 2009. Total interest paid on notes payable was \$263,881.

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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, 2009 were as follows:

| <u>Year ending June 30,</u> | <u>Capital Leases/ Equipment</u> | <u>Operating Leases/ Equipment</u> |
|---|--|--|
| 2010 | \$ 35,639 | \$ 740 |
| 2011 | 25,723 | 1,109 |
| 2012 | 25,723 | 1,109 |
| 2013 | 25,723 | 1,109 |
| 2014 | 19,292 | 370 |
| Total minimum lease payments | 132,100 | <u>\$ 4,437</u> |
| Less: Interest | 19,373 | |
| Executory and other costs | 45,156 | |
| Present value of minimum lease payments | <u>\$ 67,571</u> | |

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 2009 were \$38,509, of which \$5,366 represented interest and \$13,283 represented executory costs. Total principal paid on capital leases was \$19,859 for the year ended June 30, 2009. The following is a summary of the carrying values of assets held under capital lease at June 30, 2009.

| | |
|--|------------------|
| Equipment acquired under capital leases | \$ 102,253 |
| Less accumulated amortization | <u>33,897</u> |
| Equipment acquired under capital leases, net | <u>\$ 68,356</u> |

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 2009 was \$740.

In the current fiscal year, The Citadel incurred expenses of \$146,370 for office copier service on a cost-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.

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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, 2008, the employer contribution rate became 12.74 percent which included a 3.50 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, 2007, 2008, and 2009, were \$1,766,776, \$2,196,918, and \$2,204,264.69 respectively, and equaled the required contributions of 9.06 percent for 2007 and 2008 and 9.24% for 2009 (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$36,086 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, 2008, the employer contribution rate became 14.15 percent which, as for the SCRS, included the 3.50 percent surcharge. The Citadel's actual contributions to the PORS for the years ended June 30, 2007, 2008, and 2009, were \$58,505, \$61,779, and \$73,197.13 respectively, and equaled the required contributions of 10.65 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$1,375 and accidental death insurance contributions of \$1,375 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.

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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, 9.24 percent plus the retiree surcharge of 3.50 percent from the employer in fiscal year 2009.

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 \$1,028,316 (excluding the surcharge) from The Citadel as employer and \$723,382 from its employees as plan members. In addition, The Citadel paid \$16,693 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 Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Citadel contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

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Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.50% and 3.42% of annual covered payroll for 2009 and 2008, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Citadel paid \$1,227,753 and \$1,160,236 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2009 and 2008, respectively. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal years ended June 30, 2009 and 2008.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

NOTE 11—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

| | <u>July 1, 2008</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2009</u> | <u>Due Within One Year</u> |
|--|----------------------|----------------------|---------------------|----------------------|--------------------------------|
| Bonds and Notes Payable and Capital Lease Obligations: | | | | | |
| State Institution Bonds | \$ 1,870,000 | \$ - | \$ 170,000 | \$ 1,700,000 | \$ 180,000 |
| Less unamortized bond discount | 3,667 | - | 695 | 2,972 | 631 |
| Total State Institution Bonds | <u>1,866,333</u> | <u>-</u> | <u>169,305</u> | <u>1,697,028</u> | <u>179,369</u> |
| Revenue Bonds | 28,230,000 | - | 1,750,000 | 26,480,000 | 1,820,000 |
| Athletic Facilities Revenue Bonds | 21,434,951 | - | 1,254,600 | 20,180,351 | 1,495,254 |
| Less deferred loss on refunding | 393,829 | - | 82,912 | 310,917 | 82,911 |
| Less unamortized bond discount | <u>329,328</u> | <u>-</u> | <u>42,864</u> | <u>286,464</u> | <u>39,192</u> |
| Total Revenue Bonds Payable | <u>48,941,794</u> | <u>-</u> | <u>2,878,824</u> | <u>46,062,970</u> | <u>3,193,151</u> |
| Total Bonds Payable | 50,808,127 | - | 3,048,129 | 47,759,998 | 3,372,520 |
| Notes Payable | 34,806 | 9,070,000 | 34,806 | 9,070,000 | 735,503 |
| Capital Lease Obligations | <u>35,219</u> | <u>64,387</u> | <u>32,035</u> | <u>67,571</u> | <u>15,997</u> |
| Total Bonds, Notes & Capital Leases | <u>50,878,152</u> | <u>9,134,387</u> | <u>3,114,970</u> | <u>56,897,569</u> | <u>4,124,020</u> |
| Other Liabilities | | | | | |
| Accrued compensated absences | 2,460,200 | 1,517,972 | 1,413,451 | 2,564,721 | 1,413,451 |
| Federal loan funds | 484,763 | 5,892 | - | 490,655 | - |
| Deferred revenue | 4,644,588 | 1,705,174 | 2,054,588 | 4,295,174 | 2,075,174 |
| Deposits | 1,887,861 | 980,595 | 1,118,276 | 1,750,180 | 1,169,179 |
| Annuities payable | 25,596 | 7,469 | 8,190 | 24,875 | 8,190 |
| Funds held for others | <u>136,416</u> | <u>61,339</u> | <u>136,416</u> | <u>61,339</u> | <u>-</u> |
| Total Other Liabilities | <u>9,639,424</u> | <u>4,278,441</u> | <u>4,730,921</u> | <u>9,186,944</u> | <u>4,665,994</u> |
| Total Long-term Liabilities | <u>\$ 60,517,576</u> | <u>\$ 13,412,828</u> | <u>\$ 7,845,891</u> | <u>\$ 66,084,513</u> | <u>\$ 8,790,014</u> |

