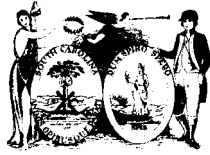


THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA
CHARLESTON, SOUTH CAROLINA

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2001

State of South Carolina



Office of the State Auditor

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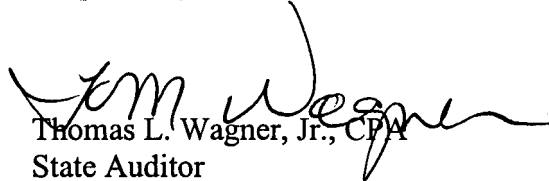
October 15, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

This report on the audit of the financial statements of The Citadel, The Military College of South Carolina, for the fiscal year ended June 30, 2001, was issued by Cherry, Bekaert, & Holland, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

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Independent Auditors' Report

The Office of the State Auditor
and

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

We have audited the accompanying basic financial statements of **The Citadel, The Military College of South Carolina**, (The Citadel) as of June 30, 2001 and for the year then ended as listed in the table of contents. These basic financial statements are the responsibility of The Citadel's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of The Citadel Trust, Inc., a component unit of The Citadel, which financial statements reflect the indicated percentages of total assets and total revenues, respectively, of the unrestricted current (18% and 1%), restricted current (82% and 8%), loan (63% and 38%), endowment and similar (99% and 100%), and unexpended plant (6% and 4%) funds. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinion.

As discussed in Note 1 to the basic financial statements, the accompanying basic financial statements of The Citadel are intended to present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of The Citadel, an institution of the State of South Carolina. These basic financial statements include the financial activities of The Citadel Trust, Inc., a component unit of The Citadel. These basic financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of The Citadel as of June 30, 2001, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22, The Citadel changed its method of accounting for and reporting nonexchange transactions to comply with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, effective for periods beginning after June 15, 2000. Under this standard The Citadel changed its method of reporting certain grants, pledges of gifts, and private donations. Adjustments resulting from changes to comply with this Statement are required to be treated as adjustments of prior periods.

These basic financial statements exclude the related entities listed in Note 19 from the reporting entity because The Citadel is not financially accountable for these entities. As part of its affiliated organizations project, the Governmental Accounting Standards Board is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity.

Cherry, Bekaert & Holland, L.L.P.

Florence, South Carolina
September 4, 2001

Cherry, Bekaert & Holland, L.L.P.

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THE CITADEL
The Military College of South Carolina
Balance Sheet
June 30, 2001

ASSETS	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			AGENCY FUNDS	TOTALS - (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT		
Cash and Cash Equivalents (Note 15)	\$ 9,792,727	\$ 392,489	\$ 76,145	\$ 2,230,717	\$ 4,791,393	\$ 13,479	\$ -	\$ 99,553	\$ 17,396,503
Investments (Note 15)	2,442,658	5,189,554	461,332	35,584,904	768,766	-	-	-	44,447,214
Accounts Receivable, Net (Note 13)	981,286	-	-	-	-	-	-	-	981,286
Grants and Contracts Receivable	-	778,207	-	-	-	-	-	-	778,207
Pledges Receivable (Note 16)	-	192,308	-	-	141,457	-	-	-	333,765
Notes Receivable (Note 18)	-	109,000	-	-	-	-	-	-	109,000
Accrued Interest Receivable	59,769	1,758	-	-	43,640	2,742	-	-	107,909
Inventories (Note 11)	1,814,630	-	-	-	-	-	-	-	1,814,630
Capital Improvement Bond Proceeds Receivable (Note 3)	-	-	-	-	9,982,288	-	-	-	9,982,288
Prepaid Items	337,879	42,566	-	-	-	-	-	-	380,445
Loans to Students, Net (Note 13)	-	-	1,110,041	-	-	-	-	-	1,110,041
Cash Surrender Value of Life Insurance	23,505	-	-	306,302	-	-	-	-	329,807
Land	-	-	-	-	-	-	2,190,674	-	2,190,674
Buildings and Improvements	-	-	-	-	-	-	97,225,767	-	97,225,767
Equipment	-	-	-	-	-	-	5,545,461	-	5,545,461
Library Books	-	-	-	-	-	-	7,542,473	-	7,542,473
Construction in Progress (Note 14)	-	-	-	-	-	-	2,858,273	-	2,858,273
Advance to Unexpended Plant Funds (Note 12)	-	-	-	-	-	480,000	-	-	480,000
Deferred Charges	-	-	-	-	-	221,056	-	-	221,056
Total Assets	\$ 15,452,454	\$ 6,705,882	\$ 1,647,518	\$ 38,121,923	\$ 15,727,544	\$ 717,277	\$ 115,362,648	\$ 99,553	\$ 193,834,799

The Accompanying Notes Are An Integral Part of the Financial Statements.

THE CITADEL
The Military College of South Carolina
Balance Sheet
June 30, 2001

LIABILITIES AND FUND BALANCES	CURRENT FUNDS		LOAN FUND	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			AGENCY FUNDS	TOTALS - (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT		
Accounts Payable	\$ 1,143,226	\$ 25,841	\$ 342	\$ -	\$ 690,809	\$ -	\$ -	\$ -	\$ 1,860,218
Accrued Payroll and Related Liabilities	1,460,292	15,497	-	-	-	-	-	-	1,475,789
Accrued Compensated Absences and Related Liabilities	1,656,623	10,040	-	-	-	-	-	-	1,666,663
Deferred Compensation Liability (Note 10)	333,871	-	-	-	-	-	-	-	333,871
Deferred Revenues	869,549	-	-	-	-	-	-	-	869,549
Student Deposits	988,274	-	-	-	-	-	-	-	988,274
Deposits Held For Others	-	-	-	-	-	-	-	99,553	99,553
Retainages Payable	1,805	-	-	-	360,337	-	-	-	362,142
Annuities Payable (Note 17)	-	-	-	62,814	-	-	-	-	62,814
Advance From Retirement of Indebtedness Fund (Note 12)	-	-	-	-	480,000	-	-	-	480,000
Accrued Interest Payable	-	-	-	-	-	320,749	-	-	320,749
Note Payable (Note 5)	-	-	-	-	-	-	223,697	-	223,697
Bonds Payable (Note 4)	-	-	-	-	1,628,632	-	23,281,368	-	24,910,000
Obligations Under Capital Leases (Note 6)	-	-	-	-	-	-	47,244	-	47,244
Fund Balances (Note 24)	8,998,814	6,654,504	1,647,176	38,059,109	12,567,766	396,528	-	-	68,323,897
Net Investment in Plant	-	-	-	-	-	-	91,810,339	-	91,810,339
Total Liabilities and Fund Balances	\$ 15,452,454	\$ 6,705,882	\$ 1,647,518	\$ 38,121,923	\$ 15,727,544	\$ 717,277	\$ 115,362,648	\$ 99,553	\$ 193,834,799

The Accompanying Notes Are An Integral Part of the Financial Statements.

THE CITADEL
The Military College of South Carolina
Statement of Changes in Fund Balances
For the Year Ended June 30, 2001

	CURRENT FUNDS				PLANT FUNDS			TOTALS (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
Revenues and Other Additions:								
Unrestricted Current Fund Revenues	\$ 56,072,650	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,072,650
State Appropriations - Restricted (Note 2)	-	890,729	-	-	-	-	-	890,729
Federal Grants and Contracts - Restricted	-	10,603,624	10,000	-	-	-	-	10,613,624
State Grants and Contracts - Restricted	-	205,875	-	-	-	-	-	205,875
Nongovernmental Grants and Contracts - Restricted	-	3,302,244	-	-	-	-	-	3,302,244
Private Gifts - Restricted	-	1,980,156	-	-	224,839	-	55,000	2,259,995
Capital Improvement Bond Proceeds (Note 3)	-	-	-	-	3,000,000	-	-	3,000,000
Investment Income (Loss)- Unrestricted	-	-	-	(383,072)	-	-	-	(383,072)
Investment Income (Loss)- Restricted	-	(462,901)	(12,905)	(3,428,162)	218,545	7,634	-	(3,677,789)
Endowment Income	-	1,425,633	-	-	-	-	-	1,425,633
Interest on Student Loans Receivable	-	-	34,197	-	-	-	-	34,197
Expended for Plant Facilities (including \$967,468 charged to Current Fund expenditures and \$13,830 of capitalized interest)	-	-	-	-	-	-	8,031,477	8,031,477
Land Received in Exchange (Note 26)	-	-	-	-	-	-	275,000	275,000
Retirement of Indebtedness	-	-	-	-	-	-	1,131,667	1,131,667
Recoveries of Written Off Loans	-	-	4,716	-	-	-	-	4,716
Adjustment of Actuarial Liability for Annuities Payable (Note 17)	-	-	-	7,486	-	-	-	7,486
Student Tuition	-	-	-	-	-	527,976	-	527,976
Insurance Proceeds	-	-	-	-	282,965	-	-	282,965
Additions to Permanent Endowments	-	-	-	390,409	-	-	-	390,409
Other Sources	-	74,069	12,087	23,040	-	654	-	109,850
Total Revenues and Other Additions	<u>56,072,650</u>	<u>18,019,429</u>	<u>48,095</u>	<u>(3,390,299)</u>	<u>3,726,349</u>	<u>536,264</u>	<u>9,493,144</u>	<u>84,505,632</u>
Expenditures and Other Deductions:								
Educational and General Expenditures	35,232,008	17,584,196	-	-	-	-	-	52,816,204
Auxiliary Enterprises Expenditures	18,610,561	-	-	-	-	-	-	18,610,561
Indirect Costs Recovered	-	6,651	-	-	-	-	-	6,651
Loan Cancellations and Write-Offs	-	-	101,610	-	-	-	-	101,610
Expended for Plant Facilities (including noncapitalized expenditures of \$899,995)	-	-	-	-	7,950,174	-	-	7,950,174
Retirement of Indebtedness	-	-	-	-	-	1,131,667	-	1,131,667
Interest and Other Charges on Indebtedness	-	-	-	-	-	1,255,276	-	1,255,276
Additions of Capital Leases	-	-	-	-	-	-	39,922	39,922
Disposal of Plant Facilities	-	-	-	-	-	-	642,672	642,672
Administrative and Collection Costs	-	-	8,921	-	-	-	-	8,921
Refunded to Grantors and Other Deductions	-	19,222	-	176	-	-	-	19,398
Total Expenditures and Other Deductions	<u>\$ 53,842,569</u>	<u>\$ 17,610,069</u>	<u>\$ 110,531</u>	<u>\$ 176</u>	<u>\$ 7,950,174</u>	<u>\$ 2,386,943</u>	<u>\$ 682,594</u>	<u>\$ 82,583,056</u>

