

**THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA
CHARLESTON, SOUTH CAROLINA
YEAR ENDED JUNE 30, 2011**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel), a department of the State of South Carolina, as of and for the year ended June 30, 2011, which collectively comprise The Citadel's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Citadel's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The Citadel Brigadier Foundation (a discretely presented component unit). The Citadel Brigadier Foundation's financial statements reflect 6% of total assets, 6% of total net assets, and 12% of total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these blended and discretely presented components units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of The Citadel are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the State of South Carolina that is attributable to the transactions of The Citadel. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2011, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of The Citadel as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2011 on our consideration of The Citadel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 3 - 12 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

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

Elliott Davis, LLC

Greenwood, South Carolina
October 5, 2011

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2011

Overview of the Financial Statements and Financial Analysis

The Citadel is pleased to present its financial statements for fiscal year 2011. While audited financial statements for fiscal year 2010 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.

During fiscal year 2011 South Carolina continued to experience the effects of the economic recession and issued additional budget cuts to all state agencies. Citadel appropriations were cut by \$2.1 million in fiscal year 2011, following cuts of \$1 million in 2010 and \$3.9 million in 2009. Over this three year period State appropriation revenue has decreased by 45%. In response to the shortfall in State appropriations, The Citadel increased student fees and cut operating budgets. Fortunately, enrollment has remained strong and tuition revenue has provided a cushion to the State cuts. In addition, the College received \$2.36 million of Federal State Fiscal Stabilization Funds (stimulus funds) as a part of the Federal program aimed at helping states deal with the economic recession.

The Citadel outsourced bookstore and gift operations to Barnes & Noble during the current fiscal year. This outsourcing reduced auxiliary revenues by \$4.3 million and reduced auxiliary salary and cost of goods sold expenditures by \$4 million.

The College collaborated with The Citadel Foundation (TCF) during fiscal year 2011 to investigate initiatives to improve financial results. TCF hired an outside consulting firm to review The Citadel's financial status and suggest improvements to help The Citadel prosper in the face of continued State funding cuts. TCF has agreed to help fund selected initiatives in fiscal year 2012 in order to improve College financial outcomes.

The refinance of the 2006 and 2007 Athletic Facility Bonds was competed in July 2010. This refinance extended the length of the 2006 bond from ten to twenty years in order to reduce the annual debt service to a level that could be covered with skybox and club seat revenues. The 2007 bond was included in the refinance in order to lock in the interest rate for the duration of the bond. Currently, after covering annual debt service requirements, excess skybox and club seat revenues are available to cover Readiness Center operating costs and some additional Athletic Department expenses.

The major event impacting the financial results of The Citadel Trust, Incorporated (The Trust) during fiscal year 2011 is the improvement in investment returns. Fiscal year 2011 was the first full year of results based on investment changes implemented in fiscal year 2010. Returns for the Richmond Fund, a limited partnership that invests in alternative investments such as private equity, venture capital, real assets and hedge funds, improved from 0.6% for the six months of investment in fiscal year 2010 to 18.3% in fiscal year 2011. Returns for the Morgan Stanley Smith Barney managed portfolio improved from 12.8% in fiscal year 2010 to 22.4% in fiscal year 2011. The asset allocation for this portfolio was also changed in fiscal year 2010 in order to capture returns at a reduced level of risk.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) 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.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2011

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

Statement of Net Assets

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

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

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

Condensed Summary of Net Assets (thousands of dollars)				
	2011	2010	Increase/ (Decrease)	Percent Change
Assets:				
Current assets	\$ 52,959	\$ 47,441	\$ 5,518	11.63%
Capital assets, net	136,796	139,225	(2,429)	-1.74%
Other assets	<u>61,425</u>	<u>53,715</u>	<u>7,710</u>	14.35%
Total Assets	<u>251,180</u>	<u>240,381</u>	<u>10,799</u>	4.49%
Liabilities:				
Current liabilities	13,257	14,612	(1,355)	-9.27%
Noncurrent liabilities	<u>48,659</u>	<u>52,546</u>	<u>(3,887)</u>	-7.40%
Total Liabilities	<u>61,916</u>	<u>67,158</u>	<u>(5,242)</u>	-7.81%
Net Assets:				
Invested in capital assets, net of related debt	87,967	87,790	177	0.20%
Restricted - nonexpendable	38,725	31,567	7,158	22.68%
Restricted - expendable	33,205	28,994	4,211	14.52%
Unrestricted	<u>29,367</u>	<u>24,872</u>	<u>4,495</u>	18.07%
Total Net Assets	<u>\$ 189,264</u>	<u>\$ 173,223</u>	<u>\$ 16,041</u>	9.26%

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2011

Assets – increase of \$10.8 million

- The \$5.5 million increase in current assets is composed of a \$3.9 million increase in Citadel current assets and a \$1.6 million increase in Trust current assets. The \$3.9 million increase in Citadel current assets is primarily attributable to a \$2.9 million increase in current unrestricted cash and a \$1.3 million increase in current restricted cash. The increase in current unrestricted cash is due to healthy enrollment and tuition and fee increases, along with careful management of expenses, which allowed the College to position itself conservatively in the face of continuing concerns about State funding. In addition, Stimulus funding totaled \$2.4 million in fiscal year 2011, slightly more than the \$2.1 million cut in State appropriations. Current restricted cash increases are related to gifts, sales and service revenue, and excess debt service funds restricted to various purposes.

The \$1.6 million increase in Trust current assets is primarily attributable to the improvement in investment returns during fiscal year 2011. Approximately 45% of the Trust's pooled assets are invested in the Richmond Fund, a limited partnership managed by Spider Management, a subsidiary of the University of Richmond. The Trust invested in the Richmond Fund in January 2010 and the return for the six month period ending June 30, 2010 was 0.6%. The Richmond Fund's return improved to 18.3% in fiscal year 2011. The Trust's remaining pooled assets are invested in a managed portfolio held at Morgan Stanley Smith Barney. The blended investment return for this portion of the portfolio improved from 12.8% in fiscal year 2010 to 22.4% in fiscal year 2011.

- Capital assets decreased by approximately \$2.4 million. During the current year depreciation expense was \$2.4 million higher than capitalized equipment and building additions. The following construction projects included in construction in progress in the prior year were completed and capitalized during fiscal year 2011 – Daniel Library Renovation (\$1.7 million), Deas Hall Human Performance Lab (\$0.25 million) and Stevens Barracks 4th Floor Renovation (\$0.2 million). Approximately \$1 million was capitalized as an intangible asset as the final Banner administrative software module was completed at the beginning of fiscal year 2011. In addition, approximately \$0.5 million of equipment and vehicles was purchased and capitalized in the current year. Depreciation expense totaled \$5.3 million.
- The \$7.7 million increase in other assets includes a \$1.1 million decrease in Citadel other assets. \$1 million of this decrease is attributable to a reduction in cash utilized for the Banner administrative software system. This cash was expended as the final module was completed and capitalized in the current year.

Trust other assets increased by \$8.8 million, or just over 16.5%. These assets are chiefly investments related to permanent endowments and the increase was generated by the improved investment returns mentioned above.

Liabilities – decrease of \$5.2 million

- Current liabilities decreased by \$1.4 million. Citadel accounts payable decreased by approximately \$1.1 million. Almost half of this decrease resulted from the timing of payments for retirement contributions and utility payments. In fiscal year 2010 these payments were not made until after June 30th so they were included as current liabilities at June 30, 2010. The remaining decrease in accounts payable relates to the completion of construction projects and the Banner administrative software system in the current year. All liabilities related to these projects were satisfied prior to the end of the current year.

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Deferred revenue decreased by \$300,000. This decrease is primarily due to timing changes in recording Summer II and football season ticket revenue. These transactions were not completed until after June 30 so there was no deferred revenue recorded in fiscal year 2011.

- Noncurrent liabilities decreased by \$3.9 million. \$3.7 million of this decrease is due to a decrease in noncurrent debt obligations. Other than the debt refinancing described previously, no new debt was issued in fiscal year 2011 and The Citadel is paying down existing debt as scheduled. Noncurrent deferred revenue related to the ARAMARK and Daktronics contracts decreased by \$0.4 million as revenue for current periods is recorded. Finally, the noncurrent portion of accrued compensated absences increased by approximately \$0.2 million.

Net Assets – increase of \$16 million

- Capital assets, net of related debt, decreased by approximately \$0.2 million. Both capital assets, net of depreciation, and capital debt decreased in fiscal year 2011. Capital assets, net of depreciation, decreased by \$2.4 million. The capital debt decrease of \$3.9 million was partially offset by expenditure of the remaining \$1.4 million of debt proceeds for the Banner administrative software system.
- Restricted – non expendable assets increased by \$7.2 million. This growth in Trust endowment assets was generated by the improvement in the Trust investment returns in the current year.
- Restricted – expendable assets increased by \$4.2 million. Citadel restricted expendable assets increased by approximately \$1.7 million. \$0.4 million of this increase was generated by gifts received for specified purposes and \$0.5 million was generated by sales and services revenue. In addition, The Citadel collected \$0.4 million more than required for Institution Bond debt service in fiscal year 2011. This amount can be used to fund construction projects in the future. The Trust restricted expendable assets increased by \$2.5 million due to the improvement in investment returns in fiscal year 2011.
- Unrestricted net assets increased by \$4.5 million. The \$3.8 million increase in Citadel unrestricted net assets is attributable to an operating fund surplus created by fee increases and tight control of expenditures as the College prepared for uncertainties in State and National funding in 2012 and beyond. The College also set aside unrestricted funds in reserve for strategic initiatives, deferred maintenance and auxiliary maintenance. Trust unrestricted net assets increased by \$0.7 million, or 12.4%. While improved investment returns were influential in this increase, spending of unrestricted Trust assets consumed some of this additional investment income.

Statement of Revenues, Expenses and Changes in Net Assets

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

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

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

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

	2011	2010	Increase/ (Decrease)	Percent Change
Revenues:				
Student tuition and fees	\$ 34,254	\$ 30,611	\$ 3,643	11.90%
Sales and services	25,517	29,443	(3,926)	-13.33%
Grants and contracts	4,946	3,213	1,733	53.94%
Investment income	11,501	7,448	4,053	54.42%
Other operating revenues	<u>2,374</u>	<u>1,670</u>	<u>704</u>	42.16%
Total Operating Revenues	<u>78,592</u>	<u>72,385</u>	<u>6,207</u>	8.57%
State appropriations	9,372	11,513	(2,141)	-18.60%
Grants	11,509	10,463	1,046	10.00%
Gifts	2,642	2,886	(244)	-8.45%
Investment income	395	1,025	(630)	-61.46%
Other nonoperating revenues/expenses	<u>774</u>	<u>364</u>	<u>410</u>	112.64%
Total Nonoperating Revenues	<u>24,692</u>	<u>26,251</u>	<u>(1,559)</u>	-5.94%
Total Revenues	<u>103,284</u>	<u>98,636</u>	<u>4,648</u>	4.71%
Expenses:				
Compensation and employee benefits	49,738	48,587	1,151	2.37%
Services and supplies	26,267	27,187	(920)	-3.38%
Utilities	3,253	3,001	252	8.40%
Depreciation	5,322	5,104	218	4.27%
Scholarships and fellowships	<u>3,313</u>	<u>3,154</u>	<u>159</u>	5.04%
Total operating expenses	<u>87,893</u>	<u>87,033</u>	<u>860</u>	.99%
Interest expense	2,576	2,580	(4)	-0.16%
Loss on disposal of capital assets	<u>-</u>	<u>497</u>	<u>(497)</u>	-100.00%
Total Nonoperating Expenses	<u>2,576</u>	<u>3,077</u>	<u>(501)</u>	-16.28%
Total Expenses	<u>90,469</u>	<u>90,110</u>	<u>359</u>	0.40%
Income before capital contributions, additions to permanent endowments and transfers	<u>12,815</u>	<u>8,526</u>	<u>4,289</u>	50.30%
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	1,431	1,650	(219)	-13.27%
Permanent endowment additions	<u>1,795</u>	<u>2,265</u>	<u>(470)</u>	-20.75%
Total capital contributions, additions to permanent endowments and transfers	<u>3,226</u>	<u>3,915</u>	<u>(689)</u>	-17.60%
Change in Net Assets	16,041	12,441	3,600	28.94%
Net Assets, Beginning	<u>173,223</u>	<u>160,782</u>	<u>12,441</u>	7.74%
Net Assets, Ending	<u>\$ 189,264</u>	<u>\$ 173,223</u>	<u>\$ 16,041</u>	9.26%

The Citadel
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Total Revenues – increase of \$4.6 million

- Operating revenues increased by \$6.2 million. This increase is composed of a \$2.1 million increase in Citadel operating income and a \$4.1 million increase in Trust operating income.