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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 \$8,841,893. Of the total estimated cost, approximately \$2,625,000 is unexpended at June 30, 2009. Of the unexpended balance at June 30, 2009, The Citadel had remaining commitment balances of approximately \$1,800,000 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 \$18,806,818.

Major capital projects at June 30, 2009, which constitute construction in progress that will be capitalized when completed, are listed below.

| Project Title | Estimated Cost | Amount Expended |
|---|-----------------------|------------------------|
| Campus Wide Energy Performance Contract | \$ 4,851,893 | \$ 3,651,439 |
| Daniel Library Renovation | 1,590,000 | 167,378 |
| | <u>\$ 6,441,893</u> | <u>\$ 3,818,817</u> |

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, 2009 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 \$1,840,459. This amount includes costs incurred to date of \$942,662 and estimated costs to complete of \$897,797. The Citadel has remaining commitment balances with certain parties related to these projects of approximately \$340,000.

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, 2009 The Citadel had \$78,877 of authorized research infrastructure bonds 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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
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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, 2009, net appreciation of \$3,505,307 is available to be spent, of which \$3,475,597 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 2009 the present value of the annuity payable was \$24,875.

NOTE 15—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, 2009.

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The Citadel Foundation (TCF)

For the fiscal year ended June 30, 2009, TCF received current year contributions of \$3,302,389 on behalf of The Citadel and The Citadel Trust -- \$2,110,294 of this total was recorded as gifts, \$1,150,280 was recorded as additions to permanent endowments, and \$41,815 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of \$508,011 for its fundraising services.

In addition, The Citadel and The Citadel Trust recorded non-governmental grants of \$5,098,030 and capital grants of \$1,226,804 from TCF for the fiscal year ended June 30, 2009. These funds were used to support scholarships, salaries 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 \$135,327 for the year ended June 30, 2009. TCF also provided \$15,016 to partially fund The Citadel Magazine.

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, 2008, shows a grant payable to The Citadel of \$3,037,791. The amount due to The Citadel from TCF at June 30, 2009, is \$30,169.

The Citadel Brigadier Foundation (TCBF)

The Citadel recorded non-governmental grants of \$1,105,000 from TCBF in the fiscal year ended June 30, 2009. These grants were used to support athletic scholarships at the College.

TCBF reimburses The Citadel for certain expenses incurred on behalf of TCBF. The reimbursement totaled \$232,318 for the year ended June 30, 2009. TCBF did not owe The Citadel at June 30, 2009.

NOTE 16—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 \$4,534,085 at December 31, 2008.

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, 2009.

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, 2009, The Citadel's share of John Monroe Holliday Alumni operating profits was \$72,000 and is recorded as other nonoperating revenue.

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled \$349,447 for the year ended June 30, 2009.

