

**THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA
CHARLESTON, SOUTH CAROLINA
YEAR ENDED JUNE 30, 2013**

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

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3-13
BASIC FINANCIAL STATEMENTS	
Statement of Net Position.....	14
Statement of Revenues, Expenses, and Changes in Net Position.....	15
Statement of Cash Flows.....	16-17
Non-Governmental Discretely Presented Component Units	
Statements of Financial Position.....	18
Statements of Activities.....	19
Notes to the Financial Statements.....	20-48
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	49-50
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	51
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	52-53
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE.....	54-55
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	56
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	57



Independent Auditor's Report

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

Report on the Financial Statements

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 component unit of the State of South Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise The Citadel's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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, 7% of total net assets, and 12% 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 from material misstatement. The financial statements of The Citadel Foundation and The Citadel Brigadier Foundation were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of The Citadel as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013 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* in considering The Citadel's internal control over financial reporting and compliance.



Greenville, South Carolina
October 11, 2013

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2013

Overview of the Financial Statements and Financial Analysis

The Citadel (or "College") is pleased to present its financial statements for fiscal year 2013. While audited financial statements for fiscal year 2012 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 2013, the South Carolina economy stabilized and began a slight recovery. Total State appropriations, which include other items such as State health insurance allocations, increased \$679,022 from \$8,687,068 in 2012 to \$9,366,090 in 2013. Total State appropriations peaked in fiscal year 2008 at \$16,895,424, and have declined 44% since that timeframe. The Citadel also received \$937,691 in state capital appropriations and \$412,919 in Lottery appropriations in 2013 to fund College deferred maintenance.

The Citadel increased student fees to help support advancing the College's strategic plan, pay the college's share of State-mandated employee pay raises, and fund a merit pay program, and increases in student scholarships. Strong cadet enrollment and the increase in cadet fees resulted in a \$3.36 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 \$2.6 million in 2013, partially due to small increases in the Athletic Operations and Dining Hall fees, but more significantly due to increases in sales revenue. Total sales revenue improved in all auxiliaries, including the Cadet Store (14%), Dining Hall (16%), and Tailor Shop (24%). Athletics experienced an overall increase in revenues of \$310,299 which is the net result of approximately \$366,000 in increased fee revenue and a decline in gate receipts of approximately \$112,000. The auxiliaries set aside \$1.7 million in their maintenance reserves to fund future maintenance to their facilities.

In 2013, the College utilized the second year of a two year \$5 million supplemental grant from The Citadel Foundation ("TCF") to help fund selected initiatives intended to improve the College's financial position. The Citadel received supplemental grant funding of \$1.3 million in 2013 to continue to fund new programs in the following areas: retention, athletic self-sufficiency, program growth, tuition and fees, and on-line offerings. \$2.0 million of the supplemental grant was received in 2012 for deferred maintenance. Of that balance, approximately \$834,000 was spent on deferred maintenance projects in 2013.

Operating expenses increased significantly in 2013. Compensation and benefits increased by \$3.9 million as employees received a State mandated 3% cost of living adjustment and the cost of various fringe benefits increased by 6%. In addition, selected high performing employees received merit increases. The TCF supplemental grant funded approximately \$1.1 million of salaries and fringe benefits for positions created as a result of the grant in 2012. Service and supply expenses increased by \$1.9 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 2013. Scheduled debt payments reduced long term debt balances by \$4.6 million in 2013, on top of a reduction of \$4.4 million in 2012. No new debt funding actions have been initiated.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2013

The two major events impacting the financial results of The Citadel Trust, Incorporated ("The Trust") during 2013 was the increase in investment returns and the receipt of a significant gift from a key donor. Returns for the Richmond Fund, a limited partnership that invests in alternative investments such as private equity, venture capital, real assets and hedge funds, increased from 2.1% in fiscal year 2012 to 11.4% in 2013. Returns for the Morgan Stanley Smith Barney managed portfolio increased from -1.0% in fiscal year 2012 to 10.7% in 2013. These investment returns are slightly below a blended benchmark return of 12.3% for fiscal year 2013.

