THE CITADEL

THE MILITARY COLLEGE OF SOUTH CAROLINA

CHARLESTON, SOUTH CAROLINA

YEAR ENDED JUNE 30, 2006

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

State of South Carolina

Office of the State Auditor

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October 19, 2006

The Honorable Mark Sanford, 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 basic financial statements of The Citadel, The Military College of South Carolina and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2006, 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,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

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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 financial statements of the business type activity and the aggregate discreetly presented component units of **The Citadel, The Military College of South Carolina**, (The Citadel) as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of The Citadel's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Citadel Foundation, The Citadel Trust or The Citadel Brigadier Foundation, all component units of The Citadel. The Citadel Foundation's financial statements reflect 41% of total assets as of June 30, 2006 and 16% of total revenues for the year then ended. The Citadel Trust's financial statements reflect 17% of total assets as of June 30, 2006 and 8% of total revenues for the year then ended. The Citadel Brigadier Foundation's financial statements reflect 2% of total assets as of June 30, 2006 and 2% of total revenues for the year then ended. These statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The Citadel Foundation and The Citadel Brigadier Foundation were not audited in accordance with *Government Auditing* Standards. 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 provides a reasonable basis for our opinions.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements of The Citadel are intended to present the financial position, the changes in its financial position, and cash flows of only that portion of the business type activities of the State of South Carolina financial reporting entity that is attributable to the transactions of The Citadel. They do not purport to and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activity and the aggregate discreetly presented component units of The Citadel as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 25, 2006 on our consideration of The Citadel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Beaufort, South Carolina
September 25, 2006

Overview of the Financial Statements and Financial Analysis

The Citadel is pleased to present its financial statements for fiscal year 2006. While audited financial statements for fiscal year 2005 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. This discussion focuses on the combined operations and financial positions of the College, defined for purposes of this discussion as both the primary institution — The Citadel, and its blended component unit — The Citadel Trust. The discussion excludes the College's non-governmental component units – The Citadel Foundation and The Citadel Brigadier Foundation.

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

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

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year. The construction of Law Barracks, the College's fourth barracks in a decade, and the renovation of Johnson Hagood Football Stadium stand out throughout the College's statistics. The Citadel issued bonds for Law Barracks construction and capitalized $5.1 millionof construction costs in the previous fiscal year. During the current year the College capitalized an additional $12.2 million of construction costs, with an additional $5.7 million expected to be capitalized in fiscal year 2007 to complete the $23 million project. Management anticipates that Law Barracks will be occupied during the winter of fiscal year 2007. The College issued $6 million in bonds in fiscal year 2005 for an $8 million Westside grandstand renovation project at Johnson Hagood Stadium. $1.3 million of construction costs for this project were capitalized in fiscal year 2005 and an additional $5.5 million has been capitalized this year. Management anticipates the new grandstands will be available for the football season in fiscal year 2007. In addition, the College issued $8.7 million in taxable revenue bonds late in fiscal year 2006 in order to meet its share of funding requirements for a joint National Guard Readiness Center/press box/skybox facility. Only minimal architectural and engineering costs were capitalized in fiscal year 2006. Significant construction costs are expected in fiscal year 2007. These major construction projects permeate all the College's statistics and account for most of the significant changes from the prior year.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2006

Statement of Net Assets

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

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

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

Condensed Summary of Net Assets (thousands of dollars)

Assets:	2006		Increase/ 2005	Percent (Decrease)
	Change			
Current assets	$ 33,283	$ 30,424	$ 2,859	9.40%
Capital assets, net	117,728	99,893	17,835	17.85%
Other assets	68,761	72,777	(4,016)	-5.52%
Total Assets	219,772	203,094	16,678	8.21%
Liabilities:				
Current Liabilities	13,111	10,672	2,439	22.85%
Noncurrent Liabilities	49,397	43,554	5,843	13.42%
Total Liabilities	62,508	54,226	8,282	15.27%
Net Assets:				
Invested in capital assets, net of debt	78,611	73,764	5,490	7.51%
Restricted – expendable	39,984	39,632	(291)	-0.72%
Restricted -- nonexpendable	25,568	23,429	2,139	9.13%
Unrestricted	13,101	12,043	1,058	8.79%
Total Net Assets	$ 157,264	$ 148,868	$ 8,396	5.64%

Assets – increase of $16.7 million

- The $3 million increase in current assets is attributable directly to an increase in investments. This increase was generated primarily by the Trust's overall investment return of 9.55%.

- Fixed assets increased by approximately $18 million. Construction in progress increased by $18 million, as construction costs of $12.2 million for Law Barracks and $5.5 million for the grandstands at Johnson Hagood Stadium were capitalized. In addition, the $3.3 million Rifle Range constructed by the South Carolina National Guard was given to The Citadel and capitalized in the current year. These additions, netted against depreciation of $3.8 million, account for the major changes in fixed assets.

- Other assets decreased by $4 million, as bond proceeds available for construction projects decreased by $6.8 million. Bond proceeds of $15.5 million received in prior years were used to fund the major construction projects mentioned above. This reduction was partially offset by an $8.7 million revenue bond issued late in June 2006 to fund the National Guard Readiness Center and press box/skybox facility at Johnson Hagood Stadium. Additional increases in other assets were related to increases in the value of Citadel Trust investments generated by the current year investment return of 9.55%.

Liabilities – increase of $8.3 million

- Current liabilities increased by $2.4 million due to increases in accounts payable related to construction costs for Law Barracks and the Johnson Hagood Stadium grandstand project. The Citadel Trust also recorded a current liability for the expected payout of $.5 million as the College's share of a lawsuit settlement.

- Noncurrent liabilities increased due to the College's issue of $8.7 million in Athletic Facility Revenue Bonds required to fund the College's share of construction costs related to the National Guard Readiness Center and press box/skybox facility.

Net Assets – increase of $8.4 million

- Capital assets increased due the costs incurred for the construction of Law Barracks and the Johnson Hagood grandstands, and National Guard gift of the Rifle Range to The Citadel.

- Restricted – non expendable assets increased due to the 9.55% investment return of the Citadel Trust.

- Unrestricted net assets increased by $1 million. The College's robust student population enabled the fee-based auxiliaries to add over $.4 million to their respective maintenance reserve funds, and also enabled the College to carry forward a surplus into fiscal year 2007.

Statement of Revenues, Expenses and Changes in Net Assets

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

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

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

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

	2006	2005	Increase/ (Decrease)	Percent Change
Revenues:				
Student tuition and fees	$ 21,205	$ 19,383	$ 1,822	9.40%
Sales and services	24,563	22,853	1,710	7.48%
Grants and contracts	3,752	3,790	(38)	-1.00%
Investment income	5,182	3,982	1,200	30.14%
Other operating revenues	920	809	111	13.72%
Total Operating Revenues	55,622	50,817	4,805	9.46%
State appropriations	15,860	14,781	1,079	7.30%
Grants	5,720	5,475	245	4.47%
Gifts	2,751	2,251	500	22.21%
Investment income	775	793	(18)	-2.27%
Other nonoperating revenues/expenses	113	120	(7)	-5.83%
Total Nonoperating Revenues	25,219	23,420	1,799	7.68%
Total Revenues	80,841	74,237	6,604	8.90%
Expenses:				
Compensation and employee benefits	41,663	39,335	2,328	5.92%
Services and supplies	25,681	22,494	3,187	14.17%
Utilities	3,098	2,832	266	9.39%
Depreciation	3,785	3,720	65	1.75%
Scholarships and fellowships	2,674	2,617	57	2.18%
Total operating expenses	76,901	70,998	5,903	8.31%
Interest expense	1,719	1,227	492	40.10%
Total Nonoperating Expenses	1,719	1,227	492	40.10%
Total Expenses	78,620	72,225	6,395	8.85%
Income (loss) before capital contributions, additions to permanent endowments and transfers	2,221	2,012	209	10.39%
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	5,352	3,590	1,762	49.08%
Permanent endowment additions	823	763	60	7.86%
Total capital contributions, additions to permanent endowments and transfers	6,175	4,353	1,822	41.86%
Change in Net Assets	8,396	6,365	2,031	31.91%
Net Assets, Beginning	148,868	142,503	6,365	4.47%
Net Assets, Ending	$ 157,264	$ 148,868	$ 8,396	5.64%

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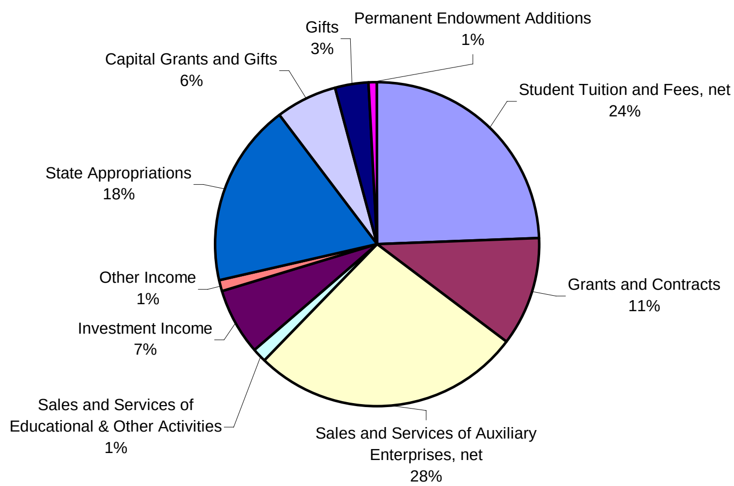
Total Revenues – increase of $6.6 million

- Operating revenues increased by $4.8 million primarily because the College raised its overall cost of attendance by 6.7%. The overall cost of attendance is defined as all tuition and fees plus deposits required for uniforms, books, and other cadet necessities. An increase in the cost of goods for auxiliaries generated an increase in their sales revenue. Additionally, the 9.55% overall return on Citadel Trust investments increased operating investment income by $1.2 million.