THE CITADEL
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Notes to the Financial Statements
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NOTE 17—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 (the State). 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 2008-09 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, 2009:

| | |
|---|----------------------|
| <u>State Appropriations</u> | |
| Original appropriation | \$ 15,745,501 |
| Agency reductions | (3,553,619) |
| State raise pay plan appropriation | 155,266 |
| Appropriation allocations from the State Commission on Higher Education | |
| For Academic Endowment Match | 19,129 |
| For Technology Grant Program | 510,434 |
| Appropriation allocation from the Lowcountry Graduate Center | <u>10,000</u> |
| Total State Appropriation Revenues | <u>\$ 12,886,711</u> |

The following is a reconciliation of state capital appropriations The Citadel received during the fiscal year ended June 30, 2009:

| | Capital Reserve Fund Proceeds | Research Infrastructure Bond Proceeds | Total |
|--|--|--|-------------------|
| <u>State Capital Appropriations</u> | | | |
| Proceeds drawn during the current fiscal year | \$ 1,015,988 | \$ 430,447 | \$ 1,446,435 |
| Less: Proceeds drawn but not expended during the current fiscal year | <u>768,481</u> | <u>53,223</u> | <u>821,704</u> |
| Total State Bond Proceeds | <u>\$ 247,507</u> | <u>\$ 377,224</u> | <u>\$ 624,731</u> |

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, 2009:

| | Operating Revenue | Nonoperating Revenue |
|--|------------------------------|---------------------------------|
| <u>Other amounts received from State agencies</u> | | |
| Received from the Commission on Higher Education (CHE): | | |
| LIFE Scholarships | \$ 1,657,156 | \$ - |
| Palmetto Fellows Scholarships | 146,100 | - |
| Need-Based Grants | 210,468 | - |
| Hope Scholarships | 155,400 | - |
| National Guard College Assistance Program | 373,636 | - |
| Access and Equity Competitive Grants | - | 7,510 |
| Received from various other state agencies | <u>-</u> | <u>45,510</u> |
| | <u>\$ 2,542,760</u> | <u>\$ 53,020</u> |

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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 2009 expenditures applicable to related transactions with State entities are not readily available.

The Citadel and the South Carolina National Guard (SCNG) worked together to construct a joint National Guard Readiness Center/ Press Box/Skybox facility at Johnson Hagood Football Stadium. The Citadel leased the land to the National Guard for 25 years and the National Guard constructed the facility. The club and skybox area opened at the beginning of the football season in the fall of 2008. The SCNG completed the remainder of construction and began occupying its portion of the building in late spring. The Citadel has capitalized its costs in the entire facility and the SCNG has capitalized its share of the costs. The Citadel's construction funding included gift revenue, \$8,680,000 in athletic facility taxable revenue bonds issued in June 2006 and \$6,000,000 in athletic facility taxable revenue bonds issued in November 2007.

NOTE 18—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

THE CITADEL
The Military College of South Carolina
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June 30, 2009

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 19—CONTINGENCIES AND LITIGATION

The Citadel is involved in legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is remote, and the outcome of the legal proceedings and claims is not expected to have a material effect on the financial position of The Citadel. Therefore, an estimated liability has not been recorded.

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 20—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2009, are summarized as follows:

| | Compensation and Benefits | Supplies and Services | Utilities | Scholarships and Fellowships | Depreciation | Total |
|---------------------------------|------------------------------|--------------------------|---------------------|---------------------------------|---------------------|----------------------|
| Instruction | \$ 20,318,498 | \$ 1,661,607 | \$ - | \$ 71,275 | \$ - | \$ 22,051,380 |
| Research | 149,646 | 218,119 | - | - | - | 367,765 |
| Public Service | 366,728 | 207,396 | - | - | - | 574,124 |
| Academic Support | 4,829,905 | 2,298,853 | - | 7,053 | - | 7,135,811 |
| Student Services | 4,787,944 | 1,641,322 | 20,974 | - | - | 6,450,240 |
| Institutional Support | 6,490,318 | 866,395 | 2,546 | - | - | 7,359,259 |
| Operations & Maint. of Plant | 4,428,307 | 3,890,280 | 2,260,542 | - | - | 10,579,129 |
| Scholarships & Fellowships | 56,054 | 192,739 | - | 2,950,367 | - | 3,199,160 |
| Auxiliary Enterprises | 6,917,012 | 16,855,084 | 970,163 | 1,980 | - | 24,744,239 |
| Depreciation | - | - | - | - | 5,089,229 | 5,089,229 |
| Total Operating Expenses | \$ 48,344,412 | \$ 27,831,795 | \$ 3,254,225 | \$ 3,030,675 | \$ 5,089,229 | \$ 87,550,336 |

