

**THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA
CHARLESTON, SOUTH CAROLINA
YEAR ENDED JUNE 30, 2012**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

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INDEPENDENT AUDITOR'S 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, 2012, 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 15% of total revenues of the discretely presented component units. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as they relate to the amounts included for that discretely presented components unit, are based solely on the report of the other auditor.

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, 2012, 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, 2012, 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 10, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements themselves, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming our 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 OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Greenville, South Carolina
October 10, 2012

Elliott Davis, LLC

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2012

Overview of the Financial Statements and Financial Analysis

The Citadel is pleased to present its financial statements for fiscal year 2012. While audited financial statements for fiscal year 2011 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 2012, 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 \$0.7 million in fiscal year 2012, following cuts of \$2.1 million in 2011, \$1 million in 2010 and \$3.9 million in 2009. Over this four year period State appropriation revenue has decreased by 48.7%. However, the State did provide capital reserve funding in 2012 and The Citadel received \$811,439 to fund College deferred maintenance.

The Citadel increased student fees to help offset the reduction in State appropriations and allow the College to fund important initiatives. A healthy cadet enrollment and the increase in cadet fees resulted in a \$1.35 million increase in student tuition and fee revenue, net of scholarship allowances. Undergraduate evening college enrollment increased slightly, but Citadel Graduate College enrollment fell somewhat.

Auxiliary activity revenue increased by approximately \$290,000 in 2012, partially due to small increases in the Athletic and Dining Hall fees, but more significantly due to increases in sales revenue. Total sales revenue improved in all auxiliaries except Athletics, which recorded lower guarantee and promotion revenue in 2012. The auxiliaries set aside \$1.7 million in their maintenance reserves to fund future maintenance to their facilities.

There was no Federal State Fiscal Stabilization (Stimulus) funding in 2012 so federal grant revenue fell by \$2.47 million. The last Stimulus funds were received in 2011. Fortunately, The Citadel Foundation (TCF) agreed to help fund selected initiatives in 2012 in order to improve College financial outcomes and granted the College a supplemental grant in addition to their recurring annual grant. The supplemental grant of \$5 million will fund initiatives in 2012 and 2013. The Citadel received supplemental grant funding of \$3.5 million in 2012. \$2 million of this total funded deferred maintenance for College facilities and the remainder funded new programs in the following areas: retention, athletic self sufficiency, program growth, tuition and fees, and on-line offerings.

Operating expenses increased significantly in 2012. Compensation and benefits increased by \$3.4 million as employees received a salary increase for the first time since 2009. In addition, employees received a year end employee recognition supplement and some positions that had been vacant for some time were filled. The TCF supplemental grant funded approximately \$788,000 of salaries and fringe benefits for new positions. Service and supply expenses increased by \$1.3 million. A major portion of the increase in these expenses relates to deferred maintenance projects funded either through the TCF supplemental grant or other College funds.

The reduction of long term debt balances continued in 2012. Scheduled debt payments reduced long term debt balances by \$4.4 million in 2012, on top of a reduction of \$3.7 million in 2011. No new debt funding actions have been initiated.

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The major event impacting the financial results of The Citadel Trust, Incorporated (The Trust) during 2012 was the decline in investment returns. Returns for the Richmond Fund, a limited partnership that invests in alternative investments such as private equity, venture capital, real assets and hedge funds, declined from 18.3% in fiscal year 2011 to 2.1% in 2012. Returns for the Morgan Stanley Smith Barney managed portfolio declined from 22.4% in fiscal year 2011 to -1.0% in 2012. These investment returns are in line with a blended benchmark return of 0.4% for fiscal year 2012.

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

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

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.

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Management's Discussion and Analysis
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Condensed Summary of Net Assets (thousands of dollars)				
Assets:	2012	2011	Increase/ (Decrease)	Percent Change
Current assets	\$ 57,382	\$ 52,959	\$ 4,423	8.35%
Capital assets, net	133,141	136,796	(3,655)	-2.67%
Other assets	60,127	61,425	(1,298)	-2.11%
Total Assets	<u>250,650</u>	<u>251,180</u>	<u>(530)</u>	<u>-0.21%</u>
Liabilities:				
Current Liabilities	15,912	13,257	2,655	20.03%
Noncurrent Liabilities	43,666	48,659	(4,993)	-10.26%
Total Liabilities	<u>59,578</u>	<u>61,916</u>	<u>(2,338)</u>	<u>-3.78%</u>
Net Assets:				
Invested in capital assets, net of related debt	88,748	87,967	781	0.89%
Restricted - nonexpendable	38,508	38,725	(217)	-0.56%
Restricted - expendable	33,311	33,205	106	0.32%
Unrestricted	30,505	29,367	1,138	3.88%
Total Net Assets	<u>\$ 191,072</u>	<u>\$ 189,264</u>	<u>\$ 1,808</u>	<u>0.96%</u>

Total Assets – overall decrease of \$0.5 million

- The \$4.4 million increase in current assets is composed of a \$4.6 million increase in Citadel current assets and a \$0.2 million decrease in Citadel Trust (Trust) current assets.

The \$4.6 million increase in Citadel current assets is attributable to increases in current cash and receivables. Current unrestricted cash increased by \$2.89 million due to healthy enrollment and tuition and fee increases, along with improved performance of auxiliary enterprises. In 2012 the College was able to increase reserves set aside for deferred maintenance and strategic initiatives, and auxiliaries added \$1.7 million to their maintenance reserve funds. The \$667,540 increase in current restricted cash balances is due to changes in cash restricted for deferred maintenance, retirement of debt, and grants. Cash restricted for deferred maintenance increased by \$1.43 million, primarily due to The Citadel Foundation's (TCF) supplemental grant which included approximately \$2 million for deferred maintenance. Approximately \$1 million of this amount had not been spent as of June 30, 2012. Cash restricted for retirement of debt decreased by approximately \$310,000 in 2012 as reserves were utilized to make debt payments, and cash restricted for grants decreased by approximately \$390,000 as a result of grant spending that was billed on June 30, 2012. The approximately \$1 million increase in accounts receivable includes \$395,333 for grants and \$757,612 for the remaining 2012 State capital appropriation that had not been drawn. The State capital appropriation is funding the Mark Clark Hall deferred maintenance project which was ongoing at the end of 2012.

The \$176,238 decrease in Trust current assets is primarily attributable to the decline in investment returns during fiscal year 2012. Approximately 44% 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 Richmond Fund's return decreased from 18.3% in 2011 to 2.1% in 2012. 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 declined from 22.4% in 2011 to -1.0% in 2012.

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- Capital assets (net of depreciation) decreased by approximately \$3.65 million. Depreciation expense of \$5.39 million was \$1.74 million higher than capitalized equipment and building additions in 2012. Equipment and vehicles totaling \$277,155 were purchased and capitalized in 2012. One construction project – the Basketball Locker Room renovation – was completed and capitalized for a total cost of \$419,054 during 2012. The following six construction projects are in process and comprise the \$1.17 million remaining in construction in progress at year end: Mark Clark Hall Exterior, Daniel Library Envelope, Jenkins Hall Arms Room, Snack Bar Renovation, Johnson Hagood Stadium Plaza, and Class of 1980 Leadership Room in Daniel Library.

The \$1.3 million decrease in other assets includes a \$624,307 decrease in Citadel other assets. Cash restricted for capital projects totaling \$487,237 was expended during the current year. \$321,806 was spent for the Basketball Locker Room project which was capitalized during 2012, and the remainder was spent on the various projects remaining in construction in progress at year end.

Citadel Trust other assets decreased by approximately \$670,000, or just over 1.15%. These assets are chiefly investments related to permanent endowments and the decrease was generated by the declining investment returns mentioned above.

Total Liabilities – overall decrease of \$2.34 million

- Current liabilities increased by \$2.65 million. The major component of this increase is a \$1.4 million increase in Citadel accounts payable. \$898,221 of this increase resulted from the timing of payments for payroll withholdings and payroll taxes. In fiscal year 2011 these payments were made prior to June 30th, so they were not included as current liabilities at June 30, 2011. Payables related to deferred maintenance projects increased by \$601,848 from the prior year. A larger number of deferred maintenance projects were in progress at year end, due to increased funding for deferred maintenance from TCF and the State. In addition, a number of auxiliary deferred maintenance projects were on-going at year end.

Deferred revenue increased by \$806,832. Approximately \$560,000 of this increase is due to timing changes in recording Summer II tuition and fees and football season ticket revenue. In 2011 this revenue was not recorded until after June 30th so there was no deferred revenue on June 30, 2011. \$203,309 of the deferred revenue increase is skybox and club seat revenue for the Fall 2012 football season that TCF paid to The Citadel prior to June 30, 2012.

Other changes in current liabilities include a \$202,890 increase in deposits, primarily related to an increase in students' One Card balances, and a \$217,753 increase in the current portion of long term debt based on scheduled payments for 2013.

- Noncurrent liabilities decreased by \$5 million. \$4.65 million of this decrease is due to a decrease in noncurrent debt obligations. No new debt was issued in fiscal year 2012 and The Citadel is paying down existing debt as scheduled. Noncurrent deferred revenue related to the ARAMARK and Daktronics contracts decreased by \$370,000 as revenue for current periods was recorded.

Net Assets – increase of \$1.8 million

- Capital assets, net of related debt, increased by \$781,044. Both capital assets, net of depreciation, and capital debt decreased in fiscal year 2012. Capital assets, net of depreciation, decreased by \$3.65 million and the related long term debt decreased by \$4.43 million.

