

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

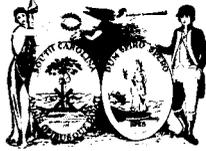
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2003

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3-7 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Assets..... | 8 |
| Statement of Revenues, Expenses, and Changes in Net Assets..... | 9 |
| Statement of Cash Flows | 10 |
| Notes to Financial Statements | 11-35 |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 36-37 |
| NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 38 |
| REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u> | 39-40 |
| REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 | 41-42 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 43 |
| STATUS OF PRIOR YEAR FINDINGS | 44 |

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

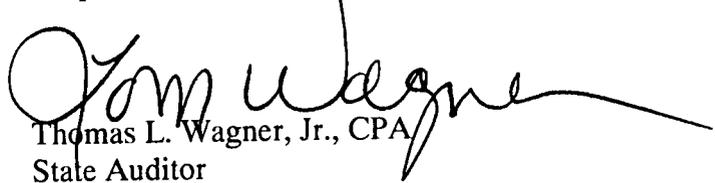
October 15, 2003

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 financial statements of The Citadel, The Military College of South Carolina, for the fiscal year ended June 30, 2003, was issued by Cherry, Bekaert, & Holland, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb



Independent Auditors' Report

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

We have audited the accompanying basic financial statements of **The Citadel, The Military College of South Carolina**, (The Citadel) as of June 30, 2003 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of The Citadel's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The Citadel Trust, Inc., a component unit of The Citadel, which financial statements reflect 29% of total assets and 7% of total revenues. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. 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 opinion.

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, 2003, 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 Citadel as of June 30, 2003, 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 5, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally 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 an opinion on the basic financial statements of The Citadel, taken as a whole. 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Beaufort, South Carolina
September 5, 2003

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2003

Overview of the Financial Statements and Financial Analysis

The Citadel is pleased to present its financial statements for fiscal year 2003. While audited financial statements for fiscal year 2002 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. In addition, this discussion will focus on operations and financial position of the primary institution—The Citadel, and will not include its component unit—The Citadel Trust.

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 provide an overview of its financial activities for the year. One major activity—a \$27.6 million dollar reconstruction project of Padgett-Thomas Barracks (P-T Barracks) stands out throughout all the College's statistics. This project is partially funded with a \$15 million federal construction grant. As of June 30, 2003, all federal funds had been drawn in anticipation of disbursement within 90 days of the grant ending date. This construction activity affects construction in progress, cash on hand, deferred income, accounts payable and construction retainages.

Summary 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 Citadel. 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 institution. They are also able to determine how much the institution 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 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 which are

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2003

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: | 2003 | 2002 | Increase/ (Decrease) | Percent Change |
|---|------------------|------------------|---------------------------------|---------------------------|
| Current assets | \$ 21,695 | \$ 20,796 | \$ 899 | 4.32% |
| Capital assets, net | 88,556 | 80,534 | 8,022 | 9.96% |
| Other assets | <u>8,553</u> | <u>2,318</u> | <u>6,235</u> | <u>268.98%</u> |
| Total Assets | <u>118,804</u> | <u>103,648</u> | <u>15,156</u> | <u>14.62%</u> |
| | | | | |
| Liabilities: | | | | |
| Current Liabilities | 15,224 | 7,671 | 7,553 | 98.46% |
| Noncurrent Liabilities | <u>25,873</u> | <u>27,085</u> | <u>(1,212)</u> | <u>(4.47)%</u> |
| Total Liabilities | <u>41,097</u> | <u>34,756</u> | <u>6,341</u> | <u>18.24%</u> |
| | | | | |
| Net Assets: | | | | |
| Invested in capital assets, net of debt | 63,550 | 56,324 | 7,226 | 12.83% |
| Restricted – expendable | 4,963 | 3,752 | 1,211 | 32.28% |
| Unrestricted | <u>9,194</u> | <u>8,816</u> | <u>378</u> | <u>4.29%</u> |
| Total Net Assets | <u>\$ 77,707</u> | <u>\$ 68,892</u> | <u>\$ 8,815</u> | <u>12.80%</u> |

- Total Assets of the College increased by \$15.2 million. Capital assets increased \$8 million, driven by a \$10.9 million increase in Construction In Progress, due almost exclusively to P-T Barracks. This construction in progress increase is partially offset by \$3.2 million in depreciation, creating a net increase in capital assets of \$8.0 million. The category of Other Assets increased by \$6.2 million primarily due to \$5.9 million of federal funds drawn in advance for P-T Barracks.
- Total liabilities of The Citadel increased by \$6.3 million. Current Liabilities increased \$7.5 million, primarily due to deferred revenue recognized for P-T Barracks. This deferred revenue is the result of \$5.9 million of federal funds drawn in advance mentioned in the previous paragraph. Accounts payable—primarily for construction projects—creates the remaining increase in the current liability category. Non current liabilities decreased by \$1.2 million due to payments on bonds, capital leases and notes payable.
- Although all categories of Net Assets increased during the year, the \$8.8 million overall increase was largely attributable to the increase in capital assets, net of debt, of \$7.2 million—primarily due to the P-T Barracks construction project.

Summary 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 non-operating. 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 non-operating 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.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2003

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 institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating 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 institution. 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. Non-operating 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 non-operating 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)**

| | <u>2003</u> | <u>2002</u> | <u>Increase/ (Decrease)</u> | <u>Percent Change</u> |
|--|------------------|------------------|---------------------------------|---------------------------|
| Operating Revenues: | | | | |
| Student tuition and fees | \$ 14,704 | \$ 13,219 | \$ 1,485 | 11.23% |
| Sales and services | 20,968 | 20,321 | 647 | 3.18% |
| Grants and contracts | 4,045 | 3,465 | 580 | 16.74% |
| Other operating revenues | 846 | 888 | (42) | (4.73)% |
| Total operating revenues | <u>40,563</u> | <u>37,893</u> | <u>2,670</u> | <u>7.05%</u> |
| Operating Expenses: | | | | |
| Compensation & employee benefits | 34,780 | 33,943 | 837 | 2.47% |
| Services & supplies | 24,669 | 22,617 | 2,052 | 9.07% |
| Utilities | 2,477 | 2,229 | 248 | 11.13% |
| Depreciation | 3,199 | 3,222 | (23) | (0.71)% |
| Scholarships & fellowships | 2,227 | 2,127 | 100 | 4.70% |
| Total operating expenses | <u>67,352</u> | <u>64,138</u> | <u>3,214</u> | <u>5.01%</u> |
| Operating loss | <u>(26,789)</u> | <u>(26,245)</u> | <u>(544)</u> | <u>2.07%</u> |
| Nonoperating Revenues (Expenses): | | | | |
| State appropriations | 15,755 | 17,710 | (1,955) | (11.04)% |
| Grants | 4,733 | 4,000 | 733 | 18.33% |
| Gifts | 1,758 | 1,626 | 132 | 8.12% |
| Investment income | 837 | 675 | 162 | 24.00% |
| Interest expense | (1,342) | (1,256) | (86) | 6.85% |
| Other nonoperating revenues/expenses | 116 | 119 | (3) | (2.52)% |
| Total nonoperating revenues (expenses) | <u>21,857</u> | <u>22,874</u> | <u>(1,017)</u> | <u>(4.45)%</u> |
| Income before other revenues, expenses, special & extraordinary items & transfers | (4,932) | (3,371) | (1,561) | 46.31% |
| Capital grants & appropriations | 10,553 | 2,787 | 7,766 | 278.65% |
| Gain/(loss) on disposal of capital assets | (11) | -- | (11) | (5600.00)% |
| Transfers from Citadel Trust | 3,205 | 3,907 | (702) | (17.97)% |
| Change in Net Assets | 8,815 | 3,323 | 5,492 | 165.29% |
| Net Assets, Beginning | <u>68,892</u> | <u>65,569</u> | <u>3,323</u> | <u>5.07%</u> |
| Net Assets, Ending | <u>\$ 77,707</u> | <u>\$ 68,892</u> | <u>\$ 8,815</u> | <u>12.80%</u> |

The Citadel
The Military College of South Carolina
Management's Discussion and Analysis
June 30, 2003

The Condensed Summary of Revenues, Expenses and in Net Assets reflects a positive year with an increase in Net Assets at the end of the year. Some highlights of the information presented on this Summary are as follows:

- The College experienced a \$2.7 million increase in operating revenues. This is comprised primarily of fee increases for student tuition and fees which generated an additional \$1.5 million to compensate for State budget cuts, and an increase in auxiliary fees (\$.8 million) required to keep auxiliaries self supporting. An additional \$.6 million came from increased lottery funded scholarship grants.
- Operating expenses at The College increased by \$3.2 million. The largest portion of this increase is \$2 million increase in expenditures for services and supplies. This includes \$1.9 million for non-capitalized repairs to Deas Hall. Compensation and employee benefits increased \$.8 million due to a 2% pay raise for all employees in January 2003.
- The \$1.0 million reduction in Nonoperating Revenues and Expenses was due to a decrease in State Appropriations (\$2 million), offset by \$.7 increase in new operating grants (primarily lottery-funded technology grants) and \$.2 increase in investment income. The College experienced two separate mid-year budget cuts from the State. The stock market turnaround during the last 6 months of the fiscal year created an increase in investment income.
- The increase of \$7.8 million in capital grants and appropriations is attributable to the federal grant for PT Barracks construction.