- Nonoperating revenues increased by $1.8 million, primarily due to a $1.1 million increase in state appropriations related to the State's share of the 4% cost of living increase and associated fringe benefits and a $.5 million state appropriation earmarked for deferred maintenance. The College intends to use this $.5 million appropriation to refurbish the old Alumni Center building for its new use as the College's Human Resources office.

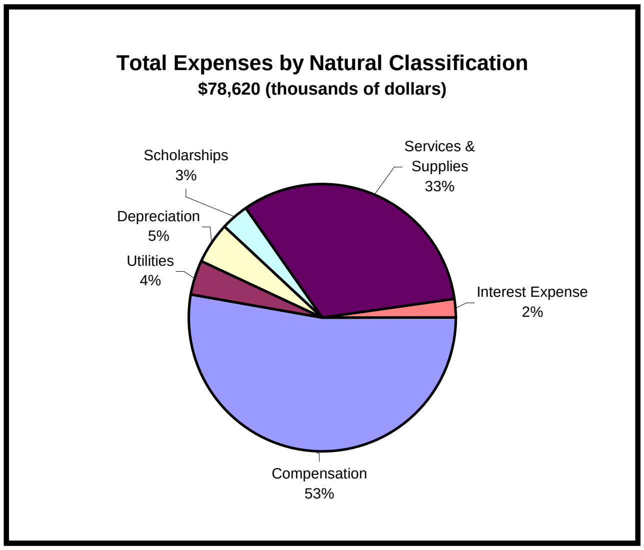
Total Revenues, Capital Contributions and Endowment Additions
$87,016 (thousands of dollars)

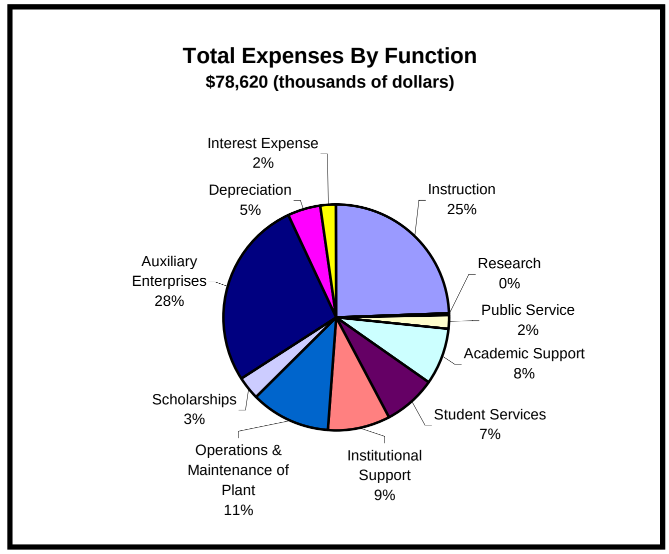


- **Total Expenses – increase of $6.4 million**

  - Operating expenses increased by $5.9 million. Compensation expenses increased by $2.3 million due to the implementation of a 4% cost of living increase along with a merit increase of up to 1%. Sales and services expenses increased by $3.2 million, attributable to $1 million increase in non-capital repairs costs, including major repairs to campus wide mechanical systems, the Physical Plant roof, and the Bond Hall chiller, plus an increase of $1 million in auxiliary enterprises expenses caused by price increases. These auxiliary incremental costs were passed on to students and resulted in increased sales revenue, as noted above.

- Interest expenses increased by $.5 million due to interest on the two revenue bonds issued in fiscal year 2005.





Capital Contributions and Additions to Permanent Endowments– increase of $1.8 million

- The $1.8 million increase in capital grants and appropriations is primarily attributible to two gifts. The South Carolina National Guard used federal appropriations to fund $3.1 million of the new Rifle Range facility, which was gifted to the College on completion. In addition, the College's various related foundations gave $.9 million to fund costs associated with the stadium improvement project. This $4 million increase was partially offset by a $2.5 million decrease in state capital improvement bond revenue recognized in the current year.

- Additions to permanent endowments remained relatively constant from the prior year.

Statement of Cash Flows

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

Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, at June 30, 2006 and June 30, 2005 were as follows:

Capital Assets (net of accumulated depreciation)	2006	2005	Increase/ (decrease)	Percent Change
Capital Assets:				
Land	$ 2,645,540	$ 2,645,540	$ -	-
Construction in Progress	24,832,065	6,796,261	18,035,804	265.38%
Fine Arts	357,765	366,265	(8,500)	-2.32%
Land improvements	5,097,003	5,655,248	(558,245)	-9.87%
Buildings and improvements	83,053,830	82,563,436	490,394	0.59%
Equipment	1,576,894	1,662,955	(86,061)	-5.18%
Vehicles	108,882	140,986	(32,104)	-22.77%
Intangibles	55,755	61,950	(6,195)	-10.00%
Total	$ 117,727,734	$ 99,892,641	$ 17,835,093	17.85%

During fiscal year 2006 The Citadel capitalized the $3.3 million Rifle Range facility that was constructed by The South Carolina National Guard and given to the College. In addition, construction of the $23 million Law Barracks and the $8 million Westside grandstand renovation project at Johnson Hagood Stadium neared completion. The College expects to complete Law Barracks and move cadets into the new facility in the winter of fiscal year 2007. The College also expects to complete the Westside grandstand renovation project by the start of football season in fiscal year 2007.

With the completion of Law Barracks the College will have replaced all 4 barracks within a 10-year period. Three of the barracks were funded with bonded debt and one was funded with federal funds and state capital improvement bond proceeds. The College currently has $31.5 million in auxiliary facility revenue bonds outstanding. Specific debt service fees charged to students pay the debt service on these bonds.

The College has made use of the State's credit rating to issue institution bonds to renovate education and general (E&G) facilities. No new bonds were issued during the current fiscal year and institution bond debt service payments will drop by almost one half in fiscal year 2007 when the 1991 institution bond is retired. The College currently has $2.4 million of institution bonds outstanding. Specific student fees pay the debt service on these bonds.

The College issued $8,680,000 of taxable athletic facility revenue bonds in 2006. These funds will be used along with federal funds provided by the South Carolina National Guard to build a National Guard Readiness Center/press box/skybox facility at Johnson Hagood Stadium. The bond issued in 2006 brings the total stadium bonded debt to $14,460,000. The College has pledged student athletic fees to fund the debt service for these bonds, but the stadium renovation is part of the College's current capital campaign and management anticipates that most of the debt service will be paid by gifts. Total athletic facility revenue bonds outstanding are $16.8 million.

Economic Outlook

The economic position of The Citadel is closely tied to that of the State of South Carolina. The State Comptroller General issued a news release on 15 August 2006 titled, "State Makes Robust Recovery: Eckstrom Applauds Remarkable Financial Achievements and Cooperation between Governor and Legislature". The State's budgetary surplus for the fiscal year was $172 million. The State recognized record growth in 2006 as income tax revenues increased by 18% and sales tax revenues increased by 10%.

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The College experienced robust enrollment during fiscal year 2006 and is in the enviable position of taking a strategic look at increasing the size of the Corps of Cadets permanently and building another barracks. The barracks were overflowing when upperclassmen arrived for fall 2006 classes. Moody's Investors Service continued to rate The Citadel's long-term bond as "A1".

In August 2006, The Citadel was named the No. 2 best value in the South and the No. 3 public university offering up to a master's degree in the South by U.S.News & World Report. The Citadel School of Engineering ranked No. 36 among the nation's best undergraduate engineering programs. These rankings help create a healthy economic outlook for the College.

The College finished fiscal year 2006 with an $8.2 million increase in net assets. Financial data indicates that the College is in excellent condition and other factors reinforce this finding. Fiscal year 2007 began with the barracks overflowing with cadets. The west side grandstands of Johnson Hagood Stadium will be completed for the College's first home football in fiscal year 2007 and the funds are on hand to build the National Guard Center/press box/skybox facility. Management believes that the future is very bright.