Citadel operating revenues increased primarily because the College raised mandatory fees by 10% for in-state students and 13% for out-of-state students. These increased fees included one new fee created to generate funds for capital improvements. In addition, cadet enrollment increased by approximately 100 students. These fee and enrollment increases generated \$3.6 million in additional tuition and fee revenue.

Grant revenue increased by approximately \$1.7 million. Noteworthy changes in grant funding include a \$152,000 increase in federal grant funding, based on new grants for Improving Teacher Quality and a continuation of the Chinese grant. Increases in Hope and National Guard Cap scholarships were largely responsible for the \$903,000 increase in State grants. Private grant funding increased by \$680,000, primarily related to funding received through The Citadel Foundation for skybox and club seat sales.

Other operating revenues also increased by \$0.7 million. Approximately \$445,000 of this increase was generated by the Leadership Laboratory fee which was initiated in the current year. The remaining increase in other operating revenues is attributable to summer ROTC camps.

These increases in operating revenues were reduced by a \$3.9 million decrease in auxiliary revenue. The major change in auxiliary operations in fiscal year 2011 was outsourcing of bookstore operations to Barnes & Noble. Barnes & Noble renovated the Citadel Gift Shop area and took over sales of books and gift items. This change resulted in a \$4.3 million decrease in revenues from the prior year. This revenue reduction was partially offset by a 9% increase in athletic operating fee which resulted in a \$600,000 increase in athletic revenue. Several other auxiliary fees were reduced in order to keep the increase in all-in costs at 6.3% for in-state students and 6.6% for out of state students. The overall cost of attendance is defined as all tuition and fees plus deposits required for uniforms, books and other cadet necessities.

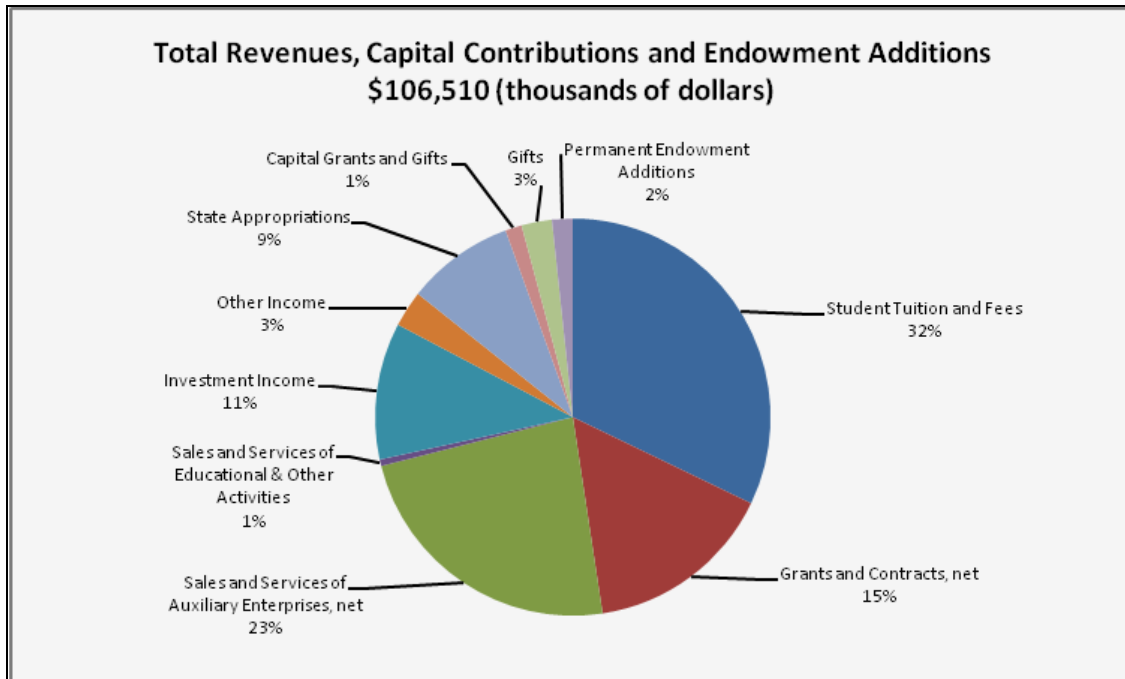
The increase in Trust operating revenues was generated by a \$4.1 million increase in Trust investment income in fiscal year 2011. The return for the Richmond Fund investment improved from 0.6% in fiscal year 2010 to 18.3% in the current year. The Morgan Stanley Smith Barney managed portfolio return improved from 12.8% in fiscal year 2010 to 22.4% in the current year.

- Nonoperating revenues decreased by \$1.6 million. The \$1.2 million decrease in Citadel nonoperating revenues was attributable to decreases in State appropriations (\$2.14 million) and investment income (\$0.6 million). These decreases were partially offset by increases in nonoperating grants (\$1 million) and miscellaneous revenue (\$0.5 million). Federal nonoperating grants increased by \$0.7 million due to a \$0.2 million increase in Federal State Fiscal Stabilization Funds (stimulus funds) and a \$0.56 million increase in Pell grants. Private nonoperating grant revenue increased by \$0.3 million. The \$0.5 million increase in miscellaneous nonoperating revenue was generated when the City of Charleston decided to pay The Citadel rather than transfer a small piece of Brittlebank Park property to The Citadel per an agreement reached in 1995.

The \$0.4 million Trust decrease in nonoperating revenue is chiefly attributable to a decrease in gift revenue as the economic downturn impacted fundraising efforts.

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Total Expenses – decrease of \$0.4 million

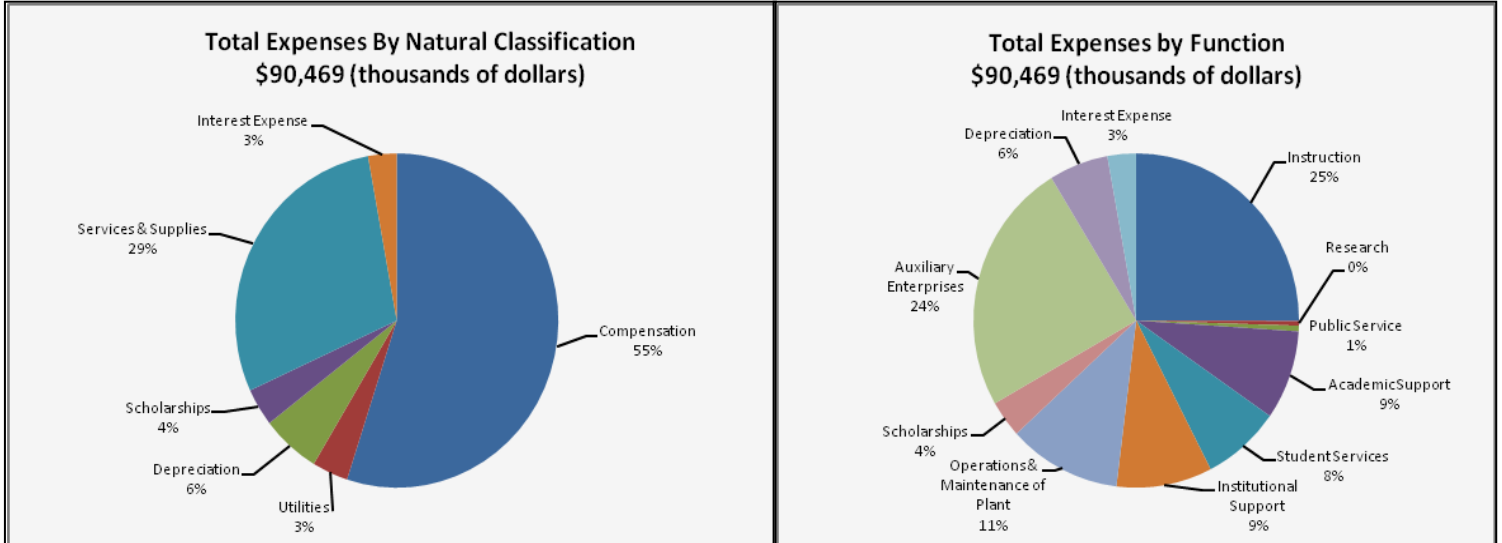
- Operating expenses decreased by \$0.86 million. While total operating expenses decreased by only .99%, the composition of these expenses changed rather significantly. Auxiliary expenses decreased by just over \$3 million. This decrease is directly tied to the outsourcing of book store and gift shop operations to Barnes & Noble. Approximately \$4 million of salaries and cost of goods sold expenses related to these activities was eliminated. These reductions in auxiliary expenses were partially offset by increases of approximately \$0.25 million each in Athletics, Barracks and the Dining Hall.
- Salary and fringe benefit expenses increased by \$1.15 million. While there were no cost of living increases in fiscal year 2011, the remaining salary compression increases from the fiscal year 2007 compression study were implemented. In addition, expansion of the Krause Initiative and The Citadel Leadership Development program increased salaries related to these programs. Ramping up The Citadel's on-line teaching program also increased salary expense.

Utility costs increased by \$0.25 million based on increased energy costs. The \$0.2 million increase in depreciation is related to the first full year of depreciation for the energy management system and the full capitalization and depreciation for the new Banner administrative software system. Scholarships increased by \$0.16 million based on additional funding for Pell grants and State scholarships.

- Nonoperating expenses decreased by \$0.5 million due to the reduction in loss on disposal of equipment. In fiscal year 2010 the disposal of the Band Trailer resulted in a \$0.5 million loss on disposal. Interest expense remained constant from fiscal year 2010 to fiscal year 2011.

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Management's Discussion and Analysis
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Capital Contributions and Additions to Permanent Endowments – decrease of \$0.7 million

- Capital grants and appropriations decreased by \$0.2 million. The State did not appropriate capital and deferred maintenance funds due to the economic recession and no major capital grants were received during the year.
- Permanent endowment additions decreased by \$0.5 million in the current year, possibly as a result of the impact of the economic recession on charitable contributions.

