THE CITADEL

THE MILITARY COLLEGE OF SOUTH CAROLINA

CHARLESTON, SOUTH CAROLINA

YEAR ENDED JUNE 30, 2005

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

State of South Carolina

Office of the State Auditor

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COLUMBIA, S.C. 29201

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October 12, 2005

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

This report on the audit of the basic financial statements of The Citadel, The Military College of South Carolina and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit* Organizations, for the fiscal year ended June 30, 2005, 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,

Tom Wagner

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business type activity and the aggregate discreetly presented component units of **The Citadel, The Military College of South Carolina**, (The Citadel) as of and for the year ended June 30, 2005 as listed in the table of contents. These financial statements are the responsibility of The Citadel's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Citadel Trust, The Citadel Foundation or The Citadel Brigadier Foundation, all component units of The Citadel. The Citadel Foundation's financial statements reflect 42% of total assets as of June 30, 2005 and 20% of total revenues for the year then ended. The Citadel Trust's financial statements reflect 16% of total assets as of June 30, 2005 and 7% of total revenues for the year then ended. The Citadel Brigadier Foundation's financial statements reflect 2% of total assets as of June 30, 2005 and 2% of total revenues for the year then ended. These statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these component units, are based solely on the reports of the other auditors.

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

As discussed in Note 1 to the basic financial statements, the accompanying financial statements of The Citadel are intended to present the financial position, the changes in its financial position, and cash flows of only that portion of the business type activities of the State of South Carolina financial reporting entity that is attributable to the transactions of The Citadel. They do not purport to and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activity and the aggregate discreetly presented component units of The Citadel as of June 30, 2005, 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 23, 2005 on our consideration of The Citadel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Cherry, Bekaert + Holland, L.L.P.

Beaufort, South Carolina
September 23, 2005

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2005

Overview of the Financial Statements and Financial Analysis

The Citadel is pleased to present its financial statements for fiscal year 2005. While audited financial statements for fiscal year 2004 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. This discussion focuses on the combined operations and financial positions of the College, defined for purposes of this discussion as both the primary institution — The Citadel, and its blended component unit — The Citadel Trust. The discussion excludes the College's non-governmental component units – The Citadel Foundation and The Citadel Brigadier Foundation.

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

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

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year. The construction of Law Barracks, the college's fourth barracks in a decade, stands out throughout all of the College's statistics. The Citadel issued $26.5 million of revenue bonds in January 2005 to partially fund the construction of Law Barracks and to refund $9.7 million of previously issued revenue bonds. The remaining funds required for construction had been collected over the past several years. Demolition occurred during the current fiscal year, but the bulk of the construction and the heavy use of project assets will not occur until fiscal year 2006. These asset and liability balances will significantly impact the college's financial statements for fiscal year 2005, and then again in fiscal year 2006 as resources are expended.

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

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net assets consist solely of the College's permanent endowment funds that are only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net 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:	2005	2004	Increase/ (Decrease)	Percent Change
Current assets	$ 30,424	$ 34,059	$ (3,635)	-10.67%
Capital assets, net	99,893	95,815	4,078	4.26%
Other assets	72,777	46,877	25,900	55.25%
Total Assets	203,094	176,751	26,343	14.90%
Liabilities:				
Current Liabilities	10,672	10,032	640	6.38%
Noncurrent Liabilities	43,554	24,216	19,338	79.86%
Total Liabilities	54,226	34,248	19,978	58.33%
Net Assets:				
Invested in capital assets, net of debt	73,764	72,082	1,682	2.33%
Restricted – expendable	39,632	32,135	7,497	23.32%
Restricted – nonexpendable	23,429	21,626	1,803	8.34%
Unrestricted	12,043	16,660	(4,617)	-27.71%
Total Net Assets	$ 148,868	$ 124,916	$ 6,365	5.10%

- Overall, total assets increased by over $26 million. The increase in other assets contributed most of this increase, due to the issuance of a $16 million revenue bond for Law Barracks and a $6 million revenue bond for stadium grandstands. Citadel Trust investment earnings generated the additional $4 million increase in other assets. Current assets decreased by $3.6 million, as $4.6 million of funds collected in the various barracks operating accounts were transferred to the Law Barracks construction account. This decrease in current assets was partially offset by an increase of almost $1 million in Trust assets due to investment gains. The increase in capital assets of slightly more than $4 million was due to additions to construction in progress as the college demolished and initiated construction of Law Barracks.
- Total liabilities of the College increased by approximately $20 million due to an increase in bonds payable reflected in both current and noncurrent liabilities.
- All categories of net assets, except unrestricted net assets, increased during the year. Restricted, expendable net assets increased by over $8.1 million as the college transferred almost $5 million of previously collected unrestricted funds to the Law Barracks construction project. Citadel Trust investment gains contributed another $2 million to the increase in restricted expendable net assets. Unrestricted net assets decreased due to this transfer of previously collected funds to the Law Barracks construction account. Restricted nonexpendable net assets increased due to investment increases within The Citadel Trust and over $750,000 in new endowments.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2005

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.

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the College, both operating and non-operating, and the expenses paid by the College, 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 College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. 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)*

	2005	2004	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees	$ 19,263	$ 17,117	$ 2,146	12.54%
Sales and services	22,783	22,325	458	2.37%
Grants and contracts	3,790	4,081	(291)	-7.13%
Investment income	3,982	6,380	(2,398)	-37.59%
Other operating revenues	809	970	(161)	-16.60%
Total operating revenues	50,627	50,873	(246)	-.11%
Operating Expenses:				
Compensation & employee benefits	39,335	36,487	2,848	7.81%
Services & supplies	22,494	23,227	(733)	-3.16%
Utilities	2,832	2,623	209	7.97%
Depreciation	3,720	3,191	529	16.58%
Scholarships & fellowships	2,655	2,523	132	5.23%
Total operating expenses	71,036	68,051	2,985	4.39%
Operating loss	(20,409)	(17,178)	(3,231)	18.81%
Nonoperating Revenues (Expenses):				
State appropriations	14,781	14,558	223	1.53%
Grants	5,703	6,601	(898)	-13.60%
Gifts	2,251	2,972	(721)	-24.26%
Investment income	793	160	633	395.63%
Interest expense	(1,227)	(1,261)	34	-2.70%
Other nonoperating revenues/expenses	120	36	84	233.33%
Total nonoperating revenues (expenses)	22,421	23,066	(645)	-2.80%
Income before other revenues, expenses, special & extraordinary items & transfers	2,012	5,888	(3,876)	-65.83%
Capital grants & appropriations	3,590	11,196	(7,606)	-67.93%
Permanent endowment additions	763	503	260	51.69%
Change in Net Assets	6,365	17,587	(11,222)	-63.81%
Net Assets, Beginning	142,503	124,916	17,587	14.08%
Net Assets, Ending	$ 148,868	$ 142,503	$ 6,365	4.47%

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

- Operating revenues remained relatively constant from the previous year. Within this category, student tuition and fees increased by $2.6 million due to the Board of Visitors' direction to raise mandatory student fees to the midpoint for all the public colleges and universities in the State. This increase was offset by a $2.4 million decrease in investment earning as The Citadel Trust's overall rate of return decreased by almost 50% from 15.2% in fiscal year 2004 to a more modest 7.8% return in fiscal year 2005. Generally speaking, investment income is not considered as operating income; however, the primary purpose of The Citadel Trust is to invest, so the results of that operating activity are classified as operating revenue.
- Operating expenses at the College increased by $3.0 million. This entire increase is attributable to increased salaries and fringe benefits. The College conducted a compensation study in fiscal year 2004 and the results of that study indicated severe salary compression for certain sectors of faculty and staff. The Board of Visitors elected to implement the salary increases proposed by the study in fiscal year 2005, rather than phasing in the increases over several years. Services and supplies expenditures decreased by approximately $.7 million due to reductions in the Police Corps program and a $.6 million decrease in supplies related to furnishing PT Barracks in fiscal year 2004. This decrease was offset by $.2 million increase in the cost of utilities and a $.5 million increase in depreciation. The increase in depreciation reflects the first year of depreciation expense for the new PT Barracks.
- Non operating revenues and expenses decreased by $.6 million. Decreases in grants and gifts, $1.1 million and $.7 million respectively, were partially offset by an increase in investment income of $.7 million. The $1.2 million decrease in grants was primarily a result of a decrease in capital grants from the prior year. Management anticipates this type of variance during The Citadel Foundation's "Campaign for The Citadel – Leadership Through Education" capital campaign. The decrease in contributions is also attributable to variances generated by the capital campaign, particularly due to a significant pledge of $750,000 that was received in fiscal year 2004. Though gifts decreased by $.7 million, additions to permanent endowments increased by $.3 million.
- Capital grants and appropriations decreased by $7.6 million, primarily due to federal revenue and plant improvement bond proceeds recognized as revenue in fiscal year 2004 for the construction of PT Barracks. Capital gifts from the capital campaign also decreased in fiscal year 2005