THE CITADEL
The Military College of South Carolina
Statement of Net Assets
June 30, 2006

	The Citadel	The Citadel Trust	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 10,883,117	$ 219,804	$ 11,102,921
Investments	-	2,797,242	2,797,242
Restricted Assets - Current			
Cash and cash equivalents	2,795,579	1,036,270	3,831,849
Investments	-	9,274,354	9,274,354
Contributions receivable, net	134,777	123,835	258,612
Student loans receivable, net	-	88,838	88,838
Accounts receivable (Net of provision for doubtful accounts of $170,814)	2,732,501	147,043	2,879,544
Note receivable - The Brigadier Foundation	9,000	-	9,000
Contributions receivable, net	-	178,758	178,758
Inventories	1,900,905	-	1,900,905
Prepaid expenses	951,151	9,801	960,952
Total current assets	19,407,030	13,875,945	33,282,975
Noncurrent Assets			
Investments	-	3,033,365	3,033,365
Contributions receivable, net	-	99,748	99,748
Cash surrender value of life insurance	-	30,079	30,079
Restricted Assets - Noncurrent			
Cash and cash equivalents	17,760,870	1,884,356	19,645,226
Investments	-	44,197,532	44,197,532
Contributions receivable, net	488,558	174,699	663,257
Student loans receivable, net	633,534	75,066	708,600
Cash surrender value of life insurance	-	383,614	383,614
Capital assets, net of accumulated depreciation	117,727,734	-	117,727,734
Total noncurrent assets	136,610,696	49,878,459	186,489,155
Total assets	$ 156,017,726	$ 63,754,404	$ 219,772,130
LIABILITIES			
Current Liabilities			
Accounts payable	$ 2,986,872	$ 562,603	$ 3,549,475
Retainages payable	594,795	-	594,795
Accrued payroll and related liabilities	1,548,195	5,224	1,553,419
Accrued compensated absences and related liabilities	1,295,904	-	1,295,904
Accrued interest payable	457,830	-	457,830
Deferred revenues	1,805,830	-	1,805,830
Bonds payable	2,523,147	-	2,523,147
Capital leases payable	17,874	-	17,874
Notes payable	30,514	-	30,514
Deposits	1,273,902	-	1,273,902
Annuities payable	-	8,190	8,190
Total current liabilities	12,534,863	576,017	13,110,880
Noncurrent Liabilities			
Federal loan funds	470,558	-	470,558
Accrued compensated absences and related liabilities	857,489	-	857,489
Deposits	538,074	-	538,074
Bonds payable	47,254,607	-	47,254,607
Capital leases payable	56,517	-	56,517
Notes payable	67,395	-	67,395
Annuities payable	-	18,654	18,654
Funds held for others	134,116	-	134,116
Total noncurrent liabilities	49,378,756	18,654	49,397,410
Total liabilities	$ 61,913,619	$ 594,671	$ 62,508,290
NET ASSETS			
Invested in capital assets, net of related debt	$ 78,611,442	$ -	$ 78,611,442
Restricted for Nonexpendable:			
Scholarships	-	21,996,306	21,996,306
Other	-	3,488,584	3,488,584
Annuity	-	82,813	82,813
Restricted for Expendable:			
Scholarships, research, instruction and other	2,113,011	27,283,752	29,396,763
Loans	202,101	1,133,331	1,335,432
Capital projects	5,747,988	3,359,942	9,107,930
Debt service	143,321	-	143,321
Unrestricted	7,286,244	5,815,005	13,101,249
Total net assets	$ 94,104,107	$ 63,159,733	$ 157,263,840

See accompanying Notes to the Financial Statements

THE CITADEL
The Military College of South Carolina
Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2006

	The Citadel	The Citadel Trust	Total
REVENUES			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of $5,035,959)	$ 21,204,663	$ -	$ 21,204,663
Federal grants and contracts	1,668,071	-	1,668,071
State grants and contracts	1,869,073	-	1,869,073
Nongovernmental grants and contracts	214,798	-	214,798
Sales and services of educational and other activities	1,068,738	-	1,068,738
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of $2,917,502)	21,386,562	-	21,386,562
Sales and services of auxiliary enterprises - not pledged	2,108,150	-	2,108,150
Other fees	560,579	-	560,579
Investment income (net of investment expenses of $222,045)	-	4,007,909	4,007,909
Endowment income	-	1,174,474	1,174,474
Other operating revenues	359,285	-	359,285
Total operating revenues	50,439,919	5,182,383	55,622,302
EXPENSES			
Operating Expenses			
Compensation and employee benefits	41,595,045	67,855	41,662,900
Services and supplies	25,619,496	61,279	25,680,775
Utilities	3,098,360	-	3,098,360
Depreciation expense	3,785,388	-	3,785,388
Scholarships and fellowships	2,673,816	-	2,673,816
Total operating expenses	76,772,105	129,134	76,901,239
Operating income (loss)	(26,332,186)	5,053,249	(21,278,937)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	15,859,567	-	15,859,567
State grants and contracts	68,745	-	68,745
Nongovernmental grants	5,435,773	215,222	5,650,995
Gifts	498,131	2,252,624	2,750,755
Investment income	775,375	-	775,375
Interest on capital asset-related debt	(1,719,091)	-	(1,719,091)
Gain (loss) on disposal of capital assets	(18,695)	-	(18,695)
Other nonoperating revenues (expenses)	86,351	45,719	132,070
Net nonoperating revenues	20,986,156	2,513,565	23,499,721
Income (loss) before other revenues, expenses, gains or losses	(5,346,030)	7,566,814	2,220,784
State capital improvement bond proceeds	1,146,333	-	1,146,333
Capital grants and gifts	4,165,944	40,000	4,205,944
Additions to permanent endowments	-	822,547	822,547
Transfers to/from The Citadel Trust	3,185,277	(3,185,277)	-
Total other revenues	8,497,554	(2,322,730)	6,174,824
Increase (decrease) in net assets	3,151,524	5,244,084	8,395,608
NET ASSETS			
Net assets-beginning of year	90,952,583	57,915,649	148,868,232
Net assets-end of year	$ 94,104,107	$ 63,159,733	$ 157,263,840

See accompanying Notes to the Financial Statements

THE CITADEL

The Military College of South Carolina

Statement of Cash Flows

For the year ended June 30, 2006

	The Citadel	The Citadel Trust	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	$ 20,942,320	$ -	$ 20,942,320
Grants and contracts	3,882,063	-	3,882,063
Sales and services of educational and other activities	977,474	-	977,474
Sales and services of auxiliary enterprises	23,696,722	-	23,696,722
Other operating receipts	363,480	-	363,480
Payments to employees for salaries and benefits	(41,197,496)	(67,855)	(41,265,351)
Payments to suppliers	(25,588,145)	(61,279)	(25,649,424)
Payments for utilities	(3,074,341)	-	(3,074,341)
Payments to students for scholarships and fellowships	(2,673,816)	-	(2,673,816)
Loans issued to students	(142,584)	-	(142,584)
Collection of loans to students	149,876	-	149,876
Funds held for others	47,231	-	47,231
Student direct lending receipts	16,826,889	-	16,826,889
Student direct lending disbursements	(16,830,077)	-	(16,830,077)
Net cash provided (used) by operating activities	(22,620,404)	(129,134)	(22,749,538)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	15,859,567	-	15,859,567
Gifts and grants for other than capital purposes	6,251,032	3,820,923	10,071,955
Collections on note receivable	20,000	-	20,000
Other non-operating revenues/expenses	86,351	425,815	512,166
Transfers from (to) component unit	3,185,277	(3,185,277)	-
Net cash provided (used) by noncapital financing activities	25,402,227	1,061,461	26,463,688
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	8,647,049	-	8,647,049
State capital improvement bond proceeds	1,152,532	-	1,152,532
Capital grants and gifts received	1,022,922	63,558	1,086,480
Proceeds from sale of capital assets	4,775	-	4,775
Purchases of capital assets	(17,534,692)	-	(17,534,692)
Principal paid on capital debt and leases	(2,641,532)	-	(2,641,532)
Interest paid on capital related debt	(1,734,088)	-	(1,734,088)
Net cash provided (used) by capital and related financing activities	(11,083,034)	63,558	(11,019,476)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	24,351,641	24,351,641
Interest on investments	780,837	1,255,248	2,036,085
Purchase of investments	-	(26,165,111)	(26,165,111)
Net cash provided (used) by investing activities	780,837	(558,222)	222,615
Net change in cash	(7,520,374)	437,663	(7,082,711)
Cash and cash equivalents - beginning of year	38,959,940	2,702,767	41,662,707
Cash and cash equivalents - end of year	$ 31,439,566	$ 3,140,430	$ 34,579,996

Reconciliation of net operating revenues (expense) to net cash provided (used) by operating activities:

	The Citadel	The Citadel Trust	Total
Operating income (loss)	$ (26,332,186)	$ 5,053,249	$ (21,278,937)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation expense	3,785,388	-	3,785,388
Interest and dividends on investments	-	(1,305,005)	(1,305,005)
Realized and unrealized gains and losses on investments	-	(3,877,378)	(3,877,378)
Funds held for others	44,043	-	44,043
Changes in assets and liabilities			
Accounts receivable, net	(770,810)	-	(770,810)
Inventories	(177,134)	-	(177,134)
Student loans receivable	1,395	-	1,395
Prepaid expenses	(204,202)	-	(204,202)
Accounts payable and accrued expenses	816,202	-	816,202
Accrued compensated absences and related liabilities	28,145	-	28,145
Deferred revenue	211,672	-	211,672
Student and other deposits	(22,917)	-	(22,917)
Net cash provided (used) by operating activities	$ (22,620,404)	$ (129,134)	$ (22,749,538)