The Accompanying Notes Are an Integral Part of the Financial Statements.

THE CITADEL
The Military College of South Carolina
Statement of Changes in Fund Balances
For the Year Ended June 30, 2001

	CURRENT FUNDS				PLANT FUNDS			TOTALS (MEMORANDUM ONLY)
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
Transfers Among Funds - Additions/(Deductions):								
<i>Mandatory:</i>								
Principal and Interest	\$ (2,049,638)	\$ -	\$ -	\$ -	\$ -	\$ 2,049,638	\$ -	\$ -
<i>Nonmandatory: (Note 7)</i>								
Transfer From Current Funds:	-	-	-	-	-	-	-	-
Unrestricted	(1,006,730)	-	-	289,801	678,457	38,472	-	-
Restricted	-	(974,758)	-	400,080	537,506	37,172	-	-
Transfers From Endowment and Similar Funds	127,131	16,163	-	(143,294)	-	-	-	-
Transfers From Plant Funds:								
Unexpended	259,876	9,847	-	-	(269,723)	-	-	-
Retirement of Indebtedness	-	-	-	-	336,339	(336,339)	-	-
<i>Transfers of Debt Representing Plant Additions</i>	-	-	-	-	1,371,368	-	(1,371,368)	-
Total Transfers	<u>(2,669,361)</u>	<u>(948,748)</u>	<u>-</u>	<u>546,587</u>	<u>2,653,947</u>	<u>1,788,943</u>	<u>(1,371,368)</u>	<u>-</u>
Net Increase (Decrease) for the Year	(439,280)	(539,388)	(62,436)	(2,843,888)	(1,569,878)	(61,736)	7,439,182	1,922,576
Fund Balance, Beginning July 1, 2000	<u>9,438,094</u>	<u>7,193,892</u>	<u>1,709,612</u>	<u>40,902,997</u>	<u>14,137,644</u>	<u>458,264</u>	<u>84,371,157</u>	<u>158,211,660</u>
Fund Balance, Ending June 30, 2001	<u>\$ 8,998,814</u>	<u>\$ 6,654,504</u>	<u>\$ 1,647,176</u>	<u>\$ 38,059,109</u>	<u>\$ 12,567,766</u>	<u>\$ 396,528</u>	<u>\$ 91,810,339</u>	<u>\$ 160,134,236</u>

The Accompanying Notes Are An Integral Part of the Financial Statements.

THE CITADEL
The Military College of South Carolina
Statement of Current Funds Revenues, Expenditures, and Other Charges
For the Year Ended June 30, 2001

	UNRESTRICTED	RESTRICTED	TOTAL
Revenues:			
Student Fees	\$ 13,863,523	\$ -	\$ 13,863,523
State Appropriations (Note 2)	18,159,672	890,729	19,050,401
Federal Grants and Contracts	6,651	10,556,714	10,563,365
State Gifts, Grants and Contracts	13,863	188,143	202,006
Nongovernmental Grants, and Contracts	465,497	3,186,423	3,651,920
Private Gifts	267,591	1,270,162	1,537,753
Endowment Income	119,741	1,223,343	1,343,084
Investment Income	(64,753)	215,572	150,819
Auxiliary Enterprises:			
Student Fees	11,403,619	-	11,403,619
Gifts and Contributions	58,005	-	58,005
Interest Income	326,369	-	326,369
Sales and Services	9,747,125	-	9,747,125
Other Fees	413,581	-	413,581
Summer Camps	506,398	-	506,398
Sales and Services of Educational and Other Departments	397,910	-	397,910
Other Sources	387,858	53,110	440,968
Total Current Revenues	<u>56,072,650</u>	<u>17,584,196</u>	<u>73,656,846</u>
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	13,527,494	862,050	14,389,544
Research	1,156	263,288	264,444
Public Service	804,802	1,567,458	2,372,260
Academic Support	4,168,159	641,337	4,809,496
Student Services	4,798,883	266,473	5,065,356
Institutional Support	5,131,908	64,235	5,196,143
Operation and Maintenance of Plant	5,551,951	23,098	5,575,049
Scholarships and Fellowships	1,247,655	13,896,257	15,143,912
Total Educational and General Expenditures	<u>35,232,008</u>	<u>17,584,196</u>	<u>52,816,204</u>
Auxiliary Enterprises:			
Expenditures	18,610,561	-	18,610,561
Mandatory Transfers for Principal and Interest	2,049,638	-	2,049,638
Total Auxiliary Enterprises	<u>20,660,199</u>	<u>-</u>	<u>20,660,199</u>
Total Expenditures and Mandatory Transfers	<u>55,892,207</u>	<u>17,584,196</u>	<u>73,476,403</u>
Other Transfers and Additions/(Deductions):			
Nonmandatory Transfers In	387,007	26,010	413,017
Nonmandatory Transfers Out	(1,006,730)	(974,758)	(1,981,488)
Refunded to Grantor Agencies	-	(19,222)	(19,222)
Excess (Deficiency) of Restricted Receipts			
Over Transfers to Revenues	-	428,582	428,582
Total Other Transfers and Additions/ (Deductions)	<u>(619,723)</u>	<u>(539,388)</u>	<u>(1,159,111)</u>
Net Increases (Decreases) in Fund Balances	<u>\$ (439,280)</u>	<u>\$ (539,388)</u>	<u>\$ (978,668)</u>

The Accompanying Notes Are An Integral Part of the Financial Statements.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for generally accepted accounting principles (GAAP) in the United States of America for all state governmental entities including colleges and universities. The financial statements of The Citadel have been prepared in accordance with GAAP, as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15. That statement permits the entity to use the American Institute of Certified Public Accountants (AICPA) College Guide model. The AICPA College Guide model is the accounting and financial reporting guidance as defined by the AICPA Industry Audit Guide, *Audits of Colleges and Universities*, as amended by the AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements.

A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. This financial reporting entity includes both The Citadel, the Military College of South Carolina (a primary entity), and its component unit blended within the primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity), and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

- (1) Determines its budget without another government's having the authority to approve and modify that budget.
- (2) Levies taxes or set rates or charges without approval by another government.
- (3) Issues bonded debt without approval by another government.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, The Citadel Trust, Inc., is included in the reporting entity because The Citadel Board of Visitors appoints the Trust's board and the Trust provides specific financial benefits to The Citadel, and because of the significance of its operational and financial relationships with The Citadel. The Citadel Trust is blended within the college fund groups of The Citadel.

Section 59-121-55 of the Code of Laws of South Carolina authorized The Citadel Board of Visitors to form The Citadel Trust (the Trust), a non-profit eleemosynary corporation for the purpose of providing scholarship and other financial assistance or support to The Citadel. This legislation further authorized the Board of Visitors to transfer certain nonstate appropriated assets, not exceeding \$20,000,000, to the Trust to be used for its stated purpose, except that any restrictions or limitations on such assets continue to be applicable after the assets are transferred. These assets were transferred to the Trust effective July 1, 1991. The Trust is governed by a five-member Board of Directors appointed by The Citadel Board of Visitors. In the event of dissolution of the Trust, all its assets shall revert to The Citadel. Even though the Trust is a legally separate entity, it is reported as if it were part of The Citadel.

The Trust's balances and transactions are blended with those of The Citadel, i.e., reported in the applicable fund groups as if they were balances and transactions of The Citadel. The separately issued financial statements of the Trust may be obtained from The Citadel's Vice President for Finance and Business Affairs.

Primary Entity

The Citadel is a State-supported, coeducational institution of higher education. The Citadel 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 Citadel (a primary entity) 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-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Visitors, which has seven members appointed by the General Assembly, three by the Citadel Alumni Association, and one by the Governor, is the governing

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Primary Entity (Continued)

body of The Citadel. The Board administers, has jurisdiction over, and is responsible for the management of The Citadel.