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

PT Barracks was completed in August 2004 and housed cadets for the entire 2005 academic year. The college initiated a $23 million project to replace Law Barracks with the sale of over $26 million in revenue bonds in January 2005. $16 million of bond proceeds, along with student fees collected in advance, will fund the construction of Law Barracks. The remaining bond proceeds were used to refund previously issued revenue bonds. Construction of the fourth barracks will complete the renewal of all four barracks that began with an $11 million bond issue in 1995 to construct the first new barracks, Watts Barracks. The college issued $6 million of Athletic Facility Bonds in February 2005 to fund the construction of the west side grandstand for Johnson Hagood Stadium. The grandstand project is expected to cost $8 million. The Citadel Foundation has initiated an $8 million fund raising project for the grandstand as part of its capital campaign. Over $6.8 million in gifts and pledges had been received by the end of the fiscal year. The plan is to use these gifts and pledges to pay the debt service on the $6 million bond as well as the fund the increment between the bond and the project cost.

Economic Outlook

The economic position of The Citadel is closely tied to that of the State of South Carolina. The State released positive financial news concerning the improved financial health of the State. The State Comptroller General reported that the State ended fiscal year 2005 with a $300 million surplus. State revenues from all sources were up $475 million. He reported that higher education would receive $14.4 million of the surplus.

The college experienced robust enrollment in the fall of 2005 and because of that, along with the success of The Citadel Foundation's capital campaign, management believes that the college should retain its "A1" credit rating that it received in 2004 when Moody's Investors Service upgraded The Citadel's long-term bond rating from "A2" to "A1".

In August 2005, The Citadel was named a best value in the South and the No. 2 public university in the South by *U.S.News & World Report*. For the sixth straight year The Citadel School of Engineering has ranked among the top 50 undergraduate engineering programs in the nation. In addition, the annual rankings put The Citadel at No. 7 for best master's universities in the South. The high marks from *U.S.News & World Report* come on the heels of *Newsweek* magazine naming The Citadel one of its 25 hottest colleges in America. In the *U.S.News* rankings for 2006, the college held steady at the No. 2 spot for top public universities in the South offering master's degrees. Last year The Citadel tied for the same position. This year, however, the annual rankings lauded the college for its outstanding graduation rate of 69 percent.

The College finished fiscal year 2005 with a $6.4 million increase in net assets. Financial data indicates that the College is in excellent condition and other factors reinforce this finding. Fiscal year 2006 began with the barracks overflowing with cadets. A new president has been selected and will be on board during this academic year. Management believes that the future is very bright.

THE CITADEL
The Military College of South Carolina
Statement of Net Assets
June 30, 2005

	The Citadel	The Citadel Trust	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 10,603,233	$ 185,128	$ 10,788,361
Investments	-	2,550,879	2,550,879
Restricted Assets - Current			
Cash and cash equivalents	3,010,524	767,011	3,777,535
Investments	-	7,755,459	7,755,459
Contributions receivable, net	198,480	485,773	684,253
Student loans receivable, net	-	89,909	89,909
Accounts receivable (Net of provision for Doubtful Accounts of $182,966)	1,973,047	128,698	2,101,745
Note receivable - The Brigadier Foundation	20,000	-	20,000
Contributions receivable, net	-	178,975	178,975
Inventories	1,723,771	-	1,723,771
Prepaid expenses	746,949	6,439	753,388
Total current assets	18,276,004	12,148,271	30,424,275
Noncurrent Assets			
Note receivable - The Brigadier Foundation	9,000	-	9,000
Contributions receivable, net	-	195,117	195,117
Cash surrender value of life insurance	-	29,078	29,078
Restricted Assets - Noncurrent			
Cash and cash equivalents	25,346,183	1,750,628	27,096,811
Investments	-	43,284,583	43,284,583
Contributions receivable, net	716,273	271,282	987,555
Student loans receivable, net	634,929	166,377	801,306
Cash surrender value of life insurance	-	373,908	373,908
Capital assets, net of accumulated depreciation	99,892,641	-	99,892,641
Total noncurrent assets	126,599,026	46,070,973	172,669,999
Total assets	$ 144,875,030	$ 58,219,244	$ 203,094,274
LIABILITIES			
Current Liabilities			
Accounts payable	$ 1,620,911	$ 36,825	$ 1,657,736
Retainage payable - current portion	52,084		52,084
Accrued payroll and related liabilities	1,583,499	-	1,583,499
Accrued compensated absences and related liabilities	1,108,758	-	1,108,758
Accrued interest payable	472,827	-	472,827
Deferred revenues	1,638,006	-	1,638,006
Bonds payable	2,596,331	-	2,596,331
Capital leases payable	4,063	-	4,063
Notes payable	28,572	-	28,572
Deposits	1,285,005	-	1,285,005
Annuities payable	-	8,190	8,190
Deferred compensation liability	-	237,359	237,359
Total current liabilities	10,390,056	282,374	10,672,430
Noncurrent Liabilities			
Retainage payable	181,311		181,311
Federal loan funds	466,363	-	466,363
Accrued compensated absences and related liabilities	1,016,490	-	1,016,490
Deposits	549,888	-	549,888
Bonds payable	41,130,357	-	41,130,357
Notes payable	97,909	-	97,909
Annuities payable	-	21,221	21,221
Funds held for others	90,073	-	90,073
Total noncurrent liabilities	43,532,391	21,221	43,553,612
Total liabilities	$ 53,922,447	$ 303,595	$ 54,226,042
NET ASSETS			
Invested in capital assets, net of related debt	$ 73,763,799	$ -	$ 73,763,799
Restricted for Nonexpendable:			-
Scholarships	-	20,276,745	20,276,745
Other	-	3,068,978	3,068,978
Annuity	-	83,058	83,058
Restricted for Expendable:			
Scholarships, research, instruction and other	3,119,291	24,487,946	27,607,237
Loans	197,163	1,075,156	1,272,319
Capital projects	7,237,746	3,162,606	10,400,352
Debt service	353,093	-	353,093
Unrestricted	6,281,491	5,761,160	12,042,651
Total net assets	$ 90,952,583	$ 57,915,649	$ 148,868,232

See accompanying notes to the financial statements.