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 non-operating, 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 Asset and Debt Administration

No buildings were placed in service in fiscal year 2003. Most of the \$10.9 million increase in Construction in Progress is related to P-T Barracks construction, which is slated for completion at the end of fiscal year 2004. A \$2.2 million revitalization of Deas Hall was well under way by the close of this fiscal year. The College refunded and retired the \$3 million Series 2001 Athletic Facilities Revenue Bond due February 2004 by issuing a 15-year, \$3,150,0000 Athletic Facilities Refunding Revenue Bond in February 2003.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2003

Economic Outlook

The economic position of The Citadel is closely tied to that of the State of South Carolina. The State closed fiscal year 2003 with a \$22 million operating deficit, which followed a \$155 million deficit in the previous year, primarily due to collections falling below estimates for income and sales taxes. The State imposed mid-year budget cuts and sequestered funds, which they eventually cut during fiscal year 2003. State Constitutional requirements to restore amounts withdrawn from the State's General Reserve to balance the 2004 budget make fiscal year 2004 budget cuts to State agencies a near certainty.

In anticipation of the State's economic condition, and in recognition that The Citadel budget for fiscal year 2004 reflects State Appropriation funding of less than one-fourth of the total College budget, The Citadel Board of Visitors adopted a 18.2 percent tuition increase for in-state and 14.5 percent increase for out-of-state students.

Although a year characterized by budget cuts and no cost-of-living raises looms for The Citadel, tuition increases for in-state students are mitigated by South Carolina Education Lottery scholarships—Palmetto Fellows (\$6,700), LIFE (\$4,700 plus \$300 book allowance), and the first year HOPE (\$2,650).

Despite the economic downturn and State budget cuts, The Citadel finished the fiscal year better off than in the previous year. Proof lies beyond the quantifiable increase in net assets of \$8 million, but can also be found in the fact that many more students desire to attend The Citadel than can be accepted, and those that are accepted have record high SAT scores and high school rankings. The lottery plays an important part in the economic life of the College and its students. The College has benefited from funds allocated for technology. Students have benefited from lottery-funded scholarships.

THE CITADEL
The Military College of South Carolina
Statement of Net Assets
June 30, 2003

| | The Citadel | The Citadel Trust | Total |
|---|-----------------------|----------------------|-----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 12,685,178 | \$ 265,340 | \$ 12,950,518 |
| Investments | - | 2,754,519 | 2,754,519 |
| Restricted Assets - Current | | | |
| Cash and cash equivalents | 4,402,813 | 305,544 | 4,708,357 |
| Investments | - | 5,751,560 | 5,751,560 |
| Pledges receivable | 145,588 | 508,577 | 654,165 |
| Student loans receivable | - | 64,989 | 64,989 |
| Accounts receivable (Net of provision for Doubtful Accounts of \$287,655) | 2,362,600 | 209,943 | 2,572,543 |
| Note receivable | 20,000 | - | 20,000 |
| Pledges receivable | - | 119,180 | 119,180 |
| Inventories | 1,708,515 | - | 1,708,515 |
| Prepaid expenses | 370,434 | 41,340 | 411,774 |
| Total current assets | <u>21,695,128</u> | <u>10,020,992</u> | <u>31,716,120</u> |
| Noncurrent Assets | | | |
| Notes receivable | 49,000 | - | 49,000 |
| Pledges receivable | - | 249,576 | 249,576 |
| Cash surrender value of life insurance | - | 26,835 | 26,835 |
| Restricted Assets - Noncurrent | | | |
| Cash and cash equivalents | 7,620,653 | 1,578,411 | 9,199,064 |
| Investments | - | 34,253,950 | 34,253,950 |
| Pledges receivable | 126,997 | 951,745 | 1,078,742 |
| Student loans receivable | 548,486 | 392,622 | 941,108 |
| Cash surrender value of life insurance | - | 359,701 | 359,701 |
| Capital assets, net of accumulated depreciation | 88,556,358 | - | 88,556,358 |
| Other | 207,831 | - | 207,831 |
| Total noncurrent assets | <u>97,109,325</u> | <u>37,812,840</u> | <u>134,922,165</u> |
| Total assets | <u>\$ 118,804,453</u> | <u>\$ 47,833,832</u> | <u>\$ 166,638,285</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts and retainages payable | \$ 3,024,728 | \$ 2,204 | \$ 3,026,932 |
| Accrued payroll and related liabilities | 1,720,311 | 11,654 | 1,731,965 |
| Accrued compensated absences and related liabilities | 1,036,900 | - | 1,036,900 |
| Accrued interest payable | 319,757 | - | 319,757 |
| Deferred revenues | 6,878,430 | - | 6,878,430 |
| Long-term liabilities | 1,582,341 | - | 1,582,341 |
| Deposits | 661,414 | - | 661,414 |
| Annuities payable | - | 8,190 | 8,190 |
| Total current liabilities | <u>15,223,881</u> | <u>22,048</u> | <u>15,245,929</u> |
| Noncurrent Liabilities | | | |
| Perkins Loan Program - Federal liability | 512,793 | - | 512,793 |
| Accrued compensated absences and related liabilities | 842,938 | - | 842,938 |
| Deposits | 458,756 | - | 458,756 |
| Deferred compensation liability | - | 576,961 | 576,961 |
| Long-term liabilities | 23,997,653 | - | 23,997,653 |
| Annuities payable | - | 26,232 | 26,232 |
| Funds held for others | 60,815 | - | 60,815 |
| Total noncurrent liabilities | <u>25,872,955</u> | <u>603,193</u> | <u>26,476,148</u> |
| Total liabilities | <u>\$ 41,096,836</u> | <u>\$ 625,241</u> | <u>\$ 41,722,077</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | \$ 63,869,611 | \$ - | \$ 63,869,611 |
| Restricted for Nonexpendable: | | | |
| Scholarships | - | 16,518,041 | 16,518,041 |
| Other | - | 2,609,305 | 2,609,305 |
| Annuity | - | 72,653 | 72,653 |
| Restricted for Expendable: | | | |
| Scholarships, research, instruction and other | 1,490,553 | 21,228,679 | 22,719,232 |
| Loans | 117,814 | 992,017 | 1,109,831 |
| Capital projects | 3,252,677 | 217,567 | 3,470,244 |
| Debt service | 11,803 | - | 11,803 |
| Unrestricted | 8,965,159 | 5,570,329 | 14,535,488 |
| Total net assets | <u>\$ 77,707,617</u> | <u>\$ 47,208,591</u> | <u>\$ 124,916,208</u> |