The accompanying financial statements present the financial position, the changes in fund balances, and the current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina that is attributable to the transactions of The Citadel and its component unit.

Presentation of Component Units

The Citadel Trust, despite being legally separate from The Citadel (the primary entity), is so intertwined with it that it is, in substance, the same as the primary entity. Such component unit's balances and transactions are blended with those of the primary entity, i.e., reported in the applicable fund groups as if they were balances and transactions of the primary entity.

Basis of Accounting

The financial statements of The Citadel have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment, library books, and computer software developed or obtained for internal use (2) mandatory transfers, in the case of required provisions for debt amortization and interest; and (3) transfers of a nonmandatory nature in all other cases.

Fund Accounting - College Funds

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - College Funds (Continued)

restrictions placed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the sources of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All realized gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds, except for certain quasi-endowment income which is required to be added to the principal or unless the endowment agreement requires the income to be added to the corpus. For these exceptions, income is reported in the endowment and similar funds group.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary missions of The Citadel, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted current funds. Unrestricted current funds include but are not limited to all funds received for which no stipulation was made by the donor or other external agency as to the purposes for which they should be expended. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce The Citadel's flexibility in their utilization. Restricted current funds are those available for financing operations but which are limited by donors and other external agencies to specific purposes, programs, departments, or schools. Current funds revenues include (1) all unrestricted gifts, grants and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include resources that are restricted by external persons or agencies to transactions or purposes accounted for in other than current funds.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - College Funds (Continued)

Additional policy disclosures regarding revenue recognition are described elsewhere in this note under Basis of Accounting, Gifts and Other Nonexchange Transactions, and Deferred Revenues and in Note 16 - Pledges of Gifts. Unrestricted resources other than gifts and other nonexchange transactions are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

Current Funds Auxiliary Enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include athletics, barracks, cadet store, dining hall, infirmary, and gift shop. The portion of The Citadel's unrestricted current funds balance related to its auxiliary enterprises was \$4,259,190 at June 30.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations and write-offs in accordance with loan program terms, charges for collectibility allowances, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment and Similar Funds* group includes endowment funds, term endowment funds, and funds functioning as endowments (quasi-endowment), and annuity funds. Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Some of The Citadel's endowments require the income to be used for specified purposes and others contain no such restrictions. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. Currently, The Citadel has no term endowments. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions. Annuity funds are held in trust with a fixed payment paid periodically to designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available to The Citadel Trust for general institutional purposes. On an

THE CITADEL
The Military College of South Carolina
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - College Funds (Continued)

annual basis The Citadel Trust revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using various discount rates and applicable mortality tables.

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources and any debt related to unexpended resources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. Receipts legally restricted solely for plant improvements are recorded directly in The Citadel's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of The Citadel, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of The Citadel. They include the accounts of students, student organizations, and other groups directly associated with The Citadel.

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 and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Indirect Cost Recoveries

The Citadel records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The Citadel reports as unrestricted revenue recoveries of indirect costs applicable to government-sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by The Citadel. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. For fiscal year 2001, The Citadel retained all indirect cost recoveries.

THE CITADEL
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June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except that faculty members do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the College's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30. The Citadel calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for plant assets acquired prior to July 1, 1985, and equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts from external parties. Plant assets acquired prior to July 1, 1985, are stated at historical cost when determinable or at estimated historical cost. Equipment additions purchased through installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases and installment purchase agreements is stated at the lower of the present value of minimum lease payments, including the downpayment, at the beginning of the lease term or fair value at the inception of the lease. Resources for the payments of principal and interest on such contracts are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant funds as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and only of value to The Citadel and are not capitalized.

Construction expenditures are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Upon the completion of the project, the costs are capitalized in the appropriate asset accounts in investment in plant.

Construction in progress is valued at total cost less noncapitalized costs in the unexpended plant funds subgroup when the costs are incurred. Upon completion of the project, these capitalized costs are recorded as expenditures in unexpended plant

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

funds and the asset and any associated debt simultaneously are transferred to the investment in plant funds subgroup and recorded in the appropriate asset accounts.

Library books, periodicals, microfilms and other library materials on computer data storage devices are recorded at cost when purchased or fair market value at the date of donation.

Computer software includes the external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project; interest costs incurred when developing computer software; and costs to develop or obtain software that allows for access or conversion of old data by new systems. These costs are incurred during the application development stage. The costs of computer software developed or obtained for internal use are amortized on a straight-line basis.

Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of the various operating departments and in the investment in plant funds subgroup.

The Citadel capitalizes major additions and renovations to plant assets; qualifying equipment with a unit value in excess of \$5,000 and a useful life in excess of two years; computer software with an acquisition/initial unit value in excess of \$100,000 and a useful life in excess of two years, and library materials regardless of cost.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, and the unamortized cost of computer software, where applicable, is removed from the investment in plant subgroup. The values of library materials are removed based on average cost of library items. In accordance with practices followed by educational institutions, depreciation on physical plant and equipment is not recorded.

Capitalized Interest

The Citadel capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore, asset values in the investment in plant subgroup include such interest costs.

Deferred Charges/Credits and Amortization

Deferred charges consisting of bond discounts, bond insurance premiums and bond issuance costs are reported in the asset section and deferred credits for bond premiums are reported in the liability section of the balance sheet of the retirement of indebtedness plant funds subgroup and are amortized as elements of interest and other charges on indebtedness over the lives of the applicable bond issues using the bonds outstanding method. Amortization of deferred premiums is recorded as a reduction of interest expenditures; whereas, amortization of deferred charges is reported as an addition to interest charges.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenues

In unrestricted current funds, deferred revenues consist of receipts collected in advance for athletic events which amounts have not been earned, and student tuition and fees and room and board collected in advance for the summer and fall academic terms. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the semester for which the fee is applicable and earned. Also included are amounts arising from gifts and voluntary nonexchange transactions received before eligibility requirements, which are discussed under Gifts and Other Nonexchange Transactions, are met.

Student Deposits

Student deposits represent dormitory room deposits, security deposits for possible room damage and key loss, other deposits, and student fee refunds. 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.

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Gifts and Other Nonexchange Transactions

Nonexchange transactions involving financial or capital resources are transactions in which the The Citadel either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The type of nonexchange transactions The Citadel engages in are primarily "Voluntary nonexchange transactions" (certain grants and private donations).

Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

- a. The recipient has the characteristics specified by the provider.
- b. The recipient has met time requirements specified by the provider [i.e., the period when the resources are required to be used (e.g., disbursed or consumed) or the period when use is first permitted has begun or the resources are being maintained intact, as specified by the enabling legislation or provider].
- c. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.
- d. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts and Other Nonexchange Transactions (continued)

Promises of cash or other assets from nongovernmental entities are recognized when all eligibility requirements are met, provided the promise to give is verifiable and the resources are measurable and probable of collection.

Gifts are a type of nonexchange transaction. Gifts include resources donated to the The Citadel for unrestricted or restricted institutional purposes. Unrestricted gifts are recognized as revenue in unrestricted current funds when all applicable eligibility requirements have been met. Restricted current funds gifts are recognized as additions to fund balances in the statement of changes in fund balances when the gift resources are received or promised (i.e., the earlier of when the donor announces the gift or notifies the university of the gift and if the promise is verifiable and the resources are measurable and probable of collection or of when the university receives the monies). Restricted current funds gifts are recognized as revenue on the statement of current funds to the extent that such funds are expended for the restricted purposes during the current year and met all eligibility requirements. Other restricted gifts are recognized as additions in the applicable fund group/subgroup appropriate to the restricted purpose for which the resources were provided when received or promised (i.e., the earlier of when the donor announces the gift or notifies the university of the gift and if the promise is verifiable and the resources are measurable and probable of collection or of when the university receives the monies).

Unrestricted resources transmitted before the eligibility requirements are met are reported as advances by the provider and as deferred revenues by recipients. There was no deferred revenue applicable to other voluntary nonexchange transactions as of June 30, 2001.

Prepaid Items

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For The Citadel, amounts reported in this asset account consist primarily of prepaid insurance.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool, and cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts.

Most State agencies including The Citadel participate in the state's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase

THE CITADEL
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Notes to the Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (continued)

agreements and certain corporate bonds. For credit risk information pertaining to the internal cash management pool, see the deposit disclosures in Note 15.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Citadel records and reports its deposits in the general deposit account at cost. The Citadel reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Citadel's special deposit accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the College's accumulated daily interest income receivable to the total income receivable of the pool. Reported investment income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

For credit risk information pertaining to the State's internal cash management pool, see the deposits disclosures in Note 15.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less at the time of acquisition.

For The Citadel's funds not held by the State Treasurer, cash equivalents include investments in short-term, highly liquid securities having a maturity at the time of purchase of three months or less.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, 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 those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year or if they meet specified targets for the expenditures of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported, and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The expenditure and liability, if any, are recorded in the retirement of indebtedness subgroup and restricted assets are set aside in the retirement of indebtedness subgroup to liquidate the liability.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Information Technology Costs

Noncapitalized information technology (IT) costs are not budgeted and reported by benefiting functional expenditure classification but those related to the college's missions of instruction, research, and public service are budgeted and reported in the academic support category and other IT costs are reported in institutional support.