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- Restricted – non expendable assets decreased by \$216,690. This reduction in Trust endowment assets is related to the decline in investment returns for 2012, and the reduction in endowment gifts to The Citadel Trust.
- Restricted – expendable assets increased by \$105,900. Citadel restricted expendable assets increased by \$638,998. Unspent State capital appropriations that will be used to fund the Mark Clark Hall Exterior project increased fund balances restricted for capital projects by \$835,577. Fund balances restricted for retirement of debt decreased by \$308,119 as reserve funds were used to pay down long term debt. Gift and grant funds restricted for scholarships, research and other purposes increased by \$111,540.
- Citadel Trust restricted expendable assets decreased by \$533,098 due to the reduction in investment returns in fiscal year 2012.
- Unrestricted net assets increased by approximately \$1.14 million. The \$1,267,847 increase in Citadel unrestricted net assets is attributable to an increase in unrestricted auxiliary funds set aside for deferred maintenance projects. Unrestricted cash increased by \$2.9 million in the current year, but increases in unrestricted accounts payable (\$0.8 million) and unrestricted deferred revenue (\$0.8 million) reduced the positive effect of this increase in cash.
- Citadel Trust unrestricted net assets decreased by \$130,413, or 2.1%. While Trust unrestricted gifts remained at the 2011 level, and unrestricted expenses decreased by approximately \$300,000, investment income decreased by approximately \$400,000 due to the decline in the investment rate of return.

Statement of Revenues, Expenses and Changes in Net Assets

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

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

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

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Condensed Summary of Revenues, Expenses and Changes in Net Assets (thousands of dollars)				
Revenues:	2012	2011	Increase/ (Decrease)	Percent Change
Student tuition and fees	\$ 35,600	\$ 34,254	\$ 1,346	3.93%
Sales and services	25,798	25,517	281	1.10%
Grants and contracts	4,266	4,946	(680)	-13.75%
Investment income	360	11,501	(11,141)	-96.87%
Other operating revenues	<u>2,026</u>	<u>2,374</u>	<u>(348)</u>	-14.66%
Total Operating Revenues	<u>68,050</u>	<u>78,592</u>	<u>(10,542)</u>	-13.41%
State appropriations	8,687	9,372	(685)	-7.31%
Grants	11,395	11,509	(114)	-0.99%
Gifts	3,022	2,642	380	14.38%
Investment income	400	395	5	1.27%
Other nonoperating revenues/expenses	<u>296</u>	<u>774</u>	<u>(478)</u>	-61.76%
Total Nonoperating Revenues	<u>23,800</u>	<u>24,692</u>	<u>(892)</u>	-3.61%
Total Revenues	<u>91,850</u>	<u>103,284</u>	<u>(11,434)</u>	-11.07%
Expenses:				
Compensation and employee benefits	53,116	49,738	3,378	6.79%
Services and supplies	27,550	26,267	1,283	4.88%
Utilities	3,330	3,253	77	2.37%
Depreciation	5,392	5,322	70	1.32%
Scholarships and fellowships	<u>3,075</u>	<u>3,313</u>	<u>(238)</u>	-7.18%
Total operating expenses	<u>92,463</u>	<u>87,893</u>	<u>4,570</u>	5.20%
Interest expense	<u>2,456</u>	<u>2,576</u>	<u>(120)</u>	-4.66%
Total Nonoperating Expenses	<u>2,456</u>	<u>2,576</u>	<u>(120)</u>	-4.66%
Total Expenses	<u>94,919</u>	<u>90,469</u>	<u>4,450</u>	4.92%
Income before capital contributions, additions to permanent endowments and transfers	<u>(3,069)</u>	<u>12,815</u>	<u>(15,884)</u>	-123.95%
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	4,097	1,431	2,666	186.30%
Permanent endowment additions	<u>780</u>	<u>1,795</u>	<u>(1,015)</u>	-56.55%
Total capital contributions, additions to permanent endowments and transfers	<u>4,877</u>	<u>3,226</u>	<u>1,651</u>	51.18%
Change in Net Assets	<u>1,808</u>	<u>16,041</u>	<u>(14,233)</u>	-88.73%
Net Assets, Beginning	<u>189,264</u>	<u>173,223</u>	<u>16,041</u>	9.26%
Net Assets, Ending	<u>\$ 191,072</u>	<u>\$ 189,264</u>	<u>\$ 1,808</u>	0.96%

Total Revenues – decrease of \$11.4 million

- Operating revenues decreased by \$10.5 million. This decrease is composed of a \$598,529 increase in Citadel operating income and an \$11,141,276 decrease in Citadel Trust operating income.

Citadel tuition and fees increased by \$1.35 million in fiscal year 2012. The mandatory cadet fee increase of 4.6% for in-state students and 10.3% for out-of-state students generated an additional \$2.42 million in tuition and fee revenue. This increase was partially offset by a \$1.07 million increase in scholarship allowances.

Operating grant revenue decreased by \$680,613. Noteworthy changes in grant funding include a \$138,297 decrease in federal grant funding - the Gear Up grant ended in December 2011 and The Citadel received no funding for the Academic Competitive Grants and National Smart Grants in the current year. Decreases in State operating grants (\$388,810) and private operating grants (\$153,506) were caused by timing of grant receipts rather than programmatic changes.

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Auxiliary revenue pledged for revenue bonds increased by \$433,656. Auxiliary student fees increased by approximately \$221,000 based on small increases in several fees (dining fee increased \$90 per student and athletic fee increased \$34 per student). Auxiliary sales increased by approximately \$542,000. Significant increases were recognized in The Cadet Store (\$197,000), Bookstore (\$153,000), and the Tailor Shop (\$106,000). These fee and sales increases were partially offset by a \$311,943 increase in scholarship allowances.

Athletics sales revenue, the only auxiliary revenue not pledged for revenue bonds, decreased by \$145,534 in fiscal year 2012. While ticket sales increased by approximately \$83,000, Basketball and football guarantees decreased by \$129,020, promotion revenue decreased by \$44,404, rental revenue decreased by \$35,656, and athletic conference distributions decreased by \$19,672.

Other operating revenues decreased by approximately \$285,000. The majority of this decrease is attributable to a decrease in ROTC summer camp revenue based on reduced federal funding available for these programs.

The \$11.14 million decrease in Trust operating revenues is solely attributable to a decline in the investment rate of return for 2012. The return for the Richmond Fund investment declined from 18.3% in 2011 to 2.1% in 2012. The Morgan Stanley Smith Barney managed portfolio return declined from 22.4% in 2011 to -1.0% in 2012.

- Nonoperating revenues decreased by approximately \$892,000. This decrease is composed of a \$1.52 million decrease in Citadel nonoperating revenues and a \$626,528 increase in Citadel Trust nonoperating revenue.

The major components of the Citadel decrease in nonoperating revenues were reductions in State appropriations, nonoperating grants and other nonoperating revenues. The Citadel's State appropriations were cut an additional 7% (\$685,118) in fiscal year 2012. This reduction followed cuts of 24.2% in 2009, 8.8% in 2010 and 21% in 2011. The four year reduction in State appropriations totals 48.7%.

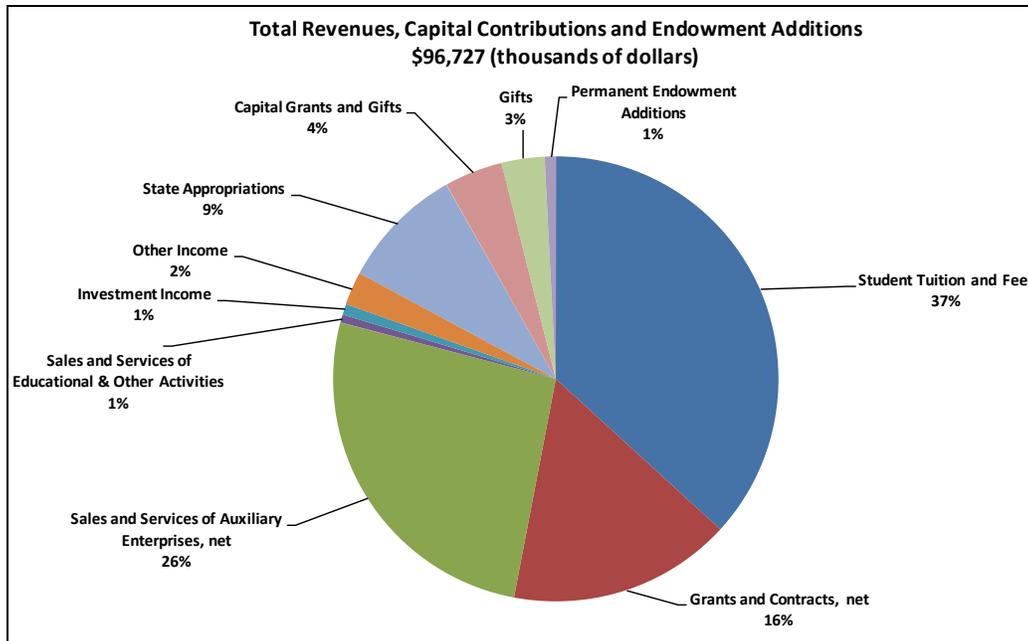
Nonoperating grant revenue decreased by \$213,541 in 2012. The Citadel received the final \$2.3 million Federal State Fiscal Stabilization (Stimulus) grant in fiscal year 2011. This \$2.3 million reduction in federal grant funding was partially offset by a \$2.1 million increase in private grants from The Citadel Foundation. In addition to the TCF recurring annual grant, The Citadel Foundation agreed to fund selected initiatives in order to grow College net revenues. This supplemental grant included \$1.5 million to fund programs in the following five areas: retention, athletic self sufficiency, program growth, tuition and fees, and on-line offerings. Approximately \$1.3 million of the TCF supplemental grant was received by The Citadel, and the remainder was recorded as Trust nonoperating grant revenue.

The \$495,280 decrease in miscellaneous nonoperating revenue is due to a payment the College received in 2011 from the City of Charleston related to an agreement concerning Brittlebank Park. No such revenue was generated in 2012.

The \$626,528 increase in Trust nonoperating revenue is chiefly attributable to an increase in gift and private grant revenue. Several large gifts contributed to an increase of \$529,658 in contributions. As mentioned above, a portion of the TCF supplemental grant funded Citadel Trust initiatives.