THE CITADEL

The Military College of South Carolina

Statement of Revenues, Expenses, and Changes in Net Assets

For the year ended June 30, 2003

| | <u>The Citadel</u> | <u>The Citadel Trust</u> | <u>Total</u> |
|---|------------------------|------------------------------|-----------------------|
| REVENUES: | | | |
| Operating Revenues | | | |
| Student tuition and fees (net of scholarship allowances of \$3,978,872) | \$ 14,704,226 | \$ - | \$ 14,704,226 |
| Federal grants and contracts | 2,559,433 | - | 2,559,433 |
| State grants and contracts | 1,480,039 | - | 1,480,039 |
| Nongovernmental grants and contracts | 5,067 | - | 5,067 |
| Sales and services of educational and other activities | 907,002 | - | 907,002 |
| Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of \$2,232,839) | 16,708,679 | - | 16,708,679 |
| Sales and services of auxiliary enterprises (net of scholarship allowances of \$434,339) | 3,352,557 | - | 3,352,557 |
| Other fees | 411,483 | - | 411,483 |
| Investment income (net of investment expenses of \$191,404) | - | 411,730 | 411,730 |
| Endowment income | - | 1,020,272 | 1,020,272 |
| Other operating revenues | 434,679 | - | 434,679 |
| Total operating revenues | <u>40,563,165</u> | <u>1,432,002</u> | <u>41,995,167</u> |
| EXPENSES: | | | |
| Operating Expenses | | | |
| Compensation and employee benefits | 34,779,387 | 63,684 | 34,843,071 |
| Services and supplies | 24,669,204 | 44,483 | 24,713,687 |
| Utilities | 2,477,160 | - | 2,477,160 |
| Depreciation expense | 3,198,901 | - | 3,198,901 |
| Scholarships and fellowships | 2,227,363 | - | 2,227,363 |
| Total operating expenses | <u>67,352,015</u> | <u>108,167</u> | <u>67,460,182</u> |
| Operating income (loss) | <u>(26,788,850)</u> | <u>1,323,835</u> | <u>(25,465,015)</u> |
| NONOPERATING REVENUES (EXPENSES): | | | |
| State appropriations | 15,754,606 | - | 15,754,606 |
| State grants and contracts | 359,471 | - | 359,471 |
| Nongovernmental grants | 4,373,597 | 66,204 | 4,439,801 |
| Gifts | 1,758,164 | 3,277,648 | 5,035,812 |
| Investment income | 837,402 | - | 837,402 |
| Interest on capital asset-related debt | (1,342,376) | - | (1,342,376) |
| Other nonoperating revenues (expenses) | 116,667 | (4,203) | 112,464 |
| Net nonoperating revenues | <u>21,857,531</u> | <u>3,339,649</u> | <u>25,197,180</u> |
| Income before other revenues, expenses, gains or losses | <u>(4,931,319)</u> | <u>4,663,484</u> | <u>(267,835)</u> |
| State capital improvement bond proceeds | 232,789 | - | 232,789 |
| Capital grants and gifts | 10,320,556 | 59,005 | 10,379,561 |
| Gain (loss) on disposal of capital assets | (11,060) | - | (11,060) |
| Additions to permanent endowments | - | 404,633 | 404,633 |
| Transfers to/from The Citadel Trust | 3,204,796 | (3,204,796) | - |
| Total other revenues | <u>13,747,081</u> | <u>(2,741,158)</u> | <u>11,005,923</u> |
| Increase (decrease) in net assets | <u>8,815,762</u> | <u>1,922,326</u> | <u>10,738,088</u> |
| NET ASSETS | | | |
| Net assets-beginning of year | 68,891,855 | 45,286,265 | 114,178,120 |
| Net assets-end of year | <u>\$ 77,707,617</u> | <u>\$ 47,208,591</u> | <u>\$ 124,916,208</u> |

THE CITADEL
The Military College of South Carolina
Statement of Cash Flows
For the year ended June 30, 2003

| | The Citadel | The Citadel Trust | Total |
|---|------------------------|----------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Student tuition and fees | \$ 15,398,483 | \$ - | \$ 15,398,483 |
| Grants and contracts | 3,819,243 | - | 3,819,243 |
| Sales and services of educational and other activities | 903,185 | - | 903,185 |
| Sales and services of auxiliary enterprises | 20,046,594 | - | 20,046,594 |
| Other operating receipts | 517,571 | - | 517,571 |
| Payments to employees for salaries and benefits | (34,950,330) | (63,684) | (35,014,014) |
| Payments to suppliers | (23,969,317) | (44,483) | (24,013,800) |
| Payments for utilities | (2,469,145) | - | (2,469,145) |
| Payments to students for scholarships and fellowships | (2,227,363) | - | (2,227,363) |
| Loans issued to students | (105,557) | - | (105,557) |
| Collection of loans to students | 128,741 | - | 128,741 |
| Funds held for others | 92,451 | - | 92,451 |
| Student direct lending receipts | 10,635,007 | - | 10,635,007 |
| Student direct lending disbursements | (10,671,240) | - | (10,671,240) |
| Net cash provided (used) by operating activities | (22,851,677) | (108,167) | (22,959,844) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| State appropriations | 15,754,606 | - | 15,754,606 |
| Gifts and grants for other than capital purposes | 6,278,467 | 3,934,254 | 10,212,721 |
| Collections on note receivable | 20,000 | - | 20,000 |
| Other non-operating revenues/expenses | 116,667 | 211,821 | 328,488 |
| Transfers from component unit | 3,204,796 | (3,204,796) | - |
| Net cash provided (used) by noncapital financing activities | 25,374,536 | 941,279 | 26,315,815 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Proceeds from capital debt | 3,150,000 | - | 3,150,000 |
| State capital improvement bond proceeds | 232,789 | - | 232,789 |
| Capital grants and gifts received | 15,357,222 | 59,005 | 15,416,227 |
| Proceeds from sale of capital assets | 8,658 | - | 8,658 |
| Purchases of capital assets | (9,863,512) | - | (9,863,512) |
| Principal paid on capital debt and leases | (4,371,096) | - | (4,371,096) |
| Interest paid on capital related debt | (1,342,551) | - | (1,342,551) |
| Net cash provided (used) by capital and related financing activities | 3,171,510 | 59,005 | 3,230,515 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sales and maturities of investments | - | 43,432,833 | 43,432,833 |
| Interest on investments | 799,452 | 976,190 | 1,775,642 |
| Purchase of investments | - | (45,351,870) | (45,351,870) |
| Net cash provided (used) by investing activities | 799,452 | (942,847) | (143,395) |
| Net change in cash | 6,493,821 | (50,730) | 6,443,091 |
| Cash and cash equivalents - beginning of year | 18,214,823 | 2,200,025 | 20,414,848 |
| Cash and cash equivalents - end of year | \$ 24,708,644 | \$ 2,149,295 | \$ 26,857,939 |
| Reconciliation of net operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ (26,788,850) | \$ 1,323,835 | \$ (25,465,015) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | | |
| Depreciation expense | 3,198,901 | - | 3,198,901 |
| Interest and dividends on investments | - | (917,647) | (917,647) |
| Realized and unrealized gains and losses on investments | - | (514,355) | (514,355) |
| Gifts in kind | 67,450 | - | 67,450 |
| Funds held for others | 56,218 | - | 56,218 |
| Changes in assets and liabilities | | | |
| Accounts receivable, net | (310,179) | - | (310,179) |
| Inventories | 159,334 | - | 159,334 |
| Student loans receivable | 27,172 | - | 27,172 |
| Prepaid expenses | 116,969 | - | 116,969 |
| Accounts payable and accrued expenses | 128,610 | - | 128,610 |
| Accrued compensated absences and related liabilities | 49,483 | - | 49,483 |
| Deferred revenue | 331,534 | - | 331,534 |
| Student and other deposits | 111,681 | - | 111,681 |
| Net cash provided (used) by operating activities | \$ (22,851,677) | \$ (108,167) | \$ (22,959,844) |
| Non-cash transactions | | | |
| Increase in fair value of investments | \$ 511,819 | \$ 2,719,098 | \$ 3,230,917 |
| Assignment of Perkins Loans | \$ 7,289 | \$ - | \$ 7,289 |
| Gifts in kind (equipment) | \$ 42,418 | \$ - | \$ 42,418 |
| Gifts in kind (supplies) | \$ 67,450 | \$ 8,418 | \$ 75,868 |

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Citadel is a State-supported, 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-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The 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 GASB Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of The Citadel, as the primary government, and the accounts of The Citadel Trust (the "Trust"), its component unit. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

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 is part of the primary government of the State of South Carolina.

Financial Statements: The financial statement presentation for The Citadel meets the requirements of 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*. 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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting: For financial reporting purposes, The Citadel 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 applies 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 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.

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.

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.

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials 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.

Deferred Revenues: 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: 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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, as a political subdivision of the State of South Carolina, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The Trust is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

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

Operating revenues: 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.

Nonoperating revenues: 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.

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, 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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Deferred Charges: Deferred charges connected with bond issuance costs are reported as an asset titled "Other" and are amortized over the lives of the bond issues using the bonds outstanding method.

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

All deposits and investments of The Citadel are under the control of the State Treasurer who, by law, has sole authority for investing State funds. 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:

| <u>Statement of Net Assets</u> | | <u>Footnotes</u> | |
|---|----------------------|----------------------------------|----------------------|
| Cash and cash equivalents (current) | \$ 12,950,518 | Cash on hand | \$ 47,300 |
| Restricted cash and cash equivalents (current) | 4,708,357 | Deposits held by State Treasurer | 24,670,298 |
| Restricted cash and cash equivalents (noncurrent) | 9,199,064 | Other Deposits | 320,055 |
| Investments (current) | 2,754,519 | Investments | 44,580,315 |
| Restricted investments (current) | 5,751,560 | | |
| Restricted investments (noncurrent) | <u>34,253,950</u> | | |
| | <u>\$ 69,617,968</u> | | <u>\$ 69,917,968</u> |

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2003, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its 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.