Fund-raising Costs

The costs of fund-raising activities are reported in the institutional support functional category and do not include management and general or other program costs of the college. The costs of incidental fund-raising activities conducted in conjunction with other program activities are not separately reported. Incidental fund-raising costs are included in the related program expenditures of the appropriate functional category.

Intraentity Transactions and Balances

Because aggregated totals are presented, The Citadel elected to remove the effects of revenue and expenditure transactions it had with its blended component unit. Reimbursement transactions for expenditures initially made by one fund or the component unit that are applicable to another are recorded as expenditures in the reimbursing fund of the College or the component unit. Expenditures initially made by The Citadel for related parties or other external parties and reimbursed by those parties are eliminated.

Transfers between The Citadel and its blended component unit are reported as nonmandatory transfers. Similarly, receivables and payables between The Citadel and its blended component unit are reported as due from and due to other funds.

Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset.

Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns of the Balance Sheet and Statement of Changes in Fund Balances represent an aggregation of the financial statement line-items to facilitate financial analysis. Such amounts are not comparable to consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data except expenditure reimbursements and certain other intraentity transactions and balances between the College and its blended component unit have been eliminated.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 2 - STATE APPROPRIATIONS

The Citadel is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless The Citadel 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 of Part IA of the 2000-2001 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, 2001:

Original Appropriation	\$15,904,589
Less 1% reduction	(176,204)
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related	
Employee Benefits (Proviso 63C.9.)	641,441
401K Employee Deferred Compensation Match (Proviso 72.44)	53,177
Appropriation Allocations from the State	
Commission on Higher Education (CHE):	
From Supplemental Appropriations of 2000 Surplus State General	
Fund Revenues (August 2000 Joint Resolution R453, H3649) for:	
Access and Equity Competitive Grants	4,287
Need-based Grants	5,387
Academic Endowment Match (Code of Laws 59-118-40)	79,486
From Capital Reserve Fund Appropriations (August 2000	
Joint Resolution R467, H4776) for Performance Funding	618,804
From the Children's Education Endowment Fund For:	
Palmetto Fellows Scholarship	48,944
Need-Based Grants	143,927
For LIFE Scholarships (2000 Act 453)	526,950
For Performance Funding (Proviso 5A.6)	1,150,070
For Academic Endowment Incentive Match	35,035
For Access and Equity Desegregation Funding	
(Proviso 5A.5.)	10,400
For Research Incentive Grants Program	<u>4,108</u>
Total State Appropriations Revenue - Accrual Basis	19,050,401
Less: Higher Education Grant/Scholarship Funding	
Reported in Restricted Current Funds	776,208
Less: Academic Endowment Match Reported in the	
Restricted Current Funds	<u>114,521</u>
Funding Reported in Unrestricted Current Funds	<u>\$18,159,672</u>

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

The College recognized the following State General Fund appropriation from the State Commission on Higher Education as state grants and contracts revenue in the restricted current funds group.

SC Research Incentive Grant	\$64,200
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The College recognized the following revenue from the State Commission on Higher Education as state grants and contracts revenue in the restricted funds group.

Gaining Early Awareness and Readiness for Undergraduate Programs	\$72,733
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In addition, the Citadel recognized revenue of \$15,462 from the Medical University of SC for the Healthy SC Initiative Grant for Neural Tube Defects and Their Families, which is recognized as state grant and contract revenue in the restricted current funds group. The Citadel received \$50,000 from the SC Department of Parks, Recreation and Tourism for restoration of a cannonaire, and \$3,480 from the SC Department of Education for an After School Homework program. These funds are also recognized as state grant and contract revenue in the restricted current funds group. The Citadel received \$13,863 as State FEMA match for Hurricane Floyd damage which is recognized as state grant revenue in the unrestricted fund.

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In fiscal year 2001 and in prior years, the State authorized funds for improvements and expansion of facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, The Citadel records the proceeds as revenue in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The Citadel is not obligated to repay these funds to the State. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable." A summary of the activity in the balances available from these authorizations during the year ended June 30, 2001, follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 2001</u>	<u>Balance Authorized June 30, 2001</u>
Act 638 of 1988	\$ 8,270,909	\$ 8,270,481	\$ -	\$ 428
Act 111 of 1997	6,282,000	1,239,572	4,317,065	725,363
Act 28 of 1999	8,000,000	749,221	994,282	6,256,497
Act 1 of 2001	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
 Total	 <u>\$25,552,909</u>	 <u>\$10,259,274</u>	 <u>\$5,311,347</u>	 <u>\$9,982,288</u>

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2001

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS (CONTINUED)

The balance is reported in the unexpended plant fund subgroup of the plant funds group.

Of the balances available at June 30, 2001, the college can withdraw funds according to the following schedule:

July 1, 2001, to December 31, 2001	\$1,362,978
January 1, 2002, to June 30, 2002	4,404,828
July 1, 2002, to December 31, 2002	1,404,827
After December 31, 2002	<u>2,809,655</u>
Total	<u>\$ 9,982,288</u>

NOTE 4 - BONDS PAYABLE

At June 30, 2001, bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 2001 Balance</u>
State Institution Bonds			
Series 1991	5.5% - 7.5%	12/01/06	\$ 1,025,000
Revenue Bonds			
Series 1997	4.875% - 5.125%	04/01/17	20,885,000
Athletic Facilities Revenue Bonds			
Series 2001	4.07%	02/14/04	<u>3,000,000</u>
Total			\$24,910,000
Less: Amount included in Unexpended Plant funds			<u>1,628,632</u>
Amount included in Investment in Plant			<u>\$23,281,368</u>

The balance reported in the unexpended plant funds subgroup represents the unspent portion of the Athletic Facilities Revenue Bonds (Series 2001) for the construction of various athletic facilities.

The various bond indentures restrict the use of particular revenue sources. State Institution Bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition paid to The Citadel is restricted up to the amount of annual debt requirements for the payment of principal and interest on State Institution Bonds. The Series 1997 Revenue Bonds are backed by two sources of revenue: the net revenues of the "Facilities" and "Additional Funds". The enabling act defines "Facilities" as dormitories, apartment buildings, dwelling houses, bookstore and other college operated stores, laundry, dining halls, cafeterias, parking facilities, student recreational, entertainment and fitness related facilities, inns, conferences and non-degree educational facilities and similar auxiliary facilities of the college or any other facilities which are auxiliary to any of the foregoing. The "Additional Funds" are all available funds and academic fees of the college which are not (1) funds of the college derived from appropriations received from the General Assembly; and (2) tuition funds pledged to the repayment of State Institution Bonds. The Series 2001 Athletic Facilities

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NOTE 4 - BONDS PAYABLE (CONTINUED)

Revenue Bonds are backed by two sources of revenue: the Athletic Facility Fee and the Athletic Fee.

On February 14, 2001, The Citadel issued \$3,000,000 in Athletic Facilities Revenue Bonds with a fixed interest rate of 4.07%. Annual installments of interest are payable beginning February 14, 2002, with the final interest payment and entire principal amount due on February 14, 2004. The proceeds of the bond will be used to help fund the construction of athletic facilities at The Citadel.

The Citadel purchased a bond insurance policy in favor of the bond trustee for the Series 1997 Revenue Bonds. The insurance covers the payment of principal and interest for a period equal to the final maturity in case of nonpayment by The Citadel.

The bond documents outline certain covenants to secure the bonds. For the 1997 Series Revenue Bonds, The Citadel must maintain and collect rates and charges for the use of the facilities which shall at all times be sufficient (1) to provide for the payments of expenses for administration, operation and maintenance of the facilities as may be necessary to preserve the same in good order and repair, (2) to provide for the payment of principal and interest on the Bonds, (3) to maintain the debt service funds and thus provide for the punctual payment of principal and interest on the bonds, (4) to provide a reserve for contingencies and for improvements, renovations and expansion of the facilities other than those necessary to maintain the same in good order and repair, (5) to provide all amounts owing under any reimbursement agreement with any provider of an insurance policy, and (6) to discharge all obligations imposed by the enabling act and resolution. For the 2001 Series Athletic Facilities Revenue Bonds, The Citadel must maintain in full force and effect the Athletic Facility Fee and the Athletic Fee charged to students at the Citadel to provide for the payment of the principal and interest on the bonds.

The series 1997 Revenue Bonds maturing prior to April 1, 2007, shall not be subject to redemption prior to their stated maturities. The Series 1997 Bonds maturing on or after April 1, 2007 shall be subject to redemption at the option of The Citadel Board of Visitors on or after April 1, 2006, in whole at any time or in part on any April 1 or October 1, and if in part in those maturities designated by The Citadel and by lot within a maturity (but only in integral multiples of \$5,000) upon 30 days notice at the principal amount thereof and the interest accrued on such principal amount to the date fixed for redemption, plus the following redemption premiums, expressed as a percentage of the principal amount redeemed; April 1, 2006 through March 31, 2007 at 102%; April 1, 2007 through March 31, 2008 at 101%; and April 1, 2008 and thereafter at 100%. Beginning December 1, 2000, certain of the Series 1991 State Institution Bonds may be redeemed at a premium prior to the mandatory redemption dates and final maturities at the option of the State of South Carolina. The redemption prices (expressed as a percentage of the principal redeemed) for the Series 1991 State Institution Bonds range from 102 percent to 100.5 percent in 2003. The Series 2001 Athletic Facilities Revenue Bonds may be redeemed at par on or after February 14, 2003. There are no debt service reserve fund requirements under any of the bond covenant terms of The Citadel's bonds.