THE CITADEL

The Military College of South Carolina

Statement of Cash Flows (continued)

For the year ended June 30, 2006

		The Citadel		The Citadel Trust		Total
Non-cash transactions						
Increase in fair value of investments	$	229,502	$	4,890	$	234,392
Capital assets acquired through gifts	$	3,141,904	$	-	$	3,141,904
Equipment acquired through capital lease	$	87,305	$	-	$	87,305
Reconciliation of Cash and Cash Equivalent Balances:						
Current assets						
Cash and cash equivalents	$	10,883,117	$	219,804	$	11,102,921
Restricted cash and cash equivalents		2,795,579		1,036,270		3,831,849
Noncurrent assets						
Restricted cash and cash equivalents		17,760,870		1,884,356		19,645,226
Total cash and cash equivalents	$	31,439,566	$	3,140,430	$	34,579,996

See accompanying Notes to the Financial Statements

THE CITADEL

The Military College of South Carolina

Non-Governmental Discretely Presented Component Units

Statements of Financial Position

	The Citadel Foundation December 31, 2005	The Citadel Brigadier Foundation June 30, 2006
ASSETS		
Cash and cash equivalents	$ 1,325,440	$ 289,371
Unconditional promises to give/receivable, net	7,140,066	666,844
Interest receivable	771,624	-
Prepaid expenses	24,998	-
Long-term investments (at fair value)	137,699,851	6,997,966
Investments related to split-interest agreements	3,014,465	-
Notes receivable	-	20,000
Investment note receivable - Citadel Alumni Association	2,927,033	-
Other investments	5,933	-
Other receivables	53,644	13,758
Cash value of life insurance	525,234	275,752
Office equipment and improvements (net of accumulated depreciation)	210,531	30,794
Land and improvements held for investment	3,512,476	-
Other assets	194,325	-
Total assets	$ 157,405,620	$ 8,294,485
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 738,230	$ 51,854
Grants payable - The Citadel	1,964,957	-
Notes payable	172,734	-
Notes payable - The Citadel	-	9,000
Annuities and life income funds payable	1,467,523	-
Charitable give annuities	1,402,354	-
Total liabilities	5,745,798	60,854
Net Assets		
Unrestricted	116,079,032	808,680
Temporarily restricted	12,522,038	5,037,319
Permanently restricted	23,058,752	2,387,632
Total net assets	151,659,822	8,233,631
Total Liabilities and Net Assets	$ 157,405,620	$ 8,294,485

See accompanying Notes to the Financial Statements

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

	The Citadel Foundation Year Ended December 31, 2005	The Citadel Brigadier Foundation Year Ended June 30, 2006
REVENUES, GAINS AND OTHER SUPPORT		
Unrestricted		
Contributions	$ 767,372	$ -
Investment income	2,779,070	12,915
Net unrealized and realized gain (loss) on investments	7,135,574	-
Membership revenue	-	1,400,767
Fundraising activities	-	173,566
Miscellaneous	76	11,951
Other investment income	7,179	-
Gain on sale of property and equipment	1,111	-
Changes in value of split interest agreements	(32,253)	-
Net assets released from program restrictions	10,471,298	273,780
Transfers of net assets	49,510	-
Total unrestricted	21,178,937	1,872,979
Temporarily Restricted		
Contributions	3,579,195	-
Investment income	287,875	204,231
Net unrealized and realized gain (loss) on investments	89,910	43,378
Gain (loss) on disposal of assets	-	93,554
Changes in value of split interest agreements	88,646	-
Net assets released from program restrictions	(10,471,298)	(273,780)
Transfers of net assets	(21,066)	-
Total temporarily restricted	(6,446,738)	67,383
Permanently Restricted		
Contributions	1,859,723	462,870
Investment income	839	-
Net unrealized and realized gain (loss) on investments	1,781	-
Transfers of net assets	(28,444)	-
Total permanently restricted	1,833,899	462,870
Total revenue, gains and other support	16,566,098	2,403,232
EXPENSES AND LOSSES		
Unrestricted		
Grants to The Citadel	6,178,742	908,239
Other gift grants to The Citadel	4,060,525	-
Contributions	-	185,894
General and administrative	808,339	285,135
Fund-raising	1,950,019	459,515
Total unrestricted	12,997,625	1,838,783
Temporarily Restricted		
Contributions	-	220,000
Total temporarily restricted	-	220,000
Total expenses and losses	12,997,625	2,058,783
CHANGE IN NET ASSETS		
Unrestricted	8,181,312	34,196
Temporarily restricted	(6,446,738)	(152,617)
Permanently restricted	1,833,899	462,870
Total change in net assets	3,568,473	344,449
Net assets at beginning of period		
Unrestricted	107,897,720	774,484
Temporarily restricted	18,968,776	5,189,936
Permanently restricted	21,224,853	1,924,762
Total net assets at beginning of period	148,091,349	7,889,182
Net assets at end of period		
Unrestricted	116,079,032	808,680
Temporarily restricted	12,522,038	5,037,319
Permanently restricted	23,058,752	2,387,632
Total net assets at end of period	$ 151,659,822	$ 8,233,631

See accompanying Notes to the Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Inventories: Inventories for resale are carried at cost on a first-in, first-out basis.

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

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

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

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

The Citadel capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects; therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2006 was $250,859.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Governmental units that issue no more than $5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Citadel has no rebatable arbitrage liability at June 30, 2006.

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

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

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

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

Statement of Net Assets:	**Citadel**	**Citadel Trust**	**Total**
Current assets			
Cash and cash equivalents	$ 10,883,117	$ 219,804	$ 11,102,921
Investments	-	2,797,242	2,797,242
Restricted assets			
Cash and cash equivalents	2,795,579	1,036,270	3,831,849
Investments	-	9,274,354	9,274,354
Noncurrent assets			
Investments	-	3,033,365	3,033,365
Restricted assets			
Cash and cash equivalents	17,760,870	1,884,356	19,645,226
Investments	-	44,197,532	44,197,532
Total Statement of Net Assets	$ 31,439,566	$ 62,442,923	$ 93,882,489
Notes: Deposits and Investments			
Cash on hand	$ 45,800	$ -	$ 45,800
Deposits held by State Treasurer	31,369,580	421,507	31,791,087
Other deposits	24,186	1,008,902	1,033,088
Investments	-	61,012,514	61,012,514
Total Notes	$ 31,439,566	$ 62,442,923	$ 93,882,489

Deposits

Custodial Credit Risk

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

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

With respect to The Citadel's other deposits at year-end, all of these deposits are either insured or collateralized with securities held by the entity or by its agent in the entity's name, or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. With respect to Citadel Trust's other deposits, $787,502 of these deposits are insured and the remainder is either uninsured or uncollateralized. The Trust has a formal investment policy that requires all cash deposits held at banks to be held in a bank trust department in a collateralized form.

Investments

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

At June 30, 2006, The Trust had investments and maturities as shown below:

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More than 10**
Money Market Funds	$ 1,710,021	$ 1,710,021	$ -	$ -	$ -
U.S. Treasury Bonds	1,905,154	95,969	1,133,074	495,315	180,796
U.S. Agency Bonds	2,407,980	596,062	1,123,230	652,286	36,402
Corporate Bonds	3,698,268	701,692	1,776,733	1,111,704	108,139
Mutual Bond Funds	109,474	-	109,474	-	-
Exchange Traded Bond Funds	5,038,100	-	5,038,100	-	-
Total fixed income investments	14,868,997	$ 3,103,744	$ 9,180,611	$ 2,259,305	$ 325,337
Common Stocks	22,306,424				
Mutual Equity Funds	9,303,309				
Exchange Traded Equity Funds	14,533,784				
Total investments	$ 61,012,514				

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.

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of The Trust's investment in a single issuer. The Trust's policy for reducing this risk of loss is to require each investment manager to limit the investment in any one issuer to a maximum of 5% for equity investments (with the exception of one manager who manages approximately $3.5 million) and 10% for fixed income investments (except for securities issued by the U.S. government and its agencies). The Trust's Board of Directors reviews substantial equity positions for the entire investment pool on a quarterly basis. At June 30, 2006 there were no single issuer investments that exceeded 5%.