Other Deposits

The Citadel's other deposits at year-end, and the deposits of The Citadel Trust, its blended component unit, are categorized as to credit risk as either (1) insured or collateralized with securities held by the entity or by its agent in the entity's name, (2) collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name, or (3) uninsured or uncollateralized.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 2—CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS (continued)

All but \$102,685 of other deposits are owned by The Citadel Trust, a component unit of The Citadel. The other deposits owned by The Citadel relate to required loan deposits (\$16,000) and cash on hand with the College's Perkins Loan servicer. A summary of June 30, 2003, bank balances by risk category follows:

| | Category of Risk | | | Bank Balance | Reported Amount |
|---------------|------------------|---|---|-----------------|--------------------|
| | 1 | 2 | 3 | | |
| Cash deposits | \$ 319,654 | - | - | \$ 319,654 | \$ 320,055 |

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 trade 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.

The Trust's investments are categorized as to credit risk as either (1) insured or registered, or securities held by the entity or its agent in the entity's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the entity's name.

At June 30, 2003, The Trust's investments consisted of the following:

| | Category of Risk | | | Reported Amount | Fair Value |
|--|----------------------|----------------------|-------------|----------------------|----------------------|
| | 1 | 2 | 3 | | |
| U.S. Treasury Notes/Bonds | \$ - | \$ 2,624,096 | \$ - | \$ 2,624,096 | \$ 2,624,096 |
| U.S. Government and Agency Bonds | 4,431,811 | 727,029 | - | 5,158,840 | 5,158,840 |
| Corporate Bonds | 196,830 | 6,515,111 | - | 6,711,941 | 6,711,941 |
| Corporate Stocks | 21,120,115 | 1,697,138 | - | 22,817,253 | 22,817,253 |
| | <u>\$ 25,748,756</u> | <u>\$ 11,563,374</u> | <u>\$ -</u> | <u>\$ 37,312,130</u> | <u>\$ 37,312,130</u> |
| Investments not subject to categorization: | | | | | |
| Open-ended Mutual Funds | | | | 7,268,185 | 7,268,185 |
| Total Investments | | | | <u>\$ 44,580,315</u> | <u>\$ 44,580,315</u> |

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 3—ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2003, are summarized as follows:

| | <u>Citadel</u> | <u>Citadel Trust</u> | <u>Total</u> |
|---|---------------------|----------------------|---------------------|
| Receivables: | | | |
| Student fees | \$ 1,105,662 | \$ - | \$ 1,105,662 |
| Federal grants and contracts | 489,897 | - | 489,897 |
| State grants and contracts | 43,226 | - | 43,226 |
| Nongovernmental grants and contracts | 647,801 | 5,996 | 653,797 |
| Accrued interest | 171,496 | 187,321 | 358,817 |
| Other | 192,173 | 16,626 | 208,799 |
| Gross receivables | <u>2,650,255</u> | <u>209,943</u> | <u>2,860,198</u> |
| Less allowance for uncollectibles: | | | |
| Student fees | 287,655 | - | 287,655 |
| Total allowances for uncollectibles | <u>287,655</u> | <u>-</u> | <u>287,655</u> |
| Accounts receivable, net | <u>\$ 2,362,600</u> | <u>\$ 209,943</u> | <u>\$ 2,572,543</u> |

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

NOTE 4—PLEDGES RECEIVABLE

Pledges receivable are comprised of pledges for gifts to support college programs and construction projects. Pledges receivable are accounted for at their estimated net realizable value, or the present value of long-term pledges. The composition of pledges receivable at June 30, 2003, is summarized as follows:

| | <u>Citadel</u> | <u>Citadel Trust</u> | <u>Total</u> |
|---------------------------------------|-------------------|----------------------|---------------------|
| Gift Pledges Outstanding: | | | |
| Operations | \$ 283,500 | \$ 1,887,126 | \$ 2,170,626 |
| Capital | - | 18,750 | 18,750 |
| Total gift pledges outstanding | <u>283,500</u> | <u>1,905,876</u> | <u>2,189,376</u> |
| Less: | | | |
| Unamortized discount to present value | (10,915) | (76,798) | (87,713) |
| Total pledges receivable, net | <u>\$ 272,585</u> | <u>\$ 1,829,078</u> | <u>\$ 2,101,663</u> |

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 4 – PLEDGES RECEIVABLE (continued)

Payments on pledges receivable as of June 30, 2003, are expected to be received in the following years ended June 30:

| | <u>Citadel</u> | <u>Citadel Trust</u> | <u>Total</u> |
|------|-------------------|--------------------------|---------------------|
| 2004 | \$ 145,588 | \$ 627,757 | \$ 773,345 |
| 2005 | 36,044 | 563,967 | 600,011 |
| 2006 | 44,760 | 552,906 | 597,666 |
| 2007 | 46,193 | 54,276 | 100,469 |
| 2008 | - | 30,172 | 30,172 |
| | <u>\$ 272,585</u> | <u>\$ 1,829,078</u> | <u>\$ 2,101,663</u> |

Pledges for permanent endowments do not meet the eligibility requirements, as defined by GASB Statement 33, until the related gift is received. Accordingly, permanent endowment pledges to The Trust totaling \$272,210 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 as The Citadel believes all pledges are collectible.

NOTE 5—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 – those payments that will be received within the following fiscal year are classified as "current portion of loans receivable." 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 College 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, 2003, loan balances and allowances for uncollectible student loans are as follows:

| | <u>Citadel</u> | <u>Citadel Trust</u> | <u>Total</u> |
|-----------------------------------|-------------------|--------------------------|---------------------|
| Loans Receivable | \$ 624,247 | \$ 804,903 | \$ 1,429,150 |
| Allowance for Uncollectible Loans | (75,761) | (347,292) | (423,053) |
| Net Loans Receivable | <u>\$ 548,486</u> | <u>\$ 457,611</u> | <u>\$ 1,006,097</u> |

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, is summarized as follows:

| | <u>July 1, 2002</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2003</u> |
|---|----------------------|---------------------|--------------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Land and improvements | \$ 2,645,540 | \$ - | \$ - | \$ 2,645,540 |
| *Construction in-progress | 2,943,977 | 10,865,830 | - | 13,809,807 |
| Fine arts | 366,265 | - | - | 366,265 |
| Total capital assets not being depreciated | <u>5,955,782</u> | <u>10,865,830</u> | <u>-</u> | <u>16,821,612</u> |
| Other capital assets: | | | | |
| Land improvements | 8,420,447 | - | - | 8,420,447 |
| Buildings and improvements | 94,866,449 | - | (457,200) | 94,409,249 |
| Machinery, equipment, and other | 4,122,846 | 347,065 | (317,447) | 4,152,464 |
| Vehicles | 780,646 | 28,202 | (33,898) | 774,950 |
| Intangibles | 154,875 | - | - | 154,875 |
| Total other capital assets at historical cost | <u>108,345,263</u> | <u>375,267</u> | <u>(808,545)</u> | <u>107,911,985</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (1,090,465) | (558,244) | - | (1,648,709) |
| Buildings and improvements | (29,133,240) | (2,304,590) | 457,200 | (30,980,630) |
| Machinery, equipment, and other | (2,898,339) | (278,430) | 297,729 | (2,879,040) |
| Vehicles | (570,782) | (51,441) | 33,898 | (588,325) |
| Intangibles | (74,340) | (6,195) | - | (80,535) |
| Total accumulated depreciation | <u>(33,767,166)</u> | <u>(3,198,900)</u> | <u>788,827</u> | <u>(36,177,239)</u> |
| Other capital assets, net | <u>74,578,097</u> | <u>(2,823,633)</u> | <u>(19,718)</u> | <u>71,734,746</u> |
| Capital assets, net | <u>\$ 80,533,879</u> | <u>\$ 8,042,197</u> | <u>\$ (19,718)</u> | <u>\$ 88,556,358</u> |

* includes current fiscal year capitalized interest of \$5,805.