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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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 position (the difference between assets and liabilities) is 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 Position

The Statement of Net Position presents the assets, liabilities, and net position of the College as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Position 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 Position (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 Position 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 Position provides a picture of the net position (assets minus liabilities) and their availability for expenditure by the institution.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is restricted net position, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net position consists solely of the College's permanent endowment funds that are only available for investment purposes. Expendable restricted net position is 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 position. Unrestricted assets are available to the institution for any lawful purpose of the institution. Although unrestricted net position is subject to externally imposed stipulations, substantially all of the College's unrestricted net position has been designated for various academic and research programs and initiatives.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2013

Condensed Summary of Net Position (thousands of dollars)				
Assets:	2013	2012	Increase/ (Decrease)	Percent Change
Current assets	\$ 59,415	\$ 57,382	\$ 2,033	3.54%
Capital assets, net	129,514	133,141	(3,627)	-2.72%
Other assets	<u>65,391</u>	<u>60,127</u>	<u>5,264</u>	<u>8.75%</u>
Total Assets	<u>254,320</u>	<u>250,650</u>	<u>3,670</u>	<u>1.46%</u>
Liabilities:				
Current Liabilities	15,939	15,912	27	0.17%
Noncurrent Liabilities	<u>38,577</u>	<u>43,666</u>	<u>(5,089)</u>	<u>-11.65%</u>
Total Liabilities	<u>54,516</u>	<u>59,578</u>	<u>(5,062)</u>	<u>-8.50%</u>
Net Position:				
Net investment in capital assets	89,776	88,748	1,028	1.16%
Restricted - nonexpendable	41,981	38,508	3,473	9.02%
Restricted – expendable	35,055	33,311	1,744	5.24%
Unrestricted	<u>32,992</u>	<u>30,505</u>	<u>2,487</u>	<u>8.15%</u>
Total Net Position	<u>\$ 199,804</u>	<u>\$ 191,072</u>	<u>\$ 8,732</u>	<u>4.57%</u>

Total Assets – overall increase of \$3.7 million

- The \$2.0 million increase in current assets is composed of a \$0.7 million decrease in Citadel current assets and a \$2.7 million increase in Citadel Trust ("Trust") current assets.

The \$0.7 million decrease in Citadel current assets is attributable to decreases in current cash and increases in receivables. Current unrestricted cash decreased by \$7.3 million primarily due to \$2.7 million in Army ROTC receivables and \$2.6 million in Navy ROTC receivables due in the month of June that were not collected until July 2013. The other significant decrease in unrestricted cash is attributable to \$905,571 of strategic reserve funds used for various strategic initiatives in 2013. Current restricted cash decreased as \$807,760 in prior year funding from The Citadel Foundation's (TCF) supplemental grant for deferred maintenance was expended in 2013, and excess debt service in the Institutional Capital Projects subfund increased \$306,770. The majority of the \$6.7 million increase in receivables is primarily attributed to aforementioned timing event with Army ROTC and Navy ROTC year-end collections. The other significant increase in receivables is attributable to \$406,886 profit sharing revenue recognized by the Dining Hall for fiscal year 2013 that was not collected until July 2013. The overall change to the Due from Component Units is primarily attributed to a \$350,000 Athletic Grant-In-Aid receivable to The Trust.

The \$2.7 million increase in Trust current assets is primarily attributable to the increase in investment returns during fiscal year 2013. 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 increased from 2.1% in 2012 to 11.4% in 2013. 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 increased from -1.0% in 2012 to 10.7% in 2013.

- Capital assets (net of depreciation) decreased by \$3.6 million. Depreciation expense of \$5.36 million was \$1.74 million higher than capitalized equipment and building additions in 2013. Equipment totaling \$310,220 was purchased and capitalized in 2013. The following four construction projects were completed and capitalized for a total cost of \$2,074,142 during 2013: The Laundry Renovation, Snack Bar Renovation, Daniel Library Envelope, and Class of 1980

The Citadel

The Military College of South Carolina

Management's Discussion and Analysis June 30, 2013

Leadership Room in Daniel Library. Several construction projects are in process and comprise the \$516,333 remaining in construction in progress: Byrd Hall Auditorium Renovation, Byrd Hall Chemistry Stockroom, Byrd Hall Lab Renovation, Daniel Library Fire Sprinkler Installation, Johnson Hagood East Grandstands, Johnson Hagood Stadium Plaza, Jenkins Hall Arms Room, Jenkins Hall Auditorium Renovation, and Mark Clark Hall Exterior.