Statement of Cash Flows

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

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Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, at June 30, 2011 and June 30, 2010 were as follows:

Capital Assets (net of accumulated depreciation)				
Capital Assets:	<u>2011</u>	<u>2010</u>	<u>Increase/ (decrease)</u>	<u>Percent Change</u>
Land	\$ 4,827,669	\$ 4,827,669	\$ -	0.00%
Construction in Progress	119,752	883,606	(763,854)	-86.45%
Fine Arts	357,120	357,120	-	0.00%
Land improvements	7,259,722	8,100,530	(840,808)	-10.38%
Buildings and improvements	117,873,382	119,514,191	(1,640,809)	-1.37%
Machinery, equipment, and other	1,925,820	1,890,245	35,575	1.88%
Vehicles	68,809	80,608	(11,799)	-14.64%
Intangibles	<u>4,363,729</u>	<u>3,570,686</u>	<u>793,043</u>	22.21%
Total	<u>\$ 136,796,003</u>	<u>\$ 139,224,655</u>	<u>\$ (2,428,652)</u>	-1.74%

Several construction projects were completed and capitalized in fiscal year 2011. The Daniel Library renovation was completed and capitalized for a total cost of \$1.7 million. The Deas Hall Human Performance Lab and the Stevens Barracks 4th Floor renovation were also completed and capitalized for a total cost of \$0.5 million.

The Citadel capitalized \$1 million as an intangible asset as the final modules of the SunGard administrative software system became operational in fiscal year 2011.

The Citadel did not initiate any additional borrowing during the current year, though a refinance of the 2006 and 2007 Athletic Facility Bonds was completed in July, 2010. The refinanced bond extended the length of the 2007 Athletic Facility Bond from the original 10 year term to 20 years and eliminated the 10 year interest reset requirement for the 2006 Athletic Facility Bond. The refinance was completed in order to reduce the annual debt service for the 2007 bond to a level that could be covered by sales of skybox and club seats and lock in a twenty year interest rate for the 2006 bond.

Economic Outlook

The economic position of The Citadel is closely tied to that of the State of South Carolina. South Carolina continues to suffer through effects of the nationwide recession. The State issued budget cuts to The Citadel for fiscal years 2009 through 2011 totaling over \$7 million and has issued a \$0.6 million budget cut for fiscal year 2012. The State Fiscal Stabilization Funds (federal stimulus funding) received in fiscal years 2010 (\$2.2 million) and 2011 (\$2.4 million) helped reduce the impact of these budget cuts, however there will be no stimulus funding for fiscal year 2012. The economic outlook for the State remains uncertain, though prospects for 2012 appear somewhat less negative. The State ended fiscal year 2011 with an unobligated surplus of \$123 million and there is no indication of mid-year budget cuts for fiscal year 2012. Another positive sign is that there will be appropriations from the Capital Reserve Fund during fiscal year 2012 for the first time since fiscal year 2007.

Robust enrollment and tuition increases during fiscal year 2011 helped the College meet the challenges of the recession. Additional tuition increases for fiscal year 2012 and strong enrollment will continue to help The Citadel adapt to State funding reductions. Management is exploring a myriad of additional initiatives to increase revenue suggested by an outside consultant and The Citadel Foundation has agreed to provide funding to implement some of these initiatives.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2011

In September 2011 [U.S. News & World Report](#), named The Citadel the No. 1 top public institution in The South and No. 5 among both public and private regional universities offering up to a master's degree. The Citadel's School of Engineering was ranked No. 21 for best undergraduate engineering programs in the nation.

More Information

This financial report is designed to provide a general overview of The Citadel's finances and demonstrate The Citadel's accountability for the money it receives. Any questions about this report or requests for information may be addressed to the Director of Financial Services, The Citadel, 171 Moultrie Street, Charleston, SC 29409.

THE CITADEL
The Military College of South Carolina
Statement of Net Assets
June 30, 2011

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 28,345,753	\$ 222,511	\$ 28,568,264
Marketable Securities (at fair value)	-	908,293	908,293
Investment in limited partnership (at equity)	-	766,821	766,821
Restricted Assets - Current			
Cash and cash equivalents	4,585,313	1,654,293	6,239,606
Marketable Securities (at fair value)	-	5,138,847	5,138,847
Investment in limited partnership (at equity)	-	3,570,422	3,570,422
Contributions receivable, net	92,316	192,834	285,150
Student loans receivable, net	-	73,745	73,745
Accounts receivable, net	5,042,884	94,931	5,137,815
Due from component units	-	1,702	1,702
Contributions receivable, net	-	44,357	44,357
Inventories	1,436,131	-	1,436,131
Prepaid expenses	<u>777,813</u>	<u>10,634</u>	<u>788,447</u>
Total current assets	<u>40,280,210</u>	<u>12,679,390</u>	<u>52,959,600</u>
Noncurrent Assets			
Marketable Securities (at fair value)	-	2,400,673	2,400,673
Investment in limited partnership (at equity)	-	1,950,577	1,950,577
Contributions receivable, net	-	131,932	131,932
Cash surrender value of life insurance	-	11,695	11,695
Restricted Assets - Noncurrent			
Cash and cash equivalents	1,887,120	1,141,601	3,028,721
Marketable Securities (at fair value)	-	29,375,056	29,375,056
Investment in limited partnership (at equity)	-	23,471,728	23,471,728
Contributions receivable, net	128,114	83,648	211,762
Student loans receivable, net	683,457	92,312	775,769
Cash surrender value of life insurance	-	66,306	66,306
Capital assets not being depreciated	3,122,412	2,182,129	5,304,541
Capital assets, net of accumulated depreciation	<u>131,491,462</u>	<u>-</u>	<u>131,491,462</u>
Total noncurrent assets	<u>137,312,565</u>	<u>60,907,657</u>	<u>198,220,222</u>
Total assets	<u>\$ 177,592,775</u>	<u>\$ 73,587,047</u>	<u>\$ 251,179,822</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 1,291,551	\$ 10,165	\$ 1,301,716
Due to component units	188,172	-	188,172
Retainages payable	13,796	-	13,796
Accrued payroll and related liabilities	1,935,319	918	1,936,237
Accrued compensated absences and related liabilities	1,058,395	97,500	1,155,895
Accrued interest payable	687,213	-	687,213
Deferred revenues	2,023,375	-	2,023,375
Bonds payable	3,213,478	-	3,213,478
Capital leases payable	18,907	-	18,907
Notes payable	1,198,573	-	1,198,573
Deposits	1,510,939	-	1,510,939
Annuities payable	-	8,190	8,190
Total current liabilities	<u>13,139,718</u>	<u>116,773</u>	<u>13,256,491</u>
Noncurrent Liabilities			
Federal loan funds	494,322	-	494,322
Accrued compensated absences and related liabilities	1,461,758	4,335	1,466,093
Deposits	727,766	-	727,766
Deferred revenues	1,480,000	-	1,480,000
Bonds payable	38,227,059	-	38,227,059
Capital leases payable	35,604	-	35,604
Notes payable	6,135,069	-	6,135,069
Annuities payable	-	17,733	17,733
Funds held for others	<u>75,255</u>	<u>-</u>	<u>75,255</u>
Total noncurrent liabilities	<u>48,636,833</u>	<u>22,068</u>	<u>48,658,901</u>
Total liabilities	<u>\$ 61,776,551</u>	<u>\$ 138,841</u>	<u>\$ 61,915,392</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 85,785,184	\$ 2,182,129	\$ 87,967,313
Restricted for Nonexpendable:			
Scholarships	-	34,075,931	34,075,931
Other	-	4,588,728	4,588,728
Annuity	-	60,373	60,373
Restricted for Expendable:			
Scholarships, research, instruction and other	2,366,030	24,529,314	26,895,344
Loans	209,311	1,352,440	1,561,751
Capital projects	3,710,275	313,450	4,023,725
Debt service	724,126	-	724,126
Unrestricted	<u>23,021,298</u>	<u>6,345,841</u>	<u>29,367,139</u>
Total net assets	<u>\$ 115,816,224</u>	<u>\$ 73,448,206</u>	<u>\$ 189,264,430</u>

See accompanying Notes to the Financial Statements which are an integral part of these statements.

THE CITADEL
The Military College of South Carolina
Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2011

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
REVENUES			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of \$8,788,551)	\$ 34,253,877	\$ -	\$ 34,253,877
Federal grants and contracts	813,698	-	813,698
State grants and contracts	3,297,855	-	3,297,855
Nongovernmental grants and contracts	834,954	-	834,954
Sales and services of educational and other activities	572,032	-	572,032
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of \$4,221,222)	22,440,036	-	22,440,036
Sales and services of auxiliary enterprises - not pledged	2,505,094	-	2,505,094
Other fees	1,381,961	-	1,381,961
Investment gain (including investment expenses of \$518,132)	-	10,573,408	10,573,408
Endowment income	-	927,615	927,615
Other operating revenues	<u>992,072</u>	<u>-</u>	<u>992,072</u>
Total operating revenues	<u>67,091,579</u>	<u>11,501,023</u>	<u>78,592,602</u>
EXPENSES			
Operating Expenses			
Compensation and employee benefits	49,661,436	77,202	49,738,638
Services and supplies	26,188,115	78,999	26,267,114
Utilities	3,253,121	-	3,253,121
Depreciation expense	5,321,813	-	5,321,813
Scholarships and fellowships	<u>3,312,934</u>	<u>-</u>	<u>3,312,934</u>
Total operating expenses	<u>87,737,419</u>	<u>156,201</u>	<u>87,893,620</u>
Operating income (loss)	<u>(20,645,840)</u>	<u>11,344,822</u>	<u>(9,301,018)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	9,372,186	-	9,372,186
Federal grants and contracts	4,942,984	-	4,942,984
State grants and contracts	7,914	-	7,914
Nongovernmental grants	6,164,685	393,323	6,558,008
Gifts	578,007	2,064,250	2,642,257
Investment income	395,827	-	395,827
Interest on capital asset-related debt	(2,576,139)	-	(2,576,139)
Gain on disposal of capital assets	1,380	-	1,380
Other nonoperating revenues	<u>567,280</u>	<u>204,820</u>	<u>772,100</u>
Net nonoperating revenues	<u>19,454,124</u>	<u>2,662,393</u>	<u>22,116,517</u>
Income (loss) before other revenues and transfers	<u>(1,191,716)</u>	<u>14,007,215</u>	<u>12,815,499</u>
State capital appropriations	34,168	-	34,168
Capital grants and gifts	1,396,839	-	1,396,839
Additions to permanent endowments	-	1,795,318	1,795,318
Transfers to/from The Citadel Trust	<u>5,418,057</u>	<u>(5,418,057)</u>	<u>-</u>
Total other revenues and transfers	<u>6,849,064</u>	<u>(3,622,739)</u>	<u>3,226,325</u>
Increase in net assets	<u>5,657,348</u>	<u>10,384,476</u>	<u>16,041,824</u>
NET ASSETS			
Net assets-beginning of year	<u>110,158,876</u>	<u>63,063,730</u>	<u>173,222,606</u>
Net assets-end of year	<u>\$ 115,816,224</u>	<u>\$ 73,448,206</u>	<u>\$ 189,264,430</u>

See accompanying Notes to the Financial Statements which are an integral part of these statements.