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2009

NOTE 21—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.

| <u>The Citadel</u> | <u>2009</u> | <u>2008</u> | <u>Variance</u> |
|---------------------------------------|----------------------|----------------------|------------------------|
| Charges for services | \$ 62,748,574 | \$ 57,731,970 | \$ 5,016,604 |
| Operating grants and contributions | 8,389,679 | 8,415,906 | (26,227) |
| Capital grants and contributions | 1,947,216 | 2,151,361 | (204,145) |
| Less expenses | 90,196,257 | 87,809,475 | 2,386,782 |
| Net program revenue (expense) | <u>(17,110,788)</u> | <u>(19,510,238)</u> | <u>2,399,450</u> |
| General revenues: | | | |
| Transfers: | | | |
| State appropriations | 12,886,711 | 16,895,424 | (4,008,713) |
| State capital appropriations | 247,507 | 2,108,346 | (1,860,839) |
| Capital improvement bond proceeds | - | - | - |
| Research infrastructure bond proceeds | 377,224 | 487,102 | (109,878) |
| Transfers from The Citadel Trust | 5,636,167 | 6,254,206 | (618,039) |
| Total general revenue and transfers | <u>19,147,609</u> | <u>25,745,078</u> | <u>(6,597,469)</u> |
| Change in net assets | 2,036,821 | 6,234,840 | (4,198,019) |
| Net assets - beginning | 102,937,486 | 96,702,646 | 6,234,840 |
| Net assets - ending | <u>\$104,974,307</u> | <u>\$102,937,486</u> | <u>\$ 2,036,821</u> |

| <u>The Citadel Trust</u> | <u>2009</u> | <u>2008</u> | <u>Variance</u> |
|---------------------------------------|----------------------|----------------------|------------------------|
| Operating grants and contributions | \$ 3,366,544 | \$ (1,411,970) | \$ 4,778,514 |
| Capital grants and contributions | 27,000 | 18,000 | 9,000 |
| Less expenses | 13,016,944 | 125,844 | 12,891,100 |
| Net program revenue (expense) | <u>(9,623,400)</u> | <u>(1,519,814)</u> | <u>(8,103,586)</u> |
| General revenues: | | | |
| Contributions to permanent endowments | 1,150,280 | 5,038,903 | (3,888,623) |
| Transfers: | | | |
| Transfers to The Citadel | (5,636,167) | (6,254,206) | 618,039 |
| Total general revenue and transfers | <u>(4,485,887)</u> | <u>(1,215,303)</u> | <u>(3,270,584)</u> |
| Change in net assets | (14,109,287) | (2,735,117) | (11,374,170) |
| Net assets - beginning | 69,917,020 | 72,652,137 | (2,735,117) |
| Net assets - ending | <u>\$ 55,807,733</u> | <u>\$ 69,917,020</u> | <u>\$ (14,109,287)</u> |