- The \$5.3 million increase in other assets includes a \$398,512 increase in Citadel other assets. The majority of this increase can be attributed to a noncurrent pledge the Krause Center received for \$600,000. This pledge was recorded at a present value of \$566,147 using a discount rate of 1%. Noncurrent cash decreased by \$77,402 due to an overall decrease in cash in construction project funds.

Citadel Trust other assets increased by \$4.9 million, or just over 8.07%. These assets are chiefly investments related to permanent endowments and the increase was generated by the strong 2013 investment returns mentioned above.

Total Liabilities – overall decrease of \$5.1 million

- Current liabilities increased by approximately \$27,000. Citadel current liabilities decreased by \$231,725. The major component of this decrease is a \$1.2 million decrease in Citadel accounts payable. \$756,012 of this decrease resulted from the timing of payments for payroll withholdings and payroll taxes. In fiscal year 2012, these payments were made after June 30th, so they were included as current liabilities at June 30, 2012. In addition, payables related to deferred maintenance projects decreased by \$605,643 from the prior year.

Unearned revenue increased by \$242,896. The significant changes that contribute to the overall change to unearned revenue include Summer II tuition and fees decreased by \$142,598, while unearned revenue for the College Success Institute Session II increased by \$257,014. There was also an increase in deferred skybox and club seat revenue totaling \$285,546 for the Fall 2013 football season that TCF paid to The Citadel prior to June 30, 2013.

Other changes in current liabilities include a \$215,705 increase in deposits, primarily related to an increase in students' One Card balances, and a \$260,294 decrease in the current portion of long term debt based on scheduled payments for 2014.

Trust current liabilities increased by \$258,062 primarily related to the \$350,000 Trust funding for Citadel athletic scholarships that was due on June 30, 2013. Accrued compensated absences and related liabilities decreased by \$97,500 due to a 2012 payable for deferred compensation that was paid in 2013.

- Noncurrent liabilities decreased by \$5.1 million. \$4.91 million of this decrease is due to a decrease in noncurrent debt obligations. No new debt was issued in fiscal year 2013 and The Citadel is paying down existing debt as scheduled. Noncurrent unearned revenue related to the ARAMARK and Daktronics contracts decreased by \$370,000 as revenue for current periods was recorded.

Net Position – increase of \$8.7 million

- Net investment in capital assets, increased by \$1,027,668 due to reductions in both capital assets, net of depreciation, and capital debt. Capital assets, net of depreciation, decreased by \$3.63 million and the related long term debt decreased by \$4.91 million.
- Restricted – non expendable assets increased by \$3,472,397. This increase in Trust endowment assets is primarily related to the increase in investment returns for 2013.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2013

- Restricted – expendable assets increased by \$1,743,935. Citadel restricted expendable assets increased by \$120,581. Net position restricted for scholarships, research and other purposes increased by \$438,947 primarily due to the noncurrent pledge the Krause Center received in 2013. Net position restricted for capital projects decreased by \$169,690 as a large number of deferred maintenance projects were completed during 2013. Net position restricted for debt service decreased by \$165,356 as reserve balances were used to assist in the required payments of long term debt.

Citadel Trust restricted expendable assets increased by \$1,623,354 due to the increase in investment returns in fiscal year 2013.

- Unrestricted net position increased by \$2,487,183. The \$232,738 increase in Citadel unrestricted net position is attributable to a \$2.2 million increase in unrestricted auxiliary funds set aside for deferred maintenance projects, and \$2.0 million decrease in unrestricted cash in unexpended plant funds.

Citadel Trust unrestricted net position increased by \$2,254,445 primarily due to the Trust's receipt of a \$2 million gift from a key donor in 2013.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position 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 position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. 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."