THE CITADEL
The Military College of South Carolina
Statement of Cash Flows
For the year ended June 30, 2011

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	\$ 35,497,901	\$ -	\$ 35,497,901
Grants and contracts	4,909,031	-	4,909,031
Sales and services of educational and other activities	388,299	-	388,299
Sales and services of auxiliary enterprises	24,417,393	-	24,417,393
Other operating receipts	994,847	-	994,847
Payments to employees for salaries and benefits	(49,983,141)	(77,202)	(50,060,343)
Payments to suppliers	(26,446,974)	(78,999)	(26,525,973)
Payments for utilities	(3,365,076)	-	(3,365,076)
Payments to students for scholarships and fellowships	(3,312,934)	-	(3,312,934)
Loans issued to students	(68,066)	-	(68,066)
Collection of loans to students	87,599	-	87,599
Funds held for others	(34,037)	-	(34,037)
Student direct lending receipts	26,900,581	-	26,900,581
Student direct lending disbursements	<u>(26,868,962)</u>	<u>-</u>	<u>(26,868,962)</u>
Net cash used by operating activities	<u>(16,883,539)</u>	<u>(156,201)</u>	<u>(17,039,740)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	9,372,186	-	9,372,186
Gifts and grants for other than capital purposes	12,240,699	4,175,012	16,415,711
Other non-operating revenues/expenses	567,280	331,624	898,904
Transfers from (to) component unit	<u>5,418,057</u>	<u>(5,418,057)</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>27,598,222</u>	<u>(911,421)</u>	<u>26,686,801</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
State capital appropriations	34,168	-	34,168
Capital grants and gifts received	1,241,078	-	1,241,078
Proceeds from sale of capital assets	1,380	-	1,380
Purchases of capital assets	(2,831,812)	-	(2,831,812)
Principal paid on capital debt and leases	(3,868,707)	-	(3,868,707)
Interest paid on capital related debt	<u>(2,637,198)</u>	<u>-</u>	<u>(2,637,198)</u>
Net cash used by capital and related financing activities	<u>(8,061,091)</u>	<u>-</u>	<u>(8,061,091)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	12,365,392	12,365,392
Interest and dividends on investments	441,037	429,977	871,014
Purchase of investments	<u>-</u>	<u>(12,561,033)</u>	<u>(12,561,033)</u>
Net cash provided by investing activities	<u>441,037</u>	<u>234,336</u>	<u>675,373</u>
Net change in cash	3,094,629	(833,286)	2,261,343
Cash and cash equivalents - beginning of year	<u>31,723,557</u>	<u>3,851,691</u>	<u>35,575,248</u>
Cash and cash equivalents - end of year	<u>\$ 34,818,186</u>	<u>\$ 3,018,405</u>	<u>\$ 37,836,591</u>
Reconciliation of net operating revenues (expense) to net cash used by operating activities:			
Operating income (loss)	\$ (20,645,840)	\$ 11,344,822	\$ (9,301,018)
Adjustments to reconcile operating income (loss) to net cash used by operating activities			
Depreciation expense	5,321,813	-	5,321,813
Interest and dividends on investments	-	(596,569)	(596,569)
Realized and unrealized gains and losses on investments	-	(10,904,454)	(10,904,454)
Funds held for others	(2,418)	-	(2,418)
Changes in assets and liabilities			
Accounts receivable, net	(72,598)	-	(72,598)
Inventories	(31,350)	-	(31,350)
Student loans receivable	19,532	-	19,532
Prepaid expenses	134,577	-	134,577
Accounts payable and accrued expenses	(1,206,308)	-	(1,206,308)
Accrued salaries and related expenses	170,076	-	170,076
Accrued compensated absences and related liabilities	22,040	-	22,040
Deferred revenue	(710,516)	-	(710,516)
Student and other deposits	<u>117,453</u>	<u>-</u>	<u>117,453</u>
Net cash used by operating activities	<u>\$ (16,883,539)</u>	<u>\$ (156,201)</u>	<u>\$ (17,039,740)</u>

See accompanying Notes to the Financial Statements which are an integral part of these statements.

(continued)

THE CITADEL
The Military College of South Carolina
Statement of Cash Flows (continued)
For the year ended June 30, 2011

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
Non-cash transactions			
Increase (decrease) in fair value of investments	\$ (80,620)	\$ 7,988,885	\$ 7,908,265
Reconciliation of Cash and Cash Equivalent Balances:			
Current assets			
Cash and cash equivalents	\$ 28,345,753	\$ 222,511	\$ 28,568,264
Restricted cash and cash equivalents	4,585,313	1,654,293	6,239,606
Noncurrent assets			
Restricted cash and cash equivalents	<u>1,887,120</u>	<u>1,141,601</u>	<u>3,028,721</u>
Total cash and cash equivalents	<u>\$ 34,818,186</u>	<u>\$ 3,018,405</u>	<u>\$ 37,836,591</u>

See accompanying Notes to the Financial Statements which are an integral part of these statements.

THE CITADEL

The Military College of South Carolina

Non-Governmental Discretely Presented Component Units

Statements of Financial Position

	The Citadel Foundation <u>December 31, 2010</u>	The Citadel Brigadier Foundation <u>June 30, 2011</u>
ASSETS		
Cash and cash equivalents	\$ 3,261,947	\$ 437,572
Unconditional promises to give/receivable, net	7,681,389	399,246
Prepaid expenses	58,459	-
Long-term investments (at fair value)	98,916	8,244,364
Long-term investments (at equity)	139,916,944	-
Investments related to split-interest agreements (at fair value)	4,705,742	-
Notes receivable	-	20,000
Other investments	5,933	-
Cash value of life insurance	654,172	316,766
Office equipment and improvements (net of accumulated depreciation)	79,403	27,755
Land and improvements held for investment	1,090,456	-
Other assets	11,474	-
Total assets	<u>\$ 157,564,835</u>	<u>\$ 9,445,703</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 218,713	\$ 84
Compensated absences payable	-	18,891
Grants payable - The Citadel	2,841,563	-
Notes payable	33,622	-
Annuities and life income funds payable	2,086,851	-
Charitable gift annuities	1,315,941	-
Total liabilities	<u>6,496,690</u>	<u>18,975</u>
Net Assets		
Unrestricted	86,549,808	148,607
Temporarily restricted	31,906,531	2,694,523
Permanently restricted	32,611,806	6,583,598
Total net assets	<u>151,068,145</u>	<u>9,426,728</u>
Total Liabilities and Net Assets	<u>\$ 157,564,835</u>	<u>\$ 9,445,703</u>

See accompanying Notes to the Financial Statements
which are an integral part of these statements.

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

	Citadel Foundation Year Ended <u>December 31, 2010</u>	Citadel Brigadier Foundation Year Ended <u>June 30, 2011</u>
REVENUES, GAINS AND OTHER SUPPORT		
Unrestricted		
Contributions and membership revenue	\$ 397,316	\$ 980,952
Investment income	25,246	-
Net unrealized and realized gains (losses) on investments	10,450	-
Fundraising activities	-	233,797
Miscellaneous	6,900	4,323
Other investment income	72,000	-
Equity gain of The Richmond Fund, LP	10,328,279	-
Changes in value of split interest agreements	42,493	-
Net assets released from program restrictions	8,192,682	1,254,335
Change in donor restricted funding deficiency	405,242	-
Transfers of net assets	<u>70,873</u>	<u>-</u>
Total unrestricted	<u>19,551,481</u>	<u>2,473,407</u>
Temporarily Restricted		
Contributions and membership revenue	8,028,208	388,675
Investment income	12,607	233,866
Net unrealized and realized gains (losses) on investments	5,876	1,329,684
Equity gain of The Richmond Fund, LP	5,432,424	-
Changes in value of split interest agreements	185,428	-
Net assets released from program restrictions	(8,192,682)	(1,254,335)
Change in donor restricted funding deficiency	(405,242)	-
Transfers of net assets	<u>(458,882)</u>	<u>-</u>
Total temporarily restricted	<u>4,607,737</u>	<u>697,890</u>
Permanently Restricted		
Contributions	1,499,215	463,195
Equity gain of The Richmond Fund, LP	415	-
Transfers of net assets	<u>388,009</u>	<u>-</u>
Total permanently restricted	<u>1,887,639</u>	<u>463,195</u>
Total revenue, gains and other support	<u>26,046,857</u>	<u>3,634,492</u>
EXPENSES AND LOSSES		
Unrestricted		
Grants to The Citadel	7,143,326	1,243,378
Other gift grants to The Citadel	3,812,329	-
General and administrative	758,574	795,846
Fund-raising	2,354,369	305,190
Income tax expense	<u>4,560</u>	<u>-</u>
Total unrestricted	<u>14,073,158</u>	<u>2,344,414</u>
Total expenses	<u>14,073,158</u>	<u>2,344,414</u>
CHANGE IN NET ASSETS		
Unrestricted	5,478,323	128,993
Temporarily restricted	4,607,737	697,890
Permanently restricted	<u>1,887,639</u>	<u>463,195</u>
Total change in net assets	<u>11,973,699</u>	<u>1,290,078</u>
Net assets at beginning of period		
Unrestricted	81,071,485	19,614
Temporarily restricted	27,298,794	1,996,633
Permanently restricted	<u>30,724,167</u>	<u>6,120,403</u>
Total net assets at beginning of period	<u>139,094,446</u>	<u>8,136,650</u>
Net assets at end of period		
Unrestricted	86,549,808	148,607
Temporarily restricted	31,906,531	2,694,523
Permanently restricted	<u>32,611,806</u>	<u>6,583,598</u>
Total net assets at end of period	<u>\$ 151,068,145</u>	<u>\$ 9,426,728</u>

See accompanying Notes to the Financial Statements which are an integral part of these statements.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2011

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. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to TCF's and TCBF's financial information in the College's financial reporting entity for these differences.

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

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

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

The Citadel and its governmental component unit apply all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, the State of South Carolina has elected to apply only those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

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

Investments and Related Income: The Citadel Trust's investments in marketable securities at the date of the statement of net assets are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Marketable securities are reported based on the quoted market value as reported on the last business day of the year on securities exchanges throughout the world. Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each fund's beginning fair value to the total. Investments contributed to The Trust are recorded at the fair value on the date of the gift. Purchases and sales are accounted for on the settlement date. The increase and decrease in the fair value of investments is recorded on a monthly basis. Earnings are recorded monthly.

The investment in the limited partnership is reported based on the financial statements and other information received from the general partner. The Trust believes that the stated value of the investment in the limited partnership is a reasonable estimate of its fair value as of June 30, 2011; however, such investment is not marketable and some of the underlying investments held by the limited partnership do not have quoted market values. The estimated value is subject to uncertainty and could differ had a ready market existed, and such difference could be material. The amount of gain or loss associated with this investment is reflected in the accompanying financial statements based on The Trust's relative share of investment in the limited partnership. Actual gains or losses are dependent upon the general partners' distributions during the life of the partnership.

Most TCF investments are in a limited partnership which is accounted for based on TCF's net asset value (at equity) in the investment. The carrying value, which approximates fair value, is determined by adding the historical investment cost, the amount of any income allocated to TCF, and deducting any expenses allocated to TCF. Other investments in marketable equity investments with readily determinable fair values and all investments in debt securities are carried at fair value. Some other investments are carried at cost; these assets include equity securities without readily determinable fair values.

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

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

Inventories: Inventories, which consist of bookstore and gift shop inventories for resale, are carried at the lower of cost or market. The cost of inventory items is reported on a weighted average basis

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

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

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

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

The Citadel capitalizes as a component of construction in progress interest cost in excess of earnings on debt proceeds associated with the capital projects; therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2011 was \$112,941.

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.

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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 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).

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

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

Operating revenues and expenses: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship 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 Trust, operating revenues consist of investment income and net increases or decreases in fair value of investments. Operating expenses include all expense transactions incurred other than those related to investing, capital, or noncapital financing activities.

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

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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.

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 is not aware of any rebatable arbitrage liabilities as of June 30, 2011.

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.

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

Most deposits and investments of The Citadel are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Deposits and investments in marketable securities of The Trust, The Citadel's blended component unit, are not under the State Treasurer's control and are deposited or invested by financial institutions, brokers, and others specified by trust agreements. The Trust's investment in a limited partnership is managed by the partnership's general partner.