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Management's Discussion and Analysis
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Total Expenses – increase of \$4.45 million

- Operating expenses increased by approximately \$4.57 million. The major component of this increase is salary and fringe benefit expenses, which increased by \$3.38 million. After several years with no general salary increases, Citadel employees received a 1% salary increase in addition to an employee recognition supplement of between \$200 and \$1,000 based on employment status (permanent and temporary) and hire date. These pay actions increased salaries by approximately \$1.125 million. In addition, the TCF supplemental grant funded salaries and fringe benefits for new positions totaling approximately \$788,000. Salaries for adjuncts increased by approximately \$221,000, and a 1% increase in the cost of fringe benefits totaled approximately \$323,000. The remaining increase in salary expense was due to filling vacant positions and increasing pay for existing positions.

Service and supply expenses increased by \$1.28 million. \$859,924 of this increase is due to additional non-capitalized repair and maintenance projects. The Citadel received supplemental grant funding from The Citadel Foundation that supported additional repair and maintenance projects across campus. Technology expenditures increased by approximately \$250,000 as the College continued to update hardware, software and on-line systems. Other service and supply categories, particularly marketing and advertising, contractual services, and supplies increased.

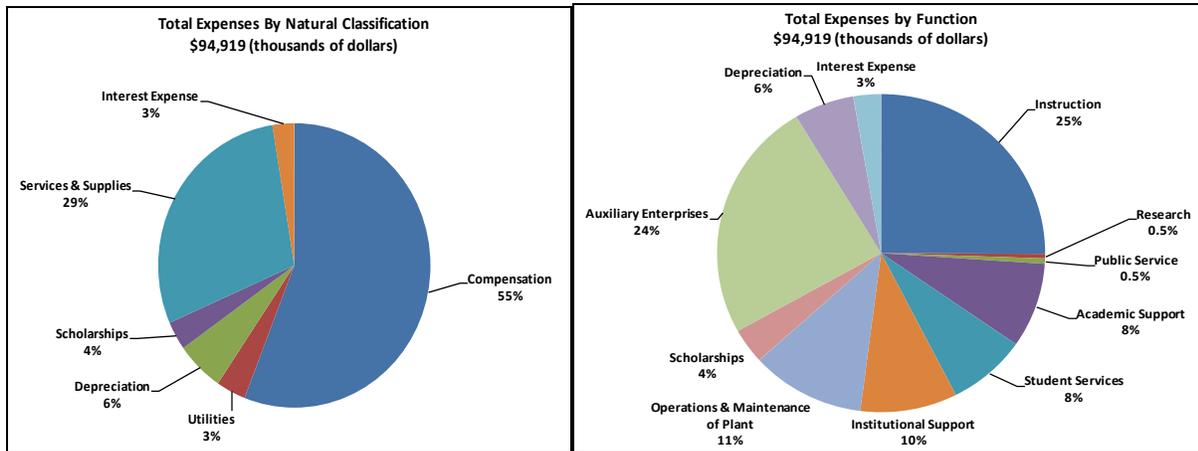
Utility costs and depreciation expense remained fairly constant, with utility costs increasing by approximately \$77,000 and depreciation expense increasing by approximately \$70,000.

Scholarship expenses decreased by \$237,405. Scholarship expense is the portion of total scholarships that is refunded to students. The remaining scholarship amount is netted against tuition and fee revenue as a scholarship allowance. While total scholarships increased by approximately \$1.1 million and direct lending increased by approximately \$570,000, the portion that is refunded to students decreased and the amount that applied to College tuition and fee revenue increased.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2012

- Nonoperating expenses decreased by \$120,230 due to a reduction in interest expense. The Citadel continues to pay down debt and no new borrowing has been initiated.



Capital Contributions and Additions to Permanent Endowments – increase of \$1.65 million

- Capital grants and appropriations increased by \$2.67 million. The Citadel received \$817,158 of State capital reserve funds in 2012. \$811,439 of this total was appropriated in 2012 and is being used to fund deferred maintenance for Mark Clark Hall. In addition, The Citadel Foundation supplemental grant funded a total of approximately \$2 million for the following deferred maintenance projects: Library Building Envelope, Chemistry Laboratory Renovations, Byrd Hall Building Renovations, and Bond Hall Building Renovations.
- Permanent endowment additions decreased by approximately \$1 million in the current year. In April 2011 The Citadel Board of Visitors approved new minimum gift amounts for endowments. Starting in 2012 all new scholarship endowment gifts remain at The Citadel Foundation, and only gifts to previously created endowments are sent on to The Citadel Trust.

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.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2012

Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, at June 30, 2012 and June 30, 2011 were as follows:

Capital Assets (net of accumulated depreciation)				
	2012	2011	Increase/ (decrease)	Percent Change
Capital Assets:				
Land	\$ 4,827,669	\$ 4,827,669	\$ -	0.00%
Construction-in-Progress	1,166,842	119,752	1,047,090	874.38%
Fine Arts	357,120	357,120	-	0.00%
Land improvements	6,418,915	7,259,722	(840,807)	-11.58%
Buildings and improvements	114,459,823	117,873,382	(3,413,561)	-2.90%
Machinery, equipment and other	1,702,631	1,925,820	(223,189)	-11.59%
Vehicles	43,521	68,809	(25,288)	-36.75%
Intangibles	4,164,538	4,363,729	(199,191)	-4.56%
Total	<u>\$ 133,141,059</u>	<u>\$ 136,796,003</u>	<u>\$ (3,654,946)</u>	-2.67%

One construction project – the Basketball Locker Room renovation – was completed and capitalized for a total cost of \$419,054 during 2012. The following six construction projects are in process and comprise the \$1.17 million remaining in construction in progress: Mark Clark Hall Exterior, Daniel Library Envelope, Jenkins Hall Arms Room, Snack Bar Renovation, Johnson Hagood Stadium Plaza, and Class of 1980 Leadership Room in Daniel Library.

The Citadel capitalized \$277,155 of new equipment and vehicles in 2012 and recognized depreciation expense of approximately \$5.39 million.

The College did not initiate any additional borrowing during the current year and debt payments reduced long term liabilities by \$4.43 million. The net investment in plant fund balance increased by \$781,044 during the year as the decrease of long term debt netted against the decrease in capital asset book values.

Economic Outlook

The economic position of The Citadel is closely tied to that of the State of South Carolina. The South Carolina economy began to recover in 2012 and after years of budget cuts most state agencies will see budget increases in 2013. The Citadel's State appropriation will increase slightly (approximately \$240,000) and the College will receive capital appropriations and deferred maintenance funding totaling approximately \$1.35 million.

Robust enrollment and tuition increases during fiscal year 2012 helped the College meet the challenges of the recession. Additional tuition increases for fiscal year 2013 and strong enrollment will continue to help The Citadel provide a quality education to its students. The Citadel Foundation's supplemental grant will provide additional funding in 2013 to support initiatives aimed at improving financial sustainability.

In September 2012, U.S. News & World Report named The Citadel the No. 1 top public institution in The South for institutions granting up to a master's degree for the second year in a row. The Citadel was also recognized as No. 5 among both public and private regional universities offering up to a master's degree. In addition, the School of Engineering moved up from No. 21 to No. 17 this year for best undergraduate engineering programs. U.S. News & World Report also ranked The Citadel No. 8 for best value in the South.

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The outlook for The Citadel Trust is closely aligned with the outlook for the economy as a whole. The stock market continued to be quite volatile for the 12 months ending June 30 2012 and there is no expectation that this will change during the next 12 month period. Investors are increasingly concerned about Europe's unresolved debt crisis and the political and economic uncertainties in the US. The Trust maintains a diversified investment portfolio in an effort to position itself as favorably as possible in the current volatile marketplace. The two major portions of the investment pool complement each other with slightly different mandates. The overall goal of the Richmond Fund is preservation of capital, and the expectation is that this investment will protect the Trust well on the downside. The Morgan Stanley Smith Barney managed portfolio expects to benefit when the stock market is improving. Recent history has proven that this strategy has been successful. In 2011, with markets performing on the bullish side, The Morgan Stanley Smith Barney portfolio returned 22.4% and the Richmond Fund returned 18.3%. In 2012, with markets performing on the bearish side, the Richmond Fund returned 2.1% and the Morgan Stanley Smith Barney portfolio returned -1.0%. The Trust Directors hope that this diversified approach will dampen the effect of the current economic uncertainties on Trust investment returns in the upcoming year. However, the effect of the current economic conditions on charitable contributions remains uncertain.

From time to time The Citadel becomes involved in various legal issues. Please see Note 19 to the financial statements for a complete discussion of current litigation.