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

At June 30, 2006 The Citadel Trust had debt securities and quality ratings as shown below:

		Quality Rating				
Investment Type	**Fair Value**	**Aaa/Aa**	**A**	**Baa**	**Unrated**	**N/A**
Money Market Funds	$ 1,710,021	$ -	$ -	$ -	$ 1,710,021	$ -
U.S. Treasury Bonds	1,905,154	-	-	-	-	1,905,154
U.S. Agency Bonds	2,407,980	139,018	-	-	2,268,962	-
Corporate Bonds	3,698,268	686,763	2,466,670	307,708	237,127	-
Mutual Bond Funds	109,474	81,397	10,584	13,284	4,209	-
Exchange Traded Bond Funds	5,038,100	-	-	-	-	5,038,100
Totals	$ 14,868,997	$ 907,178	$ 2,477,254	$ 320,992	$ 4,220,319	$ 6,943,254

Unrated investments include the following:

(1) Money Market Funds are invested in commercial paper and other short-term obligations rated by a nationally recognized rating organization in the highest short-term rating category, or, if unrated, of equivalent quality, and in other corporate obligations and municipal obligations rated in the two highest rating categories, or if unrated, of equivalent quality.
(2) U.S. Agency Bonds are also not normally rated. These bonds are not explicitly backed by the full faith and credit of the U.S. Government, but they have implied government backing and an implied Aaa/AAA rating.

Foreign Currency Risk. Foreign currency risk is the risk of loss arising from changes in exchange rates for investments denominated in foreign currencies. The Trust's international investment allocation is invested in U.S. dollar denominated mutual funds – the American Funds EuroPacific Growth Fund and the American Funds Capital World Growth and Income Fund. These funds invest in companies based chiefly in Europe and the Pacific Basin. The market value of these holdings at June 30, 2006 was $8,872,576. The Trust foreign currency risk policy states: "The Trust Board of Directors is aware of the risk from fluctuating currency values in that portion of the fund which is invested in international securities. Investment managers who invest in international securities may purchase and sell currencies to facilitate currency exchange rates. Such currency transactions are at the discretion of the international investment manager(s) and it is recognized by the Board of Directors of The Citadel Trust that while entering into forward currency transactions could minimize the risk of loss due to decline in the value of the hedged currency, such transactions could also limit any potential gain that may result from an increase in the value of the currency."

Investments – Non Governmental Discretely Presented Component Units

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

At June 30, 2006, TCBF's investments are as follows:

Investments carried at fair value	Cost	Fair Value
Equity funds and individual securities	$ 4,419,978	$ 4,967,345
Fixed income funds and individual debt securities	2,052,850	1,977,668
Certificates of deposit	47,759	47,759
Total investments carried at fair value	$ 6,520,587	$ 6,992,772
Investments carried at cost		
Land	$ 5,194	
Total investments carried at cost	$ 5,194	
Total investments		$ 6,997,966

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

Long-term investments held by TCF are carried at fair value and as of December 31, 2005, were composed of the following:

Equity Securities	Cost	Fair Value
Various equity securities	$ 70,723,973	$ 85,384,061
Mutual funds	24,010,740	26,854,830
Total equity securities	94,734,713	112,238,891
Debt Securities		
Corporate debt securities	4,446,331	4,385,460
Government bonds	16,547,398	16,108,087
International bonds	165,618	163,666
Mortgage backed securities	1,171,651	1,100,902
Total debt securities	22,330,998	21,758,115
Money funds – temporarily held	6,707,433	6,707,433
Cash – temporarily held	9,877	9,877
Total money funds and cash	6,717,310	6,717,310
Total	$ 123,783,021	$ 140,714,316

NOTE 3—RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2006, are summarized as follows:

	Citadel	Citadel Trust	Total
Receivables:			
Student fees	$ 2,200,097	$ -	$ 2,200,097
Grants and contracts	231,616	-	231,616
Accrued interest	183,628	146,024	329,652
Due from The Citadel Foundation	15,729	1,019	16,748
Other	272,245	-	272,245
Gross receivables	2,903,315	147,043	3,050,358
Less allowance for uncollectibles:			
Student fees	170,814	-	170,814
Accounts receivable, net	$ 2,732,501	$ 147,043	$ 2,879,544

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

Contributions Receivable

Contributions receivable are comprised of pledges for gifts to support College programs and construction projects. Contributions receivable are accounted for at their estimated net realizable value or the present value of long-term pledges. The composition of contributions receivable at June 30, 2006, is summarized as follows:

	Citadel	Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	$ 692,650	$ 493,693	$ 1,186,343
Capital	2,500	125,000	127,500
Total gift pledges outstanding	695,150	618,693	1,313,843
Less:			
Unamortized discount to present value	71,815	41,653	113,468
Total pledges receivable, net	$ 623,335	$ 577,040	$ 1,200,375

Payments on contributions receivable as of June 30, 2006, are expected to be received in the following years ending June 30:

	Citadel	Citadel Trust	Total
2007	$ 137,277	$ 326,151	$ 463,428
2008	115,045	178,462	293,507
2009	112,354	43,515	155,869
2010	66,598	11,745	78,343
2011	65,292	3,042	68,334
Due after 2011	126,769	14,125	140,894
	$ 623,335	$ 577,040	$ 1,200,375

Pledges for permanent endowments do not meet the eligibility requirements, as defined by GASB Statement 33, until the related gift is received. Accordingly, permanent endowment pledges to the Trust totaling $282,790 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

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

Student Loans Receivable

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

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

The Trust has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2006, loan allowances for uncollectible student loans are as follows:

	Citadel	Citadel Trust	Total
Loans receivable	$ 633,534	$ 490,596	$ 1,124,130
Less allowance for uncollectible loans	-	326,692	326,692
Net loans receivable	$ 633,534	$ 163,904	$ 797,438

Note Receivable

The Citadel Brigadier Foundation (TCBF) is indebted to The Citadel for $9,000 as of June 30, 2006, for athletic grants-in-aid on an interest-free note dated October 10, 1984, in the original amount of $208,436. The Citadel has not established a payment schedule for this loan.

NOTE 4 – RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2006 are as follows:

Asset /Restricted for	Citadel	Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	$ 2,647,327	$ 689,742
Debt service	148,252	-
College administered loan program	-	346,528
Total cash and cash equivalents	$ 2,795,579	$ 1,036,270
Investments:		
Donor/sponsor specified	$ -	$ 9,274,354
Contributions Receivable:		
Donor/sponsor specified	$ 134,777	$ 123,835
Student Loans Receivable:		
College administered loan program	$ -	$ 88,838
Noncurrent:		
Cash and cash equivalents		
Endowment	$ 249,940	$ 1,771,933
Federal Perkins loan program	39,949	-
Capital projects	17,336,865	112,423
Cash held for other parties	134,116	-
Total cash and cash equivalents	$ 17,760,870	$ 1,884,356
Investments:		
Endowment	$ -	$ 40,795,222
College administered loan program	-	621,537
Capital projects	-	2,780,773
Total investments	$ -	$ 44,197,532
Contributions Receivable		
Donor/sponsor specified	$ 486,058	$ 58,756
Capital projects	2,500	115,943
Total contributions receivable	488,558	$ 174,699
Student Loans Receivable		
College administered loan program	$ -	$ 75,066
Federal Perkins Loan Program	633,534	-
Total student loans receivable	$ 633,534	$ 75,066
Cash Surrender Value of Life Insurance:		
Endowments	$ -	$ 383,614

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, is summarized as follows:

	July 1, 2005	Increases	Decreases	June 30, 2006
Capital assets not being depreciated:				
Land and improvements	$ 2,645,540	$ -	$ -	$ 2,645,540
Construction-in-progress	6,796,261	21,323,119	3,287,315	24,832,065
Fine arts	366,265	-	8,500	357,765
Total capital assets not being depreciated	9,808,066	21,323,119	3,295,815	27,835,370
Other capital assets:				
Land improvements	8,420,447	-	-	8,420,447
Buildings and improvements	117,884,799	3,287,315	-	121,172,114
Machinery, equipment, and other	4,874,666	308,505	301,936	4,881,235
Vehicles	777,482	19,562	26,660	770,384
Intangibles	154,875	-	-	154,875
Total other capital assets at historical cost	132,112,269	3,615,382	328,596	135,399,055
Less accumulated depreciation for:				
Land improvements	2,765,199	558,245	-	3,323,444
Buildings and improvements	35,321,363	2,796,921	-	38,118,284
Machinery, equipment, and other	3,211,711	377,560	284,930	3,304,341
Vehicles	636,496	46,467	21,461	661,502
Intangibles	92,925	6,195	-	99,120
Total accumulated depreciation	42,027,694	3,785,388	306,391	45,506,691
Other capital assets, net	90,084,575	(170,006)	22,205	89,892,364
Capital assets, net	$ 99,892,641	$ 21,153,113	$ 3,318,020	$ 117,727,734

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

Gain on disposal	$ 2,950
Loss on disposal	(21,645)
Net gain (loss) on disposal	$ (18,695)

NOTE 6—DEFERRED REVENUES

The composition of deferred revenues at June 30, 2006, is summarized as follows:

Student fees	$ 1,111,726
Sales and services of educational and other activities	212,458
Sales and services of auxiliary enterprises	295,160
Federal grants and contracts	49,476
State grants and contracts	123
Nongovernmental grants and contracts	136,887
Total deferred revenues	$ 1,805,830

NOTE 7—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2006:

	Interest Rate	Maturity Dates	Balance June 30, 2006	Debt Retired in Fiscal Year 2006
State Institution Bonds				
Series 1991	5.5% to 7.50%	12/01/2006	$ 200,000	$ 185,000
Series 2001D	4.25% to 5.50%	12/01/2016	2,190,000	150,000
			2,390,000	
Revenue Bonds				
Series 1997	4.875% to 5.125%	04/01/2013	5,675,000	1,210,000
Series 2005	2.5% to 4.5%	04/01/2029	25,845,000	515,000
			31,520,000	
Athletic Facilities Revenue Bonds				
Series 2003	4.19%	02/15/2018	2,666,152	168,455
Series 2005	4.19%	02/15/2015	5,498,118	501,882
Series 2006	7.17%	02/01/2031	8,680,000	-
			16,844,270	
Subtotal Bonds Payable			50,754,270	2,730,337
Less unamortized bond discount and deferred loss on revenue bonds			976,516	134,354
Total Bonds Payable			$ 49,777,754	$ 2,595,983

State institution bonds are general obligations bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. S.C. Code of Laws section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. Tuition fees for the preceding year were $571,975 which results in a legal debt margin at June 30, 2006, of $514,778. The Citadel's maximum annual debt service, which occurred in fiscal year 2005, was $460,326.