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	\$ 28,345,753	\$ 222,511	\$ 28,568,264
Marketable Securities (at fair value)	-	908,293	908,293
Investment in limited partnership (at equity)	-	766,821	766,821
Restricted assets			
Cash and cash equivalents	4,585,313	1,654,293	6,239,606
Marketable Securities (at fair value)	-	5,138,847	5,138,847
Investment in limited partnership (at equity)	-	3,570,422	3,570,422
Noncurrent assets			
Marketable Securities (at fair value)	-	2,400,673	2,400,673
Investment in limited partnership (at equity)	-	1,950,577	1,950,577
Restricted assets			
Cash and cash equivalents	1,887,120	1,141,601	3,028,721
Marketable Securities (at fair value)	-	29,375,056	29,375,056
Investment in limited partnership (at equity)	-	23,471,728	23,471,728
Total Statement of Net Assets	\$ 34,818,186	\$ 70,600,822	\$ 105,419,008
Notes: Deposits and Investments			
Cash on hand	\$ 17,900	\$ -	\$ 17,900
Deposits held by State Treasurer	34,689,503	20,179	34,709,682
Other deposits	110,783	184,881	295,664
Marketable Securities (at fair value)	-	40,636,214	40,636,214
Investment in limited partnership (at equity)	-	29,759,548	29,759,548
Total Notes	\$ 34,818,186	\$ 70,600,822	\$ 105,419,008

Deposits

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

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

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

Investment Pool

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

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

Marketable Securities

The Trust's marketable securities are maintained at the trust/investment departments of Bank of America, Wells Fargo, and Smith Barney.

As of June 30, 2011, The Trust had marketable securities and maturities as shown below:

Investment Type	MATURITIES IN YEARS				
	Fair Value	Less Than 1	1-5	6-10	More than 10
Money Market Funds	\$ 2,813,346	\$ 2,813,346	\$ -	\$ -	\$ -
U.S. Treasury Bonds	1,656,287	-	1,044,752	522,556	88,979
Treasury Inflation Protected (TIPS)	2,020,324	39,350	844,512	653,439	483,023
U.S. Agency Bonds	1,519,974	126,740	662,844	561,196	169,194
Corporate Bonds	4,374,049	1,182,420	1,562,254	1,437,215	192,160
Municipal Bonds	513,786	61,103	263,739	188,944	-
International Bonds	105,879	-	-	105,879	-
Mutual Bond Funds	1,904,962	15,167	1,834,330	35,382	20,083
Total fixed income investments	14,908,607	<u>\$ 4,238,126</u>	<u>\$ 6,212,431</u>	<u>\$ 3,504,611</u>	<u>\$ 953,439</u>
Common Stocks	10,592,463				
Mutual Equity Funds	11,576,890				
Option Collar Fund	3,558,254				
Total marketable securities	<u>\$40,636,214</u>				

Market Risk: Market risk is the risk that changes in market factors contrary to the position that is held will adversely affect the portfolio. Long funds and equity positions are exposed to declining markets, while short funds and equity positions are exposed to ascending markets. The Trust has addressed market risk by structuring a balanced, diversified investment portfolio across numerous investment types, industry sectors, and public / private markets.

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Custodial Credit Risk: Custodial credit risk is risk that the investor will not be able to recover the value of its investments that are in the possession of its safekeeping custodian. All of The Trust's marketable securities are either insured or collateralized with securities held by the entity or by its agent in the entity's name, or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. The Trust has a formal investment policy that requires all investments held at banks to be held in a bank trust department in a collateralized form.

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

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

At June 30, 2011, The Trust had fixed income securities and quality ratings as shown below:

Investment Type	Fair Value	Quality Rating				
		Aaa/Aa	A	Baa/Ba	Below Ba	Unrated
Money Market Funds	\$ 2,813,346	\$ -	\$ -	\$ -	\$ -	\$2,813,346
U.S. Treasury Bonds	1,656,287	1,656,287	-	-	-	-
Treasury Inflation Protected (TIPS)	2,020,324	2,020,324	-	-	-	-
U.S. Agency Bonds	1,519,974	1,519,974	-	-	-	-
Corporate Bonds	4,374,049	1,089,733	1,772,269	1,263,044	-	249,003
Municipal Bonds	513,786	464,093	49,693	-	-	-
International Bonds	105,879	-	42,127	63,752	-	-
Mutual Bond Funds	1,904,962	147,333	28,095	428,748	1,233,677	67,109
Totals	<u>\$ 14,908,607</u>	<u>\$6,897,744</u>	<u>\$1,892,184</u>	<u>\$1,755,544</u>	<u>\$1,233,677</u>	<u>\$3,129,458</u>

In August 2011, Standard and Poors downgraded the United States long-term sovereign debt to a rating of AA+. This downgrade does not affect the above credit risk disclosure since both AAA and AA are listed in the same column.

Unrated investments include Money Market Funds which are invested in commercial paper and other short-term obligations rated by a nationally recognized rating organization in the highest short-term rating category, or, if unrated, of equivalent quality, and in other corporate obligations and municipal obligations rated in the two highest rating categories, or if unrated, of equivalent quality.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of The Trust's investment in a single issuer. The Trust's policy for reducing this risk of loss is to require each investment manager to limit the investment in any one issuer to a maximum of 5% for equity investments (with the exception of one manager who manages approximately \$1.8 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, 2011 there were no single issuer investments that exceeded 5%.

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Foreign Currency Risk: Foreign currency risk is the risk of loss arising from changes in exchange rates for investments denominated in foreign currencies. The Trust's international investment allocation is invested in U.S. dollar denominated mutual funds – the American Funds EuroPacific Growth Fund, First Eagle Global Fund, and Vanguard Emerging Markets ETF. These funds invest in companies based chiefly in Europe, the Pacific Basin, Asia and Latin America. The market value of these holdings at June 30, 2011 was \$7,394,095. The Trust foreign currency risk policy states: "The Trust Board of Directors is aware of the risk from fluctuating currency values in that portion of the fund which is invested in international securities. Investment managers who invest in international securities may purchase and sell currencies to facilitate currency exchange rates. Such currency transactions are at the discretion of the international investment manager(s) and it is recognized by the Board of Directors of The Citadel Trust that while entering into forward currency transactions could minimize the risk of loss due to decline in the value of the hedged currency, such transactions could also limit any potential gain that may result from an increase in the value of the currency."

Investment in Limited Partnership

In December 2009, the Trust Board of Directors approved a motion to pursue a co-investment relationship with an affiliate, The Citadel Foundation, in The Richmond Fund, LP, a Virginia limited partnership ("Fund") managed by Spider Management Company, LLC, a Virginia limited liability company and wholly owned subsidiary of the University of Richmond. On January 1, 2010 this transaction was consummated and \$25,000,000 of holdings at Smith Barney, a division of Citigroup Global Markets, Inc., were liquidated and invested in the Fund. Investment in the Fund is only available to tax-exempt organizations described in section 501(c) of the Internal Revenue Code to which contributions may be made that are deductible under Code Section 170 and are "accredited investors" within the meaning set forth in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended. The addition of a new investment manager stemmed from the Trust's need for a more active and experienced manager and an existing investment relationship held between The Citadel Foundation and the Fund since February 2008. Extensive due diligence was performed on the Fund and its affiliated management by the Trust Directors prior to the commencement of the investment relationship.

The Fund's investment objective is to provide steady gains during market upswings through a diverse array of public / private and domestic / international investments, while preserving capital during down market downswings. The Fund is invested as if it is part of the endowment of the University of Richmond, and the time weighted returns for the Fund and the University is blended on a quarterly basis. The assets of the Fund, when combined with the University's endowment assets on a pro forma basis, will be invested in accordance with the University Investment Policy Statement. The Trust's investment in the Fund is subject to an initial five-year lockup period and withdrawal restrictions.

At June 30, 2011, the fair value of the investment in The Richmond Fund, LP was \$29,759,548 or 42.27% of total investments. The Fund is audited on a semi-annual basis on June 30th and December 31st. In addition, the Trust hired an independent advisor to act as an agent of management to perform due diligence and ongoing monitoring of this limited partnership interest. The independent advisor monitors the management, governance, strategy, structure, transparency, reporting and internal controls of the investment manager. The independent advisor performs valuation services consistent with AICPA and other available guidance. The independent advisor reports findings back to management and the Directors of the Trust on a quarterly basis.

Investments – Non Governmental Discretely Presented Component Units

The Citadel Brigadier Foundation

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

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At June 30, 2011, TCBF's investments are as follows:

Investments carried at fair value	Cost	Fair Value
Equity funds and individual securities	\$ 3,262,757	\$ 3,918,850
Fixed income funds and individual debt securities	3,924,951	4,325,514
Total investments	\$ 7,187,708	\$ 8,244,364

The Citadel Foundation

In February 2008 TCF initiated a co-investment relationship with Spider Management Company (a wholly owned subsidiary of the University of Richmond). TCF acquired limited partnership interests in The Richmond Fund, LP, which is managed by Spider Management Company, through contributions of capital.

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

TCF investments were composed of the following at December 31, 2010:

	Cost	Fair Value
Investment in limited partnership interest	\$ 134,325,787	\$ 139,916,944
Various equity securities	4,406,924	4,804,658
Total	\$ 138,732,711	\$ 144,721,602

NOTE 3—RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2011, are summarized as follows:

	Citadel	Citadel Trust	Total
Receivables:			
Student fees	\$ 4,270,388	\$ -	\$ 4,270,388
Grants and contracts	478,778	-	478,778
Accrued interest	94,547	91,734	186,281
Other	535,446	3,197	538,643
Gross receivables	5,379,159	94,931	5,474,090
Less allowance for uncollectibles:			
Student fees	336,275	-	336,275
Accounts receivable, net	\$ 5,042,884	\$ 94,931	\$ 5,137,815

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

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Contributions Receivable

Contributions receivable are comprised of pledges for gifts to support the College. Contributions receivable are accounted for at their estimated net realizable value or the present value of long-term pledges. Discount to present value was calculated using a 1% interest rate for 2011 and 2010. The composition of contributions receivable at June 30, 2011, is summarized as follows:

	Citadel	Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	\$ 244,000	\$ 540,373	\$ 784,373
Total gift pledges outstanding	244,000	540,373	784,373
Less:			
Unamortized discount to present value	23,570	32,848	56,418
Allowance for doubtful accounts	-	54,754	54,754
Total contributions receivable, net	<u>\$ 220,430</u>	<u>\$ 452,771</u>	<u>\$ 673,201</u>

Payments on contributions receivable as of June 30, 2011, are expected to be received in the following years ending June 30:

	Citadel	Citadel Trust	Total
2012	\$ 92,316	\$ 237,191	\$ 329,507
2013	71,825	62,213	134,038
2014	56,289	49,921	106,210
2015	-	49,116	49,116
2016	-	16,651	16,651
Due after 2016	-	37,679	37,679
	<u>\$ 220,430</u>	<u>\$ 452,771</u>	<u>\$ 673,201</u>

Pledges for permanent endowments do not meet the eligibility requirements, as defined by GASB Statement 33, until the related gift is received. Accordingly, permanent endowment pledges to the Trust totaling \$485,581 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

Student Loans Receivable

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

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

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Student loans receivable at June 30, 2011 are summarized as follows:

	Citadel	Citadel Trust	Total
Loans receivable	\$ 683,457	\$ 465,967	\$ 1,149,424
Less allowance for uncollectible loans	-	299,910	299,910
Net loans receivable	<u>\$ 683,457</u>	<u>\$ 166,057</u>	<u>\$ 849,514</u>

NOTE 4—RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2011 are as follows:

Asset /Restricted for	Citadel	Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	\$ 3,853,058	\$ 1,474,322
Debt service	732,255	
College administered loan program	-	179,971
Total cash and cash equivalents	<u>\$ 4,585,313</u>	<u>\$ 1,654,293</u>
Investments (at fair value):		
Donor/sponsor specified	\$ -	\$ 5,138,847
Investment in limited partnership (at equity):		
Donor/sponsor specified	\$ -	\$ 3,570,422
Contributions Receivable:		
Donor/sponsor specified	\$ 92,316	\$ 192,834
Student Loans Receivable:		
College administered loan program	\$ -	\$ 73,745
Noncurrent:		
Cash and cash equivalents		
Endowment	\$ 336,369	\$ 1,141,601
Federal Perkins loan program	20,176	-
Capital projects	1,455,320	-
Cash held for other parties	75,255	-
Total cash and cash equivalents	<u>\$ 1,887,120</u>	<u>\$ 1,141,601</u>
Investments (at fair value):		
Endowment	\$ -	\$ 28,816,278
College administered loan program	-	558,778
Total investments	<u>\$ -</u>	<u>\$ 29,375,056</u>
Investment in limited partnership (at equity):		
Endowment	\$ -	\$ 23,025,244
College administered loan program	-	446,484
Total investments	<u>\$ -</u>	<u>\$ 23,471,728</u>
Contributions Receivable		
Donor/sponsor specified	\$ 128,114	\$ 83,648
Total contributions receivable	<u>\$ 128,114</u>	<u>\$ 83,648</u>
Student Loans Receivable		
College administered loan program	\$ -	\$ 92,312
Federal Perkins Loan Program	683,457	-
Total student loans receivable	<u>\$ 683,457</u>	<u>\$ 92,312</u>
Cash Surrender Value of Life Insurance:		
Endowments	\$ -	\$ 66,306

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NOTE 5—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, is summarized as follows:

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
Capital assets not being depreciated:				
Land and improvements	\$ 4,827,669	\$ -	\$ -	\$ 4,827,669
Construction-in-progress	883,606	2,363,512	3,127,366	119,752
Fine arts	357,120	-	-	357,120
Total capital assets not being depreciated	<u>6,068,395</u>	<u>2,363,512</u>	<u>3,127,366</u>	<u>5,304,541</u>
Other capital assets:				
Land improvements	13,889,396	-	-	13,889,396
Buildings and improvements	171,667,587	2,135,132	-	173,802,719
Machinery, equipment, and other	5,442,193	513,239	45,272	5,910,160
Vehicles	605,222	16,410	8,173	613,459
Intangibles	3,934,002	992,234	-	4,926,236
Total other capital assets at historical cost	<u>195,538,400</u>	<u>3,657,015</u>	<u>53,445</u>	<u>199,141,970</u>
Less accumulated depreciation for:				
Land improvements	5,788,866	840,808	-	6,629,674
Buildings and improvements	52,153,396	3,775,941	-	55,929,337
Machinery, equipment, and other	3,551,948	477,664	45,272	3,984,340
Vehicles	524,614	28,209	8,173	544,650
Intangibles	363,316	199,191	-	562,507
Total accumulated depreciation	<u>62,382,140</u>	<u>5,321,813</u>	<u>53,445</u>	<u>67,650,508</u>
Other capital assets, net	<u>133,156,260</u>	<u>(1,664,798)</u>	<u>-</u>	<u>131,491,462</u>
Capital assets, net	<u>\$ 139,224,655</u>	<u>\$ 698,714</u>	<u>\$ 3,127,366</u>	<u>\$ 136,796,003</u>

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

Gain on disposal	\$ 1,380
Loss on disposal	-
Net gain on disposal	<u>\$ 1,380</u>

NOTE 6—DEFERRED REVENUES

The composition of deferred revenues at June 30, 2011, is summarized as follows:

	<u>Citadel</u>	<u>Citadel Trust</u>	<u>Total</u>
Student fees	\$ 1,549,879	\$ -	\$ 1,549,879
Sales and services, auxiliary enterprises	1,951,616	-	1,951,616
Federal grants and contracts	1,880	-	1,880
Total deferred revenue	<u>\$ 3,503,375</u>	<u>\$ -</u>	<u>\$ 3,503,375</u>

During fiscal year 2007 The Citadel entered into a ten year contract with Daktronics Inc. under which Daktronics agreed to provide and install certain equipment and concourse elements at Citadel athletic facilities in exchange for advertising rights at athletic events. Daktronics furnished a scoreboard system valued at \$1,700,000 in fiscal year 2007 and anticipates furnishing additional equipment in future years, including a scoreboard for the basketball arena and an electronic billboard for the football stadium. The

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contract with Daktronics establishes an annual revenue threshold. When advertising revenues exceed the threshold, Daktronics and The Citadel split the excess revenue equally. If athletic advertising does not meet the threshold in any year, that deficit is carried over to the next year and added to the threshold for the following year. Should a deficiency remain at the end of the ten year contractual period, the deficiency will be carried over to the next contract period if the contract with Daktronics is extended. If another contractor is chosen management anticipates that contractor will pay The Citadel the amount of the deficiency and The Citadel will pay that amount to Daktronics. Management believes that the contract is structured so that The Citadel is not required to fund any deficiency that may exist at the end of the 10 year contract period.

The Citadel treated this transaction as a sale of future revenues. The College will not maintain an active involvement in the future generation of advertising revenues. The College is amortizing the deferred revenues in a straight line fashion over the ten years of the contract period. In fiscal year 2011 \$170,000 of the deferred amount was recognized as revenue. \$170,000 of the remaining Daktronics' deferred revenue is recorded as current deferred revenue, and the remaining \$680,000 is recorded as noncurrent deferred revenue.

The Citadel entered into a ten year contract with ARAMARK for campus food service in fiscal year 2007. The contract required ARAMARK to pay The Citadel \$2 million at the beginning of the contract period. This payment will be amortized over the life of the contract and in the case of early termination the unamortized portion will be returned to ARAMARK. \$200,000 of this contractual payment was recognized as revenue in the current year. \$200,000 of the remaining ARAMARK contractual revenue is recorded as current deferred revenue, and the remaining \$800,000 is recorded as noncurrent deferred revenue.

NOTE 7—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2011:

		Interest Rate	Maturity Dates	Balance June 30, 2011	Debt Retired in Fiscal Year 2011
Institution Bonds					
Series 2001D	adjustable from	4.25% to 5.50%	12/01/2016	\$ 1,335,000	\$ 185,000
				<u>1,335,000</u>	<u>185,000</u>
Revenue Bonds					
Series 1997	adjustable from	4.875% to 5.125%	04/01/2013	1,130,000	815,000
Series 2005	adjustable from	2.5% to 4.5%	04/01/2029	21,645,000	1,070,000
				<u>22,775,000</u>	<u>1,885,000</u>
Athletic Facilities Revenue Bonds					
Series 2003		Fixed at 4.19%	02/15/2018	1,711,900	206,830
Series 2005		Fixed at 4.19%	02/15/2015	2,697,952	607,414
Series 2006 (refinanced 07/29/2010)		Fixed at 7.17%	02/01/2031	-	8,505,000
Series 2007 (refinanced 07/29/2010)		Fixed at 6.81%	02/01/2017	-	4,956,000
Series 2010		Fixed at 6.94%	02/01/2031	13,295,000	240,000
				<u>17,704,852</u>	<u>14,515,244</u>
Subtotal Bonds Payable				41,814,852	16,585,244
Less unamortized bond discount and deferred loss on bonds				374,315	154,331
Total Bonds Payable				<u>\$ 41,440,537</u>	<u>\$ 16,430,913</u>

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State institution bonds are general obligations bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. S.C. Code of Laws section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. Tuition fees for the preceding year were \$689,859 which results in a legal debt margin at June 30, 2011, of \$614,296. The Citadel's maximum annual debt service, which occurs in fiscal year 2015, is \$258,210.

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

The Citadel has secured an insurance contract for The Series 1997 Revenue Bond 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 bond. Certain of the bonds payable are callable at the option of The Citadel.

On July, 29, 2010, The Citadel completed a refinancing of the Series 2006 and Series 2007 Athletic Facilities bonds with BB&T. The refinance was completed in order to reduce the annual debt service for the 2007 bond to a level that could be covered by sales of skybox and club seats. The refinanced bond extended the length of the 2007 Athletic Facility Bond from the original 10 year term to 20 years. The interest rate for the legacy Series 2006 Bond was 7.17% and the Series 2007 Bond was 6.81% compared to the new refinance rate of 6.94% on July 29, 2010. The average annual debt service for the new Series 2010 Bond will be \$1,256,076 with a maximum annual debt service of \$1,267,239 occurring in 2031.

As of June 30, 2011, management believes it is in compliance with all related bond covenants of its issued debt.

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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
2012	\$ 200,000	\$ 56,900	\$ 256,900
2013	205,000	47,788	252,788
2014	215,000	38,338	253,338
2015	230,000	28,210	258,210
2016	235,000	17,397	252,397
2017	250,000	5,937	255,937
	<u>\$ 1,335,000</u>	<u>\$ 194,570</u>	<u>\$ 1,529,570</u>
Revenue and Athletic Facilities Bonds			
2012	3,128,628	2,014,321	5,142,949
2013	3,264,464	1,878,117	5,142,581
2014	3,401,812	1,745,901	5,147,713
2015	3,535,738	1,607,791	5,143,529
2016	2,953,948	1,468,696	4,422,644
2017 – 2021	8,255,262	5,760,512	14,015,774
2022 – 2026	7,795,000	3,836,223	11,631,223
2027 – 2031	8,145,000	1,528,757	9,673,757
	<u>\$ 40,479,852</u>	<u>\$ 19,840,318</u>	<u>\$ 60,320,170</u>

The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2011:

Bond Type	Principal	Interest
State Institution Bonds	\$ 185,000	\$ 65,678
Revenue Bonds	1,885,000	992,656
Athletic Facilities Revenue Bonds	1,054,245	1,161,132
	<u>\$ 3,124,245</u>	<u>\$ 2,219,466</u>

Notes Payable

At June 30, 2011, notes payable consisted of the following:

Note payable secured by enterprise information system dated July 2009. Interest only for the first year, thereafter payable in quarterly principal and interest payments of \$201,306, matures July 2015, fixed interest rate of 3.66%.	\$ 3,155,992
Note payable secured by energy management system dated November 2009. Interest only for the first year, thereafter payable in monthly principal and interest payments of \$55,071, matures November 2018, fixed interest rate of 5.1584%.	4,065,508
Note payable in the amount of one fourth of the total award of \$448,567 for the State Energy Program American Recovery and Reinvestment Act (SEP-ARRA). No interest loan payable in three annual payments of \$37,381.	112,142
	<u>\$ 7,333,642</u>

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The scheduled maturities of the notes payable are as follows:

Notes Payable	Principal	Interest	Payments
2012	\$ 1,198,573	\$ 304,880	\$ 1,503,453
2013	1,248,920	254,533	1,503,453
2014	1,301,518	201,935	1,503,453
2015	1,319,090	146,982	1,466,072
2016	767,047	95,107	862,154
2017 - 2019	1,498,494	98,557	1,597,051
	<u>\$ 7,333,642</u>	<u>\$ 1,101,994</u>	<u>\$ 8,435,636</u>

Total principal paid on notes payable was \$1,033,909 for the year ended June 30, 2011. Total interest paid on notes payable was \$204,350.

NOTE 8—LEASE OBLIGATIONS

The Citadel's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2011 were as follows:

Year ending June 30,	Capital Leases/ Equipment	Operating Leases/ Equipment
2012	\$ 34,982	\$ 1,109
2013	34,982	1,109
2014	23,922	370
Total minimum lease payments	93,886	<u>\$ 2,588</u>
Less: Interest	7,141	
Executory and other costs	32,234	
Present value of minimum lease payments	<u>\$ 54,511</u>	

All leases are with parties outside state government.

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2011 were \$33,325, of which \$5,479 represented interest and \$10,365 represented executory costs. Total principal paid on capital leases was \$17,481 for the year ended June 30, 2011. The following is a summary of the carrying values of assets held under capital lease at June 30, 2011.