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, 2012

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 31,234,086	\$ 208,304	\$ 31,442,390
Marketable Securities (at fair value)	-	893,526	893,526
Investment in limited partnership (at fair value)	-	785,435	785,435
Restricted Assets - Current			
Cash and cash equivalents	5,252,853	1,597,979	6,850,832
Marketable Securities (at fair value)	-	4,805,772	4,805,772
Investment in limited partnership (at fair value)	-	3,572,835	3,572,835
Contributions receivable, net	31,822	270,248	302,070
Student loans receivable, net	-	70,053	70,053
Accounts receivable, net	5,791,797	136,919	5,928,716
Due from component units	307,526	104,083	411,609
Contributions receivable, net	-	53,400	53,400
Inventories	1,456,355	-	1,456,355
Prepaid expenses	<u>804,892</u>	<u>4,598</u>	<u>809,490</u>
Total current assets	<u>44,879,331</u>	<u>12,503,152</u>	<u>57,382,483</u>
Noncurrent Assets			
Marketable Securities (at fair value)	-	2,198,750	2,198,750
Investment in limited partnership (at fair value)	-	1,905,455	1,905,455
Contributions receivable, net	-	155,679	155,679
Cash surrender value of life insurance	-	12,090	12,090
Restricted Assets - Noncurrent			
Cash and cash equivalents	1,340,292	479,858	1,820,150
Marketable Securities (at fair value)	-	28,875,044	28,875,044
Investment in limited partnership (at fair value)	-	24,115,447	24,115,447
Contributions receivable, net	63,065	157,213	220,278
Student loans receivable, net	671,027	87,026	758,053
Cash surrender value of life insurance	-	66,306	66,306
Capital assets not being depreciated	4,169,502	2,182,129	6,351,631
Capital assets, net of accumulated depreciation	<u>126,789,428</u>	<u>-</u>	<u>126,789,428</u>
Total noncurrent assets	<u>133,033,314</u>	<u>60,234,997</u>	<u>193,268,311</u>
Total assets	<u>\$ 177,912,645</u>	<u>\$ 72,738,149</u>	<u>\$ 250,650,794</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 2,694,772	\$ 27,440	\$ 2,722,212
Retainages payable	54,044	-	54,044
Accrued payroll and related liabilities	2,040,378	16,213	2,056,591
Accrued compensated absences and related liabilities	1,137,128	97,500	1,234,628
Accrued interest payable	644,394	-	644,394
Deferred revenues	2,830,207	-	2,830,207
Bonds payable	3,379,297	-	3,379,297
Capital leases payable	20,495	-	20,495
Notes payable	1,248,919	-	1,248,919
Deposits	1,713,829	-	1,713,829
Annuities payable	-	8,190	8,190
Total current liabilities	<u>15,763,463</u>	<u>149,343</u>	<u>15,912,806</u>
Noncurrent Liabilities			
Federal loan funds	501,574	-	501,574
Accrued compensated absences and related liabilities	1,498,389	5,130	1,503,519
Deposits	733,705	-	733,705
Deferred revenues	1,110,000	-	1,110,000
Bonds payable	34,847,762	-	34,847,762
Capital leases payable	15,109	-	15,109
Notes payable	4,886,150	-	4,886,150
Annuities payable	-	15,671	15,671
Funds held for others	52,380	-	52,380
Total noncurrent liabilities	<u>43,645,069</u>	<u>20,801</u>	<u>43,665,870</u>
Total liabilities	<u>\$ 59,408,532</u>	<u>\$ 170,144</u>	<u>\$ 59,578,676</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 86,566,228	\$ 2,182,129	\$ 88,748,357
Restricted for Nonexpendable:			
Scholarships	-	33,936,378	33,936,378
Other	-	4,513,195	4,513,195
Annuity	-	58,769	58,769
Restricted for Expendable:			
Scholarships, research, instruction and other	2,474,499	24,183,399	26,657,898
Loans	212,382	1,370,710	1,583,092
Capital projects	4,545,852	107,997	4,653,849
Debt service	416,007	-	416,007
Unrestricted	<u>24,289,145</u>	<u>6,215,428</u>	<u>30,504,573</u>
Total net assets	<u>\$ 118,504,113</u>	<u>\$ 72,568,005</u>	<u>\$ 191,072,118</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, 2012

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
REVENUES			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of \$9,863,354)	\$ 35,600,486	\$ -	\$ 35,600,486
Federal grants and contracts	675,401	-	675,401
State grants and contracts	2,909,045	-	2,909,045
Nongovernmental grants and contracts	681,448	-	681,448
Sales and services of educational and other activities	564,891	-	564,891
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of \$4,533,165)	22,873,692	-	22,873,692
Sales and services of auxiliary enterprises - not pledged	2,359,560	-	2,359,560
Other fees	1,318,739	-	1,318,739
Investment gain (loss) (including investment expenses of \$528,675)	-	(991,920)	(991,920)
Endowment income	-	1,351,667	1,351,667
Other operating revenues	706,846	-	706,846
Total operating revenues	<u>67,690,108</u>	<u>359,747</u>	<u>68,049,855</u>
EXPENSES			
Operating Expenses			
Compensation and employee benefits	53,048,047	67,630	53,115,677
Services and supplies	27,478,943	71,154	27,550,097
Utilities	3,329,726	-	3,329,726
Depreciation expense	5,391,850	-	5,391,850
Scholarships and fellowships	3,075,529	-	3,075,529
Total operating expenses	<u>92,324,095</u>	<u>138,784</u>	<u>92,462,879</u>
Operating income (loss)	<u>(24,633,987)</u>	<u>220,963</u>	<u>(24,413,024)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	8,687,068	-	8,687,068
Federal grants and contracts	2,612,595	-	2,612,595
State grants and contracts	6,688	-	6,688
Nongovernmental grants	8,282,759	493,223	8,775,982
Gifts	427,652	2,593,908	3,021,560
Investment income	400,167	-	400,167
Interest on capital asset-related debt	(2,455,909)	-	(2,455,909)
Gain on disposal of capital assets	21,746	-	21,746
Other nonoperating revenues	72,000	201,790	273,790
Net nonoperating revenues	<u>18,054,766</u>	<u>3,288,921</u>	<u>21,343,687</u>
Income (loss) before other revenues and transfers	<u>(6,579,221)</u>	<u>3,509,884</u>	<u>(3,069,337)</u>
State capital appropriations and research infrastructure bond proceeds	817,158	-	817,158
Capital grants and gifts	3,280,438	-	3,280,438
Additions to permanent endowments	-	779,429	779,429
Transfers to/from component unit	5,169,514	(5,169,514)	-
Total other revenues and transfers	<u>9,267,110</u>	<u>(4,390,085)</u>	<u>4,877,025</u>
Increase (decrease) in net assets	<u>2,687,889</u>	<u>(880,201)</u>	<u>1,807,688</u>
NET ASSETS			
Net assets-beginning of year	<u>115,816,224</u>	<u>73,448,206</u>	<u>189,264,430</u>
Net assets-end of year	<u>\$ 118,504,113</u>	<u>\$ 72,568,005</u>	<u>\$ 191,072,118</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, 2012

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	\$ 39,496,277	\$ -	\$ 39,496,277
Grants and contracts	4,255,142	-	4,255,142
Sales and services of educational and other activities	(1,298,939)	-	(1,298,939)
Sales and services of auxiliary enterprises	25,127,405	-	25,127,405
Other operating receipts	(131,343)	-	(131,343)
Payments to employees for salaries and benefits	(52,060,138)	(67,630)	(52,127,768)
Payments to suppliers	(27,475,255)	(71,154)	(27,546,409)
Payments for utilities	(3,385,185)	-	(3,385,185)
Payments to students for scholarships and fellowships	(3,075,529)	-	(3,075,529)
Loans issued to students	(63,232)	-	(63,232)
Collection of loans to students	75,663	-	75,663
Funds held for others	(58,500)	-	(58,500)
Student direct lending receipts	27,560,707	-	27,560,707
Student direct lending disbursements	(27,525,082)	-	(27,525,082)
Net cash used by operating activities	<u>(18,558,009)</u>	<u>(138,784)</u>	<u>(18,696,793)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	8,687,068	-	8,687,068
Gifts and grants for other than capital purposes	10,908,229	3,492,308	14,400,537
Other non-operating revenues/expenses	72,000	283,485	355,485
Transfers from (to) component unit	5,169,514	(5,169,514)	-
Net cash provided (used) by noncapital financing activities	<u>24,836,811</u>	<u>(1,393,721)</u>	<u>23,443,090</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
State capital appropriations	817,158	-	817,158
Capital grants and gifts received	3,526,299	-	3,526,299
Proceeds from sale of capital assets	28,138	-	28,138
Purchases of capital assets	(1,106,784)	-	(1,106,784)
Principal paid on capital debt and leases	(4,412,051)	-	(4,412,051)
Interest paid on capital related debt	(2,517,635)	-	(2,517,635)
Net cash used by capital and related financing activities	<u>(3,664,875)</u>	<u>-</u>	<u>(3,664,875)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	13,386,906	13,386,906
Interest and dividends on investments	395,118	743,189	1,138,307
Purchase of investments	-	(13,329,854)	(13,329,854)
Net cash provided by investing activities	<u>395,118</u>	<u>800,241</u>	<u>1,195,359</u>
Net change in cash	3,009,045	(732,264)	2,276,781
Cash and cash equivalents - beginning of year	34,818,186	3,018,405	37,836,591
Cash and cash equivalents - end of year	<u>\$ 37,827,231</u>	<u>\$ 2,286,141</u>	<u>\$ 40,113,372</u>
Reconciliation of net operating revenues (expense) to net cash used by operating activities:			
Operating income (loss)	\$ (24,633,987)	\$ 220,963	\$ (24,413,024)
Adjustments to reconcile operating income (loss) to net cash used by operating activities			
Depreciation expense	5,391,850	-	5,391,850
Interest and dividends on investments	-	(1,004,638)	(1,004,638)
Realized and unrealized gains and losses on investments	-	644,891	644,891
Funds held for others	(22,875)	-	(22,875)
Changes in assets and liabilities			
Accounts receivable, net	(911,964)	-	(911,964)
Inventories	(20,224)	-	(20,224)
Student loans receivable	12,430	-	12,430
Prepaid expenses	(27,079)	-	(27,079)
Accounts payable and accrued expenses	787,755	-	787,755
Accrued salaries and related expenses	105,059	-	105,059
Accrued compensated absences and related liabilities	115,365	-	115,365
Deferred revenue	436,832	-	436,832
Student and other deposits	208,829	-	208,829
Net cash used by operating activities	<u>\$ (18,558,009)</u>	<u>\$ (138,784)</u>	<u>\$ (18,696,793)</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, 2012