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

The Citadel has secured insurance contracts for The Series 1997 and Series 2006 Revenue Bonds that guarantee payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds. Certain of the bonds payable are callable at the option of The Citadel.

As of June 30, 2006, The Citadel believes it is in compliance with all related bond covenants of its issued debt.

During the fiscal year ended June 30, 2006 The Citadel issued Athletic Facilities Taxable Revenue Bonds, Series 2006, in the amount of $8,680,000. The proceeds of these bonds are being used to partially fund the construction of the National Guard Readiness Center, Press Box and Skybox facility at Johnson Hagood Stadium (see Note 17). During the 25-year life of these bonds the interest rate will reset after 10 years and again after 20 years. The bond is callable in full or in part on any of the payment dates. During the first three years the bond requires interest only payments. $30,500 of bond issue costs associated with this issuance is being amortized over the 25-year term of the bonds.

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

State Institution Bonds	**Principal**	**Interest**	**Payments**
2007	$ 355,000	$ 102,132	$ 457,132
2008	165,000	89,041	254,041
2009	170,000	81,775	251,775
2010	180,000	74,006	254,006
2011	185,000	65,678	250,678
2012 – 2016	1,085,000	188,632	1,273,632
2017	250,000	5,938	255,938
	$ 2,390,000	$ 607,202	$ 2,997,202

Revenue and Athletic Facilities Bonds	**Principal**	**Interest**	**Payments**
2007	$ 2,300,089	$ 1,976,089	$ 4,276,178
2008	2,399,229	2,131,602	4,530,831
2009	2,499,601	2,029,549	4,529,150
2010	2,776,254	1,930,695	4,706,949
2011	2,884,245	1,815,057	4,699,302
2012 – 2016	15,614,590	7,164,252	22,778,842
2017 – 2021	7,255,262	4,472,959	11,728,221
2022 – 2026	6,430,000	2,919,946	9,349,946
2027 – 2029	6,205,000	1,129,548	7,334,548
	$ 48,364,270	$ 25,569,697	$ 73,933,967

In prior years, The Citadel defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The liability of the defeased bonds has been removed from The Citadel's long-term debt and the trust account assets are not included in these statements. At June 30, 2006, The Citadel has no outstanding defeased debt.

The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2006:

Bond Type	**Principal**	**Interest**
State Institution Bonds	$ 335,000	$ 121,208
Revenue Bonds	1,725,000	1,339,519
Athletic Facilities Revenue Bonds	670,337	356,500
	$ 2,730,337	$ 1,817,227

Note Payable

At June 30, 2006, notes payable consisted of the following:

Note payable secured by Athletic ticket sales, facility rentals and student fees, dated 8/01/81, revised 12/08/89, payable in annual installments of $37,172, matures December 2009, interest rate of 6.8%	$97,909

The scheduled maturities of the note payable are as follows:

Note Payable	Principal	Interest	Payments
2007	$ 30,514	$ 6,658	$ 37,172
2008	32,589	4,583	37,172
2009	34,806	2,366	37,172
	$ 97,909	$ 13,607	$ 111,516

Total principal paid on the note payable was $28,572 for the year ended June 30, 2006. Total interest paid on the note payable was $8,600.

NOTE 8—LEASE OBLIGATIONS

The Citadel is obligated under various capital leases for the use of equipment. All capital leases are with parties outside state government.

Future commitments for capital leases as of June 30, 2006, were as follows:

Year ending June 30,	Capital Leases/ Equipment	Operating Leases/ Equipment
2007	$ 40,960	$ 639
2008	40,960	639
2009	40,958	639
2010	15,629	-
Total minimum lease payments	138,507	$ 1,917
Less: Interest	25,680	
Executory and other costs	38,436	
Present value of minimum lease payments	$ 74,391	

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2006 were $37,674, of which $12,577 represented interest and $8,120 represented executory costs. Total principal paid on capital leases was $16,977 for the year ended June 30, 2006. The following is a summary of the carrying values of assets held under capital lease at June 30, 2006.

Equipment acquired under capital leases	$ 87,304
Less accumulated amortization	21,826
Equipment acquired under capital leases, net	$ 65,478

Operating Leases
The Citadel had no noncancelable operating leases for fiscal year 2006.

In the current fiscal year, The Citadel incurred expenses of $90,711 for office copier service on a cost-per-copy basis.

NOTE 9—RETIREMENT PLANS

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

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

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

Since July 1, 2005, employees participating in the SCRS have been required to contribute 6.25 percent of all compensation. Effective July 1, 2005, the employer contribution rate became 10.80 percent which included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The Citadel's actual contributions to the SCRS for the three most recent fiscal years ended June 30, 2004, 2005, and 2006, were $1,641,391, $1,731,252, and $1,790,810 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 $35,564 in the current fiscal year at the rate of .15 percent of compensation.

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2005, the employer contribution rate became 13.55 percent which, as for the SCRS, included the 3.25 percent surcharge. The Citadel's actual contributions to the PORS for the years ended June 30, 2004, 2005, and 2006, were $53,590, $56,528, and $56,575 respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of $1,099 and accidental death insurance contributions of $1,099 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

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

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

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.25 percent from the employer in fiscal year 2006.

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 $555,706 (excluding the surcharge) from The Citadel as employer and $446,176 from its employees as plan members. In addition, The Citadel paid $10,896 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

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

Executive Severance Plan
The Citadel Board of Visitors terminated the Citadel Executive Severance Plan in September 2004, and The Citadel Trust distributed all remaining funds to plan participants during the current fiscal year. At June 30, 2006 there was no remaining deferred compensation liability.

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

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

NOTE 10—POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

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

The Citadel recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of $2,200,971 for the year ended June 30, 2006. As discussed in Note 7, The Citadel paid $1,017,550 applicable to the 3.25 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

NOTE 11—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006, was as follows:

	July 1, 2005	Additions	Reductions	June 30, 2006	Due Within One Year
Bonds and Notes Payable and Capital Lease Obligations:					
State Institution Bonds	$ 2,725,000	$ -	$ 335,000	$ 2,390,000	$ 355,000
Less unamortized bond discount	6,112	-	872	5,240	816
Total State Institution Bonds	2,718,888	-	334,128	2,384,760	354,184
Revenue Bonds	33,245,000	-	1,725,000	31,520,000	1,610,000
Athletic Facilities Revenue Bonds	8,834,607	8,680,000	670,337	16,844,270	690,089
Less deferred loss on refunding	642,562	-	82,911	559,651	82,911
Less unamortized bond discount	429,245	32,951	50,571	411,625	48,215
Total Revenue Bonds Payable	41,007,800	8,647,049	2,261,855	47,392,994	2,168,963
Total Bonds Payable	43,726,688	8,647,049	2,595,983	49,777,754	2,523,147
Notes Payable	126,481	-	28,572	97,909	30,514
Capital Lease Obligations	4,063	87,305	16,977	74,391	17,874
Total Bonds, Notes & Capital Leases	43,857,232	8,734,354	2,641,532	49,950,054	2,571,535
Other Liabilities					
Retainages Payable	233,395	413,484	52,084	594,795	594,795
Accrued compensated absences	2,125,248	1,324,049	1,295,904	2,153,393	1,295,904
Federal loan funds	466,363	4,195	-	470,558	-
Deposits	1,834,893	1,262,088	1,285,005	1,811,976	1,273,902
Annuities payable	21,221	13,813	8,190	26,844	8,190
Funds held for others	90,073	18,001,631	17,957,588	134,116	-
Total Other Liabilities	4,771,193	21,019,260	20,598,771	5,191,682	3,172,791
Total Noncurrent Liabilities	$ 48,628,425	$ 29,753,614	$ 23,240,303	$ 55,141,736	$ 5,744,326

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

NOTE 12—CONSTRUCTION COSTS AND COMMITMENTS

Capitalized

The Citadel has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that The Citadel has sufficient resources available and/or future resources identified to satisfactorily complete the construction of these projects which are expected to be completed in varying phases over the next five years at an estimated cost of $50,819,636. Of the total estimated cost, approximately $26,000,000 is unexpended at June 30, 2006. Of the total expended through June 30, 2006, The Citadel has capitalized substantially complete and in-use projects in the amount of $3,287,315. Of the unexpended balance at June 30, 2006, The Citadel had remaining commitment balances of approximately $15,201,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capital projects as of June 30, 2006, was $584,936. Major capital projects at June 30, 2006, which constitute construction in progress that will be capitalized when completed, are listed below.