All of the bonds, with the exception of the Series 2001 Athletic Facilities Revenue Bonds, are payable in semiannual installments plus interest. The Series 2001

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NOTE 4 - BONDS PAYABLE (CONTINUED)

Athletic Facilities Revenue Bonds require annual interest payments, with the entire principal due on maturity. Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 2001 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 990,000	\$ 1,158,116	\$ 2,148,116
2003	1,040,000	1,109,244	2,149,244
2004	4,080,000	1,012,269	5,092,269
2005	1,145,000	882,514	2,027,514
2006	1,210,000	825,903	2,035,903
2007 through 2017	<u>15,420,000</u>	<u>4,916,078</u>	<u>20,336,078</u>
Total Obligations	\$<u>23,885,000</u>	\$ <u>9,904,124</u>	<u>\$33,789,124</u>

Amounts including interest required to complete payment of the State Institution Bonds as of June 30, 2001 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 145,000	\$ 58,871	\$ 203,871
2003	155,000	49,579	204,579
2004	165,000	39,559	204,559
2005	175,000	28,729	203,729
2006	185,000	17,318	202,318
2007	<u>200,000</u>	<u>5,208</u>	<u>205,208</u>
Total Obligations	\$<u>1,025,000</u>	\$<u>199,264</u>	<u>\$1,224,264</u>

Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement for institution bonds are recorded directly in the funds for retirement of indebtedness as student tuition revenue. Mandatory transfers from auxiliary enterprises revenue for debt retirement on the revenue bonds are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

In prior years, The Citadel defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. As a result, because the revenue bonds are considered defeased, the liability for the defeased bonds has been removed from the investment in plant funds subgroup and the trust account assets are not included in these financial statements. At June 30, 2001, \$9,285,000 of bonds outstanding is considered defeased.

The Citadel reported principal retirements and interest expenditures in the retirement of indebtedness subgroup related to the bonds as follows for the year ended June 30, 2001.

<u>Bond Type</u>	<u>Principal</u>	<u>Interest</u>
State Institution	\$ 135,000	\$ 67,405
Revenue Bonds	955,000	1,082,998
Athletic Facilities Revenue Bonds	<u>-0-</u>	<u>45,788</u>
Total	\$<u>1,090,000</u>	<u>\$1,196,191</u>

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NOTE 4 - BONDS PAYABLE (CONTINUED)

Of the interest, \$13,830 was capitalized as part of the cost of construction in progress.

Amortization of deferred charges of \$25,275 is reported as an element of interest and other charges on indebtedness in the current year.

Debt Service Limitation 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 (as defined by Code Section 59-107-30) for the preceding fiscal year. Tuition fees for the fiscal year ended June 30, 2000, were \$499,457, which results in a legal annual debt service limit at June 30, 2001, of \$449,511.

Arbitrage Liability Accrual

In prior years the college reported an accrued arbitrage liability. The Citadel's arbitrage liability was recalculated in the current year and estimated to be zero. Therefore, the \$654 balance at June 30, 2000 was written off in the current year. That transaction is reported as an "other sources" addition in the retirement of indebtedness subgroup.

NOTE 5 - NOTE PAYABLE

	<u>Interest</u>	<u>Maturity</u>	<u>Amount</u>
Note due to the State of South Carolina			
Note dated 08/01/81, revised 12/08/89	6.80%	12/08/08	\$223,697

The note is payable in annual installments plus interest. Amounts including interest required to complete payment of the note as of June 30 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 21,961	\$ 14,465	\$ 36,426
2003	23,454	12,921	36,375
2004	25,049	11,271	36,320
2005	26,752	9,510	36,262
2006	28,572	7,629	36,201
2007 through 2009	<u>97,909</u>	<u>10,279</u>	<u>108,188</u>
Total Obligations	<u>\$223,697</u>	<u>\$66,075</u>	<u>\$289,772</u>

The College has pledged a portion of income from ticket sales, facility rentals, and student fees to make these payments.

Principal paid on the note payable was \$20,563 for the year ended June 30, 2001. Interest for 2001 for this note was \$15,911 and is recorded in the plant funds. These transactions were recorded in the retirement of indebtedness subgroup.

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NOTE 6 - LEASE OBLIGATIONS

The college is obligated under an operating lease for the use of equipment. In addition, The Citadel is obligated under capital leases for the acquisition of equipment. Future commitments for capital leases and for noncancellable operating leases having remaining terms in excess of one year as of June 30, 2001, were as follows:

<u>Year ending June 30</u>	<u>Capital Leases (Equipment)</u>	<u>Operating Leases (Equipment)</u>
2002	\$29,472	\$1,063
2003	18,246	1,063
2004	18,246	1,063
2005	17,758	1,063
2006	<u>732</u>	<u>-0-</u>
Total minimum lease payments	\$84,454	<u>\$4,252</u>
Less: interest	3,580	
Less: executory costs	<u>33,630</u>	
Principal outstanding	<u>\$47,244</u>	

Capital Leases

During the current fiscal year The Citadel entered into a capital lease for a copier in the total amount of \$20,436. In addition, The Citadel replaced a lease for postage metering equipment valued at \$24,000 with an original expiration date of September 2001, with a lease for new metering equipment valued at \$22,530. The new capital leases are payable in monthly installments from unrestricted current funds resources transferred to retirement of indebtedness subgroup of the plant funds group and have terms expiring in various years between 2002 and 2006. Capital lease expenditures for fiscal year 2001 were \$33,359, of which \$2,532 represented interest and \$9,724 represented executory costs. Interest rates range from 4.07% to 5%. The carrying value of the equipment held under capital lease at June 30, 2001 is \$82,961.

Certain capital leases provide for renewal and/or purchase options. Generally purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

The Citadel had no capital leases with related parties in the current fiscal year.

Operating Leases

The college's noncancellable operating lease having a remaining term of more than one year at June 30, 2001 expires in fiscal year 2005. Certain operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. All agreements are cancelable if the State of South Carolina does not provide adequate funding. 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.

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NOTE 6 - LEASE OBLIGATIONS (CONTINUED)

Total operating lease expenditures in 2001 for equipment were \$878. The Citadel reports these costs in the unrestricted current funds functional expenditure categories.

The Citadel had no operating leases with related parties in the current fiscal year.

NOTE 7 - INTERFUND TRANSFERS

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service and facility operating costs as required by bond indentures and law. Tuition, fees, and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness fund subgroup until they are transferred by the State Treasurer into a general capital improvements funding account. For State Institution Bonds issued by the State of South Carolina on behalf of The Citadel, the State Treasurer automatically transfers qualified funds. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, institutions are authorized to make transfers for specific projects with notification to the State Treasurer.

The Citadel reports its general capital funding account in the unexpended plant funds subgroup as unrestricted fund balance. In fiscal year 2001, The Citadel transferred \$336,339 to fund construction projects, which is reported as a nonmandatory transfer from the retirement of indebtedness subgroup to the general capital projects funding account of the unexpended plant funds subgroup and reported in unrestricted fund balance. During the current year, The Citadel transferred \$151,604 within that subgroup from the general funding account to finance specific capital projects. Unexpended balances of the capital project accounts are reported as restricted fund balances in the unexpended plant funds subgroup.

In addition, during fiscal year 2001, The Citadel recorded interfund transfers and transfers with its blended component unit, as follows:

<u>Fund</u>		<u>Amount</u>	<u>Purpose</u>
<u>From</u>	<u>To</u>		
<u>Mandatory Transfers</u>			
Unrestricted Current	Retirement of Indebtedness- Plant Fund	\$2,049,638	Funds to cover Revenue Bond debt service payments
<u>Nonmandatory Transfers</u>			
Unrestricted Current	Endowment	\$ 289,801	Board designated additions to quasi-endowment funds

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NOTE 7 - INTERFUND TRANSFERS (CONTINUED)

<u>From</u> <u>Nonmandatory Transfers</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Unrestricted Current	Unexpended Plant-Plant Fund	\$ 678,457	Funding for various construction projects
Unrestricted Current	Retirement of Indebtedness- Plant Fund	\$ 23,635	Funding for capital lease payments
Unrestricted Current	Retirement of Indebtedness- Plant Fund	\$ 14,837	Funding for miscellaneous bond service fees
Restricted Current	Endowment	\$ 400,080	Board designated additions to quasi-endowment funds
Restricted Current	Unexpended Plant-Plant Fund	\$ 537,506	Funding for various construction projects
Restricted Current	Retirement of Indebtedness- Plant Fund	\$ 37,172	Inaugural Campaign funds for debt service requirements
Endowment	Unrestricted Current	\$ 127,131	Portion of endowment funds investment gains appropriated
Endowment	Restricted Current	\$ 16,163	Portion of endowment funds investment gains appropriated
Unexpended Plant-Plant Fund	Unrestricted Current	\$ 259,876	Return of unspent funds to funding source
Unexpended Plant-Plant Fund	Restricted Current	\$ 9,847	Return of unspent funds to funding source

NOTE 8 - PENSION 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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NOTE 8 - PENSION PLANS (CONTINUED)

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.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after 5 years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years credited service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

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. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 10.07 percent which included a 2.52 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 ending June 30, 2001, 2000, and 1999, \$1,603,333, \$1,536,921, and \$1,447,630, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$31,854 in the current fiscal year at the rate of .15 percent of compensation. The Citadel paid no pension costs for employees on educational leave.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan. 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

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NOTE 8 - PENSION PLANS (CONTINUED)

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.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 12.82 percent which, as for the SCRS, included a 2.52 percent surcharge. The Citadel's actual contributions to the PORS for the years ending June 30, 2001, 2000, and 1999, were \$42,659, \$40,412, and \$37,760, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$828 and accidental death insurance contributions of \$828 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

The amounts paid by The Citadel for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

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 contributions rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, The Citadel's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, The Citadel's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other

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NOTE 8 - PENSION PLANS (CONTINUED)

applicable revenue sources. Accordingly, The Citadel recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

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

ORP participation is limited to faculty and administrative staff of the State's four-year 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, 7.55 percent plus the retiree surcharge of 2.52 percent from the employer in fiscal year 2001.