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
Non-cash transactions			
Decrease in fair value of investments	\$ (94,376)	\$ (2,504,344)	\$ (2,598,720)
Disposal of capital assets	\$ 13,806	\$ -	\$ 13,806
Reconciliation of Cash and Cash Equivalent Balances:			
Current assets			
Cash and cash equivalents	\$ 31,234,086	\$ 208,304	\$ 31,442,390
Restricted cash and cash equivalents	5,252,853	1,597,979	6,850,832
Noncurrent assets			
Restricted cash and cash equivalents	<u>1,340,292</u>	<u>479,858</u>	<u>1,820,150</u>
Total cash and cash equivalents	<u>\$ 37,827,231</u>	<u>\$ 2,286,141</u>	<u>\$ 40,113,372</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, 2011</u>	The Citadel Brigadier Foundation <u>June 30, 2012</u>
ASSETS		
Cash and cash equivalents	\$ 7,767,283	\$ 348,176
Unconditional promises to give/receivable, net	7,067,786	259,246
Prepaid expenses	81,279	-
Long-term investments (at fair value)	133,321,227	8,441,751
Investments related to split-interest agreements (at fair value)	4,017,670	-
Notes receivable	-	20,000
Other investments	13,754	-
Cash value of life insurance	660,171	367,345
Office equipment and improvements (net of accumulated depreciation)	43,266	26,316
Land and improvements held for investment	1,090,456	-
Other assets	<u>3,913</u>	<u>-</u>
Total assets	<u>\$ 154,066,805</u>	<u>\$ 9,462,834</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 346,157	\$ 6,237
Compensated absences payable	-	30,099
Grants payable - The Citadel	5,845,489	-
Due to related parties	20,601	-
Notes payable	5,882	-
Annuities and life income funds payable	1,909,302	-
Charitable gift annuities	<u>1,047,214</u>	<u>-</u>
Total liabilities	<u>9,174,645</u>	<u>36,336</u>
Net Assets		
Unrestricted	79,610,692	68,179
Temporarily restricted	31,104,419	2,083,894
Permanently restricted	<u>34,177,049</u>	<u>7,274,425</u>
Total net assets	<u>144,892,160</u>	<u>9,426,498</u>
Total liabilities and net assets	<u>\$ 154,066,805</u>	<u>\$ 9,462,834</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, 2011</u>	Citadel Brigadier Foundation Year Ended <u>June 30, 2012</u>
REVENUES, GAINS AND OTHER SUPPORT		
Unrestricted		
Contributions and membership revenue	\$ 370,850	\$ 822,113
Investment income (losses)	(9,831)	-
Net unrealized and realized gains (losses) on investments	41,934	-
Fundraising activities	-	230,949
Miscellaneous	24	2,070
Other investment income	72,000	-
Equity gain of The Richmond Fund, LP	2,631,356	-
Changes in value of split interest agreements	104,940	-
Net assets released from program restrictions	8,086,537	968,164
Change in donor restricted funding deficiency	(16,309)	-
Transfers of net assets	<u>(342,376)</u>	<u>-</u>
Total unrestricted	<u>10,939,125</u>	<u>2,023,296</u>
Temporarily Restricted		
Contributions and membership revenue	6,377,685	425,442
Investment income (losses)	(2,976)	371,734
Net unrealized and realized gains (losses) on investments	(12,543)	(439,641)
Equity gain of The Richmond Fund, LP	1,770,996	-
Changes in allowance on promises to give	(379,119)	-
Changes in value of split interest agreements	(396,825)	-
Net assets released from program restrictions	(8,086,537)	(968,164)
Change in donor restricted funding deficiency	16,309	-
Transfers of net assets	<u>(89,102)</u>	<u>-</u>
Total temporarily restricted	<u>(802,112)</u>	<u>(610,629)</u>
Permanently Restricted		
Contributions	1,131,834	690,827
Equity gain of The Richmond Fund, LP	1,931	-
Transfers of net assets	<u>431,478</u>	<u>-</u>
Total permanently restricted	<u>1,565,243</u>	<u>690,827</u>
Total revenue, gains and other support	<u>11,702,256</u>	<u>2,103,494</u>
EXPENSES AND LOSSES		
Unrestricted		
Grants to The Citadel	11,060,696	1,104,995
Other gift grants to The Citadel	3,475,208	-
General and administrative	747,411	657,279
Fundraising	<u>2,594,926</u>	<u>341,450</u>
Total unrestricted	<u>17,878,241</u>	<u>2,103,724</u>
Total expenses	<u>17,878,241</u>	<u>2,103,724</u>
CHANGE IN NET ASSETS		
Unrestricted	(6,939,116)	(80,428)
Temporarily restricted	(802,112)	(610,629)
Permanently restricted	<u>1,565,243</u>	<u>690,827</u>
Total change in net assets	<u>(6,175,985)</u>	<u>(230)</u>
Net assets at beginning 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 beginning of period	<u>151,068,145</u>	<u>9,426,728</u>
Net assets at end of period		
Unrestricted	79,610,692	68,179
Temporarily restricted	31,104,419	2,083,894
Permanently restricted	<u>34,177,049</u>	<u>7,274,425</u>
Total net assets at end of period	<u>\$ 144,892,160</u>	<u>\$ 9,426,498</u>

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

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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

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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, 2012; 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 fair value) 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. On assets capitalized prior to fiscal year 2012, a full year of depreciation was taken the year the asset is placed in service and no depreciation is taken in the year of disposition. Beginning in fiscal year 2012, assets will be depreciated based on the number of months the asset was in service during the fiscal year.

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. There was no capitalized interest for fiscal year 2012.

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.

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

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

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

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

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

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

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

The 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.

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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.

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, bookstore, barracks, dining hall, infirmary, laundry, tailor shop, and faculty / staff quarters. 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, 2012.

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	\$ 31,234,086	\$ 208,304	\$ 31,442,390
Marketable Securities (at fair value)	-	893,526	893,526
Investment in limited partnership (at equity)	-	785,435	785,435
Restricted assets			
Cash and cash equivalents	5,252,853	1,597,979	6,850,832
Marketable Securities (at fair value)	-	4,805,772	4,805,772
Investment in limited partnership (at equity)	-	3,572,835	3,572,835
Noncurrent assets			
Marketable Securities (at fair value)	-	2,198,750	2,198,750
Investment in limited partnership (at equity)	-	1,905,455	1,905,455
Restricted assets			
Cash and cash equivalents	1,340,292	479,858	1,820,150
Marketable Securities (at fair value)	-	28,875,044	28,875,044
Investment in limited partnership (at equity)	-	24,115,447	24,115,447
Total Statement of Net Assets	\$ 37,827,231	\$ 69,438,405	\$ 107,265,636
 Notes: Deposits and Investments			
Cash on hand	\$ 17,676	\$ -	\$ 17,676
Deposits held by State Treasurer	37,766,626	(149,898)	37,616,728
Other deposits	42,929	99,249	2,478,968
Marketable Securities (at fair value)	-	39,109,882	36,773,092
Investment in limited partnership (at equity)	-	30,379,172	30,379,172
Total Notes	\$ 37,827,231	\$ 69,438,405	\$ 107,265,636

Trust deposits held by State Treasurer were negative at June 30, 2012 due to timing differences on withdrawals from Trust funds to cover June month-end spending.

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, 2012, The Trust had marketable securities and maturities as shown below:

Investment Type	Fair Value	MATURITIES IN YEARS			
		Less Than 1	1-5	6-10	More than 10
Money Market Funds	\$ 2,336,790	\$ 2,336,790	\$ -	\$ -	\$ -
U.S. Treasury Bonds	1,841,458	185,823	1,079,349	576,286	-
Treasury Inflation Protected (TIPS)	1,611,000	11,157	683,395	463,803	452,645
U.S. Agency Bonds	1,759,011	65,576	1,015,725	550,114	127,596
Corporate Bonds	3,779,925	664,093	1,869,369	1,229,681	16,782
Municipal Bonds	664,498	160,351	335,709	168,438	-
Mutual Bond Funds	1,855,438	154,613	720,319	898,146	82,360
Total fixed income investments	13,848,120	<u>\$ 3,578,403</u>	<u>\$ 5,703,866</u>	<u>\$ 3,886,468</u>	<u>\$ 679,383</u>
Common Stocks	9,728,747				
Mutual Equity Funds	9,450,300				
Option Collar Fund	3,745,925				
Total marketable securities	<u>\$36,773,092</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, 2012, 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	\$ 2,336,790	\$ -	\$ -	\$ -	\$ -	\$2,336,790
U.S. Treasury Bonds	1,841,458	1,841,458	-	-	-	-
Treasury Inflation Protected	1,611,000	1,611,000	-	-	-	-
U.S. Agency Bonds	1,759,011	1,759,011	-	-	-	-
Corporate Bonds	3,779,925	190,493	1,880,117	1,709,315	-	-
Municipal Bonds	664,498	457,633	55,213	101,651	-	50,001
Mutual Bond Funds	1,855,438	91,706	30,715	481,922	1,176,205	74,890
Totals	<u>\$ 13,848,120</u>	<u>\$5,951,301</u>	<u>\$1,966,045</u>	<u>\$2,292,888</u>	<u>\$ 1,176,205</u>	<u>\$2,461,681</u>

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, 2012 there were no single issuer equity or fixed income 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 Virtus Emerging Markets Opportunities Fund. 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, 2012 was \$7,103,874. 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. 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, 2012, the fair value of the investment in The Richmond Fund, LP was \$30,379,172 or 43.72% 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 fund's beginning fair value to the total.