THE CITADEL
The Military College of South Carolina
Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2005

	The Citadel	The Citadel Trust	Total
REVENUES:			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of $4,531,793)	$ 19,263,336	$ -	$ 19,263,336
Federal grants and contracts	2,084,826	-	2,084,826
State and grants and contracts	1,622,338	-	1,622,338
Nongovernmental grants and contracts	83,137	-	83,137
Sales and services of educational and other activities	1,105,506	-	1,105,506
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of $2,663,625)	20,059,325	-	20,059,325
Sales and services of auxiliary enterprises - not pledged	1,617,697	-	1,617,697
Other fees	449,757	-	449,757
Investment income (net of investment expenses of $210,166)	-	2,966,653	2,966,653
Endowment income	-	1,015,639	1,015,639
Other operating revenues	358,688	-	358,688
Total operating revenues	46,644,810	3,982,292	50,626,902
EXPENSES:			
Operating Expenses			
Compensation and employee benefits	39,264,298	70,468	39,334,766
Services and supplies	22,437,726	56,224	22,493,950
Utilities	2,832,488	-	2,832,488
Depreciation expense	3,719,628	-	3,719,628
Scholarships and fellowships	2,655,284	-	2,655,284
Total operating expenses	70,909,424	126,692	71,036,116
Operating income (loss)	(24,264,814)	3,855,600	(20,409,214)
NONOPERATING REVENUES (EXPENSES):			
State appropriations	14,780,853	-	14,780,853
State grants and contracts	148,887	-	148,887
Nongovernmental grants	5,417,185	137,294	5,554,479
Gifts	855,236	1,395,889	2,251,125
Investment income	793,391	-	793,391
Interest on capital asset-related debt	(1,226,938)	-	(1,226,938)
Gain (loss) on disposal of capital assets	(8,124)	-	(8,124)
Other nonoperating revenues (expenses)	78,000	49,992	127,992
Net nonoperating revenues	20,838,490	1,583,175	22,421,665
Income before other revenues, expenses, gains or losses	(3,426,324)	5,438,775	2,012,451
State capital improvement bond proceeds	2,495,697	-	2,495,697
Capital grants and gifts	739,117	355,339	1,094,456
Additions to permanent endowments	-	762,871	762,871
Transfers to/from The Citadel Trust	2,807,217	(2,807,217)	-
Total other revenues	6,042,031	(1,689,007)	4,353,024
Increase in net assets	2,615,707	3,749,768	6,365,475
NET ASSETS			
Net assets-beginning of year	88,336,876	54,165,881	142,502,757
Net assets-end of year	$ 90,952,583	$ 57,915,649	$ 148,868,232

See accompanying notes to the financial statements.

THE CITADEL

The Military College of South Carolina
Statement of Cash Flows
For the year ended June 30, 2005

	The Citadel	The Citadel Trust	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	$ 19,948,371	$ -	$ 19,948,371
Grants and contracts	3,701,691	-	3,701,691
Sales and services of educational and other activities	1,084,841	-	1,084,841
Sales and services of auxiliary enterprises	21,754,083	-	21,754,083
Other operating receipts	363,545	-	363,545
Payments to employees for salaries and benefits	(38,909,217)	(70,468)	(38,979,685)
Payments to suppliers	(23,042,618)	(56,224)	(23,098,842)
Payments for utilities	(2,871,958)	-	(2,871,958)
Payments to students for scholarships and fellowships	(2,655,284)	-	(2,655,284)
Loans issued to students	(151,769)	-	(151,769)
Collection of loans to students	138,151	-	138,151
Funds held for others	(4,920)		(4,920)
Student direct lending receipts	16,494,425	-	16,494,425
Student direct lending disbursements	(16,450,547)	-	(16,450,547)
Net cash provided (used) by operating activities	(20,601,206)	(126,692)	(20,727,898)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	14,780,853		14,780,853
Gifts and grants for other than capital purposes	6,850,786	3,043,587	9,894,373
Collections on note receivable	20,000		20,000
Other non-operating revenues/expenses	78,000	(407,610)	(329,610)
Transfers from component unit	2,807,217	(2,807,217)	-
Net cash provided (used) by noncapital financing activities	24,536,856	(171,240)	24,365,616
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	32,147,617	-	32,147,617
State capital improvement bond proceeds	2,649,471	-	2,649,471
Capital grants and gifts received	737,735	355,339	1,093,074
Proceeds from sale of capital assets	1,281	-	1,281
Purchases of capital assets	(7,926,621)	-	(7,926,621)
Principal paid on capital debt and leases	(12,193,535)	-	(12,193,535)
Interest and fees paid on capital related debt	(955,662)	-	(955,662)
Net cash provided (used) by capital and related financing activities	14,460,286	355,339	14,815,625
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	24,816,654	24,816,654
Interest on investments	737,450	1,038,754	1,776,204
Purchase of investments	-	(27,034,135)	(27,034,135)
Net cash provided (used) by investing activities	737,450	(1,178,727)	(441,277)
Net change in cash	19,133,386	(1,121,320)	18,012,066
Cash and cash equivalents - beginning of year	19,826,554	3,824,087	23,650,641
Cash and cash equivalents - end of year	$ 38,959,940	$ 2,702,767	$ 41,662,707

	The Citadel	The Citadel Trust	Total
Reconciliation of net operating revenues (expense) to net cash provided (used) by operating activities:			
Operating income (loss)	$ (24,264,814)	$ 3,855,600	$ (20,409,214)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation expense	3,719,628	-	3,719,628
Interest and dividends on investments	-	(980,194)	(980,194)
Realized and unrealized gains and losses on investments	-	(3,002,098)	(3,002,098)
Funds held for others	38,958	-	38,958
Changes in assets and liabilities			
Accounts receivable, net	(187,662)	-	(187,662)
Inventories	(3,461)	-	(3,461)
Student loans receivable	(53,358)	-	(53,358)
Prepaid expenses	(365,455)	-	(365,455)
Accounts payable and accrued expenses	(74,756)	-	(74,756)
Accrued compensated absences and related liabilities	198,989	-	198,989
Deferred revenue	(123,853)	-	(123,853)
Student and other deposits	514,578	-	514,578
Net cash provided (used) by operating activities	$ (20,601,206)	$ (126,692)	$ (20,727,898)
Non-cash transactions			
Increase in fair value of investments	$ 201,576	$ 1,789,618	$ 1,991,194
Reconciliation of Cash and Cash Equivalent Balances:			
Current assets:			
Cash and cash equivalents	$ 10,603,233	$ 185,128	$ 10,788,361
Restricted cash and cash equivalents	3,010,524	767,011	3,777,535
Noncurrent assets:			
Restricted cash and cash equivalents	25,346,183	1,750,628	27,096,811
Total cash and cash equivalents	$ 38,959,940	$ 2,702,767	$ 41,662,707

See accompanying notes to the financial statements.

THE CITADEL
The Military College of South Carolina
Non-Governmental Discretely Presented Component Units
Statement of Financial Position

	The Citadel Foundation December 31, 2004	The Citadel Brigadier Foundation June 30, 2005
ASSETS		
Cash and cash equivalents	$ 2,758,659	$ 354,984
Unconditional promises to give/receivable, net	9,146,074	383,608
Interest receivable	177,275	-
Prepaid expenses	22,251	-
Long-term investments (at fair value)	129,572,015	6,665,463
Investments related to split-interest agreements	3,662,777	-
Notes receivable	-	247,221
Investment note receivable - Citadel Alumni Association	3,213,949	-
Note receivable - Citadel Alumni Association	706,612	
Other investments	5,933	-
Other receivables	48,038	5,256
Cash value of life insurance	493,686	280,473
Office equipment and improvements (net of accumulated depreciation)	213,885	30,798
Land and improvements held for investment	3,512,476	-
Other assets	246,025	-
Total assets	$ 153,779,655	$ 7,967,803
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 422,896	$ 49,621
Grants payable - The Citadel	2,061,506	-
Notes payable	171,501	-
Notes payable - The Citadel	-	29,000
Annuities and life income funds payable	1,598,141	-
Charitable give annuities	1,434,262	-
Total liabilities	5,688,306	78,621
Net Assets		
Unrestricted	107,897,720	774,484
Temporarily restricted	18,968,776	5,189,936
Permanently restricted	21,224,853	1,924,762
Total net assets	148,091,349	7,889,182
Total Liabilities and Net Assets	$ 153,779,655	$ 7,967,803

See accompanying notes to the financial statements.