Equipment acquired under capital leases	\$ 87,664
Less accumulated amortization	40,922
Equipment acquired under capital leases, net	<u>\$ 46,742</u>

Operating Leases

The Citadel's noncancelable operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Total operating lease expense in fiscal year 2011 was \$1,112. In the current fiscal year, The Citadel incurred expenses of \$132,779 for office copier service on a cost-per-copy basis.

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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, 2006 employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. Effective July 1, 2010, the employer contribution rate became 13.14 percent which included a 3.90 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, 2009, 2010, and 2011, were \$2,204,265, \$2,096,583, and \$2,008,308 respectively, and equaled the required contributions of 9.24% for 2009, 9.24% for 2010, and 9.24% for 2011 (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$34,078 in the current fiscal year at the rate of 0.15% 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, 2010, the employer contribution rate became 15.03 percent which, as for the SCRS, included the 3.90 percent surcharge. The Citadel's actual contributions to the PORS for the years ended June 30, 2009, 2010, and 2011, were \$73,197, \$70,868, and \$69,826 respectively, and equaled the required contributions of 11.13 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$1,362 and accidental death insurance contributions of \$1,362 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% percent of compensation.

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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 employees who meet eligibility requirements for membership in the SCRS. Election into either SCRS or ORP must be made within their first thirty (30) days of employment. A State ORP participant may irrevocably elect to join the SCRS during any open enrollment period (January 1 – March 31) after the first annual anniversary but before the fifth annual anniversary of the person's initial enrollment period in the State ORP. The State ORP participant shall become a member of the SCRS effective on the first of April following the participant's election to join the SCRS. An employee who exercises an option to not participate in the South Carolina Retirement Systems is not eligible to participate in the State Optional Retirement Program, unless a break in service occurs.

All eligible employees shall elect either to join the South Carolina Retirement System or to participate in the State "ORP" within thirty days after entry into service. If an eligible employee fails to make the initial election within the required time, the employee is considered to have elected membership in the South Carolina Retirement System. An election made pursuant to this section must be made in writing and filed with the retirement system and the appropriate officer of the employee's participating employer and is effective on the date of employment. A State ORP participant who accepts an additional concurrent position with an employer participating in the South Carolina Retirement System must enroll in the State ORP for the second position if the second position is eligible to participate in the State ORP. Also, a member of the South Carolina Retirement System who accepts an additional concurrent position with an employer participating in the South Carolina Retirement System must enroll in the South Carolina Retirement System with respect to that position.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.24% plus the retiree surcharge of 3.9% from the employer in fiscal year 2011.

Certain of The Citadel's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$1,113,791 (excluding the surcharge) from The Citadel as employer and \$818,964 from its employees as plan members. In addition, The Citadel paid \$18,899 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

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

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis

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without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost-of-living adjustments granted during the TERI period.

TERI participants are eligible to receive group life insurance benefits, but are not eligible for disability retirement benefits. Effective July 1, 2006 TERI participants are required to pay the same pre-tax contribution to the SC Retirement System during the TERI period, but they do not earn service credit.

NOTE 10—POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.90% and 3.50% of annual covered payroll for 2011 and 2010, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Citadel paid \$1,322,068 and \$1,213,921 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2011 and 2010, respectively. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.22 and \$3.23 for the fiscal years ended June 30, 2011 and 2010 respectively.

Effective May 1, 2009 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

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

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NOTE 11—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011, was as follows:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Due Within One Year</u>
Bonds and Notes Payable and Capital Lease Obligations:					
State Institution Bonds	\$ 1,520,000	\$ -	\$ 185,000	\$ 1,335,000	\$ 200,000
Less unamortized bond discount	2,340	-	564	1,776	494
Total State Institution Bonds	<u>1,517,660</u>	<u>-</u>	<u>184,436</u>	<u>1,333,224</u>	<u>199,506</u>
Revenue Bonds	24,660,000	-	1,885,000	22,775,000	1,965,000
Athletic Facilities Revenue Bonds	18,685,096	13,535,000	14,515,244	17,704,852	1,163,628
Less deferred loss on refunding	228,005	-	82,911	145,094	82,911
Less unamortized bond discount	<u>247,273</u>	<u>51,028</u>	<u>70,856</u>	<u>227,445</u>	<u>31,745</u>
Total Revenue Bonds Payable	<u>42,869,818</u>	<u>13,483,972</u>	<u>16,246,477</u>	<u>40,107,313</u>	<u>3,013,972</u>
Total Bonds Payable	44,387,478	13,483,972	16,430,913	41,440,537	3,213,478
Notes Payable	8,255,408	112,142	1,033,908	7,333,642	1,198,573
Capital Lease Obligations	<u>71,992</u>	<u>-</u>	<u>17,481</u>	<u>54,511</u>	<u>18,907</u>
Total Bonds, Notes & Capital Leases	<u>52,714,878</u>	<u>13,596,114</u>	<u>17,482,302</u>	<u>48,828,690</u>	<u>4,430,958</u>
Other Liabilities					
Accrued compensated absences	2,500,746	1,298,604	1,177,362	2,621,988	1,155,895
Federal loan funds	488,888	5,434	-	494,322	-
Deferred revenue	4,213,890	2,542,568	3,253,083	3,503,375	2,023,375
Deposits	2,121,252	1,903,292	1,785,839	2,238,705	1,510,939
Annuities payable	22,489	11,624	8,190	25,923	8,190
Funds held for others	<u>77,673</u>	<u>75,255</u>	<u>77,673</u>	<u>75,255</u>	<u>-</u>
Total Other Liabilities	<u>9,424,938</u>	<u>5,836,777</u>	<u>6,302,147</u>	<u>8,959,568</u>	<u>4,698,399</u>
Total Long-term Liabilities	<u>\$ 62,139,816</u>	<u>\$ 19,432,891</u>	<u>\$ 23,784,449</u>	<u>\$ 57,788,258</u>	<u>\$ 9,129,357</u>

Additional information regarding Bonds and Notes Payable is included in Note 7. Additional information regarding Capital Lease Obligations is included in Note 8. Additional information regarding Deferred Revenues is included in Note 6.

NOTE 12—CONSTRUCTION COSTS AND COMMITMENTS

Capitalized

The Citadel has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that The Citadel has sufficient resources available and/or future resources identified to satisfactorily complete the construction of these projects which are expected to be completed in varying phases over the next five years at an estimated cost of \$1,479,498. Of the total estimated cost, approximately \$1,359,746 is unexpended at June 30, 2011. Of the unexpended balance at June 30, 2011, The Citadel had remaining commitment balances of approximately \$331,432 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. During the current year The Citadel capitalized substantially complete and in-use projects in the amount of \$3,127,367.

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Major capital projects at June 30, 2011, which constitute construction in progress that will be capitalized when completed, are listed below.

Project Title	Estimated Cost	Amount Expended
Basketball Locker Room Renovation	\$ 365,000	\$ 97,248
City Gym Demolition	106,000	5,262
Daniel Library Building Envelope	906,748	1,187
Johnson Hagood Stadium Plaza	101,750	16,055
	<u>\$ 1,479,498</u>	<u>\$ 119,752</u>

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

Non-Capitalized

At June 30, 2011 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 \$3,550,701. This amount includes costs incurred to date of \$2,026,530 and estimated costs to complete of \$1,524,171. The Citadel has remaining commitment balances with certain parties related to these projects of approximately \$276,536.

The Citadel anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state bond proceeds. The State has provided capital reserve funds and research infrastructure bonds to fund improvements and expansion of state facilities. The Citadel is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. At June 30, 2011 The Citadel had \$13,936 of authorized research infrastructure bonds remaining.

NOTE 13—DONOR RESTRICTED ENDOWMENTS

The Citadel Trust manages most donor-restricted endowments. If a donor has not provided specific instructions, State law permits The Citadel Trust Board of Directors to authorize for expenditure the net 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 5 years 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, 2011, net appreciation of \$4,145,210 is available to be spent, of which \$4,097,405 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

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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, 2011, the present value of the annuity payable was \$25,923.

NOTE 15—DISCRETELY PRESENTED COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of The Citadel exist primarily to provide financial assistance and other support to the College and its educational program. They include The Citadel Foundation (TCF) and The Citadel Brigadier Foundation (TCBF). Because the activities and resources of these entities are for the sole benefit of The Citadel, they are considered component units of the College and are discretely presented in The Citadel's financial statements as non-governmental reporting entities. Following is a more detailed discussion of each of these entities and a summary of the significant transactions between these entities and The Citadel for the year ended June 30, 2011.

The Citadel Foundation (TCF)

For the fiscal year ended June 30, 2011, TCF received current year contributions of \$4,370,421 on behalf of The Citadel and The Trust -- \$2,201,866 of this total was recorded as gifts, \$1,724,210 was recorded as additions to permanent endowments, and \$444,345 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of \$481,475 for its fundraising services.

The Citadel and The Trust recorded non-governmental grants of \$5,054,913 and capital grants of \$525,000 from TCF for the fiscal year ended June 30, 2011. These funds were used to support scholarships, salaries and various academic programs and construction projects at the College.

In addition, TCF provided a total of \$897,887 of external sales proceeds to The Citadel of which \$869,060 was from Skybox sales and \$28,827 was from the Parent Advisory Council.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled \$115,043 for the year ended June 30, 2011. TCF also provided \$8,914 to partially fund The Citadel Magazine.

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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, 2010, shows a grant payable to The Citadel of \$2,841,563. The Citadel owed TCF \$188,172 as of June 30, 2011 to refund an overpayment made on the annual grant. The amount due to The Citadel Trust from TCF at June 30, 2011, is \$1,702.

The Citadel Brigadier Foundation (TCBF)

The Citadel and The Citadel Trust recorded non-governmental grants of \$1,243,378 from TCBF in the fiscal year ended June 30, 2011. These grants were used to support athletic scholarships at the College.

TCBF reimburses The Citadel for certain expenses incurred on behalf of TCBF. The reimbursement totaled \$249,470 for the year ended June 30, 2011. TCBF did not owe The Citadel any amounts at June 30, 2011.

NOTE 16—RELATED PARTIES

Citadel Alumni Association (CAA) is a separately chartered corporation organized exclusively to promote alumni activities at The Citadel. CAA's activities are governed by its Board of Directors. CAA net assets totaled \$4,891,205 at December 31, 2010.

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, 2011.

The College shares the costs of operating the 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, 2011, The Citadel's share of John Monroe Holliday Alumni operating profits was \$72,000 and is recorded as other nonoperating revenue.

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled \$334,321 for the year ended June 30, 2011.

NOTE 17—TRANSACTIONS WITH STATE ENTITIES

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

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The original appropriation is The Citadel's base budget amount presented in the General Funds column of Section 8, Part IA, of the 2010-11 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, 2011:

State Appropriations	
Original appropriation	\$ 11,256,224
Agency reductions	(2,363,807)
Budget and Control Board distribution of employer contributions	99,984
Appropriation allocations from the State Commission on Higher Education	
For Academic Endowment Match	10,020
For Technology Grant Program	369,765
Total State Appropriation Revenues	\$ 9,372,186

The following is a reconciliation of state capital appropriations The Citadel received during the fiscal year ended June 30, 2011:

	Research Infrastructure Bond Proceeds
State Capital Appropriations	
Proceeds drawn during the current fiscal year	\$ 31,509
Plus: Expenses incurred but not drawn during the current fiscal year	2,659
Total State Bond Proceeds	\$ 34,168

The Citadel received substantial funding from the Commission on Higher Education (CHE) for scholarships on behalf of students that is accounted for as operating State grants and contracts. Additional amounts received from CHE are accounted for as nonoperating revenue. The Citadel also receives State funds from various other State agencies for public service projects. The following is a summary of amounts received from State agencies for scholarships, sponsored research and public service projects for the fiscal year ended June 30, 2011:

Other amounts received from State agencies	Operating Revenue	Nonoperating Revenue
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	\$ 1,850,670	\$ -
Palmetto Fellows Scholarships	277,900	-
Need-Based Grants	181,249	-
Hope Scholarships	271,600	-
SC National Guard	714,936	-
Received from various other state agencies	1,500	7,914
	\$ 3,297,855	\$ 7,914

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.