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At June 30, 2012, TCBF's investments are as follows:

Investments carried at fair value	Cost	Fair Value
Equity funds and individual securities	\$ 3,659,964	\$ 3,677,126
Fixed income funds and individual debt securities	4,623,178	4,764,625
Total investments	\$ 8,283,142	\$ 8,441,751

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, 2011:

	Cost	Fair Value
Investment in limited partnership interest	\$ 133,830,822	\$ 133,321,227
Various equity securities	3,924,050	4,017,670
Cash and money market funds	7,821	7,821
Total	\$ 137,762,693	\$ 137,346,718

NOTE 3—RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2012, are summarized as follows:

	Citadel	Citadel Trust	Total
Receivables:			
Student fees	\$ 2,436,725	\$ -	\$ 2,436,725
Grants and contracts	313,832	-	313,832
Accrued interest	99,596	80,998	180,594
Other	3,465,737	55,921	3,521,658
Gross receivables	6,315,890	136,919	6,452,809
Less allowance for uncollectible:			
Student fees	524,093	-	524,093
Accounts receivable, net	\$ 5,791,797	\$ 136,919	\$ 5,928,716

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 2012 and 2011. The composition of contributions receivable at June 30, 2012, is summarized as follows:

	Citadel	Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	\$ 102,500	\$ 719,991	\$ 822,491
Total gift pledges outstanding	102,500	719,991	822,491
Less:			
Unamortized discount to present value	7,613	31,795	39,408
Allowance for doubtful accounts	-	51,656	51,656
Total contributions receivable, net	<u>\$ 94,887</u>	<u>\$ 636,540</u>	<u>\$ 731,427</u>

Payments on contributions receivable as of June 30, 2012, are expected to be received in the following years ending June 30:

	Citadel	Citadel Trust	Total
2013	\$ 31,822	\$ 323,648	\$ 355,470
2014	58,250	120,760	179,010
2015	1,941	110,318	112,259
2016	1,922	42,644	44,566
2017	952	10,910	11,862
Due after 2017	-	28,260	28,260
	<u>\$ 94,887</u>	<u>\$ 636,540</u>	<u>\$ 731,427</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 \$349,772 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, 2012 are summarized as follows:

	Citadel	Citadel Trust	Total
Loans receivable	\$ 671,027	\$ 446,500	\$ 1,117,527
Less allowance for uncollectible loans	-	289,421	289,421
Net loans receivable	<u>\$ 671,027</u>	<u>\$ 157,079</u>	<u>\$ 828,106</u>

NOTE 4—RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2012 are as follows:

Asset /Restricted for	Citadel	Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	\$ 1,179,761	\$ 1,403,242
Debt service	423,300	-
College administered loan program	-	193,845
Capital projects	3,649,792	892
Total cash and cash equivalents	<u>\$ 5,252,853</u>	<u>\$ 1,597,979</u>
Investments (at fair value):		
Donor/sponsor specified	<u>\$ -</u>	<u>\$ 4,805,772</u>
Investment in limited partnership (at equity):		
Donor/sponsor specified	<u>\$ -</u>	<u>\$ 3,572,835</u>
Contributions Receivable:		
Donor/sponsor specified	<u>\$ 31,822</u>	<u>\$ 270,248</u>
Student Loans Receivable:		
College administered loan program	<u>\$ -</u>	<u>\$ 70,053</u>
Noncurrent:		
Cash and cash equivalents		
Endowment	\$ 367,389	\$ 479,858
Federal Perkins loan program	42,929	-
Capital projects	968,082	-
Cash held for other parties	(38,108)	-
Total cash and cash equivalents	<u>\$ 1,340,292</u>	<u>\$ 479,858</u>
Investments (at fair value):		
Endowment	\$ -	\$ 28,319,929
College administered loan program	-	555,115
Total investments	<u>\$ -</u>	<u>\$ 28,875,044</u>
Investment in limited partnership (at equity):		
Endowment	\$ -	\$ 23,651,834
College administered loan program	-	463,613
Total investments in limited partnership	<u>\$ -</u>	<u>\$ 24,115,447</u>
Contributions Receivable		
Donor/sponsor specified	<u>\$ 63,065</u>	<u>\$ 157,213</u>
Total contributions receivable	<u>\$ 63,065</u>	<u>\$ 157,213</u>
Student Loans Receivable		
College administered loan program	\$ -	\$ 87,026
Federal Perkins Loan Program	671,027	-
Total student loans receivable	<u>\$ 671,027</u>	<u>\$ 87,026</u>
Cash Surrender Value of Life Insurance:		
Endowments	<u>\$ -</u>	<u>\$ 66,306</u>

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NOTE 5—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, is summarized as follows:

	July 1, 2011	Increases	Decreases	June 30, 2012
Capital assets not being depreciated:				
Land and improvements	\$ 4,827,669	\$ -	\$ -	\$ 4,827,669
Construction-in-progress	119,752	1,471,405	424,315	1,166,842
Fine arts	357,120	-	-	357,120
Total capital assets not being depreciated	<u>5,304,541</u>	<u>1,471,405</u>	<u>424,315</u>	<u>6,351,631</u>
Other capital assets:				
Land improvements	13,889,396	-	-	13,889,396
Buildings and improvements	173,802,719	419,054	-	174,221,773
Machinery, equipment, and other	5,910,160	277,155	227,752	5,959,563
Vehicles	613,459	-	16,267	597,192
Intangibles	4,926,236	-	-	4,926,236
Total other capital assets at historical cost	<u>199,141,970</u>	<u>696,209</u>	<u>244,019</u>	<u>199,594,160</u>
Less accumulated depreciation for:				
Land improvements	6,629,674	840,807	-	7,470,481
Buildings and improvements	55,929,337	3,832,613	-	59,761,950
Machinery, equipment, and other	3,984,340	493,952	221,360	4,256,932
Vehicles	544,650	25,288	16,267	553,671
Intangibles	562,507	199,191	-	761,698
Total accumulated depreciation	<u>67,650,508</u>	<u>5,391,851</u>	<u>237,627</u>	<u>72,804,732</u>
Other capital assets, net	<u>131,491,462</u>	<u>(4,695,642)</u>	<u>6,392</u>	<u>126,789,428</u>
Capital assets, net	<u>\$ 136,796,003</u>	<u>\$ (3,224,237)</u>	<u>\$ 430,707</u>	<u>\$ 133,141,059</u>

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

Gain on disposal	\$ 22,954
Loss on disposal	<u>(1,208)</u>
Net gain on disposal	<u>\$ 21,746</u>

NOTE 6—DEFERRED REVENUES

The composition of deferred revenues at June 30, 2012, is summarized as follows:

	Citadel	Citadel Trust	Total
Student fees	\$ 1,925,974	\$ -	\$ 1,925,974
Sales and services, auxiliary enterprises	2,014,233	-	2,014,233
Total deferred revenue	<u>\$ 3,940,207</u>	<u>\$ -</u>	<u>\$ 3,940,207</u>

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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 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 2012, \$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 \$510,000 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 \$600,000 is recorded as noncurrent deferred revenue.

NOTE 7—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2012:

	Interest Rate	Maturity Dates	Balance June 30, 2012	Debt Retired in Fiscal Year 2012
State Institution Bonds				
Series 2001D	adjustable from 4.5% to 4.75%	12/01/2016	\$ 1,135,000	\$ 200,000
			<u>1,135,000</u>	<u>200,000</u>
Revenue Bonds				
Series 1997	adjustable from 5.125%	04/01/2013	275,000	855,000
Series 2005	adjustable from 3.25% to 4.5%	04/01/2029	20,535,000	1,110,000
			<u>20,810,000</u>	<u>1,965,000</u>
Athletic Facilities Revenue Bonds				
Series 2003	Fixed at 4.19%	02/15/2018	1,496,404	215,496
Series 2005	Fixed at 4.19%	02/15/2015	2,064,820	633,132
Series 2010	Fixed at 6.94%	02/01/2031	12,980,000	315,000
			<u>16,541,224</u>	<u>1,163,628</u>
Subtotal Bonds Payable			38,486,224	3,328,628
Less unamortized bond discount and deferred loss on bonds			259,165	115,150
Total Bonds Payable			<u>\$ 38,227,059</u>	<u>\$ 3,213,478</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 \$686,640 which results in a legal debt margin at June 30, 2012, of \$617,976. 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.

As of June 30, 2012, management believes it is in compliance with all related bond covenants of its issued debt.

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
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	5,938	255,938
	<u>\$ 1,135,000</u>	<u>\$ 137,671</u>	<u>\$ 1,272,671</u>
Revenue and Athletic Facilities Bonds			
2013	3,264,464	1,878,117	5,142,581
2014	3,401,812	1,745,902	5,147,714
2015	3,535,738	1,607,790	5,143,528
2016	2,953,948	1,468,696	4,422,644
2017	3,074,588	1,343,249	4,417,837
2018 – 2022	6,570,674	5,349,560	11,920,234
2023 – 2027	7,305,000	3,397,088	10,702,088
2028 – 2032	7,245,000	1,035,596	8,280,596
	<u>\$ 37,351,224</u>	<u>\$ 17,825,998</u>	<u>\$ 55,177,222</u>

The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2012:

Bond Type	Principal	Interest
State Institution Bonds	\$ 200,000	\$ 56,900
Revenue Bonds	1,965,000	913,438
Athletic Facilities Revenue Bonds	1,163,628	1,100,883
	<u>\$ 3,328,628</u>	<u>\$ 2,071,221</u>

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Notes Payable

At June 30, 2012, 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%.	\$ 2,456,754
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%.	3,603,554
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 two remaining annual payments of \$37,381, maturing in January 2013.	<u>74,761</u>
	<u>\$ 6,135,069</u>

The scheduled maturities of the notes payable are as follows:

Notes Payable	Principal	Interest	Payments
2013	\$ 1,248,919	\$ 254,533	\$ 1,503,452
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	597,547	63,302	660,849
2018 - 2019	900,948	35,255	936,203
	<u>\$ 6,135,069</u>	<u>\$ 797,114</u>	<u>\$ 6,932,183</u>

Total principal paid on notes payable was \$1,198,573 for the year ended June 30, 2012. Total interest paid on notes payable was \$304,880.

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, 2012 were as follows:

Year ending June 30,	Capital Leases/ Equipment	Operating Leases/ Equipment
2013	\$ 34,982	\$ 1,109
2014	23,922	370
Total minimum lease payments	58,904	<u>\$ 1,479</u>
Less: Interest	3,089	
Executory and other costs	20,211	
Present value of minimum lease payments	<u>\$ 35,604</u>	

All leases are with parties outside state government.