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

| | |
|-----------------------|--------------------|
| Gains on disposals | \$ 8,434 |
| Losses on disposals | <u>(19,494)</u> |
| Net loss on disposals | <u>\$ (11,060)</u> |

NOTE 7—PENSION PLANS

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 7—PENSION PLANS (continued)

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, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 10.7 percent which included a 3.15 percent surcharge to fund retiree health and dental insurance coverage. The Citadel's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2001, 2002, and 2003, were \$1,603,333, \$1,690,136, and \$1,621,868 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 \$32,223 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, 2002, the employer contribution rate became 13.45 percent which, as for the SCRS, included the 3.15 percent surcharge. The Citadel's actual contributions to the PORS for the years ended June 30, 2001, 2002, and 2003, were \$42,659, \$43,215, and \$51,332 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 \$997 and accidental death insurance contributions of \$997 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 7—PENSION PLANS (continued)

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 3.15 percent from the employer in fiscal year 2003.

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 \$293,879 (excluding the surcharge) from The Citadel as employer and \$233,547 from its employees as plan members. In addition, The Citadel paid \$5,839 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 Executive Severance Plan was adopted for certain of The Citadel's executive or highly compensated employees. The purpose of the plan is to offer those employees an opportunity to elect to defer the receipt of compensation in order to provide for severance pay and death benefits taxable pursuant to Section 451 of the Internal Revenue Code (IRC) of 1986, as amended. The plan is intended to be a "bona fide severance pay plan" and a "bona fide death benefit plan" as defined in Section 457(e)(11) of the IRC and a "top hat" severance pay and death benefit plan (i.e., an unfunded severance pay and death benefit plan maintained for a select group of management or highly compensated employees) under Section 401(a)(1) of the ERISA and Department of Labor regulations Sections 2520.104-23 and 2520.104-24. Eligible employees are any persons employed by the sponsor who are determined by the sponsor to be a select group of management or highly compensated employees and who are designated by the Board to be eligible employees under the plan. Three employees are currently designated to participate in this plan.

The Citadel Trust contributed \$80,000 to The Citadel Executive Severance Plan in fiscal year 2003 and intends to contribute similar amounts in future years. Because this plan is a Section 457 (e) (11) plan, plan

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 7—PENSION PLANS (continued)

assets remain the property of The Trust until paid or made available to participants and are subject to the claims of The Citadel's general creditors. At June 30, 2003, the \$576,961 plan balance is reported as a deferred compensation liability.

A Supplemental Executive Retirement Plan functioning under Section 457(f) was established at the same time as the Executive Severance Plan. There are currently no participants in the Supplemental Executive Retirement Plan, and no funds have been invested in this plan.

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

NOTE 8—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 \$2,154,503 for the year ended June 30, 2003. As discussed in Note 7, The Citadel paid \$814,984 applicable to the 3.15 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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 8—POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (continued)

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 9—CONTINGENCIES AND LITIGATION

The Citadel is currently without any active litigation. The college received a claim from an attorney representing a client who is threatening litigation if the claim is not met. This claim has been forwarded to the SC Insurance Reserve Fund and negotiations are on going. The claim may expose The Citadel to potential damages of approximately \$1 million. Because this claim is in the initial stages of negotiation, the College has not recorded any estimated loss liabilities for this potential lawsuit.

The Citadel participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. 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 10—CONSTRUCTION COSTS AND COMMITMENTS

The Citadel has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that The Citadel has sufficient resources available and/or future resources identified to satisfactorily complete the construction of these projects which are expected to be completed in varying phases over the next five years at an estimated cost of \$27,162,534. Of the total estimated cost, approximately \$13,353,000 is unexpended at June. Of the total expended through June 30, 2003, The Citadel capitalized no substantially complete and in use projects in the current fiscal year. Of the unexpended balance at June 30, 2003, The Citadel had remaining commitment balances of approximately \$9,926,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capital projects as of June 30, 2003, was \$418,239. Major capital projects at June 30, 2003, which constitute construction in progress that will be capitalized when completed, are listed below.

| <u>Project Title</u> | <u>Estimated Cost</u> | <u>Amount Expended</u> |
|-------------------------------------|-----------------------|------------------------|
| Stadium Replacement A & E | \$ 405,805 | \$ 258,461 |
| Rifle Range A & E | 50,000 | 26,350 |
| New Rifle Range Facility | 200,000 | 76,462 |
| Padgett-Thomas Barracks Replacement | <u>26,506,729</u> | <u>13,448,534</u> |
| | <u>\$ 27,162,534</u> | <u>\$ 13,809,807</u> |

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 10—CONSTRUCTION COSTS AND COMMITMENTS (continued)

At June 30, The Citadel had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities. Costs incurred to date on these projects amount to approximately \$3,267,000 at June 30, and the estimated cost to complete is approximately \$1,102,000. At June 30, The Citadel had remaining commitment balances of approximately \$686,000 with certain parties related to these projects. Retainages payable on the non-capitalized projects as of June 30, 2003, was \$199,077.

The Citadel anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds. The State has issued capital improvement 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. The Citadel had \$6,972,798 of authorized state capital improvement bond proceeds available to draw at June 30, 2003.

NOTE 11—LEASE OBLIGATIONS

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

Future commitments for capital leases and operating leases having remaining noncancelable terms in excess of one year as of June 30, 2003, were as follows:

| <u>Year ending June 30,</u> | <u>Capital Leases/ Equipment</u> | <u>Operating Leases/ Equipment</u> |
|---|--|--|
| 2004 | \$ 33,102 | \$ 1,063 |
| 2005 | 32,613 | 1,063 |
| 2006 | 4,446 | - |
| 2007 | - | - |
| Total minimum lease payments | <u>\$ 70,161</u> | <u>\$ 2,126</u> |
| Less: Interest | 2,384 | |
| Executory and other costs | 16,065 | |
| Present value of minimum lease payments | <u>\$ 51,712</u> | |

Capital Leases

Capital leases for various equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2003 were \$33,102, of which \$2,607 represented interest and \$7,854 represented executory costs. Total principal paid on capital leases was \$22,641 for the year ending June 30, 2003. The following is a summary of the carrying values of assets held under capital lease at June 30, 2003.

| | |
|--|------------------|
| Equipment acquired under capital leases | \$ 100,854 |
| Less accumulated amortization | (58,103) |
| Equipment acquired under capital leases, net | <u>\$ 42,751</u> |

Operating Leases

The Citadel's noncancelable operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis. Total rental payments for equipment were \$1,063 for fiscal year 2003.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 11—LEASE OBLIGATIONS (continued)

In the current fiscal year, The Citadel incurred expenses of \$91,484 for office copier service on a cost-per-copy basis.

NOTE 12—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2003:

| | <u>Interest Rates</u> | <u>Maturity Dates</u> | <u>June 30,2003 Balance</u> |
|-------------------------------|-----------------------|-----------------------|-----------------------------|
| State Institution Bonds | | | |
| Series 1991 | 5.50% to 7.50% | 12/01/06 | \$ 725,000 |
| Series 2001D | 4.25% to 5.50% | 12/01/17 | <u>2,620,000</u> |
| Total State Institution Bonds | | | <u>\$ 3,345,000</u> |
| Revenue Bonds | | | |
| Series 1997 | 4.875% to 5.125% | 04/01/17 | \$ 18,855,000 |
| Series 2003 | 4.19% | 02/15/18 | <u>3,150,000</u> |
| Total Revenue Bonds | | | <u>\$ 22,005,000</u> |
| Total Bonds Payable | | | <u>\$ 25,350,000</u> |

Bonds issued by The Citadel include certain restrictive covenants. State institution bonds are general obligation 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 annual debt requirements for the payment of principal and interest on these bonds. The Series 1997 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 (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of State institution bonds. The Series 2003 Athletic Facilities Refunding 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 an insurance contract for The Series 1997 Revenue Bonds that guarantees 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.

The Citadel's maximum annual debt service, which will occur in the year ending June 30, 2005, is \$460,326. Based on tuition fees collected for the year ending June 30, 2002 of \$561,279, The Citadel is in compliance with Section 59-107-90 of the South Carolina Code of Laws.

Certain of the Series 1997 Revenue Bonds Payable are callable at the option of The Citadel. The Athletic Facilities Refunding Revenue Bonds may be redeemed prior to maturity at the option of The Citadel.

On February 11, 2003 The Citadel issued \$3,150,000 of Athletic Facilities Refunding Revenue Bonds with a fixed interest rate of 4.19%. Of the total issue cost, \$3,121,083 was used to refund \$3,000,000 in Athletic Facilities Revenue Bonds Series 2001 with a fixed interest rate of 4.07%. Related bond issue costs totaled \$28,917. Bond issue costs are amortized over the life of the bonds using the bonds

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 12—BONDS AND NOTES PAYABLE (continued)

outstanding method. The Athletic Facilities Refunding Revenue Bonds are payable in annual installments of principal and interest beginning February 15, 2004, with the final payment due on February 15, 2018.