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

	The Citadel Foundation Year Ended December 31, 2004	The Citadel Brigadier Foundation Year Ended June 30, 2005
REVENUES, GAINS AND OTHER SUPPORT		
Unrestricted		
Contributions	$ 635,512	$ -
Investment income	2,019,820	27,936
Net unrealized and realized gain (loss) on investments	10,016,334	-
Membership revenue	-	1,414,917
Fundraising activities	-	147,111
Miscellaneous	8,405	7,260
Other investment income	6,075	-
Loss on sale of property and equipment	(2,216)	-
Changes in value of split interest agreements	(66,589)	
Net assets released from program restrictions	6,107,128	297,977
Transfers of net assets	(1,496,333)	-
Total unrestricted	17,228,136	1,895,201
Temporarily Restricted		
Contributions	6,458,961	270,432
Investment income	252,718	191,826
Net unrealized and realized gain (loss) on investments	194,132	107,734
Gain (loss) on disposal of assets	-	229,606
Changes in value of split interest agreements	93,926	-
Net assets released from program restrictions	(6,107,128)	(297,977)
Transfers of net assets	(2,745,841)	-
Total temporarily restricted	(1,853,232)	501,621
Permanently Restricted		
Contributions	2,237,950	65,918
Investment income	659	-
Net unrealized and realized gain (loss) on investments	2,429	-
Transfers of net assets	4,242,174	-
Total permanently restricted	6,483,212	65,918
Total revenue, gains and other support	21,858,116	2,462,740
EXPENSES AND LOSSES		
Unrestricted		
Grants to The Citadel	5,518,567	887,962
Other gift grants to The Citadel	4,889,103	-
General and administrative	700,880	299,802
Fund-raising	2,371,841	413,873
Total expenses and losses	13,480,391	1,601,637
CHANGE IN NET ASSETS		
Unrestricted	3,747,745	293,564
Temporarily restricted	(1,853,232)	501,621
Permanently restricted	6,483,212	65,918
Total change in net assets	8,377,725	861,103
Net assets at beginning of period		
Unrestricted	104,149,975	480,920
Temporarily restricted	20,822,008	4,688,315
Permanently restricted	14,741,641	1,858,844
Total net assets at beginning of period	139,713,624	7,028,079
Net assets at end of period		
Unrestricted	107,897,720	774,484
Temporarily restricted	18,968,776	5,189,936
Permanently restricted	21,224,853	1,924,762
Total net assets at end of period	$ 148,091,349	$ 7,889,182

See accompanying Notes to the Financial Statements.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Citadel capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects; therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2005 was $176,620.

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification of Revenues: 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, and infirmary and printing services. Revenues of internal service and auxiliary enterprise activities and the related expenditures of College departments have been eliminated.

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

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

Governmental units that issue no more than $5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Citadel has no rebatable arbitrage liability at June 30, 2005.

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

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

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

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

Statement of Net Assets:	Citadel	Citadel Trust	Total
Current assets			
Cash and cash equivalents	$ 10,603,233	$ 185,128	$ 10,788,361
Investments	-	2,550,879	2,550,879
Restricted assets			
Cash and cash equivalents	3,010,524	767,011	3,777,535
Investments	-	7,755,459	7,755,459
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	25,346,183	1,750,628	27,096,811
Investments	-	43,284,583	43,284,583
Total Statement of Net Assets	$ 38,959,940	$ 56,293,688	$ 95,253,628
Notes: Deposits and Investments			
Cash on hand	$ 42,266	$ -	$ 42,266
Deposits held by State Treasurer	38,888,462	281,112	39,169,574
Other deposits	29,212	249,106	278,318
Investments	-	55,763,470	55,763,470
Total Notes	$ 38,959,940	$ 56,293,688	$ 95,253,628

Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, The Citadel's deposits may not be returned to the College. For deposits held by the State Treasurer, State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2005, 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.

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

Investments

All investments are owned by The Citadel Trust, a component unit of The Citadel. Investments are stated at fair value based on quoted market prices. Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each fund's beginning fair value to the total. Investments contributed to the Trust are recorded at the fair value on the date of the gift. Purchases and sales are accounted for on the 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.

At June 30, 2005, The Trust had investments and maturities as shown below:

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More than 10**
Money Market Funds	$ 2,172,549	$ 2,172,549	$ -	$ -	$ -
U.S. Treasury Bonds	1,257,053	109,360	738,202	223,194	186,297
U.S. Agency Bonds	1,790,067	394,938	896,881	448,574	49,674
Corporate Bonds	3,648,330	540,446	2,173,534	814,645	119,705
Mutual Bond Funds	173,557	-	173,557	-	-
Exchange Traded Bond Funds	6,023,638	-	6,023,638	-	-
Totals	15,065,194	$ 3,217,293	$ 10,005,812	$ 1,486,413	$ 355,676
Common Stocks	25,545,178				
Mutual Equity Funds	7,288,710				
Exchange Traded Equity Funds	7,864,388				
Total investments	$ 55,763,470				

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Citadel Trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of The Trust's investment in a single issuer. The Trust's policy for reducing this risk of loss is to require each investment manager to limit the investment in any one issuer to a maximum of 5% for equity investments (with the exception of one manager who manages approximately $2.75 million) and 10% for fixed income investments (except for securities issued by the U.S. government and its agencies). The Trust's Board of Directors reviews substantial equity positions for the entire investment pool on a quarterly basis. At June 30, 2005 there were no single issuer investments that exceeded 5%.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Citadel Trust's investment policy addresses credit risk by requiring that each fixed income portfolio manager for its pooled investment fund maintain an overall weighted average credit rating of Aa/AA or better by Moody's and Standard and Poors rating services, respectively. In addition, the minimum acceptable credit quality rating for a new purchase is investment grade (Baa/BBB). Several donors have established funds that are required to be invested separately that do not follow this policy.

At June 30, 2005 The Citadel Trust had debt securities and quality ratings as shown below:

		Quality Rating				
Investment Type	Fair Value	Aaa/Aa	A	Baa	Unrated	N/A
Money Market Funds	$ 2,172,549	$ -	$ -	$ -	$ 2,172,549	$ -
U.S. Treasury Bonds	1,257,053	-	-	-	-	1,257,053
U.S. Agency Bonds	1,790,067	148,832	-	-	1,641,235	-
Corporate Bonds	3,648,330	1,169,018	2,050,177	390,570	38,565	-
Mutual Bond Funds	173,557	77,515	14,312	14,770	66,960	-
Exchange Traded Bond Funds	6,023,638	-	-	-	-	6,023,638
Totals	$ 15,065,194	$ 1,395,365	$ 2,064,489	$ 405,340	$ 3,919,309	$ 7,280,691

Unrated investments include the following:

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

Foreign Currency Risk. Foreign currency risk is the risk of loss arising from changes in exchange rates for investments denominated in foreign currencies. The Trust's international investment allocation is invested in a U.S. dollar denominated mutual fund – the American Funds EuroPacific Growth Fund. This fund invests in companies based chiefly in Europe and the Pacific Basin. The market value of this holding at June 30, 2005 was $6,709,532. The Trust does not have a formal investment policy that addresses foreign currency risk.

Investments – Non Governmental Discretely Presented Component Units

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

At June 30, 2005, TCBF's investments are as follows:

	Cost	Fair Value
Investments carried at fair value		
Equity funds and individual securities	$ 3,937,202	$ 4,588,112
Fixed income funds and individual debt securities	2,016,403	2,025,451
Certificates of deposit	46,706	46,706
Total investments carried at fair value	$ 6,000,311	$ 6,660,269
Investments carried at cost		
Land	$ 5,194	
Total investments carried at cost	$ 5,194	
Total investments		$ 6,665,463

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

Long-term investments held by TCF are carried at fair value and as of December 31, 2004, were composed of the following:

	Cost	Fair Value
Equity Securities		
Smith Barney International Fund	$ 15,890,043	$ 21,216,836
Various equity securities	55,364,807	62,541,962
Mutual funds	23,585,097	25,597,087
Sub-total	94,839,947	109,355,885
Debt Securities		
Corporate debt securities	4,966,340	4,968,433
Government bonds	14,179,172	14,072,608
International bonds	170,605	171,269
Mortgage backed securities	1,310,182	1,236,409
Municipal bonds	505,205	505,825
Sub-total	21,131,504	20,954,544
Money funds – temporarily held	2,917,664	2,917,664
Cash – temporarily held	6,699	6,699
Sub-total	2,924,363	2,924,363
Total	$ 118,895,814	$ 133,234,792

NOTE 3—RECEIVABLES

Accounts Receivable
Accounts receivable as of June 30, 2005, are summarized as follows:

	Citadel	Citadel Trust	Total
Receivables:			
Student fees	$ 1,313,865	$ -	$ 1,313,865
Federal grants and contracts	315,875	-	315,875
Nongovernmental grants & contracts	22,998	-	22,998
Capital improvement bonds receivable	6,199	-	6,199
Accrued interest	189,090	127,698	316,788
Due from The Citadel Foundation	14,042	1,000	15,042
Other	293,974	-	293,974
Gross receivables	2,156,043	128,698	2,284,741
Less allowance for uncollectibles:			
Student fees	182,996	-	182,996
Total allowances for uncollectibles	182,996	-	182,996
Accounts receivable, net	$ 1,973,047	$ 128,698	$ 2,101,745

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

Contributions Receivable

Contributions receivable are comprised of pledges for gifts to support College programs and construction projects. Contributions receivable are accounted for at their estimated net realizable value or the present value of long-term pledges. The composition of contributions receivable at June 30, 2005, is summarized as follows:

	Citadel	Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	$ 1,003,923	$ 911,171	$ 1,915,094
Capital	-	285,000	285,000
Total gift pledges outstanding	1,003,923	1,196,171	2,200,094
Less:			
Unamortized discount to present value	89,170	65,024	154,194
Total pledges receivable, net	$ 914,753	$ 1,131,147	$ 2,045,900

Payments on contributions receivable as of June 30, 2005, are expected to be received in the following years ended June 30:

	Citadel	Citadel Trust	Total
2006	$ 198,480	$ 820,087	$ 1,018,567
2007	189,914	110,614	300,528
2008	133,392	154,514	287,906
2009	125,682	24,454	150,136
2010	75,224	-	75,224
Due after 2010	192,061	21,478	213,539
	$ 914,753	$ 1,131,147	$ 2,045,900

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 $509,193 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

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

Student Loans Receivable

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

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

The Trust has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2005, loan allowances for uncollectible student loans are as follows:

	Citadel	Citadel Trust	Total
Loans receivable	$ 634,929	$ 610,900	$ 1,245,829
Less allowance for uncollectible loans	-	354,614	354,614
Net loans receivable	$ 634,929	$ 256,286	$ 891,215

Note Receivable

The Citadel Brigadier Foundation (TCBF) is indebted to The Citadel for $29,000 as of June 30, 2005, for athletic grants-in-aid on an interest-free note dated October 10, 1984, in the original amount of $208,436. The Citadel has not established a payment schedule for this loan.

NOTE 4 – RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2005 are as follows:

Asset /Restricted for	Citadel	Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	$ 2,655,390	$ 518,387
Debt service	355,134	-
College administered loan program	-	248,624
Total cash and cash equivalents	$ 3,010,524	$ 767,011
Investments:		
Donor/sponsor specified	$ -	$ 7,755,459
Contributions Receivable:		
Donor/sponsor specified	$ 198,480	$ 485,773
Student Loans Receivable:		
College administered loan program	$ -	$ 89,909
Noncurrent:		
Cash and cash equivalents		
Endowment	$ 253,757	$ 1,645,785
Federal Perkins loan program	44,619	-
Capital projects	24,957,734	104,843
Cash held for other parties	90,073	-
Total cash and cash equivalents	$ 25,346,183	$ 1,750,628
Investments:		
Endowment	$ -	$ 40,156,035
College administered loan program	-	570,458
Capital projects	-	2,558,090
Total investments	$ -	$ 43,284,583
Contributions Receivable		
Donor/sponsor specified	$ 716,273	$ -
Capital projects	-	271,282
Total contributions receivable	716,273	$ 271,282
Student Loans Receivable		
College administered loan program	$ -	$ 166,377
Federal Perkins Loan Program	634,929	-
Total student loans receivable	$ 634,929	$ 166,377
Cash Surrender Value of Life Insurance:		
Endowments	$ -	$ 373,908

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, is summarized as follows:

	July 1, 2004	Increases	Decreases	June 30, 2005
Capital assets not being depreciated:				
Land and improvements	$ 2,645,540	$ -	$ -	$ 2,645,540
Construction in-progress	23,668,155	7,253,156	24,125,050	6,796,261
Fine arts	366,265	-	-	366,265
Total capital assets not being depreciated	26,679,960	7,253,156	24,125,050	9,808,066
Other capital assets:				
Land improvements	8,420,447	-	-	8,420,447
Buildings and improvements	94,133,049	24,125,050	373,300	117,884,799
Machinery, equipment, and other	4,557,276	518,407	201,017	4,874,666
Vehicles	780,173	35,577	38,268	777,482
Intangibles	154,875	-	-	154,875
Total other capital assets at historical cost	108,045,820	24,679,034	612,585	132,112,269
Less accumulated depreciation for:				
Land improvements	2,206,954	558,245	-	2,765,199
Buildings and improvements	32,958,296	2,736,367	373,300	35,321,363
Machinery, equipment, and other	3,034,906	371,602	194,797	3,211,711
Vehicles	624,361	47,219	35,084	636,496
Intangibles	86,730	6,195	-	92,925
Total accumulated depreciation	38,911,247	3,719,628	603,181	42,027,694
Other capital assets, net	69,134,573	20,959,406	9,404	90,084,575
Capital assets, net	$ 95,814,533	$ 28,212,562	$ 24,134,454	$ 99,892,641

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

Gain on disposal	$ 575
Loss on disposal	(8,699)
Net gain (loss) on disposal	$ (8,124)

NOTE 6—DEFERRED REVENUES

The composition of deferred revenues at June 30, 2005, is summarized as follows:

Student fees	$ 1,051,619
Sales and services of educational and other activities	292,290
Sales and services of auxiliary enterprises	88,010
Federal grants and contracts	45,976
State grants and contracts	45,173
Nongovernmental grants and contracts	114,938
Total deferred revenues	$ 1,638,006

NOTE 7—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2005:

	Interest Rate	Maturity Dates	Balance June 30, 2005	Debt Retired in Fiscal Year 2005
State Institution Bonds				
Series 1991	5.5% to 7.50%	12/01/2006	$ 385,000	$ 175,000
Series 2001D	4.25% to 5.50%	12/01/2016	2,340,000	145,000
			2,725,000	
Revenue Bonds				
Series 1997	4.875% to 5.125%	04/01/2013	6,885,000	10,890,000
Series 2005	2.5% to 4.5%	04/01/2029	26,360,000	165,000
			33,245,000	
Athletic Facilities Revenue Bonds				
Series 2003	4.19%	02/15/2018	2,834,607	161,681
Series 2005	4.19%	02/15/2015	6,000,000	-
			8,834,607	-
Subtotal Bonds Payable			44,804,607	11,536,681
Less unamortized bond discount and deferred loss on revenue bonds			1,077,919	87,348
Total Bonds Payable			$ 43,726,688	$ 11,449,333

State institution bonds are general obligations bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. S.C. Code of Laws section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. Tuition fees for the preceding year were $561,838 which results in a legal debt margin at June 30, 2005, of $505,654. The Citadel's maximum annual debt service, which occurred in the current fiscal year, is $460,326.

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

The Citadel has secured insurance contracts for The Series 1997 and Series 2005 Revenue Bonds that guarantee payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds. Certain of the bonds payable are callable at the option of The Citadel

As of June 30, 2005, The Citadel believes it is in compliance with all related bond covenants of its issued debt.

During the fiscal year ended June 30, 2005, The Citadel issued Revenue Bonds, Series 2005, in the amount of $26,525,000. The proceeds of these bonds are being used to partially fund the construction of a new barracks and to refund $9,745,000 of the Series 1997 Revenue Bonds. In January 2005 $10,351,033 of the net proceeds were used to purchase United States government securities to partially refund the Series 1997 Revenue Bonds. This advance refunding resulted in a difference of $606,033 between the reacquisition price and the carrying amount of the Series 1997 Revenue Bonds. This amount, plus unamortized bond issue costs of $77,985, resulted in a deferred loss of $684,018 that is being amortized over the remaining term of the Series 1997 Revenue Bonds. The bonds were advance refunded to reduce total debt service payments over the next twelve years by $754,842, and to obtain an economic gain of approximately $600,570. $355,815 of bond issue costs associated with this issuance is being amortized over the 25-year term of the bonds.