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Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2012 were \$34,982, of which \$4,052 represented interest and \$12,023 represented executory costs. Total principal paid on capital leases was \$18,907 for the year ended June 30, 2012. The following is a summary of the carrying values of assets held under capital lease at June 30, 2012.

Equipment acquired under capital leases	\$ 87,664
Less accumulated amortization	<u>59,619</u>
Equipment acquired under capital leases, net	<u>\$ 28,045</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 2012 was \$1,109. In the current fiscal year, The Citadel incurred expenses of \$130,361 for office copier service on a cost-per-copy basis.

NOTE 9—RETIREMENT PLANS

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

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

South Carolina Retirement System

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

Since July 1, 2006 employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. Effective July 1, 2011, the employer contribution rate became 13.685 percent which included a 4.30 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, 2010, 2011, and 2012, were \$2,096,583, \$2,008,308, and \$2,212,793 respectively, and equaled the required contributions of 9.24% for 2010, 9.24% for 2011, and 9.385% for 2012 (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$35,367 in the current fiscal year at the rate of 0.15% of compensation.

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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, 2011, the employer contribution rate became 15.663 percent which, as for the SCRS, included the 4.30 percent surcharge. The Citadel's actual contributions to the PORS for the years ended June 30, 2010, 2011, and 2012, were \$70,868, \$69,826, and \$82,737 respectively, and equaled the required contributions of 11.363 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$1,456 and accidental death insurance contributions of \$1,456 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is 0.20% percent of compensation.

Optional Retirement Program

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

ORP participation is available to all 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, 9.385% plus the retiree surcharge of 4.30% from the employer in fiscal year 2012.

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 \$1,275,748 (excluding the surcharge) from The Citadel as employer and \$883,576 from its employees as plan members. In addition, The Citadel paid \$20,390 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.

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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 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, 4.30% and 3.90% of annual covered payroll for 2012 and 2011, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Citadel paid \$1,486,950 and \$1,322,068 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2012 and 2011, 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 for both the fiscal years ended June 30, 2012 and 2011.

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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.

NOTE 11—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
Bonds and Notes Payable and Capital Lease Obligations:					
State Institution Bonds	\$ 1,335,000	\$ -	\$ 200,000	\$ 1,135,000	\$ 205,000
Less unamortized bond discount	1,776	-	494	1,282	459
Total State Institution Bonds	<u>1,333,224</u>	<u>-</u>	<u>199,506</u>	<u>1,133,718</u>	<u>204,541</u>
Revenue Bonds	22,775,000	-	1,965,000	20,810,000	2,045,000
Athletic Facilities Revenue Bonds	17,704,852	-	1,163,628	16,541,224	1,219,464
Less deferred loss on refunding	145,094	-	82,911	62,183	62,183
Less unamortized bond discount	227,445	-	31,745	195,700	27,525
Total Revenue Bonds Payable	<u>40,107,313</u>	<u>-</u>	<u>3,013,972</u>	<u>37,093,341</u>	<u>3,174,756</u>
Total Bonds Payable	41,440,537	-	3,213,478	38,227,059	3,379,297
Notes Payable	7,333,642	-	1,198,573	6,135,069	1,248,919
Capital Lease Obligations	54,511	-	18,907	35,604	20,495
Total Bonds, Notes & Capital Leases	<u>48,828,690</u>	<u>-</u>	<u>4,430,958</u>	<u>44,397,732</u>	<u>4,648,711</u>
Other Liabilities					
Accrued compensated absences	2,621,988	1,253,287	1,137,128	2,738,147	1,234,628
Federal loan funds	494,322	7,252	-	501,574	-
Deferred revenue	3,503,375	2,852,980	2,416,148	3,940,207	2,830,207
Deposits	2,238,705	1,054,881	846,052	2,447,534	1,713,829
Annuities payable	25,923	6,128	8,190	23,861	8,190
Funds held for others	75,255	52,380	75,255	52,380	-
Total Other Liabilities	<u>8,959,568</u>	<u>5,226,908</u>	<u>4,482,773</u>	<u>9,703,703</u>	<u>5,786,854</u>
Total Long-term Liabilities	<u>\$ 57,788,258</u>	<u>\$ 5,226,908</u>	<u>\$ 8,913,731</u>	<u>\$ 54,101,435</u>	<u>\$ 10,435,565</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.

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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 \$2,569,937. Of the total estimated cost, approximately \$1,403,095 is unexpended at June 30, 2012. Of the unexpended balance at June 30, 2012, The Citadel had remaining commitment balances of approximately \$367,558 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 \$419,054.

Major capital projects at June 30, 2012, which constitute construction in progress that will be capitalized when completed, are listed below.

Project Title	Estimated Cost	Amount Expended
Class of 1980 Leadership Reading Room	\$ 100,000	\$ 94,039
Daniel Library Envelope	906,748	791,715
Jenkins Hall Arms Room	200,000	3,512
Johnson Hagood Stadium Plaza	101,750	52,247
Mark Clark Hall Exterior	811,439	53,827
Snack Bar Renovation	450,000	171,502
	<u>\$ 2,569,937</u>	<u>\$ 1,166,842</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, 2012 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 \$5,727,665. This amount includes costs incurred to date of \$3,075,605 and estimated costs to complete of \$2,652,060. The Citadel has remaining commitment balances with certain parties related to these projects of approximately \$1,490,734.

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, 2012 The Citadel had \$8,217 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 generally 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.

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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, 2012, net appreciation of \$3,839,347 is available to be spent, of which \$3,782,276 is restricted to specific purposes.

NOTE 14—SPLIT INTEREST AGREEMENTS

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

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

During fiscal year 2000 a donor established a charitable gift annuity that provides for fixed payments to the donor for his lifetime. At the termination of the agreement the remaining assets of the gift annuity will become available to The Citadel Trust for general institutional purposes. This annuity fund is held and separately managed by The Citadel Trust. At the end of each fiscal year an adjustment is made between the liability and the nonexpendable net asset value to record the actuarial gain or loss due to the recomputation of the present value of the liability based on the revised life expectancy of the donor. At June 30, 2012, the present value of the annuity payable was \$23,861.

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, 2012.

The Citadel Foundation (TCF)

For the fiscal year ended June 30, 2012, TCF received current year contributions of \$3,764,069 on behalf of The Citadel and The Trust -- \$2,808,607 of this total was recorded as gifts, \$704,524 was recorded as additions to permanent endowments, and \$250,938 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of \$461,634 for its fundraising services. An additional \$212,853 in gifts and \$74,905 in additions to permanent endowments were received directly through donors instead of through TCF.

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The Citadel and The Trust recorded non-governmental grants of \$8,205,766 and capital grants of \$2,854,600 from TCF for the fiscal year ended June 30, 2012. 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 \$81,233 of external sales proceeds to The Citadel which includes Skybox Amenity revenue and Parents Advisory Council funding.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled \$97,948 for the year ended June 30, 2012. TCF also provided \$10,970 to partially fund The Citadel Magazine.

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, 2011, shows a grant payable to The Citadel of \$307,526. The amount due to The Citadel Trust from TCF at June 30, 2012, is \$104,083.

The Citadel Brigadier Foundation (TCBF)

The Citadel and The Citadel Trust recorded non-governmental grants of \$1,104,995 from TCBF in the fiscal year ended June 30, 2012. 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 \$247,590 for the year ended June 30, 2012. TCBF did not owe The Citadel any amounts at June 30, 2012.

An additional \$146,669 in grant funding and \$175,000 in capital grants were received from other non-governmental sources outside of TCF and TCBF.

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 \$4,742,217 at December 31, 2011.

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, 2012.

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, 2012, 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 \$431,324 for the year ended June 30, 2012.

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 2011-12 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, 2012:

<u>State Appropriations</u>	
Original appropriation	\$ 8,362,933
Agency additions	131,955
Appropriation allocations from the State Commission on Higher Education	
For Academic Endowment Match	10,771
For Technology Grant Program	181,409
Total State Appropriation Revenues	<u>\$ 8,687,068</u>

The following is a reconciliation of state capital appropriations and research infrastructure bond proceeds. The Citadel received during the fiscal year ended June 30, 2012:

	<u>State Capital Appropriations</u>	<u>Research Infrastructure Bond Proceeds</u>	<u>Total</u>
Proceeds drawn during the current fiscal year	\$ 53,827	\$ 8,378	\$ 62,205
Plus: Revenue recognized but not expended or drawn during current fiscal year	757,612	-	757,612
Less: Revenue recognized in prior fiscal year but drawn during current fiscal year	-	(2,659)	(2,659)
Total	<u>\$ 811,439</u>	<u>\$ 5,719</u>	<u>\$ 817,158</u>

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, 2012:

<u>Other amounts received from State agencies</u>	<u>Operating Revenue</u>	<u>Nonoperating Revenue</u>
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	\$ 1,957,500	\$ -
Palmetto Fellows Scholarships	293,000	-
Need-Based Grants	196,258	-
Hope Scholarships	194,600	-
SC National Guard	267,687	-
Received from various other state agencies	-	6,688
	<u>\$ 2,909,045</u>	<u>\$ 6,688</u>

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 2012 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 either through a health maintenance organization or through the State's self-insured plan.

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

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

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

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

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

NOTE 19—CONTINGENCIES AND LITIGATION

The Citadel currently has eleven lawsuits pending. Eight of these cases are in South Carolina Circuit Court. Three of the cases are pending in Federal Court.

Six of the cases concern the actions of a 2002 Citadel graduate who worked as a counselor at The Citadel's Summer Camp between 2001 and 2003. Between 2002 and 2011, this individual served as a teacher and youth coach in the Charleston area. In June, 2012, he confessed to inappropriate and illegal behavior involving students and athletes he taught and coached during that time.

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Three of the cases filed in South Carolina Circuit court were filed against The Citadel by individuals the 2002 Citadel graduate met during the time he worked as a counselor at The Citadel's Summer Camp. Those cases allege Tort Claims Act violations by The Citadel. The former camper who filed the report with The Citadel in 2007 has also filed a state court case against The Citadel alleging Tort Claims Act violations.