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 \$242,622 excluding the surcharge from the college as employer and \$192,812 from its employees as plan members. In addition, The Citadel paid \$4,820 for group-life insurance coverage for these employees. The employees' contribution of 6% plus the employer's contribution of 5% were remitted to the respective annuity policy providers. The remaining 5.07 employer's contribution plus the surcharge was remitted to the Retirement Division of the State Budget and Control. The obligation for payment of benefits resides with the insurance companies.

NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

These benefits are provided through annual appropriations by the General Assembly to The Citadel for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension

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NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

surcharge and provided from other applicable fund sources of The Citadel for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 20,100 State retirees meet these eligibility requirements.

The Citadel recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of \$1,903,177 for the year ended June 30. As discussed in Note 8, The Citadel paid \$626,571 applicable to the 2.52 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

NOTE 10 - 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.

The State authorized deferred compensation matching contributions for fiscal year 2000-2001. The contributions are funded from various funding sources based on the same percentages used for employees' salaries. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the portion of contributions paid from State General Funds to 401(k) accounts of eligible state employees. The 401(k) match is limited to \$300. To be eligible an employee must be a permanent full-time State employee or temporary grant employee who is actively contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full-time employees making less than \$20,000 as of July 1, 2000, are not required to contribute in order to receive the match.

The Citadel contributed \$33.33 per pay period for each eligible employee beginning February 28, 2001.

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NOTE 10 - DEFERRED COMPENSATION PLANS (CONTINUED)

During fiscal year 1997-98 the college established The Citadel Executive Severance Plan. This plan was initially an executive severance plan at Woodberry Forest School. However, the plan was amended and restated as the Woodberry Forest School/The Citadel Executive Severance Plan on June 30, 1997. Effective December 31, 1997, Woodberry Forest withdrew as a participating employer in this plan. The Executive Severance Plan was adopted for certain of the institutions' executive or highly-compensated employees. The purpose of the plan is to offer those employees an opportunity to elect to defer the receipt of compensation in order to provide for severance pay and death benefits taxable pursuant to section 451 of the IRC of 1986, as amended. The plan is intended to be a "bona fide severance pay plan" and a "bona fide death benefit plan" as defined in Section 457(e)(11) of the IRC and a "top hat" severance pay and death benefit plan (i.e., an unfunded severance pay and death benefit plan maintained for a select group of management or highly-compensated employees) under section 401(a)(1) of the ERISA and Department of Labor regulations sections 2520.104-23 and 2520.104-24. Upon bona fide severance participants will be required to withdraw all funds as taxable compensation within a two-year period from the date of severance. Eligible employees are any persons employed by the sponsor who are determined by the sponsor to be a select group of management or highly-compensated employees and who are designated by the Board to be eligible employees under the plan. Three employees are currently designated to participate in this plan.

The Citadel Trust contributed \$55,000 to The Citadel Executive Severance Plan in fiscal year 2001 and intends to contribute similar amounts in future years. Because this plan is a Section 457 (e) (11) plan, plan assets remain the property of The Trust until paid or made available to participants and are subject to the claims of The Citadel's general creditors. At June 30, 2001, the \$333,871 plan balance is included in investments in the unrestricted current funds. This amount is also reported as a deferred compensation liability in the unrestricted current funds. Of this amount, cumulative Citadel Trust contributions total \$113,334. John Grinalds contributed \$57,638 in fiscal year 2001, for a cumulative total of \$118,225. A contribution of \$68,326 was received from Woodberry Forest School in fiscal year 1998, when Woodberry Forest was a co-participant in the plan. The remaining balance in this fund is composed of investment income of \$33,986. Current year contributions are reported as expenditures in the unrestricted current fund.

A Supplemental Executive Retirement Plan functioning under section 457(f) was established at the same time as the Executive Severance Plan. There are currently no participants in the Supplemental Executive Retirement Plan and no funds have been invested in this plan. Eligible employees are any persons employed by the sponsor who are determined by the sponsor to be a select group of management or highly-compensated employees and who are designated by the Board to be eligible employees under the plan. Three employees are currently designated to participate in this plan.

NOTE 11 - INVENTORIES

Inventories for internal use are valued at cost. Inventories for resale are valued at the lower of cost or market. The following is a summary by inventory category of

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NOTE 11 - INVENTORIES (CONTINUED)

cost determination method and value at June 30:

<u>Category</u>	<u>Method</u>	
Cadet Store	First-in, first-out	\$1,246,288
Gift Shop	First-in, first-out	364,558
Tailor Shop	First-in, first-out	184,864
Central Stores	Moving weighted average cost	<u>18,920</u>
		<u>\$1,814,630</u>

NOTE 12 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, The Citadel operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report interfund liabilities for deficit cash balances in the State's cash management pool accounts. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year, unless otherwise agreed, without interest. Individual interfund balances outstanding at June 30, 2001, were as follows:

- A. The interfund advance arose during fiscal year 1985 when the retirement of indebtedness funds advanced \$587,655 to unexpended plant funds for the stadium lights project. During the current fiscal year, \$10,000 was repaid which reduced the balance to \$480,000. Current year plans call for a similar type reduction each year.
- B. All other interfund debt is temporary in nature representing cash advances that were primarily used to pay operating expenses. These amounts are considered currently due. Such borrowings occurred during the current fiscal year but there was no such short-term interfund debt outstanding at year-end.

NOTE 13 - STUDENT LOANS RECEIVABLE AND OTHER ACCOUNTS RECEIVABLE

With minor exceptions, allowances for losses for student loan receivables and various accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 2001, the allowances for accounts receivable in unrestricted current funds and student loans receivable in loan funds are valued at \$303,538 and \$391,752.

NOTE 14 - CONSTRUCTION COSTS AND COMMITMENTS

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 total cost of

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NOTE 14 - CONSTRUCTION COSTS AND COMMITMENTS (CONTINUED)

\$19,697,000. Of the total cost, approximately \$9,380,000 is unexpended at June 30. Of the total expended through June 30, 2001, The Citadel has capitalized in the current fiscal year substantially complete and in use projects costing \$7,210,301 in the applicable plant fund categories. Of the unexpended balance at June 30, 2001 The Citadel had remaining commitment balances of approximately \$3,090,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Retainage payable on these capital projects as of June 30, 2001 was \$338,014. Major capital projects at June 30, 2001, which constitute construction in progress that will be capitalized when completed, are listed below.

<u>Project Title</u>	<u>Estimated Cost</u>	<u>Amount Expended</u>
Female Locker Facility	\$860,000	\$94,772
Stadium End Zone Building	2,945,000	1,743,461
Padgett Thomas Barracks Replacement	6,891,425	899,236
Stadium Replacement	600,000	95,723
Rifle Range A & E	50,000	10,317
Congress Street Site Preparation	150,000	8,119
College Park Renovations	<u>278,000</u>	<u>6,645</u>
	<u>\$11,774,425</u>	<u>\$2,858,273</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.

At June 30, The Citadel had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities and to repair and improve all utility delivery systems regarding campus infrastructure. Costs incurred to date on these projects amount to approximately \$1,035,000 at June 30, and the estimated cost to complete is approximately \$778,000. At June 30, The Citadel had remaining commitment balances of approximately \$347,000 with certain parties related to these projects. Retainage payable on the non-capitalized projects as of June 30, 2001 was \$22,323.

The Citadel anticipates funding these projects out of current resources, current and future bond issues, state capital improvement bond proceeds, private gifts, and student fees.

NOTE 15 - DEPOSITS AND INVESTMENTS

All deposits and investments of The Citadel are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain monies are deposited with or managed by financial institutions and brokers. Deposits and investments of The Citadel Trust are not under the State Treasurer's control.

The following schedule reconciles deposits and investments within the footnotes to

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NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$17,396,503	Cash on Hand	\$ 55,891
Investments	44,447,214	Deposits Held by	
		State Treasurer	14,769,622
		Other Deposits	564,450
		Investments	<u>46,453,754</u>
	<u>\$61,843,717</u>		<u>\$61,843,717</u>

Deposits Held by 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. At June 30, 2001, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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 agent in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Other Deposits

The Citadel's other deposits at year-end were entirely covered by federal depository insurance or by collateral held by The Citadel's custodial bank in The Citadel's name. Loan funds include \$16,000 restricted cash for a loan participation deposit. The Citadel's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

- (1) Insured or collateralized with securities held by the entity, or by its agent in the entity's name. (Not held by the bank.)
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- (3) Uninsured or uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.)