During the fiscal year ended June 30, 2005, The Citadel issued Athletic Facility Revenue Bonds, Series 2005, in the amount of $6,000,000. The proceeds of these bonds are being used to partially fund improvements to Johnson Hagood Stadium. $21,567 of bond issue costs associated with this issuance is being amortized over the ten-year term of the bonds.

All bonds are payable in semiannual installments plus interest, with the exception of the Athletic Facilities Revenue Bonds, Series 2003, which are payable in annual installments. The scheduled maturities of bonds payable by type are as follows:

State Institution Bonds	Principal	Interest	Payments
2006	$ 335,000	$ 121,208	$ 456,208
2007	355,000	102,132	457,132
2008	165,000	89,041	254,041
2009	170,000	81,775	251,775
2010	180,000	74,006	254,006
2011 – 2015	1,035,000	236,914	1,271,914
2016 – 2017	485,000	23,334	508,334
	$ 2,725,000	$ 728,410	$ 3,453,410

Revenue and Athletic Facilities Bonds	Principal	Interest	Payments
2006	$ 2,395,337	$ 1,696,019	$ 4,091,356
2007	2,300,089	1,604,405	3,904,494
2008	2,399,229	1,509,246	3,908,475
2009	2,499,601	1,407,193	3,906,794
2010	2,601,254	1,308,339	3,909,593
2011 – 2015	14,629,887	4,897,752	19,527,639
2016 – 2020	7,439,210	2,414,747	9,853,957
2021 – 2025	3,960,000	1,414,025	5,374,025
2026 – 2029	3,855,000	572,400	4,427,400
	$ 42,079,607	$ 16,824,126	$ 58,903,733

In prior and current years, The Citadel defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The liability of the defeased bonds has been removed from The Citadel's long-term debt and the trust account assets are not included in these statements. At June 30, 2005, $17,245,000 of revenue bonds are outstanding defeased debt.

The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2005:

Bond Type	Principal	Interest
State Institution Bonds	$ 320,000	$ 140,326
Revenue Bonds	11,055,000	898,272
Athletic Facilities Revenue Bonds	161,681	125,544
	$ 11,536,681	$ 1,164,142

Note Payable

At June 30, 2005, 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%	$126,481

The scheduled maturities of the note payable are as follows:

Note Payable	Principal	Interest	Payments
2006	$ 28,572	$ 8,600	$ 37,172
2007	30,515	6,657	37,172
2008	32,589	4,583	37,172
2009	34,805	2,367	37,172
	$ 126,481	$ 22,207	$ 148,688

Total principal paid on the note payable was $26,752 for the year ended June 30, 2005. Total interest paid on the note payable was $10,420.

NOTE 8—LEASE OBLIGATIONS

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

Future commitments for capital leases as of June 30, 2005, were as follows:

Year ending June 30,	Capital Leases/ Equipment
2006	$ 4,446
Total minimum lease payments	$ 4,446
Less: Interest	26
Executory and other costs	357
Present value of minimum lease payments	$ 4,063

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2005 were $32,613, of which $690 represented interest and $7,854 represented executory costs. Total principal paid on capital leases was $24,069 for the year ended June 30, 2005. The following is a summary of the carrying values of assets held under capital lease at June 30, 2005.

Equipment acquired under capital leases	$ 100,854
Less accumulated amortization	100,854
Equipment acquired under capital leases, net	$ -

Operating Leases
The Citadel had no noncancelable operating leases for fiscal year 2005.

In the current fiscal year, The Citadel incurred expenses of $98,280 for office copier service on a cost-per-copy basis.

NOTE 9—RETIREMENT PLANS

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

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

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 10.80 percent which included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The Citadel's actual contributions to the SCRS for the three most recent fiscal years ended June 30, 2003, 2004, and 2005, were $1,621,868, $1,641,391, and $1,731,252 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 $34,396 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, 2004, the employer contribution rate became 13.55 percent which, as for the SCRS, included the 3.25 percent surcharge. The Citadel's actual contributions to the PORS for the years ended June 30, 2003, 2004, and 2005, were $51,332, $53,590, and $56,528 respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of $1,098 and accidental death insurance contributions of $1,098 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

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

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

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.25 percent from the employer in fiscal year 2005.

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 $328,854 (excluding the surcharge) from The Citadel as employer and $261,341 from its employees as plan members. In addition, The Citadel paid $6,534 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

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

Executive Severance Plan
The Citadel Trust contributed $75,000 to The Citadel Executive Severance Plan (CESP) in fiscal year 2005. The Citadel established the CESP during fiscal year 1998 to provide benefits to certain Citadel employees. Plan assets remain the property of The Trust until paid or made available to participants and are subject to the claims of The Citadel's general creditors. The Citadel Board of Visitors terminated the Citadel Executive Severance Plan at its meeting on September 18, 2004, providing the current participants the option of receiving distributions over the 24-month period beginning in October, 2004. $663,029 was paid out to the participants during the current fiscal year. At June 30, 2005, the remaining $237,359 plan balance is reported as a deferred compensation liability.

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

TERI participants are ineligible to receive group life insurance benefits or disability retirement benefits. For pay earned before July 1, 2005, TERI participants were not required to make SCRS contributions. Legislative Act 153, which became law effective July 1, 2005, requires TERI participants to pay employee contributions to SCRS for pay earned after June 30, 2005.

NOTE 10—POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

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

The Citadel recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of $2,249,357 for the year ended June 30, 2005. As discussed in Note 7, The Citadel paid $904,637 applicable to the 3.25 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

NOTE 11—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005, was as follows:

	July 1, 2004	Additions	Reductions	June 30, 2005	Due Within One Year
Bonds and Notes Payable and Capital Lease Obligations:					
State Institution Bonds	$ 3,045,000	$ -	$ 320,000	$ 2,725,000	$ 335,000
Less unamortized bond discount	-	7,039	927	6,112	872
Total State Institution Bonds	3,045,000	7,039	319,073	2,718,888	334,128
Revenue Bonds	17,775,000	26,525,000	11,055,000	33,245,000	1,725,000
Athletic Facilities Revenue Bonds	2,996,288	6,000,000	161,681	8,834,607	670,337
Less deferred loss on refunding	-	684,018	41,456	642,562	82,911
Less unamortized bond discount	-	474,210	44,965	429,245	50,223
Total Revenue Bonds Payable	20,771,288	31,366,772	11,130,260	41,007,800	2,262,203
Total Bonds Payable	23,816,288	31,359,733	11,449,333	43,726,688	2,596,331
Notes Payable	153,233	-	26,752	126,481	28,572
Capital Lease Obligations	28,132	-	24,069	4,063	4,063
Total Bonds, Notes & Capital Leases	23,997,653	31,359,733	11,500,154	43,857,232	2,628,966
Other Liabilities					
Retainages Payable	847,659	222,319	836,583	233,395	52,084
Accrued compensated absences	1,926,259	1,307,747	1,108,758	2,125,248	1,108,758
Federal loan funds	461,506	4,857	-	466,363	-
Deposits	1,320,315	1,362,464	847,886	1,834,893	1,285,005
Annuities payable	23,182	-	1,961	21,221	8,190
Funds held for others	51,115	17,611,339	17,572,381	90,073	-
Total Other Liabilities	4,630,036	20,508,726	20,367,569	4,771,193	2,454,037
Total Noncurrent Liabilities	$ 28,627,689	$ 51,868,459	$ 31,867,723	$ 48,628,425	$ 5,083,003

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

NOTE 12—CONSTRUCTION COSTS AND COMMITMENTS

Capitalized

The Citadel has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that The Citadel has sufficient resources available and/or future resources identified to satisfactorily complete the construction of these projects which are expected to be completed in varying phases over the next five years at an estimated cost of $31,492,761. Of the total estimated cost, approximately $27,000,000 is unexpended at June 30, 2005. Of the total expended through June 30, 2005, The Citadel has capitalized substantially complete and in-use projects in the amount of $24,125,000. Of the unexpended balance at June 30, 2005, The Citadel had remaining commitment balances of approximately $15,800,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capital projects as of June 30, 2005, was $181,311. Major capital projects at June 30, 2005, which constitute construction in progress that will be capitalized when completed, are listed below.