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

| <u>Federal grantor/pass-through grantor/program title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Total Expenditures</u> |
|--|------------------------------------|--|-------------------------------|
| <u>Research and Development Cluster:</u> | | | |
| Department of Commerce | | | |
| Passed through SC Sea Grant Consortium | | | |
| Coastal Stormwater Pond Sediments | 11.RD | NA05NOS4191093 | \$ 2,120 |
| Total Department of Commerce | | | <u>2,120</u> |
| National Aeronautics and Space Administration | | | |
| Passed through The College of Charleston | | | |
| SC Space Grant Consortium | 43.RD | NNG05G168G | 1,727 |
| Total National Aeronautics and Space Administration | | | <u>1,727</u> |
| National Science Foundation | | | |
| Passed through The College of Charleston | | | |
| Automatic Telescope | 47.RD | AST-0507381 | 25,728 |
| CCD Spectrophotometer | 47.RD | AST-0115612 | 303 |
| Passed through Southern Illinois University | | | |
| Southern Illinois Subagreement | 47.RD | DEB-0516429 | 8,547 |
| Total National Science Foundation | | | <u>34,578</u> |
| Total Research and Development | | | <u>38,425</u> |
| <u>Student Financial Aid Cluster:</u> | | | |
| Department of Education | | | |
| Federal Supplemental Educational Opportunity Grant | 84.007 | P007A083769 | 82,663 |
| Federal Work Study Program | 84.033 | P033A083769 | 51,099 |
| Federal Perkins Loan Program | 84.038 | P038A083769 | 4,629 |
| Federal Pell Grant Program | 84.063 | P063P080375 | 1,082,164 |
| Academic Competitive Grants | 84.375 | P375A080375 | 51,629 |
| National Science and Mathematics Access to Retain Talent Grant | 84.376 | P376S080375 | 12,000 |
| William D. Ford Direct Loan Program | 84.268 | P033A083769 | 18,300,912 |
| Total Department of Education | | | <u>19,585,096</u> |
| Total Student Financial Aid | | | <u>19,585,096</u> |
| <u>Other Programs:</u> | | | |
| Department of Education | | | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334A | P334A050032 | 158,095 |
| Passed through the National Writing Project Corp. | | | |
| National Writing Project | 84.928A | 99-SC09 | 78,217 |
| Total Department of Education | | | <u>236,312</u> |
| Department of Justice | | | |
| Passed through Rutgers University | | | |
| I-95 Domestic Security | 16.614 | 2007-DD-BX-K135 | 21,880 |
| Total Department of Justice | | | <u>21,880</u> |
| Department of Navy | | | |
| Cooperative Agreement with Department of Navy | 12.300 | N69450-08-RP-0031 | 7,342 |
| | | | <u>7,342</u> |
| Department of Transportation | | | |
| Passed through University of South Carolina | | | |
| Behavior of Pile to Pile Cap Connections | 20.205 | 20 08-1520 | 14,975 |
| Passed through Clemson University | | | |
| Guidelines for Longitudinal Pavement Marking Applications | 20.205 | 1191-7557-223-20063 | 2,519 |
| Roadside Hazards | 20.205 | 1109-7557-223-20059 | 6,462 |
| Total Department of Transportation | | | <u>23,956</u> |
| National Science Foundation | | | |
| Passed through Harvard University | | | |
| Collaborative Research | 47.074 | DEB-0732903 | 5,026 |
| Total National Science Foundation | | | <u>5,026</u> |
| Total Other Programs | | | <u>294,516</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 19,918,037</u> |

THE CITADEL
The Military College of South Carolina
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

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 \$648,361 as of June 30, 2009.

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 \$16,636 for the year ended June 30, 2009 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 \$27,554 for the year ended June 30, 2009 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.

**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 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 discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel) as of and for the year ended June 30, 2009, which collectively comprise The Citadel's basic financial statements and have issued our report thereon dated September 30, 2009. 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. The financial statements of The Citadel Foundation and The Citadel Brigadier Foundation were not audited in accordance with *Government Auditing Standards*. Other auditors audited the financial statements of The Citadel Brigadier Foundation, as described in our report on The Citadel's financial statements.

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 30, 2009.

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.

A handwritten signature in blue ink that reads "Elliott Davis, LLC".

Greenwood, South Carolina
September 30, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

Compliance

We have audited the compliance of The Citadel, The Military College of South Carolina (The Citadel) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2009. The Citadel's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of The Citadel's management. Our responsibility is to express an opinion on The Citadel's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about The Citadel's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Citadel's compliance with those requirements.

In our opinion, The Citadel complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2009.

Internal control over compliance

The management of The Citadel is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered The Citadel's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of The Citadel's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Citadel's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purposes 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 compliance that we consider to be material weaknesses, as defined above.

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 30, 2009

THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of The Citadel.
2. No material weaknesses or significant deficiencies relating to internal control over financial reporting were noted during the audit.
3. No instances of noncompliance material to the financial statements of The Citadel were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to internal control over major federal award programs were noted during the audit.
5. The auditor's report on compliance for the major federal award program for The Citadel expresses an unqualified opinion.
6. The programs tested as major programs include:

| | |
|--|--------|
| Federal Student Aid Cluster: | |
| Federal Supplemental Educational Opportunity Grant | 84.007 |
| Federal Work-Study Program | 84.033 |
| Federal Perkins Loan Program | 84.038 |
| Federal Pell Grant Program | 84.063 |
| Federal Direct Student Loans | 84.268 |
| Academic Competiveness Grant | 84.375 |
| National Science and Mathematics Access to Retain Talent Grant | 84.376 |
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The Citadel qualifies as a low-risk auditee under Circular No. A-133.

B. FINANCIAL STATEMENT FINDINGS REPORTED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

None

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended June 30, 2009**

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, the following is the status of known material findings and recommendations from prior year audits:

None