Project Title	Estimated Cost	Amount Expended
Stadium Replacement	$ 8,111,770	$ 7,025,136
Charleston Readiness Center	19,195,000	75,000
Law Barracks Replacement	23,321,513	17,610,296
City Land Acquisition	20,000	2,500
CCD Spectrophotometer	171,353	119,133
	$ 50,819,636	$ 24,832,065

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

Non-Capitalized

At June 30, 2006 The Citadel had in progress other capital projects which are not to be capitalized when complete. These projects are for replacements, repairs, and/or renovations to existing facilities. Estimated costs on these non-capitalized projects total $6,037,809. This amount includes costs incurred to date of $2,658,416 and estimated costs to complete of $3,379,393. The Citadel has remaining commitment balances with certain parties related to these projects of $976,559. Retainages payable on the non-capitalized projects as of June 30, 2006, was $9,859.

The Citadel anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state bond proceeds. The State has issued capital improvement bonds and research infrastructure bonds to fund improvements and expansion of state facilities. The Citadel is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. In fiscal year 2006, The Citadel received capital improvement bond proceeds of $495,126 and research infrastructure bond proceeds of $657,406. At June 30, 2006 The Citadel has no authorized state capital improvement bond proceeds and $2,647,117 of authorized research infrastructure bonds remaining. $57,142 of interest earnings on research infrastructure bond proceeds will be available to The Citadel when 90% of the total bond proceeds have been drawn or October 31, 2007, whichever is earlier.

NOTE 13—DONOR RESTRICTED ENDOWMENTS

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

The Citadel Trust chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Trust Board of Directors, 5 percent of the average market value of endowment investments at the end of the previous twelve quarters has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. At June 30, 2006, net appreciation of $4,172,543 is available to be spent, of which $4,072,372 is restricted to specific purposes.

NOTE 14—SPLIT INTEREST AGREEMENTS

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

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

During fiscal year 2000 a donor established a charitable gift annuity that provides for fixed payments to the donor for his lifetime. At the termination of the agreement the remaining assets of the gift annuity will become available to The Citadel Trust for general institutional purposes. This annuity fund is held and separately managed by The Citadel Trust. At the end of each fiscal year an adjustment is made between the liability and the nonexpendable net asset value to record the actuarial gain or loss due to the recomputation of the present value of the liability based on the revised life expectancy of the donor. At June 30, the present value of the annuity payable was $26,844.

NOTE 15—COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of The Citadel exist primarily to provide financial assistance and other support to the College and its educational program. They include The Citadel Foundation (TCF) and The Citadel Brigadier Foundation (TCBF). Because the activities and resources of these entities are for the sole benefit of The Citadel, they are considered component units of the College and are discretely presented in The Citadel's financial statements as non-governmental reporting entities. Following is a more detailed discussion of each of these entities and a summary of the significant transactions between these entities and The Citadel for the year ended June 30, 2006.

***The Citadel Foundation* (TCF)**

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

For the fiscal year ended June 30, 2006, TCF received current year contributions of $3,482,767 on behalf of The Citadel and The Citadel Trust -- $2,551,968 of this total was recorded as gifts, $822,547 was recorded as additions to permanent endowments, and $108,252 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of $314,234 for its fundraising services.

In addition, The Citadel and The Citadel Trust recorded non-governmental grants of $4,753,756 and capital grants of $649,613 from TCF for the fiscal year ended June 30, 2006. These funds were used to support scholarships and various academic programs and construction projects at the College.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled $144,337 for the year ended June 30, 2006.

The amount due from TCF varies during the fiscal year based on amounts due for grants and expenses incurred on behalf of TCF and contributions collected by TCF on behalf of The Citadel. TCF's balance sheet dated December 31, 2005, shows a grant payable to The Citadel of $1,964,957. The amount due to The Citadel from TCF at June 30, 2006, is $15,748.

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

The Citadel recorded non-governmental grants of $903,239 and capital grants of $220,000 from TCBF in the fiscal year ended June 30, 2006. These grants were used to support athletic scholarships and construction projects at the College.

As referenced in Note 3, TCBF is indebted to The Citadel for $9,000 as of June 30, 2006, for the athletic grants-in-aid on an interest-free note dated October 10, 1984, in the original amount of $208,436. The Citadel has not established a payment schedule for this loan.

TCBF reimburses The Citadel for certain expenses incurred on behalf of TCBF. The reimbursement totaled $449,497 for the year ended June 30, 2006. TCBF did not owe The Citadel at June 30, 2006.

NOTE 16 – RELATED PARTIES

Citadel Alumni Association (CAA**)** is a separately chartered corporation organized exclusively to promote alumni activities at The Citadel. CAA's activities are governed by its Board of Directors.

The activities of CAA are not included in The Citadel's financial statements. However, The Citadel's statements include transactions between the College and the CAA. Following is a summary of the significant transactions between The Citadel and CAA for the year ended June 30, 2006.

The College shares the costs of operating the newly renovated John Monroe Holliday Alumni Center building with CAA. Expenses related to routine operations of the alumni center are allocated based on the joint use of the building by Citadel staff who function as both the College Alumni Office and the Alumni Association Office. All expenses related to income production are borne by the CAA. CAA prepares an annual accounting of the net income of rental activities each May. After covering CAA income producing costs, any amount remaining is split on the same basis as building operating expenses. For the year ended June 30, 2006, The Citadel's share of John Monroe Holliday Alumni operating profits was $86,351 and is recorded as other nonoperating revenue.

In addition, The Citadel recorded a capital grant of $55,000 from CAA for the fiscal year ended June 30, 2006. This grant was used to support construction projects at the College.

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled $421,555 for the year ended June 30, 2006.

NOTE 17 – TRANSACTIONS WITH STATE ENTITIES

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

The original appropriation is The Citadel's base budget amount presented in the General Funds column of Section 5C, Part IA, of the 2005-06 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, 2006:

State Appropriations	
Original appropriation	$ 14,754,261
Supplemental appropriations (Proviso 73.17)	500,000
Appropriation allocations from the State Commission on Higher Education	
For Academic Endowment Match	19,190
For Technology Grant Program	501,116
Appropriation allocation from the Lowcountry Graduate Center	85,000
Total State Appropriation Revenues	$ 15,859,567

The following is a reconciliation of state bond proceeds The Citadel received during the fiscal year ended June 30,2006:

State Bond Proceeds	**Capital Improvement Bond Acts**	**Research Infrastructure Bond Proceeds**	**Total**
Proceeds drawn during the current fiscal year	$ 495,126	$ 657,406	$ 1,152,532
Plus: Expenses incurred but not drawn during the current fiscal year	-	-	-
Less: Proceeds drawn but not expended during the current fiscal year	6,199	-	6,199
Total State Bond Proceeds	$ 488,927	$ 657,406	$ 1,146,333

The Citadel received substantial funding from the Commission on Higher Education (CHE) for scholarships on behalf of students that is accounted for as operating State grants and contracts. Additional amounts received from CHE are accounted for as nonoperating revenue. The Citadel also receives State funds from various other State agencies for public service projects. Following is a summary of amounts received from State agencies for scholarships, sponsored research and public service projects for the fiscal year ended June 30, 2006:

Other amounts received from State agencies	**Operating Revenue**	**Nonoperating Revenue**
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	$ 1,348,629	$ -
Palmetto Fellows Scholarships	160,800	-
Need-Based Grants	214,815	-
Hope Scholarships	140,450	-
Technology Grant Program	-	43,848
Access and Equity Competitive Grants	-	9,803
Received from various other state agencies	4,379	15,094
	$ 1,869,073	$ 68,745

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

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

The Citadel had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, insurance coverage, office supplies, and interagency mail. Significant payments were also made for unemployment and workers′ compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2006 expenditures applicable to related transactions with State entities are not readily available.