Project Title	Estimated Cost	Amount Expended
Stadium Replacement	$ 8,049,593	$ 1,410,930
Rifle Range	310,336	113,105
Law Barracks Replacement	23,132,832	5,192,378
CCD Spectrophotometer	171,353	79,848
	$ 31,664,114	6,796,261

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

Non-Capitalized

At June 30, 2005 The Citadel had in progress other capital projects which are not to be capitalized when complete. These projects are for replacements, repairs, and/or renovations to existing facilities. Estimated costs on these non-capitalized projects total $12,291,517. This amount includes costs incurred to date of $11,570,463 and estimated costs to complete of $721,054. The Citadel has remaining commitment balances with certain parties related to these projects of $906,156. Retainages payable on the non-capitalized projects as of June 30, 2005, was $52,084.

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 has authorized state capital improvement bond proceeds at June 30, 2005, of approximately $500,000. In fiscal year 2005, The Citadel received capital improvement bond proceeds of $2,495,697 and recorded a receivable at June 30, 2005, of $6,199.

NOTE 13—DONOR RESTRICTED ENDOWMENTS

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

The Citadel Trust chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Trust Board of Directors, 5 percent of the average market value of endowment investments at the end of the previous twelve quarters has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. At June 30, 2005, net appreciation of $4,338,267 is available to be spent, of which $4,225,665 is restricted to specific purposes.

NOTE 14—SPLIT INTEREST AGREEMENTS

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

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

During fiscal year 2000 a donor established a charitable gift annuity that provides for fixed payments to the donor for his lifetime. At the termination of the agreement the remaining assets of the gift annuity will become available to The Citadel Trust for general institutional purposes. This annuity fund is held and separately managed by The Citadel Trust. At the end of each fiscal year an adjustment is made between the liability and the nonexpendable net asset value to record the actuarial gain or loss due to the recomputation of the present value of the liability based on the revised life expectancy of the donor. At June 30, the present value of the annuity payable was $29,411.

NOTE 15—COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of The Citadel exist primarily to provide financial assistance and other support to the College and its educational program. They include The Citadel Foundation (TCF) and The Citadel Brigadier Foundation (TCBF). Because the activities and resources of these entities are for the sole benefit of The Citadel, they are considered component units of the College and are discretely presented in The Citadel's financial statements as non-governmental reporting entities. Following is a more detailed discussion of each of these entities and a summary of the significant transactions between these entities and The Citadel for the year ended June 30, 2005.

The Citadel Foundation **(TCF)**

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

For the fiscal year ended June 30, 2005, TCF collected contributions of $3,433,099 on behalf of The Citadel and The Citadel Trust – $2,179,582 of this total was recorded as gifts, $762,871 was recorded as additions to permanent endowments, and $490,646 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of $284,115 for its fundraising services.

In addition, The Citadel and The Citadel Trust recorded non-governmental grants of $4,620,934 and capital grants of $593,352 from TCF for the fiscal year ended June 30, 2005. These funds were used to support scholarships and various academic programs and construction projects at the College.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled $73,104 for the year ended June 30, 2005.

The amount due from TCF varies during the fiscal year based on amounts due for grants and expenses incurred on behalf of TCF and contributions collected by TCF on behalf of The Citadel. TCF's balance sheet dated December 31, 2004, shows a grant payable to The Citadel of $2,061,506. The amount due to The Citadel from TCF at June 30, 2005, is $14,042.

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

The Citadel recorded grants of $902,964 from TCBF in nonoperating revenues for the fiscal year ended June 30, 2005. These funds were used to support athletic scholarships at the College.

As referenced in Note 3, TCBF is indebted to The Citadel for $29,000 as of June 30, 2005, for the athletic grants-in-aid on an interest-free note dated October 10, 1984, in the original amount of $208,436. The Citadel has not established a payment schedule for this loan.

TCBF reimburses The Citadel for certain expenses incurred on behalf of TCBF. The reimbursement totaled $1,312,636 for the year ended June 30, 2005. TCBF did not owe The Citadel at June 30, 2005.

NOTE 16 – RELATED PARTIES

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

The activities of CAA are not included in The Citadel's financial statements. However, The Citadel's statements include transactions between the College and the CAA. Following is a summary of the significant transactions between The Citadel and CAA for the year ended June 30, 2005.

The College shares the costs of operating the newly renovated John Monroe Holliday Alumni Center building with CAA. Expenses related to routine operations of the alumni center are allocated based on the joint use of the building by Citadel staff who function as both the College Alumni Office and the Alumni Association Office. All expenses related to income production are borne by the CAA. CAA prepares an annual accounting of the net income of rental activities each May. After covering CAA income producing costs, any amount remaining is split on the same basis as building operating expenses. For the year ended June 30, 2005, The Citadel's share of John Monroe Holliday Alumni operating profits was $78,000 and is recorded as other nonoperating revenue.

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled $336,447 for the year ended June 30, 2005.

NOTE 17 – TRANSACTIONS WITH STATE ENTITIES

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

The original appropriation is The Citadel's base budget amount presented in the General Funds column of Section 5C, Part IA, of the 2004-05 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, 2005:

State Appropriations	
Original appropriation	$ 14,166,497
Appropriation allocations from the State Commission on Higher Education:	
For Academic Endowment Match	18,788
For Technology Grant Program	595,568
Total State Appropriation Revenues	$ 14,780,853
State Capital Appropriations	
Capital Improvement Bond Acts	$ 2,495,697

The Citadel received substantial funding from the Commission on Higher Education (CHE) for scholarships on behalf of students that is accounted for as operating State grants and contracts. Additional amounts received from CHE are accounted for as nonoperating revenue. The Citadel also receives State funds from various other State agencies for public service projects. Following is a summary of amounts received from State agencies for scholarships, sponsored research and public service projects for the fiscal year ended June 30, 2005:

Other amounts received from State agencies	Operating Revenue	Nonoperating Revenue
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	$ 1,147,127	$ -
Palmetto Fellows Scholarships	147,046	-
Need-Based Grants	201,670	-
Hope Scholarships	125,875	-
Technology Grant Program	-	123,133
Access and Equity Competitive Grants	-	10,386
Received from various other state agencies	620	15,368
	$ 1,622,338	$ 148,887

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 2005 expenditures applicable to related transactions with State entities are not readily available.

NOTE 18—RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

NOTE 19—CONTINGENCIES AND LITIGATION

The Citadel currently has nine lawsuits pending. Eight of these cases are in the discovery phase in South Carolina Circuit Court; one case is in post-trial motions in U.S. District Court.

Four of the state court cases represent tort claims filed by four former Citadel summer campers as a result of their alleged sexual molestation by a former Citadel volunteer camp counselor. The State Insurance Reserve Fund (IRF) is defending The Citadel pursuant to a $1 million insurance policy. Under the Tort Claims Act, The Citadel's liability is capped at $300,000 per case. Attorneys for the plaintiffs are arguing that the $300,000 cap does not apply in these cases. The court has not yet ruled on this issue in these cases. The IRF has told management that they expect the $300,000 cap will apply.

In the fifth case, a former cadet alleges The Citadel was grossly negligent in retaining an Army ROTC instructor assigned to The Citadel who allegedly sexually molested her in his quarters at the Naval Weapons Station in Goose Creek, South Carolina. As with the camp cases, The Citadel is defended by the IRF, under its $1 million policy. As with the camp cases, The Citadel's liability is capped under the Tort Claims Act at $300,000, although attorneys for the plaintiffs are arguing that the $300,000 cap does not apply. The court has not yet ruled on this issue in this case either. The IRF has told management that they expect the $300,000 cap will apply.

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

In the one case still pending in the United States District Court of Charleston, South Carolina the claimant has not requested monetary damages. The case is still active because The Citadel has filed a Motion to Collect Attorney's Fees from the Plaintiff.