Two of the plaintiffs who met the 2002 Citadel graduate after 2007 have also filed Section 1983 actions against Lt Gen Rosa, the President of The Citadel, alleging the school's failure to report the allegations violated their civil rights.

The final state court case involves actions by a 1997 Citadel graduate who worked as a counselor at The Citadel's Summer Camp between 1997 and 2001. The plaintiff alleges the 1997 Citadel graduate sexually assaulted him in 2000.

The State Insurance Reserve Fund (IRF) is defending The Citadel pursuant to a \$1 million insurance policy in all of these cases. Under the Tort Claims Act, The Citadel's liability is capped at \$300,000 per plaintiff, and \$600,000 per occurrence. The Tort Claims Act does not apply to the Section 1983 actions, though the IRF's one million (\$1,000,000) dollar insurance policy does apply. Certain claims may exceed these coverages.

In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is reasonably possible, and the outcome of the legal proceedings and claims including losses cannot be reasonably estimated. Therefore, an estimated liability has not been recorded.

The Citadel is involved in other legal proceedings and claims with various parties which arose in the normal course of business and cover a 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 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, 2012, are summarized as follows:

	Compensation and Employee Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 22,275,651	\$ 2,043,125	\$ -	\$ 78,895	\$ -	\$ 24,397,671
Research	170,509	231,640	-	24,900	-	427,049
Public Service	83,388	252,270	-	4,099	-	339,757
Academic Support	5,793,810	2,375,916	-	277,617	-	8,447,343
Student Services	5,893,803	1,585,171	245	36,125	-	7,515,344
Institutional Support	7,045,882	2,710,855	-	-	-	9,756,737
Operations & Maint. Of Plant	5,205,298	3,679,705	2,302,401	-	-	11,187,404
Scholarships & Fellowships	1,995	144,516	-	2,653,893	-	2,800,404
Auxiliary Enterprises	6,645,341	14,526,899	1,027,080	-	-	22,199,320
Depreciation	-	-	-	-	5,391,850	5,391,850
Total Operating Expenses	<u>\$ 53,115,677</u>	<u>\$ 27,550,097</u>	<u>\$ 3,329,726</u>	<u>\$ 3,075,529</u>	<u>\$ 5,391,850</u>	<u>\$ 92,462,879</u>

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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>2012</u>	<u>2011</u>	<u>Variance</u>
Charges for services	\$ 66,983,262	\$ 66,099,507	883,755
Operating grants and contributions	12,530,453	13,650,149	(1,119,696)
Capital grants and contributions	3,280,438	1,396,839	1,883,599
Less expenses	<u>94,780,004</u>	<u>90,313,558</u>	<u>4,466,446</u>
Net program expense	(11,985,851)	(9,167,063)	(2,818,788)
General revenues:			
Transfers:			
State appropriations	8,687,068	9,372,186	(685,118)
State capital appropriations	811,439	-	811,439
Research infrastructure bond proceeds	5,719	34,168	(28,449)
Transfers from The Citadel Trust	<u>5,169,514</u>	<u>5,418,057</u>	<u>(248,543)</u>
Total general revenue and transfers	<u>14,673,740</u>	<u>14,824,411</u>	<u>(150,671)</u>
Change in net assets	2,687,889	5,657,348	(2,969,459)
Net assets - beginning	115,816,224	110,158,876	5,657,348
Net assets - ending	<u>\$ 118,504,113</u>	<u>\$ 115,816,224</u>	<u>2,687,889</u>

<u>The Citadel Trust</u>	<u>2012</u>	<u>2011</u>	<u>Variance</u>
Operating grants and contributions	\$ 3,648,668	\$ 14,163,416	\$ (10,514,748)
Capital grants and contributions	-	-	-
Less expenses	<u>138,784</u>	<u>156,201</u>	<u>(17,417)</u>
Net program revenue	<u>3,509,884</u>	<u>14,007,215</u>	<u>(10,497,331)</u>
General revenues:			
Contributions to permanent endowments	779,429	1,795,318	(1,015,889)
Transfers:			
Transfers to The Citadel	<u>(5,169,514)</u>	<u>(5,418,057)</u>	<u>248,543</u>
Total general revenue and transfers	<u>(4,390,085)</u>	<u>(3,622,739)</u>	<u>(767,346)</u>
Change in net assets	(880,201)	10,384,476	(11,264,677)
Net assets - beginning	73,448,206	63,063,730	10,384,476
Net assets - ending	<u>\$ 72,568,005</u>	<u>\$ 73,448,206</u>	<u>\$ (880,201)</u>

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 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

<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 Defense Passed through US Army Corps of Engineers Monitoring of federally endangered <i>Lindera mellisifolia</i> species	12.RD	W9 126G-11-2-0039	\$ 7,769
Total Department of Defense			<u>7,769</u>
Department of Interior Fish and Wildlife Services Georgia Aster	16.RD	40181AJ197	3,261
Total Department of Interior			<u>3,261</u>
USDA, Forest Service Propagation and Genetic of the Endangered Plant Pondberry (<i>Lindera Melissifolia</i>) on the Francis Marion National Forest	10.RD	10-CS-11081209-002	2,036
Total USDA, Forest Service			<u>2,036</u>
National Aeronautics and Space Administration Passed through College of Charleston SC Space Grant Consortium - SC Space Grant Yr 18 SC Space Grant Consortium - First Atsa Suborbital Observatory SC Space Grant Consortium - Testbed Atsa Suborbital Observatory SC Space Grant Consortium - Reaction of Methane with Hydrogen Peroxide Adsorbed on Martial Sol Analgo SC Space Grant Consortium - Great Astronomical Images II SC Space Grant Consortium - Palmetto Academy Summer 2011 SC Space Grant Consortium - Palmetto Academy 2012 SC Space Grant Consortium - Geospatial Institute for Students and Teachers	43.RD 43.RD 43.RD 43.RD 43.RD 43.RD 43.RD 43.RD 43.RD	NNX10AM76H NNX10AM76H NNX10AM76H NNX10AM76H NNX10AM76H NNX10AM76H NNX10AM76H NNX10AM76H NNX10AM76H	1,279 29,958 8,000 1,769 4,000 19,881 4,529 7,055
Passed through Space Telescope Science Institute Advanced Spectral Library Project: Cool Stars	43.RD	HST-GO-12278.02-A	4,454
Passed through Jet Propulsion Laboratory JPL	43.RD	NM0711036	14,501
Total National Aeronautics and Space Administration			<u>95,426</u>
National Science Foundation Civil Engineering Opportunities for Socioeconomically Disadvantaged, Minorities and Female Students in South Carolina	47.RD	DUE-1059945	5,250
Passed through Harvard University Collaborative Research: A ToL: Phylogeny on the Half-Shell-Assembling the Bivalve Tree of Life	47.RD	DEB-0732903	3,661
Total National Science Foundation			<u>8,911</u>
National Institutes of Health Passed through University of South Carolina Home-Based Exercise for Management of HIV-Associated Cardiovascular Disease Risk	93.RD	1R21NR011281-01A2	19,224
Total National Institutes of Health			<u>19,224</u>
Department of Transportation Passed through Clemson University Clemson Research - Guidelines for Longitudinal Pavement Marking Applications Clemson Research - Pile to Pile	20.RD 20.RD	1491-223-2008003 15520FA5908-1520	9,778 4,990
Total Department of Transportation			<u>14,768</u>
Total Research and Development Cluster			<u>151,395</u>

(continued)

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

<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	66,520
Federal Work Study Program	84.033	P033A103769	63,748
Federal Perkins Loan Program	84.038	P038A083769	1,729
Federal Pell Grant Program	84.063	P063P100375	2,612,595
William D. Ford Direct Loan Program	84.268	P268K110375	<u>27,525,082</u>
Total Student Financial Aid Cluster			<u>30,269,674</u>
<u>Other Programs:</u>			
Department of Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A050032	66,787
Passed through Charleston County School District			
GEAR-UP Bright	84.334	n/a	2,302
Passed through National Writing Project Corporation			
National Writing Project	84.928	99-SC09	1,880
Passed through Hampton One School District			
Hampton One - TEAMS	84.366	H63010008209	28,329
Passed through SC Commission on Higher Education			
Improving Teacher Quality Yr 1	84.367	n/a	7,779
Improving Teacher Quality Yr 2	84.367	n/a	46,016
Improving Teacher Quality – Kiawah Island	84.367	n/a	<u>35,400</u>
Total Department of Education			<u>188,493</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	<u>25,705</u>
Total Department of Health and Human Services			<u>25,705</u>
Department of Homeland Security			
Passed through Institute of International Education			
ROTC Language and Culture Projects - Chinese	97.010	HQ 0034-08-2-0024	8,497
ROTC Language and Culture Projects - 2011/2012	97.010	HQ 0034-08-2-0024	<u>133,859</u>
Total Department of Homeland Security			<u>142,356</u>
Department of Energy			
Precision Studies of Hadronic and Electro-Weak Interactions for Collider Physics	81.049	DE-SC0005028	<u>22,587</u>
Total Department of Energy			<u>22,587</u>
Total Other Programs			<u>379,141</u>
Total Expenditures of Federal Awards			<u>\$ 30,800,210</u>

THE CITADEL
The Military College of South Carolina
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

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 \$688,221 as of June 30, 2012.

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 \$19,699 for the year ended June 30, 2012 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 \$21,713 for the year ended June 30, 2012 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, 2012, which collectively comprise The Citadel's basic financial statements and have issued our report thereon dated October 10, 2012. 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.

Elliott Davis, LLC

Greenville, South Carolina
October 10, 2012

**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, 2012. 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, 2012.

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.

Greenville, South Carolina
October 10, 2012

Elliott Davis, LLC

THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2012

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. No audit findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. 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
William D. Ford Direct Loan	84.268
8. The threshold for distinguishing Types A and B programs was \$924,006.
9. 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, 2012

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