The College engaged in the refunding to extend the redemption of the bonds from February 14, 2004 to February 15, 2018. While the refunding resulted in an economic loss of \$137,883, it should be noted that such a loss resulted from The Citadel converting a short term, interest-only credit facility into a fully amortizing 15-year instrument. Moreover, The Citadel elected to redeem the 2001 Bond at its first available redemption date (3 year interest-only term but callable after 2 years) in order to capitalize upon a historically low interest rate environment. As a result, The Citadel was able to convert 3-year debt at a rate of 4.07% into 15-year debt at a rate of 4.19%. In addition to locking-in long-term debt in a more favorable interest rate environment and garnering significant interest savings, this financing approach provided The Citadel maximum ongoing flexibility for its evolving athletic facilities finance plan. The aggregate difference in debt service between the \$3,150,000 Athletic Facilities Refunding Revenue Bonds and the \$3,00,000 Athletic Facilities Revenue Bonds (refunded bonds) is \$1,186,216.

All bonds are payable in semiannual installments plus interest, with the exception of the Athletic Facilities Refunding Revenue Bonds which are payable in annual installments. The scheduled maturities of bonds payable by type are as follows:

| <u>State Institution Bonds</u> | <u>Principal</u> | <u>Interest</u> | <u>Payments</u> |
|--------------------------------|---------------------|---------------------|---------------------|
| 2004 | \$ 300,000 | \$ 158,783 | \$ 458,783 |
| 2005 | 320,000 | 140,326 | 460,326 |
| 2006 | 335,000 | 121,208 | 456,208 |
| 2007 | 355,000 | 102,132 | 457,132 |
| 2008 | 165,000 | 89,041 | 254,041 |
| 2009 – 2013 | 940,000 | 326,147 | 1,266,147 |
| 2014 – 2018 | <u>930,000</u> | <u>89,882</u> | <u>1,019,882</u> |
| | <u>\$ 3,345,000</u> | <u>\$ 1,027,519</u> | <u>\$ 4,372,519</u> |

| <u>Revenue Bonds</u> | <u>Principal</u> | <u>Interest</u> | <u>Payments</u> |
|----------------------|----------------------|---------------------|----------------------|
| 2004 | \$ 1,233,712 | \$ 1,082,573 | \$ 2,316,285 |
| 2005 | 1,306,681 | 1,022,013 | 2,328,694 |
| 2006 | 1,378,455 | 959,420 | 2,337,875 |
| 2007 | 1,260,513 | 893,375 | 2,153,888 |
| 2008 | 1,317,867 | 833,127 | 2,150,994 |
| 2009 – 2013 | 7,635,894 | 3,134,656 | 10,770,550 |
| 2014 – 2018 | <u>7,871,878</u> | <u>1,030,884</u> | <u>8,902,762</u> |
| | <u>\$ 22,005,000</u> | <u>\$ 8,956,048</u> | <u>\$ 30,961,048</u> |

In prior years, The Citadel defeased various bond issue 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, 2003, \$8,440,000 of revenue bonds are outstanding defeased debt.

As of June 30, 2003, The Citadel has no accrued arbitrage liability.

The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2003:

| <u>Bond Type</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------------|---------------------|---------------------|
| State Institution Bonds | \$ 285,000 | \$ 176,031 |
| Revenue Bonds | 1,040,000 | 999,818 |
| Athletic Facilities Revenue Bonds | <u>3,000,000</u> | <u>121,083</u> |
| | <u>\$ 4,325,000</u> | <u>\$ 1,296,932</u> |

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 12—BONDS AND NOTES PAYABLE (continued)

Note Payable

At June 30, 2003, 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% \$178,282

The scheduled maturities of the note payable are as follows:

| <u>Note Payable</u> | <u>Principal</u> | <u>Interest</u> | <u>Payments</u> |
|---------------------|------------------|------------------|-------------------|
| 2004 | \$ 25,049 | \$ 12,123 | \$ 37,172 |
| 2005 | 26,752 | 10,420 | 37,172 |
| 2006 | 28,572 | 8,600 | 37,172 |
| 2007 | 30,515 | 6,657 | 37,172 |
| 2008 | 32,589 | 4,583 | 37,172 |
| 2009 | <u>34,805</u> | <u>2,367</u> | <u>37,172</u> |
| | <u>\$178,282</u> | <u>\$ 44,750</u> | <u>\$ 223,032</u> |

Total principal paid on the note payable was \$23,454 for the year ended June 30, 2003. Total interest paid on the note payable was \$13,718.

NOTE 13—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

| | June 30, <u>2002</u> | <u>Additions</u> | <u>Reductions</u> | June 30, <u>2003</u> | Due Within <u>One Year</u> |
|--|-------------------------|---------------------|-----------------------|-------------------------|-------------------------------|
| Bonds and Notes Payable and Capital | | | | | |
| Lease Obligations | | | | | |
| State Institution Bonds | \$ 3,630,000 | - | \$ (285,000) | \$ 3,345,000 | \$ 300,000 |
| Revenue Bonds | 22,895,000 | 3,150,000 | (4,040,000) | 22,005,000 | 1,233,712 |
| Notes Payable | 201,737 | - | (23,455) | 178,282 | 25,049 |
| Capital Lease Obligations | 74,353 | - | (22,641) | 51,712 | 23,580 |
| Total Bonds, Notes and Capital Leases | <u>26,801,090</u> | <u>3,150,000</u> | <u>(4,371,096)</u> | <u>25,579,994</u> | <u>1,582,341</u> |
| Other Liabilities | | | | | |
| Accrued Compensated Absences | 1,830,355 | 1,059,694 | (1,010,211) | 1,879,838 | 1,036,900 |
| Total Other Liabilities | <u>1,830,355</u> | <u>1,059,694</u> | <u>(1,010,211)</u> | <u>1,879,838</u> | <u>1,036,900</u> |
| Total Long-Term Liabilities | <u>\$ 28,631,445</u> | <u>\$ 4,209,694</u> | <u>\$ (5,381,307)</u> | <u>\$ 27,459,832</u> | <u>\$ 2,619,241</u> |

Additional information regarding Bonds and Notes Payable is included in Note 12. Additional information regarding Capital Lease Obligations is included in Note 11.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 14—DEFERRED REVENUES

The composition of deferred revenues at June 30, 2003, is summarized as follows:

| | |
|--|---------------------|
| Student fees | \$ 937,395 |
| Sales and services of educational and other activities | 310,172 |
| Sales and services of auxiliary enterprises | 33,015 |
| Federal grants and contracts | 4,969,777 |
| State grants and contracts | 478,420 |
| Nongovernmental grants and contracts | <u>149,651</u> |
| Total deferred revenues | <u>\$ 6,878,430</u> |

NOTE 15—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, 2003, net appreciation of \$3,671,527 is available to be spent, of which \$3,602,201 is restricted to specific purposes.

NOTE 16—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. Annually the uni-trust is to pay to the benefactor 6% of the net fair market value of the assets in the charitable remainder trust, valued as of the first day of each taxable year of such trust. If income from these assets is insufficient to pay this amount, it will be paid from principal. The Trust is irrevocable and is not managed by The Citadel or The Citadel Trust.

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. The \$1 million gift is included in Citadel Trust gift revenue for the current year. The remaining assets remain in the unitrust and 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 Trust is irrevocable and is not managed by The Citadel or The Citadel Trust. Since the ultimate amount received cannot be reasonably estimated, and the eligibility requirement for this gift has not been met, these trust assets are not included in these financial statements.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 16—SPLIT INTEREST AGREEMENTS (continued)

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 \$34,422.

NOTE 17—RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of The Citadel exist primarily to provide financial assistance and other support to The Citadel and its educational program. Financial statements for these entities are audited by independent auditors and retained by them. They include The Citadel Foundation (TCF), The Brigadier Foundation (TBF), and The Citadel Alumni Association (CAA). The activities of these entities are not included in The Citadel's financial statements. However, The Citadel's statements include transactions between The Citadel and these related parties.

In conjunction with its implementation of GASB Statement No. 14, management reviewed its relationships with the entities described in this note. The Citadel excluded these entities from the reporting entity because it is not financially accountable for them. As an amendment to Statement 14, the GASB has issued Statement No. 39 providing additional guidance to determine if these entities should be reported as component units in financial statements for periods beginning after June 15, 2003. Management will again review its relationship with these entities in accordance with the new standard at its effective date.