All but \$20,647 of other deposits are owned by The Citadel Trust, a component unit of The Citadel. The other deposits owned by The Citadel relate to required loan deposits and cash on hand with the College's Perkins Loan servicer. A summary of the June 30, 2001, bank balances of other deposits classified by category of risk is

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NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Other Deposits (Continued)

as follows:

	Category of Risks			Bank	Reported
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
Cash deposits	\$ <u>564,080</u>	\$ <u>250</u>	\$ <u>-</u>	\$ <u>564,330</u>	\$ <u>564,450</u>

Investments

All investments are owned by The Citadel Trust, a component unit of The Citadel. Authorized investments include U.S. government/government-insured securities and corporate stocks and bonds, as authorized by trust agreements and The Citadel Trust Board of Directors.

"Investments" are stated at fair value. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on investments have been recorded. Realized gains and losses on securities transactions are recorded on the accrual basis. Earnings are recorded monthly.

As disclosed in Note 10, unrestricted funds include \$333,871 of investments reserved to fund the deferred compensation liability.

The Citadel's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in The Citadel Trust's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in The Citadel Trust's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in The Citadel Trust's name. Investments which do not meet the definition of investment securities are listed below but are not classified by risk category. A summary of investments at June 30, 2001, by category of credit risk is as follows:

	Category of Risk			Fair
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>
U.S. Treasury Notes/Bonds	\$ -	\$ 7,795,876	\$ -	\$ 7,795,876
U.S. Government and Agency				
Bonds	107,440	2,739,268	-	2,846,708
Corporate Bonds	144,680	6,607,648	-	6,752,328
Corporate Stock	<u>14,846,763</u>	<u>3,023,911</u>	<u>-</u>	<u>17,870,674</u>
	<u>\$15,098,883</u>	<u>\$20,166,703</u>	<u>\$ -</u>	35,265,586

Investments not subject to categorization:

Open-ended Mutual Funds	<u>11,188,168</u>
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Total Investments	<u>\$46,453,754</u>
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Notes to the Financial Statements
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NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

The investments are maintained at the trust/investment departments of Bank of America, Wachovia National Bank, Salomon Smith Barney, the Common Fund, First Union National Bank, and Carolina First Bank.

The Citadel Trust Board of Directors has a formal investment policy, and current investments are within the guidelines which have been established by the Board. The Trust Board of Directors is responsible for all investment decisions.

NOTE 16 - PLEDGES OF GIFTS

The Citadel recognizes revenue from pledges when all eligibility requirements are met, provided that the pledge is verifiable and the resources are measurable and probable of collection. Pledges are accounted for at their estimated net realizable value. The estimated net realizable value comprehends the present value of long-term pledges and reductions for any allowance for uncollectible pledges.

During the current year, The Citadel recorded pledges receivable and private gift revenue of \$192,308 in the restricted current fund, and pledges receivable and private gift revenue of \$141,457 in the unexpended plant subgroup (See Footnote 22). These pledges receivable and the associated gift revenues are to be used for academic programs and capital expenditures and are due to be collected as follows:

<u>Year ended</u> <u>June 30</u>	<u>Restricted</u> <u>Current</u>	<u>Unexpended</u> <u>Plant</u>	<u>Total</u>
2002	\$192,308	\$72,115	\$264,423
2003	-	69,342	69,342
2004	-	-	-
2005	-	-	-
2006	-	-	-
<u>After 2005</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$192,308</u>	<u>\$141,457</u>	<u>\$333,765</u>

During the year ended June 30, 2001, The Citadel re-evaluated the collectibility of pledges and certain pledges were written off. No allowance for doubtful pledges was established for the year ended June 30, 2001 because The Citadel timely received payments due in FY 2001 and prior years on the two remaining pledges and expects to collect the pledge balances according to schedule.

NOTE 17 - SPLIT INTEREST AGREEMENTS

During December 1993 a benefactor established a charitable remainder uni-trust, consisting of publicly traded common stock valued at \$60,000,000, to which The

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NOTE 17 - SPLIT INTEREST AGREEMENTS (CONTINUED)

Citadel Trust, Inc., is entitled to one-third of the remaining assets upon the benefactor's death. 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 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 this 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 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 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 and his wife for their lifetimes. 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 fund balance 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 donors. At June 30, the present value of the annuity payable was \$62,814. For the current year, the actuarial gain due to recomputation of the present value was \$7,486. The annuity payable, the adjustment of the actuarial liability, and the annuity's fund balance are included in the Endowment Fund.

NOTE 18 - RELATED PARTIES

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 Citadel and its educational program. They include The Citadel Foundation (CF) (the college's fundraising entity), The Brigadier Foundation (the college's athletic support organization), and The Citadel Alumni Association (the college's alumni support group). The financial statements of these entities are audited by independent auditors retained by them. The activities of these organizations are not included in The Citadel's financial statements. However, The Citadel's statements include transactions between The Citadel and its related parties.

In conjunction with its implementation of GASB Statement No.14 and each fiscal year thereafter, management reviews its relationships with the related entities described in this note. The Citadel excludes these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which

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NOTE 18 - RELATED PARTIES (CONTINUED)

organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, some or all of these related parties may become component units of The Citadel and part of the financial reporting entity.

Various transactions occur between The Citadel and these related parties. Unless otherwise noted below, funds, other than expenditure reimbursements, received from those related parties are primarily reported as private gifts, or as nongovernmental grants and contracts revenue in restricted current funds. A summary of these transactions and balances at June 30, 2001, follows:

Citadel Alumni Association

Reimbursement to The Citadel for certain expenses incurred on behalf of the Association	\$157,865
Funds received by The Citadel for Association's share of <i>Citadel Magazine's</i> publication costs	\$50,000
Funds received by The Citadel for share of operational profits from The Holliday Alumni Center and the Corp of Engineers' Building	\$46,191
Balance Due from the Association included in accounts receivable (unrestricted current funds)	\$98,781

Funds received by The Citadel for the Association's share of *Citadel Magazine's* publication costs were recorded as other sources of revenue in the unrestricted current fund.

The college signed a Memorandum of Understanding (MOU) with The Citadel Alumni Association regarding costs incurred in the newly renovated John Monroe Holliday Alumni Center building (see Note 25 - Citadel Trust Loan Guarantee). According to the MOU, expenses related to routine operations of the alumni center are split in the following manner: 60% assigned to the alumni association for costs associated with its operations and 40% assigned to the college for the costs of the college's alumni office. This ratio was determined 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 Alumni Association. The Alumni Association prepares an annual accounting of the net income of rental activities each May. After covering Alumni Association income producing costs, any amount remaining is split on the same 60:40 basis as building operating expenses. For the year ending 30 June 2001, The Citadel's share of John Monroe Holliday Alumni operating profits was \$46,191 and is recorded as other sources of income in the unrestricted current funds.

The Brigadier Foundation

Funds received for athletic scholarships	\$900,000
Reimbursement to The Citadel for certain expenses incurred on behalf of the Foundation	\$306,470
Funds received by The Citadel for Brigadier's share of <i>Citadel Magazine's</i> publication costs	\$15,000

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NOTE 18 - RELATED PARTIES (CONTINUED)

The Brigadier Foundation (continued)

Balance Due from the Brigadier included in
accounts receivable (unrestricted current funds) \$ --0--

Funds received by The Citadel for the Brigadier Foundation's share of *Citadel Magazine's* publication costs were recorded as other sources of revenue in the unrestricted current fund.

The Brigadier Foundation is indebted to The Citadel for \$109,000 as of June 30, 2001, for the athletic-grants-in aid on an interest-free note dated October 10, 1984, in the original amount of \$208,436. The receivable is reported in restricted current funds. The Citadel has not established a payment schedule for this loan.

The Citadel Foundation

Nongovernmental grants and contracts received for grants, awards, and scholarships	\$3,715,244
Reimbursement to The Citadel for certain expenses incurred on behalf of the Foundation	\$43,499
Funds received by The Citadel for the Foundation's share of <i>Citadel Magazine's</i> publication costs	\$23,200
Nongovernmental grants and contracts received for Citadel salary supplements	\$43,954
Balance due from the Foundation included in Accounts receivable (unrestricted current fund)	\$30,613

\$465,497 of Foundation grant to The Citadel was recorded as nongovernmental grant and contract revenue in the unrestricted current fund. The remainder of the grant was recorded as nongovernmental grant and contract revenue in the restricted current fund. Funds received by The Citadel for the Foundation's share of *Citadel Magazine's* publication costs were recorded as other sources of revenue in the unrestricted current fund.

In August 2000, The Citadel Development Foundation amended its charter to establish The Citadel Foundation as the college's official fundraising entity. The new foundation will be governed by a board comprised of directors of the former Citadel Development Foundation (which includes the president of The Citadel Alumni Association as an ex-officio member), 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. The Citadel's Advancement Office has been eliminated and those employees now work for The Citadel Foundation. The Foundation will manage consolidated fundraising for college, however at present Citadel Trust investments will continue to be managed by the Citadel Trust Board of Directors. The college anticipates that the Foundation will assume investment responsibilities for Citadel Trust investments at some point in the future.