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

NOTE 20—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2005, are summarized as follows:

	Compensation and Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 16,674,370	$ 1,118,348	$ 45	$ 46,523	$ -	$ 17,839,286
Research	102,645	165,729	20	-	-	268,394
Public Service	621,270	766,638	2,992	256,756	-	1,647,656
Academic Support	3,917,423	1,815,548	-	9,410	-	5,742,381
Student Services	3,808,700	1,637,777	16,161	2,386	-	5,465,024
Institutional Support	4,899,211	1,107,381	-	1,177	-	6,007,769
Operations & Maint. of Plant	3,451,799	2,567,053	1,815,189	-	-	7,834,041
Scholarships & Fellowships	21,773	12,371	-	2,320,685	-	2,354,829
Auxiliary Enterprises	5,837,575	13,303,105	998,081	18,347	-	20,157,108
Depreciation	-	-	-	-	3,719,628	3,719,628
Total Operating Expenses	$ 39,334,766	$ 22,493,950	$ 2,832,488	$ 2,655,284	$ 3,719,628	$ 71,036,116

NOTE 21—SUBSEQUENT EVENTS

At its meeting in September 2005, the Board of Visitors passed a series resolution providing for the sale of Athletic Facility Revenue Bonds in an amount not to exceed $9.5 million. The College has enough debt coverage to pledge the fees charged to students for athletic operations and for athletic facilities, as it has done for previous athletic facility revenue bonds. The actual debt service payments will be funded by using a combination of a $600,000 annual grant from The Citadel Foundation and an increased athletic facility fee charged to all day students over the life of the bonds.

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

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

The Citadel	2005	2004	Increase/ (Decrease)
Charges for services	$ 46,285,922	$ 44,013,629	$ 2,272,293
Operating grants and contributions	7,651,387	8,798,283	(1,146,896)
Capital grants and contributions	739,117	4,726,592	(3,987,475)
Less expenses	72,144,486	69,217,070	(2,927,416)
Net program revenue (expense)	(17,468,060)	(11,678,566)	(5,789,494)
General revenues:			
Transfers:			
State appropriation	14,780,853	14,558,490	222,363
State capital improvement bond proceeds	2,495,697	3,988,174	(1,492,477)
Transfers from The Citadel Trust	2,807,217	3,761,161	(953,944)
Total general revenue and transfers	20,083,767	22,307,825	(2,224,058)
Change in net assets	2,615,707	10,629,259	(8,013,552)
Net assets - beginning	88,336,876	77,707,617	10,629,259
Net assets - ending	$ 90,952,583	$ 88,336,876	$ 2,615,707

The Citadel Trust	2005	2004	Increase/ (Decrease)
Operating grants and contributions	$ 5,565,467	$ 7,845,796	$ (2,280,329)
Capital grants and contributions	355,339	2,480,700	(2,125,361
Less expenses	126,692	111,070	(15,622)
Net program revenue (expense)	5,794,114	10,215,426	(4,421,312)
General revenues:			
Contributions to permanent endowments	762,871	503,025	259,846
Transfers:			
Transfers to The Citadel	(2,807,217)	(3,761,161)	953,944
Total general revenue and transfers	(2,044,346)	(3,258,136)	1,213,790
Change in net assets	3,749,768	6,957,290	(3,207,522)
Net assets - beginning	54,165,881	47,208,591	6,957,290
Net assets - ending	$ 57,915,649	$ 54,165,881	$ 3,749,768

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Expenditures
Direct Programs:			
U.S Department of Justice			
South Carolina Police Corp	16.712	None	$ 640,374
Total U. S. Department of Justice			640,374
U.S Department of Education			
Federal Supplemental Educational Opportunity Grant	84.007	P007013769	91,442
Federal Work Study	84.033	P033A73769	23,854
Federal Perkins Loan Program	84.038	P038A73769	774,743
Federal Pell Grant Program	84.063	P063P011532	993,947
William D. Ford Direct Loan Program	84.268	None	16,450,547
Total U. S. Department of Education			18,334,533
U.S. Department of Commerce			
Passed through SC Sea Grant Consortium:			
Succession of Tidal Freshwater Wetlands on the Cooper River	11.414	NA16RG2250	12,981
Impact of Mosquito Control Agents	11.417	NA86RG0052	3,845
Vegatational Classification	11.463	NA03N0S4190168	15,324
Passed through SC Department of Natural Resources			
Edisto Beach Causway	11.463	NA16RG2250	5,120
Total U. S. Department of Commerce			37,270
U.S. Fish and Wildlife Service			
Passed through SC Department of Natural Resources			
Bird Species	15.634		1,413
U.S. Department of Justice			
Passed through SC Department of Public Safety			
Bullet Proof Vest	16.607		1,966
U.S Department of Education			
Passed through Trident Area Regional Partnership			
School-to-Work Opportunities Initiative	17.249	00VS015	681
U.S Department of Transportation			
Passed through Clemson University			
Clemson Research	20.205	886-7557-223-2004587	2,480
NASA			
Passed through The College of Charleston:			
SC Space Grant Consortium	43.001	NGT5-40039	4,877
Total NASA			4,877
National Science Foundation			
Passed through The College of Charleston:			
CCD Spectrophotomete	47.049	AST-0115612	9,578
Hypercapnic Hypoxia Impacts Shrimp Immune Defenses	47.074	IBN-0212921	38,484
Passed through The Colorado School of Mines			
Professional Ethics and Engineering	47.076	CCLI-ND	1,524
Total National Science Foundation			49,586
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	23125	$ 20,000

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

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Expenditures
National Institute of Health			
Passed through The Medical University of SC			
BRIN	90.389	P20RR16461-04	$ 2,315
U.S. Department of Health and Human Services			
Passed through The Medical University of SC			
Social Support to Children with NTD and Their Families	93.283	U36/CCU319276	2,075
Passed through The SC Developmental Disabilities Council			
Peer Express for Adolescents	93.630	312-21-0028	33,481
Total U.S. Department of Health and Human Services			35,556
U.S. Department of Education			
Passed through The SC Commission on Higher Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A990172-01	157,318
Passed through the National Writing Project Corp.			
National Writing Project	84.928	99-SC09	27,808
Total U.S. Department of Education			185,126
Total Federal Assistance Expended			$ 19,316,177

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

THE CITADEL
The Military College of South Carolina
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Note 1 - Basis of Presentation

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

Note 2 - Loans Outstanding

The Federal Perkins Loan Program (CFDA Number 84.038) is administered directly by The Citadel and balances and transactions relating to the program are included in the loan fund of The Citadel's financial statements. The balance of loans outstanding under the Federal Perkins Loan Program was $634,908 as of June 30, 2005.

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

Note 3 - Matching

Under the Federal Work Study program, The Citadel matched $2,040 for the year ended June 30, 2005 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Under the Federal Supplemental Education Opportunity Grant program, The Citadel matched $30,481 for the year ended June 30, 2005 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Note 4 - Subrecipients

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

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

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

We have audited the financial statements of the business type activity and the discreetly presented component units of The Citadel, as of and for the year ended June 30, 2005, which collectively comprise The Citadel's basic financial statements and have issued our report thereon dated September 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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, Bekaert & Holland, L.L.P.

Beaufort, South Carolina
September 23, 2005

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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, 2005. 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, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants 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 23, 2005

THE CITADEL
The Military College of South Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

I. Summary of auditor's results

A. An unqualified opinion dated September 23, 2005 was issued on the financial statements of The Citadel.

B. Our audit of the financial statements disclosed no instances of noncompliance with laws, regulations and the provisions of contracts and grant agreements material to the financial statements.

C. An unqualified opinion dated September 23, 2005 was issued on The Citadel's compliance with the types of compliance requirements applicable to its major federal programs.

D. Major federal programs for The Citadel for the fiscal year ended June 30, 2005 are:

CFDA Number	Program Title
84.007	Federal Supplemental Educational Opportunity Grant
84.033	Federal Work Study
84.038	Federal Perkins Loan
84.063	Federal Pell Grant
84.268	Federal Direct Student Loans
16.712	South Carolina Police Corp

F. The threshold for determining major federal programs for The Citadel was $300,000.

G. The Citadel was assessed as a low risk auditee under Circular No. A-133.

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

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

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

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

The Citadel
The Military College of South Carolina
Status of Prior Findings
June 30, 2005

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.