The Citadel and the South Carolina National Guard (SCNG) worked together on two major projects during fiscal year 2006. The SCNG constructed a $3,287,315 Rifle Range on land it leased for 55 years from The Citadel. The SCNG used $3,141,904 of their funds and $145,411of Citadel funds to complete the project. The facility belongs to The Citadel and has been capitalized as a new building on the College's financial statements. In addition, the College and SCNG have agreed to construct a joint National Guard Readiness Center/ Press Box/Skybox facility at Johnson Hagood Football Stadium. The Citadel will lease the land to the National Guard for 25 years and the National Guard will construct the facility. The Citadel will capitalize the entire facility once it is completed. The Budget and Control Board has not yet approved the lease between the SCNG and The Citadel. The estimated cost of the completed facility will be approximately $25 million. The National Guard is funding $10 million of the project total and The Citadel will fund the remainder. The Citadel issued $8,680,000 in athletic facility taxable revenue bonds in late June that, combined with gifts, will provide $9 million for The Citadel's share of the phase 1 construction costs. The first phase of the $19 million project will construct the National Guard Readiness Center, joint use space, and a press box, with a shell for skyboxes. The college is planning a fund raising campaign to raise the additional $6 million required to finish and furnish the skyboxes, improve parking, and landscape the area.

NOTE 18—RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

NOTE 19—CONTINGENCIES AND LITIGATION

The Citadel currently has seven lawsuits pending. Five of these cases have been mediated and are in the process of being settled. These five relate to tort claims filed by former Citadel summer campers as a result of their alleged sexual molestation by a former Citadel volunteer camp counselor. The State Insurance Reserve Fund (IRF) is expected to pay all but a portion of the settlement. Management has identified the Citadel Trust funds from which the college will pay its expected portion and has classified them as a liability on the financial statements.

The other two cases are suits filed in the normal course of business and if lost, do not represent a material impact to the college's financial statements.

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

NOTE 20—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2006, are summarized as follows:

	Compensation and Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 17,780,312	$ 1,318,251	$ -	$ 70,758	$ -	$ 19,169,321
Research	83,381	224,861	-	-	-	308,242
Public Service	560,897	733,420	2,182	175,775	-	1,472,274
Academic Support	4,116,521	2,271,992	-	11,796	-	6,400,309
Student Services	4,039,287	1,753,622	17,768	5,000	-	5,815,677
Institutional Support	5,317,129	1,730,879	-	-	-	7,048,008
Operations & Maint. of Plant	3,529,547	3,341,994	2,002,468	-	-	8,874,009
Scholarships & Fellowships	23,029	118,327	-	2,401,772	-	2,543,128
Auxiliary Enterprises	6,212,797	14,187,429	1,075,942	8,715	-	21,484,883
Depreciation	-	-	-	-	3,785,388	3,785,388
Total Operating Expenses	$ 41,662,900	$ 25,680,775	$ 3,098,360	$ 2,673,816	$ 3,785,388	$ 76,901,239

NOTE 21—INFORMATION FOR INCLUSION IN THE STATE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

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

The Citadel	**2006**	**2005**	**Increase/ (Decrease)**
Charges for services	$ 50,080,634	$ 46,285,922	$ 3,794,712
Operating grants and contributions	7,223,660	7,651,387	(427,727)
Capital grants and contributions	4,165,944	739,117	3,426,827
Less expenses	78,509,891	72,144,486	6,365,405
Net program revenue (expense)	(17,039,653)	(17,468,060)	428,407
General revenues:			
Transfers:			
State appropriations	15,859,567	14,780,853	1,078,714
Capital improvement bond proceeds	488,927	2,495,697	(2,006,770)
Research infrastructure bond proceeds	657,406	-	657,406
Transfers from The Citadel Trust	3,185,277	2,807,217	378,060
Total general revenue and transfers	20,191,177	20,083,767	107,410
Change in net assets	3,151,524	2,615,707	535,817
Net assets - beginning	90,952,583	88,336,876	2,615,707
Net assets - ending	$ 94,104,107	$ 90,952,583	$ 3,151,524

The Citadel Trust	**2006**	**2005**	**Increase/ (Decrease)**
Operating grants and contributions	$ 7,695,948	$ 5,565,467	$ 2,130,481
Capital grants and contributions	40,000	355,339	(315,339)
Less expenses	129,134	126,692	2,442
Net program revenue (expense)	7,606,814	5,794,114	1,812,700
General revenues:			
Contributions to permanent endowments	822,547	762,871	59,676
Transfers:			
Transfers to The Citadel	(3,185,277)	(2,807,217)	(378,060)
Total general revenue and transfers	(2,362,730)	(2,044,346)	(318,384)
Change in net assets	5,244,084	3,749,768	1,494,316
Net assets - beginning	57,915,649	54,165,881	3,749,768
Net assets - ending	$ 63,159,733	$ 57,915,649	$ 5,244,084

THE CITADEL

The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Expenditures
U.S Department of Justice			
South Carolina Police Corp	16.712	None	$ 288,928
Total U. S. Department of Justice			288,928
U.S Department of Education			
Federal Supplemental Educational Opportunity Grant	84.007	P007013769	87,386
Federal Work Study	84.033	P033A73769	30,527
Federal Perkins Loan Program	84.038	P038A73769	784,939
Federal Pell Grant Program	84.063	P063P011532	970,850
William D. Ford Direct Loan Program	84.268	None	16,830,077
Total U. S. Department of Education			18,703,779
U.S. Department of Commerce			
Passed through SC Sea Grant Consortium:			
Succession of Tidal Freshwater Wetlands on the Cooper River	11.414	NA16RG2250	7,652
Vegetational Classification	11.463	NA03N0S4190168	9,171
Passed through SC Department of Natural Resources			
Edisto Beach Causeway	11.463	NA16RG2250	7,104
Total U. S. Department of Commerce			23,927
U.S Department of Transportation			
Passed through Clemson University			
Clemson Research	20.205	886-7557-223-2004587	1,565
NASA			
Passed through The College of Charleston:			
SC Space Grant Consortium	43.001	NGT5-40039	1,998
Total NASA			1,998
National Science Foundation			
Passed through The College of Charleston:			
CCD Spectrophotomete	47.049	AST-0115612	36,074
Hypercapnic Hypoxia Impacts Shrimp Immune Defenses	47.074	IBN-0212921	85,012
Passed through The Colorado School of Mines			
Professional Ethics and Engineering	47.076	CCLI-ND	2,000
Total National Science Foundation			123,086
U.S. Department of Health and Human Services			
Passed through The SC Developmental Disabilities Council			
Peer Express for Adolescents	93.630	312-21-0028	953
Total U.S. Department of Health and Human Services			953
U.S. Department of Education			
Passed through The SC Commission on Higher Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A990172-01	128,141
Passed through The SC Department of Education			
Middle Level Program Development	84.367A	03-F1301	1,863
Passed through the National Writing Project Corp.			
National Writing Project	84.928	99-SC09	43,000
Total U.S. Department of Education			173,004
Total Federal Assistance Expended			$ 19,317,240

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

Note 1 - Basis of Presentation

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

Note 2 - Loans Outstanding

The Federal Perkins Loan Program (CFDA Number 84.038) is administered directly by The Citadel and balances and transactions relating to the program are included in the loan fund of The Citadel's financial statements. The balance of loans outstanding under the Federal Perkins Loan Program was $633,534 as of June 30, 2006.

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

Note 3 - Matching

Under the Federal Work Study program, The Citadel matched $3,408 for the year ended June 30, 2006 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Under the Federal Supplemental Education Opportunity Grant program, The Citadel matched $29,129 for the year ended June 30, 2006 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Note 4 - Subrecipients

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

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

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

We have audited the financial statements of the business type activity and the discreetly presented component units of The Citadel, as of and for the year ended June 30, 2006, which collectively comprise The Citadel's basic financial statements and have issued our report thereon dated September 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Citadel's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

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

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

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

Beaufort, South Carolina
September 25, 2006

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

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

Compliance

We have audited the compliance of The Citadel with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Citadel's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of The Citadel's management. Our responsibility is to express an opinion on The Citadel's compliance based on our audit.

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

In our opinion, The Citadel complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of The Citadel is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The Citadel's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Beaufort, South Carolina
September 25, 2006

THE CITADEL
The Military College of South Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

I. Summary of auditor's results

A. An unqualified opinion dated September 25, 2006 was issued on the financial statements of The Citadel.
B. Our audit of the financial statements disclosed no instances of noncompliance with laws, regulations and the provisions of contracts and grant agreements material to the financial statements.
C. An unqualified opinion dated September 25, 2006 was issued on The Citadel's compliance with the types of compliance requirements applicable to its major federal programs.
D. Major federal programs for The Citadel for the fiscal year ended June 30, 2006 are:

CFDA Number	Program Title
	Federal Student Aid Cluster:
84.007	Federal Supplemental Educational Opportunity Grant
84.033	Federal Work Study
84.038	Federal Perkins Loan
84.063	Federal Pell Grant
84.268	Federal Direct Student Loans

F. The threshold for determining major federal programs for The Citadel was $300,000.
G. The Citadel was assessed as a low risk auditee under Circular No. A-133.

II. Findings related to the Audit of the financial statements of The Citadel

There were no findings related to the audit of the financial statements that are required to be reported.

III. Findings and questioned costs related to the audit of federal awards

No findings and questioned costs for federal awards were noted that are required to be reported under Section .510 (a) of OMB Circular A-133.

The Citadel
The Military College of South Carolina
Status of Prior Findings
June 30, 2006

There were no prior findings and questioned costs for federal awards that were required to be reported under Section .510 (a) of OMB Circular A-133.