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NOTE 18 - RELATED PARTIES (CONTINUED)

In 2001, The Citadel participated in The Citadel Foundation's Annual Fund Drive. The Citadel Foundation (CF) contacted donors and received all contributions. Gifts designated for The Citadel were processed by CF and subsequently remitted to The Citadel. The Citadel reimbursed CF for direct expenses and paid CF a fee for their services based on a percentage of total gifts collected. The fee payment is recorded as institutional support expenditures in the unrestricted current fund. For the calendar year ending December 31, 2000, The Citadel paid CF \$16,762 for fund-raising services and reimbursed CDF for direct costs of \$2,268. For the fiscal year ending June 30, 2001, CF collected contributions of \$1,464,756 on behalf of The Citadel. These contributions are recorded as private gifts in the unrestricted current (\$262,507), restricted current (\$469,817), and unexpended plant funds (\$60,850), and as additions to permanent endowments in the endowment fund (\$671,582).

NOTE 19 - TRANSACTIONS WITH STATE ENTITIES

The Citadel has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; check preparation, banking, bond trustee, and investment services from the State Treasurer; legal services from the Attorney General; and grants services from the Budget and Control Board.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plans 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, surplus property disposal fees, insurance coverage, office supplies, printing, telephone, and interagency mail services. 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 expenditures applicable to these transactions are not readily available.

The Citadel provided no services free of charge to other State agencies during the fiscal year; however, The Citadel provided printing and facilities rental services to various State agencies for a fee.

NOTE 20 - CONTINGENCIES AND LITIGATION

Five suits are currently being litigated. Except for a reverse discrimination suit, all amounts are small or the College's insurance should cover any potential damages should the College be found at fault. In the reverse discrimination suit, the

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NOTE 20 - CONTINGENCIES AND LITIGATION (CONTINUED)

College's insurance provider has imposed a reservation of rights provision. Management anticipates that the worst possible outcome is that the College will not have insurance coverage and will be required to pay \$250,000. Management and legal counsel do not expect this to happen. Therefore, the College has not recorded any estimated loss liabilities for these lawsuits.

The various federal programs administered by The Citadel for fiscal year 2001 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined, but The Citadel believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the College. Therefore, an estimated loss has not been recorded.

NOTE 21 - RETIREMENT INCENTIVE

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are 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 a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

The Citadel recorded expenditures of \$108,957 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2001. These expenditures are reported in unrestricted current funds in the applicable functional expenditure categories in which the payroll costs for the respective employees are recorded. That entire amount was paid prior to year end. The compensated absences liability related to eligible employees who have not elected to participate as of June 30, 2001 is \$45,870.

NOTE 22 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

Accounting principles include not only accounting principles and practices but also the methods of applying them.

Effective July 1, 2000 the University adopted Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which became effective for periods beginning after June 15, 2000. This Statement establishes accounting and financial reporting guidance about when to report the results of nonexchange transactions involving cash and other financial and capital resources. This results in a change to the The Citadel's method of accounting for private donations, pledges of gifts, and certain grants. These are voluntary nonexchange transactions which are recognized when all eligibility requirements are met. "Certain grants" refers to nonexchange federal, state or

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NOTE 22 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

private grants. In previous years private donations, pledges of gifts, and certain grants were recognized when the college received the funds. The effects of implementing GASB Statement No. 33 increased the fund balance of the Restricted Current Fund and the Unexpended Plant subgroup by \$192,308 and \$141,457, respectively. Private gift revenue associated with pledges was recorded in these funds in the current year.

GASB Statement No. 33 also addresses the treatment of donations of permanently nonexpendable resources. Because these gifts are required to be added to endowment principal they are displayed separately as additions to permanent endowments in the Endowment Fund. In prior years these gifts were recorded as private gift revenue in the Endowment Fund.

NOTE 23 - RISK MANAGEMENT

The Citadel is exposed to various risks of loss and maintains State or commercial insurance coverage for all of those risks except business interruption insurance coverage. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims and claim losses have not exceeded this coverage in any of the past three years. The Citadel pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management 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 risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Citadel and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays

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NOTE 23 - RISK MANAGEMENT (CONTINUED)

claims incurred for covered losses related to the following assets and activities:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, and watercraft (inland marine);
4. Torts;
5. Natural disaster; and
6. Medical malpractice coverage for the doctor and head nurse.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, The IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for ocean marine coverage. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

The Citadel obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. All employees are covered for \$100,000. In addition, the Vice President for Finance and Business Affairs and the College's Treasurer are covered under public official bonds for \$250,000 and \$50,000, respectively.

Building contents risks of loss are not fully covered. The building contents including equipment and supplies are insured for an amount based on the carrying value of the equipment in the building.

The College has recorded insurance premium expenditures and expenditures for deductibles in the applicable functional expenditure categories of the unrestricted current fund.

The Citadel has not transferred the portion of risk of loss related to insurance policy deductibles, underinsurance, and coinsurance to a State or commercial insurer. The Citadel has not reported an estimated claims loss expenditure and the related liability as of June 30, based on the requirements of GASB Statements No. 10 and No. 30, which state that a liability for claims must be reported if information prior to the issuance of financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before the close of the fiscal year, and the amount of the loss is reasonably estimable.

In management's opinion, claims losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to The Citadel'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.

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NOTE 24 - FUND BALANCES

The balances of the fund groups making up the restricted current funds at June 30, 2001 are as follows:

Restricted for research	\$519,596
Restricted for scholarships and student aid	2,458,135
Restricted for academic support	2,038,232
Restricted for operations and maintenance	613,572
Restricted for departments and other specified purposes	<u>1,024,969</u>
	<u>\$6,654,504</u>

The balances of the fund groups making up the loan funds at June 30, 2001 are as follows:

U.S. Government Grants Refundable	\$613,630
College Funds - restricted	<u>1,033,546</u>
	<u>\$1,647,176</u>

The balances of the fund groups making up the endowment and similar funds at June 30, 2001 are as follows:

Endowment - restricted	\$19,941,741
Quasi-endowment - unrestricted	3,291,154
Quasi-endowment - restricted	14,770,206
Annuity - unrestricted	<u>56,008</u>
	<u>\$38,059,109</u>

The balances of the fund groups making up the plant funds at June 30, 2001 are as follows:

Unexpended Plant:	
Restricted	\$8,434,257
Unrestricted - designated	<u>4,133,509</u>
	<u>\$12,567,766</u>

Retirement of Indebtedness:	
Restricted	<u>\$396,528</u>

NOTE 25 - CITADEL TRUST LOAN GUARANTEE

The Citadel Alumni Association, a related party of The Citadel, is finalizing the renovation of the new alumni center in a building owned by The Citadel. The Alumni Association has also constructed an office building on college land near the Alumni Center that the Alumni Association leases to the Army Corps of Engineers. Both buildings were substantially completed prior to December 2000 and were occupied by that time. The Alumni Association secured construction financing for these projects up to a maximum amount of \$4,950,000. The loan is scheduled to be paid over 12 years and bears an interest rate of approximately 8.2%. As of June 30, 2001, the

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NOTE 25 - CITADEL TRUST LOAN GUARANTEE (CONTINUED)

construction loan balance outstanding was \$3,371,195. The two buildings are security for the construction loan. In order to help the Association obtain favorable financing, The Citadel Trust has guaranteed this loan. At the current time the Alumni Association is seeking a new loan with a lower interest rate to repay this loan. Management believes that The Citadel Trust will not need to guarantee the new loan.

NOTE 26 - LAND EXCHANGE

On February 1, 1994, The Citadel entered into an agreement with the City of Charleston (The City) to exchange several parcels of land and other consideration with The City. The agreement specified that The Citadel give the following to The City:

- (1) 9.5 acres of Lockwood Field
- (2) access to The Citadel's dredge spoil site for 99 years

In exchange, The City agreed to give the following to The Citadel:

- (1) 2.5 acres of Brittlebank Park
- (2) the SC National Guard Armory and 2.5 acres of adjacent land
- (3) the College Park Baseball Stadium (the old baseball stadium)
- (4) use of the new baseball stadium when it is completed, and access to the 900-space parking lot for football games and other Citadel functions.

The Citadel transferred ownership of Lockwood Field to The City on June 10, 1994, and The City transferred ownership of the SC National Guard Armory and 2.5 acres of adjacent land to The Citadel on August 30, 1995. On September 12, 2000, The City transferred ownership of College Park Baseball Stadium (fair market value \$275,000) to The Citadel. This transaction is reported in the investment in plant funds subgroup as an addition "land received in exchange" of \$275,000. The transaction transferring Brittlebank Park to The Citadel has not been finalized.

NOTE 27 - SUBSEQUENT EVENTS

College administration plans to request that the Board of Visitors authorize the issuance of \$2,750,000 of Institution Bonds and request State Budget and Control Board approval of the issuance. These funds would be used primarily for a major renovation of Deas Hall, the college's health and physical education facility. A decision is expected at the regularly scheduled Board of Visitors meeting in late September. These bonds are expected to be issued in November 2001 as a part of the State's general obligation bond issue.

NOTE 28 - FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued 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*

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NOTE 28 - FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Discussion and Analysis - for Public Colleges and Universities. These new accounting and reporting standards will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

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Status of Prior Findings
June 30, 2001

There were no prior year findings.

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Current Year Findings
June 30, 2001

There are no current year findings.