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and The Citadel for the year ended June 30, 2003.

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.

As the College's official fundraising organization, TCF solicits, receives, manages and disburses contributions to The College. Contributions to TCF programs are retained at the Foundation, while gifts to restricted programs and endowments at the College, as well as gifts to The Citadel Brigadier Foundation and the Citadel Alumni Association, are forwarded to the respective organizations.

For the fiscal year ended June 30, 2003, TCF collected contributions of \$4,482,853 on behalf of The Citadel and The Citadel Trust. \$4,018,915 of this total was recorded as gifts, \$404,633 was recorded as additions to permanent endowments, and \$59,005 was recorded as capital gifts in nonoperating revenues.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 17—RELATED PARTIES (continued)

The Citadel Trust reimbursed TCF for direct expenses of \$610 and paid TCF a fee of \$391,616 for its fundraising services.

In addition, The Citadel and The Citadel Trust recorded non-governmental grants of \$4,439,801 from TCF in nonoperating revenues for the fiscal year ending June 30, 2003. These funds were used to support scholarships and various academic programs at the College.

A summary of other transactions and balances at June 30, 2003, follows:

| | |
|--|------------|
| Reimbursement to The Citadel for certain expenses incurred on behalf of TCF | \$ 240,255 |
| Funds received by The Citadel for TCF's share of <i>Citadel Magazine's</i> Publication costs | \$ 7,541 |
| Balance due from TCF | \$ 658,935 |

The Brigadier Foundation (TBF) is a separately chartered corporation organized exclusively to receive and manage private funds for support of athletic programs at The Citadel. TBF's activities are governed by its Board of Directors.

Funds raised by TBF are used to provide scholarships for varsity athletes at The Citadel. The Citadel recorded gifts of \$890,000 from TBF in nonoperating revenues for the fiscal year ending June 30, 2003. These funds were used to support athletic scholarships at the College.

TBF is indebted to The Citadel for \$69,000 as of June 30, 2003, 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.

A summary of other transactions and balances at June 30, 2003, follows:

| | |
|--|--------------|
| Reimbursement to The Citadel for certain expenses incurred on behalf of TBF | \$ 1,317,366 |
| Funds received by The Citadel for TBF's share of <i>Citadel Magazine's</i> publication costs | \$ 5,044 |
| Balance due from TBF | -0- |

Citadel Alumni Association 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 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 Alumni Association. The Alumni Association prepares an annual accounting of the net income of rental activities each May. After covering Alumni Association income producing costs, any amount remaining is split on the same basis as building operating expenses. For the year ending June 30, 2003, The Citadel's share of John Monroe Holliday Alumni operating profits was \$116,667 and is recorded as other nonoperating revenue.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 17—RELATED PARTIES (continued)

A summary of other transactions and balances at June 30, 2003, follows:

| | |
|--|------------|
| Reimbursement to The Citadel for certain expenses incurred on behalf of CAA | \$ 403,564 |
| Funds received by The Citadel for CAA's share of <i>Citadel Magazine's</i> publication costs | \$ 15,899 |
| Balance due from CAA | -0- |

NOTE 18—TRANSACTIONS WITH STATE ENTITIES

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

The original appropriation is The Citadel's base budget amount presented in the General Funds column of Section 5C, Part IA of the 2002-03 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, 2003:

| | |
|--|----------------------|
| State Appropriations | |
| Original appropriation | \$ 17,139,628 |
| Less 4.5% reduction | (860,588) |
| Less 3.73 % reduction | (609,955) |
| State Budget and Control Board Allocations: | |
| Employee Base Pay Increases and Related Employee Benefits | 54,815 |
| Appropriation allocations from the State Commission on Higher Education: | |
| For Academic Endowment Match | <u>30,706</u> |
| Total State Appropriation Revenues | <u>\$ 15,754,606</u> |
| State Capital Appropriations | |
| Capital Improvement Bond Acts | <u>\$ 232,789</u> |

The Citadel received substantial funding from the Commission on Higher Education (CHE) for scholarships on behalf of students that are 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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 18—TRANSACTIONS WITH STATE ENTITIES (continued)

service projects for the fiscal year ended June 30, 2003:

| | Operating Revenue | Nonoperating Revenue |
|--|----------------------|-------------------------|
| Other amounts received from State agencies | | |
| Received from the Commission on Higher Education (CHE): | | |
| LIFE Scholarships | \$ 1,021,617 | \$ - |
| Palmetto Fellows Scholarships | 90,760 | - |
| Need-Based Grants | 161,430 | - |
| Hope Scholarships | 94,075 | |
| Technology Grant Program | | 310,172 |
| Access and Equity Competitive Grants | - | 11,718 |
| Gaining Early Awareness and Readiness for Undergraduate Programs | - | 37,581 |
| Received from various other state agencies | 112,157 | - |
| | \$ 1,480,039 | \$ 359,471 |

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 2003 expenditures applicable to related transactions with State entities are not readily available.

NOTE 19—RISK MANAGEMENT

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

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 19—RISK MANAGEMENT (continued)

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.

NOTE 20—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2003, are summarized as follows:

| | Compensation and Benefits | Supplies and Services | Utilities | Scholarships and Fellowships | Depreciation | Total |
|---------------------------------|------------------------------|-----------------------------|----------------------------|---------------------------------|----------------------------|-----------------------------|
| Instruction | \$ 14,946,082 | \$ 1,393,085 | \$ - | \$ 9,144 | \$ - | \$ 16,348,311 |
| Research | 143,088 | 222,031 | 59 | - | - | 365,178 |
| Public Service | 625,811 | 1,408,542 | 2,950 | 387,964 | - | 2,425,267 |
| Academic Support | 2,747,992 | 1,743,212 | - | 44,984 | - | 4,536,188 |
| Student Services | 3,514,649 | 1,777,294 | 15,663 | 45,534 | - | 5,353,140 |
| Institutional Support | 4,495,030 | 706,094 | - | - | - | 5,201,124 |
| Operations & Maint. of Plant | 3,122,641 | 4,484,648 | 1,477,406 | - | - | 9,084,695 |
| Scholarships & Fellowships | 53,187 | 52,726 | - | 1,726,967 | - | 1,832,880 |
| Auxiliary Enterprises | 5,194,591 | 12,926,055 | 981,082 | 12,770 | - | 19,114,498 |
| Depreciation | - | - | - | - | 3,198,901 | 3,198,901 |
| Total Operating Expenses | <u>\$ 34,843,071</u> | <u>\$ 24,713,687</u> | <u>\$ 2,477,160</u> | <u>\$ 2,227,363</u> | <u>\$ 3,198,901</u> | <u>\$ 67,460,182</u> |

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

NOTE 21 – DETAILS OF RESTRICTED ASSETS

The purposes and amounts of restricted assets are as follows:

| | <u>Citadel</u> | <u>Citadel Trust</u> |
|--|---------------------|----------------------|
| Cash and Cash Equivalents: | | |
| Current: | | |
| As specified by donors/sponsors | \$ 4,394,500 | \$ 242,522 |
| Debt service | 8,313 | - |
| College administered loan program | - | 63,022 |
| Total Current | <u>\$ 4,402,813</u> | <u>\$ 305,544</u> |
| Noncurrent: | | |
| Endowment | \$ 242,591 | \$ 1,569,539 |
| Federal Perkins Loan Program | 98,121 | - |
| Capital projects | 7,219,126 | 8,872 |
| Cash held for other parties | 60,815 | - |
| Total noncurrent | <u>\$ 7,620,653</u> | <u>\$ 1,578,411</u> |
| Investments: | | |
| Current: | | |
| As specified by donors/sponsors | \$ - | \$ 5,751,560 |
| Total Current | <u>\$ -</u> | <u>\$ 5,751,560</u> |
| Noncurrent: | | |
| Endowment | \$ - | \$ 33,593,615 |
| College administered loan program | - | 470,425 |
| Capital projects | - | 189,910 |
| Total noncurrent | <u>\$ -</u> | <u>\$ 34,253,950</u> |
| Pledges: | | |
| Current: | | |
| As specified by donors/sponsors | \$ 145,588 | \$ 490,195 |
| Capital projects | - | 18,382 |
| Total Current | <u>\$ 145,588</u> | <u>\$ 508,577</u> |
| Noncurrent: | | |
| As specified by donors/sponsors | \$ 126,997 | \$ 951,745 |
| Total noncurrent | <u>\$ 126,997</u> | <u>\$ 951,745</u> |
| Student Loans Receivable: | | |
| Current: | | |
| College administered loan program | \$ - | \$ 64,989 |
| Total Current | <u>\$ -</u> | <u>\$ 64,989</u> |
| Noncurrent: | | |
| College administered loan program | \$ - | \$ 392,622 |
| Federal Perkins Loan Program | 548,486 | - |
| Total noncurrent | <u>\$ 548,486</u> | <u>\$ 392,622</u> |
| Cash Surrender Value of Life Insurance: | | |
| Noncurrent: | | |
| Endowments | \$ - | \$ 359,701 |
| Total noncurrent | <u>\$ -</u> | <u>\$ 359,701</u> |