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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 2011 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.

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NOTE 19—CONTINGENCIES AND LITIGATION

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

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

NOTE 20—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2011, are summarized as follows:

	Compensation and Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 20,475,980	\$ 2,105,369	\$ -	\$ 68,682	\$ -	\$ 22,650,031
Research	139,953	262,412	-	13,000	-	415,365
Public Service	132,425	357,295	-	-	-	489,720
Academic Support	5,533,545	2,106,196	-	174,936	-	7,814,677
Student Services	5,349,189	1,666,476	316	14,248	-	7,030,229
Institutional Support	6,638,023	1,950,350	-	9,000	-	8,597,373
Operations & Maint. of Plant	4,839,290	3,158,731	2,147,542	-	-	10,145,563
Scholarships & Fellowships	42,471	173,684	-	3,033,068	-	3,249,223
Auxiliary Enterprises	6,587,762	14,486,601	1,105,263	-	-	22,179,626
Depreciation	-	-	-	-	5,321,813	5,321,813
Total Operating Expenses	\$ 49,738,638	\$ 26,267,114	\$ 3,253,121	\$ 3,312,934	\$ 5,321,813	\$ 87,893,620

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

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

<u>The Citadel</u>	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Charges for services	\$ 66,099,507	\$ 64,210,128	\$ 1,889,379
Operating grants and contributions	13,650,149	12,429,695	1,219,074
Capital grants and contributions	1,396,839	1,619,718	(222,879)
Less expenses	<u>90,313,558</u>	<u>89,945,046</u>	<u>367,132</u>
Net program expense	(9,167,063)	(11,685,505)	2,518,442
General revenues:			
Transfers:			
State appropriations	9,372,186	11,512,644	(2,140,458)
State capital appropriations	-	-	-
Capital improvement bond proceeds	-	-	-
Research infrastructure bond proceeds	34,168	30,773	3,395
Transfers from The Citadel Trust	<u>5,418,057</u>	<u>5,326,657</u>	<u>91,400</u>
Total general revenue and transfers	<u>14,824,411</u>	<u>16,870,074</u>	<u>(2,045,663)</u>
Change in net assets	5,657,348	5,184,569	472,779
Net assets - beginning	<u>110,158,876</u>	<u>104,974,307</u>	<u>5,184,569</u>
Net assets - ending	<u>\$ 115,816,224</u>	<u>\$ 110,158,876</u>	<u>\$ 5,657,348</u>

<u>The Citadel Trust</u>	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Operating grants and contributions	\$ 14,163,416	\$ 10,483,367	\$ 3,680,049
Capital grants and contributions	-	-	-
Less expenses	<u>156,201</u>	<u>165,953</u>	<u>(9,752)</u>
Net program revenue	<u>14,007,215</u>	<u>10,317,414</u>	<u>3,689,801</u>
General revenues:			
Contributions to permanent endowments	1,795,318	2,265,240	(469,922)
Transfers:			
Transfers to The Citadel	<u>(5,418,057)</u>	<u>(5,326,657)</u>	<u>(91,400)</u>
Total general revenue and transfers	<u>(3,622,739)</u>	<u>(3,061,417)</u>	<u>(561,322)</u>
Change in net assets	10,384,476	7,255,997	3,128,479
Net assets - beginning	<u>63,063,730</u>	<u>55,807,733</u>	<u>7,255,997</u>
Net assets - ending	<u>\$ 73,448,206</u>	<u>\$ 63,063,730</u>	<u>\$ 10,384,476</u>

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Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA Number</u>	<u>Grantor's Number</u>	<u>Total Expenditures</u>
<u>Research and Development Cluster:</u>			
Department of Agriculture			
Passed through US Forest Service			
Wetland Restoration	10.RD	10-JV-11330127-006	\$ 20,834
Laurel Wilt Disease	10.RD	09-DG-11083150-025	<u>15,529</u>
Total Department of Agriculture			<u>36,363</u>
National Aeronautics and Space Administration			
Passed through College of Charleston			
SC Space Grant Consortium - SC Space Grant Yr 18	43.RD	NNX10AM76H	1,761
SC Space Grant Consortium - Development of the Atsa Suborbital			
Observatory	43.RD	NNX10AM76H	6,519
SC Space Grant Consortium - Reaction of Methane with Hydrogen Peroxide			
Adsorbed on Martial Sol Analgo		NNX10AM76H	5,712
Passed through Space Telescope Science Institute			
Advanced Spectral Library Project: Cool Stars		HST-GO-12278.02-A	2,176
Passed through Jet Propulsion Laboratory			
JPL		NM0711036	<u>19,115</u>
Total National Aeronautics and Space Administration			<u>35,283</u>
National Science Foundation			
Passed through Southern Illinois			
Southern Illinois Sub agreement	47.RD	DEB-0516429	2,599
Passed through Harvard University			
Collaborative Research: A ToL: Phylogeny on the Half-shell-Assembling the			
Bivalve Tree of Life	47.RD	DEB-0732903	<u>5,101</u>
Total National Science Foundation			<u>7,700</u>
National Institutes of Health			
Passed through University of South Carolina			
Administrative Supplement: SC INBRE-NCRR ARRA Supplement-Workforce			
Development	93.RD	3P20RR016461-09S2	<u>622</u>
Total National Institutes of Health			<u>622</u>
Department of Transportation			
Passed through Clemson University			
Clemson Research - Longitudinal	20.RD	1191-7557-223-2006376	664
Clemson Research - Guidelines for Longitudinal Pavement Marking			
Applications	20.RD	1491-223-2008003	106
Passed through University of South Carolina			
Subcontract No. 10-1780	20.RD	26L200BR26011	<u>6,000</u>
Total Department of Transportation			<u>6,770</u>
National Oceanic and Atmospheric Administration			
Passed through SC Sea Grant Consortium			
Does Mulberry Rice Field have a Net Export of Dissolved Oxygen to the			
Cooper River during hot weather when river DO can become critically low?	11.RD	NA060AR4170015-5020	<u>5,000</u>
Total National Oceanic and Atmospheric Administration			<u>5,000</u>
Department of Interior			
Fish and Wildlife Services			
Georgia Aster	16.RD	40181AJ197	9,486
Agreement No. 40181AG114	15.RD	40181AG114	<u>3,500</u>
Total Department of Interior			<u>12,986</u>
USDA, Forest Service			
Propagation and Genetic of the Endangered Plant Pondberry (Lindera			
Melissifolia) on the Francis Marion National Forest		10-CS-11081209-002	<u>2,086</u>
Total USDA, Forest Service			<u>2,086</u>
Total Research and Development Cluster			<u>106,810</u>

(continued)

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA Number</u>	<u>Grantor's Number</u>	<u>Total Expenditures</u>
<u>Student Financial Aid Cluster:</u>			
Department of Education			
Federal Supplemental Education Opportunity Grants	84.007	P007A103769	73,277
Federal Work Study Program	84.033	P033A103769	48,191
Federal Perkins Loan Program	84.038	P038A083769	3,452
Federal Pell Grant Program	84.063	P063P100375	2,579,177
Academic Competitive Grants	84.375	P375A090375	59,550
National Smart Grants	84.376	P376S100375	35,000
William D. Ford Direct Loan Program	84.268	P268K110375	<u>26,868,962</u>
Total Student Financial Aid Cluster			<u>29,667,609</u>
<u>State Fiscal Stabilization Fund Cluster:</u>			
Department of Education			
Passed through South Carolina State Treasurer			
State Fiscal Stabilization Fund - American Recovery and Reinvestment Act (ARRA)	84.394		<u>2,363,807</u>
Total State Fiscal Stabilization Fund Cluster			<u>2,363,807</u>
<u>Other Programs:</u>			
Department of Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A050032	147,335
Passed through National Writing Project Corporation			
National Writing Project	84.928	99-SC09	41,236
Passed through Hampton One School District			
Hampton One - TEAMS	84.366	H63010008209	5,338
Passed through SC Commission on Higher Education			
Improving Teacher Quality Yr 1	84.367		74,474
Improving Teacher Quality Yr 2	84.367		<u>4,721</u>
Total Department of Education			<u>273,104</u>
Department of Health and Human Services			
Passed through Developmental Disabilities Council			
Bold Responses: Addressing Bullying and Ostracism in Youth with Disabilities	93.63	0-21-0014	36,541
Passed through University of South Carolina			
Home-Based Exercise for Management of HIV-Associated Cardiovascular Disease Risk	63.361	1R21NR011281-01A2	<u>11,430</u>
Total Department of Health and Human Services			<u>47,971</u>
National Defense			
Passed through Institute of International Education			
ROTC Language and Culture Projects - Chinese	97.01	HQ 0034-08-2-0024	<u>142,210</u>
Total National Defense			<u>142,210</u>
Department of Energy			
Passed through South Carolina Energy Office			
State Energy Program Formula - ARRA	81.041	SC00-0078	340,889
Precision Studies of Hadronic and Electro-Weak Interactions for Collider Physics	81.049	DE-SC0005028	<u>27,587</u>
Total Department of Energy			<u>368,476</u>
Total Other Programs			<u>831,761</u>
Total Expenditures of Federal Awards			<u>\$ 32,969,987</u>

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Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Note 1 - Basis of Presentation

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

Note 2 - Loans Outstanding

The Federal Perkins Loan Program (CFDA Number 84.038) is administered directly by The Citadel and balances and transactions relating to the program are included in the loan fund of The Citadel's financial statements. The balance of loans outstanding under the Federal Perkins Loan Program was \$683,457 as of June 30, 2011.

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 \$15,172 for the year ended June 30, 2011 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 \$24,885 for the year ended June 30, 2011 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Note 4 - Subrecipients

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

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

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

We have audited the financial statements of the business-type activities and the discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel) as of and for the year ended June 30, 2011, which collectively comprise The Citadel's basic financial statements and have issued our report thereon dated October 5, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor. The financial statements of The Citadel Foundation and The Citadel Brigadier Foundation were not audited in accordance with *Government Auditing Standards*. Other auditors audited the financial statements of The Citadel Brigadier Foundation, as described in our report on The Citadel's financial statements.

Internal control over financial reporting

Management of The Citadel is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Citadel's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Citadel's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Citadel's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

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

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

Greenwood, South Carolina
October 5, 2011

Elliott Davis, LLC

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

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

Compliance

We have audited The Citadel, The Military College of South Carolina's (The Citadel) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Citadel's major federal programs for the year ended June 30, 2011. 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 of The Citadel's compliance with those requirements.

In our opinion, The Citadel complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal control over compliance

Management of The Citadel is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Citadel's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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

Greenwood, South Carolina
October 5, 2011

Elliott Davis, LLC

**THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2011**

A. SUMMARY OF AUDIT RESULTS

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

<u>Federal Student Aid Cluster:</u>	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Academic Competiveness Grants	84.375
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376
 <u>State Fiscal Stabilization Fund Cluster:</u>	
State Fiscal Stabilization Fund - ARRA	84.394
State Energy Program Formula - ARRA	81.041
7. The threshold for distinguishing Types A and B programs was \$989,099.
8. The Citadel qualifies as a low-risk auditee under Circular No. A-133.

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

None

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended June 30, 2011**

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

None