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2003

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

The Citadel's transactions are reported in the Higher Education Fund, an enterprise fund, of the State of South Carolina. The following is information needed to present the College's business-type activities in the State's government-wide Statement of Activities. Prior year amounts have been reclassified to reflect current year category changes.

| The Citadel | 2003 | 2002 | Increase/ (Decrease) |
|---|---------------|---------------|---------------------------------|
| Charges for services | \$ 40,128,486 | \$ 37,456,126 | \$ 2,672,360 |
| Operating grants and contributions | 7,879,980 | 6,856,323 | 1,023,657 |
| Capital grants and contributions | 10,320,556 | 147,822 | 10,172,734 |
| Less expenses | (68,705,451) | (65,393,418) | (3,312,033) |
| Net program revenue (expense) | (10,376,429) | (20,933,147) | 10,556,718 |
| General revenues: | | | |
| Transfers: | | | |
| State appropriation | 15,754,606 | 17,710,187 | (1,955,581) |
| State capital improvement bond proceeds | 232,789 | 2,638,650 | (2,405,861) |
| Transfers from The Citadel Trust | 3,204,796 | 3,906,813 | (702,017) |
| Total general revenue and transfers | 19,192,191 | 24,255,650 | (5,063,459) |
| Change in net assets | 8,815,762 | 3,322,503 | 5,493,259 |
| Net assets - beginning | 68,891,855 | 65,569,352 | 3,322,503 |
| Net assets - ending | \$ 77,707,617 | \$ 68,891,855 | \$ 8,815,762 |

| The Citadel Trust | 2003 | 2002 | Increase/ (Decrease) |
|---------------------------------------|---------------|---------------|---------------------------------|
| Operating grants and contributions | \$ 4,775,854 | \$ 506,128 | \$ 4,269,726 |
| Capital grants and contributions | 59,005 | 13,547 | 45,458 |
| Less expenses | (112,370) | (72,171) | (40,199) |
| Net program revenue (expense) | 4,722,489 | 447,504 | 4,274,985 |
| General revenues: | | | |
| Contributions to permanent endowments | 404,633 | 909,710 | (505,077) |
| Transfers: | | | |
| Transfers to The Citadel | (3,204,796) | (3,906,813) | 702,017 |
| Total general revenue and transfers | (2,800,163) | (2,997,103) | 196,940 |
| Change in net assets | 1,922,326 | (2,549,599) | 4,471,925 |
| Net assets - beginning | 45,286,265 | 47,835,864 | (2,549,599) |
| Net assets - ending | \$ 47,208,591 | \$ 45,286,265 | \$ 1,922,326 |

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

| Federal Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Total Expenditures |
|---|---------------------------|-------------------------------------|-----------------------|
| Direct Programs: | | | |
| U.S Department of Defense | | | |
| Barracks Construction | 12.XXX | DASW01-02-1-0014 | 10,644,371 |
| U.S Department of Justice | | | |
| South Carolina Police Corp | 16.712 | None | 1,258,668 |
| Enforcing Underage Drinking Laws | 16.727 | CID-EUDL-2 | 11,000 |
| Total U. S. Department of Justice | | | <u>1,269,668</u> |
| U.S Department of Labor | | | |
| School-to-Work Opportunities Initiative | 17.249 | 00VS015 | 11,645 |
| Promotion of the Humanities | | | |
| The Citadel Conference on Human Rights | 45.129 | 1-0799-1 | 14,248 |
| Scottish Studies Conference | 45.129 | 1-0856-1 | 3,680 |
| | | | <u>17,928</u> |
| National Science Foundation | | | |
| Automatic Photometric Telescope for Reasearch | 47.049 | AST-0071260 | 379 |
| U.S Department of Education | | | |
| Supplemental Educational Opportunity Grant | 84.007 | P007013769 | 77,757 |
| Federal Work Study | 84.033 | P033A73769 | 23,334 |
| Federal Perkins Loan Program | 84.038 | P038A73769 | 3,261 |
| Federal Pell Grant Program | 84.063 | P063P011532 | 912,990 |
| William D. Ford Direct Loan Program | 84.268 | None | 10,699,031 |
| Total U. S. Department of Education | | | <u>11,716,373</u> |
| U.S. Department of Commerce | | | |
| Passed through SC Sea Grant Consortium: | | | |
| Succession of Tidal Freshwater Wetlands on the Cooper River | 11.414 | NA16RG2250 | 155 |
| Impact of Mosquito Control Agents | 11.417 | NA86RG0052 | 3,754 |
| Sea Grant Support | 11.417 | NA86RG0052 | 9,593 |
| | | | <u>13,502</u> |
| U.S. Department of Defense | | | |
| Passed through Clemson University: | | | |
| Troops to Teachers | 12.999 | 2002373 | 10,394 |
| NASA | | | |
| Passed through The College of Charleston: | | | |
| SC Space Grant Consortium | 43.001 | NGT5-4099 | 2,830 |
| Passed through The Catholic University of America | | | |
| Abundance of Heavy Elements in Late B and | | | |
| Early A Stars | 43.001 | 362290-1SC | 18,119 |
| Total NASA | | | <u>20,949</u> |
| National Science Foundation | | | |
| Passed through The College of Charleston: | | | |
| CCD Spectrophotomete | 47.049 | AST-0115612 | 31,441 |
| Hypercapnic Hypoxia Impacts Shrimp Immune Defenses | 47.074 | IBN-0212921 | 17,964 |
| Total National Science Foundation | | | <u>49,405</u> |
| U.S. Department of Energy | | | |
| Passed through The SC Budget and Control Board - | | | |
| SC Energy Office | | | |
| Rewards For Higher Education Energy Efficiency | | | |
| Project Programs | 81.041 | 22118 | 9,574 |

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

| | | | |
|--|--------|-------------|--------------------------|
| U.S. Department of Education | | | |
| Passed through The SC Commission on Higher Education | | | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | P334A990172 | 108,876 |
| Passed through The SC Department of Education | | | |
| Title II Standards and Assessment | 84.336 | 03-F1301 | 4,787 |
| Passed through the National Writing Project Corp. | | | |
| National Writing Project | 84.928 | 99-SC09 | <u>51,303</u> |
| Total U.S. Department of Education | | | <u>164,966</u> |
| Total Federal Assistance Expende | | | <u><u>23,929,154</u></u> |

-

THE CITADEL
The Military College of South Carolina
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of The Citadel and is presented on the cash 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 Student Financial Assistance Loan Programs Cluster (SFA) is defined as a cluster of closely related student financial assistance programs with different CFDA numbers that share common compliance requirements. The loan program amounts are as follows:

| | CFDA Number | Loans Made During Fiscal Year 2003 | Loan Balance at June 30, 2003 |
|--|----------------|--|-------------------------------------|
| Federal Perkins Loan Program- Federal Capital Contributions | 84.038 | \$ 106,556 | \$624,247 |
| Federal Direct Student Loan | 84.268 | \$10,671,240 | \$ - |

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.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING 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 basic financial statements of The Citadel, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 5, 2003. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a 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 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 its operation that we considered to be material weaknesses.

This report is intended for the information and use of the Board of Visitors, 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, Bebaent + Holland, L. L. P.

Beaufort, South Carolina
September 5, 2003



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND 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, 2003. 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, 2003.

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 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 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 Board of Visitors, 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 5, 2003

THE CITADEL
The Military College of South Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

I. **Summary of auditor's results**

- A. An unqualified opinion dated September 5, 2003 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.
- D. An unqualified opinion dated September 5, 2003 was issued on The Citadel's compliance with the types of compliance requirements applicable to its major federal programs.
- E. Major federal programs for The Citadel for the fiscal year ended June 30, 2003 are:

| <u>CFDA Number</u> | <u>Program Title</u> |
|--------------------|-----------------------------|
| 12.XXX | Barracks Construction Grant |

- F. The threshold for determining major federal programs for The Citadel was \$396,904.
- 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, 2003

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.