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2013

Condensed Summary of Revenues, Expenses and Changes in Net Position (thousands of dollars)				
Revenues:	2013	2012	Increase/ (Decrease)	Percent Change
Student tuition and fees	\$ 38,957	\$ 35,600	\$ 3,357	9.43%
Sales and services	28,425	25,798	2,627	10.18%
Grants and contracts	4,666	4,266	400	9.38%
Investment income	7,308	360	6,948	1930.00%
Other operating revenues	2,105	2,026	79	3.90%
Total Operating Revenues	<u>81,461</u>	<u>68,050</u>	<u>13,411</u>	19.71%
State appropriations	9,366	8,687	679	7.82%
Grants	10,865	11,395	(530)	-4.65%
Gifts	5,307	3,022	2,285	75.61%
Investment income	216	400	(184)	-46.00%
Other nonoperating revenues/expenses	331	296	35	11.82%
Total Nonoperating Revenues	<u>26,085</u>	<u>23,800</u>	<u>2,285</u>	9.60%
Total Revenues	<u>107,546</u>	<u>91,850</u>	<u>15,696</u>	17.09%
Expenses:				
Compensation and employee benefits	56,998	53,116	3,882	7.31%
Services and supplies	29,480	27,550	1,930	7.01%
Utilities	3,419	3,330	89	2.67%
Depreciation	5,358	5,392	(34)	-0.63%
Scholarships and fellowships	3,804	3,075	729	23.71%
Total operating expenses	<u>99,059</u>	<u>92,463</u>	<u>6,596</u>	7.13%
Interest expense	2,234	2,456	(222)	-9.04%
Total Nonoperating Expenses	<u>2,234</u>	<u>2,456</u>	<u>(222)</u>	-9.04%
Total Expenses	<u>101,293</u>	<u>94,919</u>	<u>6,374</u>	6.72%
Income before capital contributions, additions to permanent endowments and transfers	<u>6,253</u>	<u>(3,069)</u>	<u>9,322</u>	-303.75%
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	1,847	4,097	(2,250)	-54.92%
Permanent endowment additions	631	780	(149)	-19.10%
Total capital contributions, additions to permanent endowments and transfers	<u>2,478</u>	<u>4,877</u>	<u>(2,399)</u>	-49.19%
Change in Net Position	8,731	1,808	6,923	382.91%
Net Position, Beginning	<u>191,072</u>	<u>189,264</u>	<u>1,808</u>	0.96%
Net Position, Ending	<u>\$ 199,803</u>	<u>\$ 191,072</u>	<u>\$ 8,731</u>	4.57%

Total Revenues – increase of \$15.7 million

- Operating revenues increased by \$13.4 million. This increase is composed of a \$6.5 million increase in Citadel operating revenue and a \$6.9 million increase in Citadel Trust operating revenue.

Citadel tuition and fees increased by \$3.36 million in fiscal year 2013. The mandatory cadet fee increase of 3.0% for in-state students and 6.4% for out-of-state students generated an additional \$3.7 million in gross tuition and fee revenue. This increase was partially offset by a \$343,501 increase in scholarship allowances.

Operating grant revenue increased by \$399,954. Federal operating grants decreased by \$44,557 and nongovernmental operating grants increased by \$87,579. The increase in nongovernmental grants is primarily due to a \$69,581 increase in Skybox and Club Suite revenue transferred to The Citadel from TCF.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2013

Auxiliary revenue pledged for revenue bonds increased by \$2,617,323. Auxiliary student fees increased by \$1,567,851 based on increased enrollment and small increases in several fees (dining fee increased \$136 per student and athletic operations fee increased \$52 per student). This increase was partially offset by a \$130,736 increase in scholarship allowances. Auxiliary sales increased by approximately \$1.1 million. Significant increases were recognized in The Cadet Store (\$404,000), Dining Hall (\$1.1 million), and the Tailor Shop (\$344,000).

Athletics sales revenue, the only auxiliary revenue not pledged for revenue bonds, increased by \$19,771 in fiscal year 2013. Athletic conference distributions increased by \$66,556, and basketball and football guarantees increased by \$77,020, while gate receipts decreased by \$112,023.

Other operating revenues increased by approximately \$111,341. This increase relates to miscellaneous sales revenue recognized by a number of different funds including ROTC camps, The Citadel Beach House, The Chapel, and The Readiness Center.

The \$6.9 million increase in Trust operating revenues is solely attributable to an increase in the investment rate of return for 2013. The return for the Richmond Fund investment increased from 2.1% in 2012 to 11.4% in 2013. The Morgan Stanley Smith Barney managed portfolio return increased from -1.0% in 2012 to 10.7% in 2013.

- Nonoperating revenues increased by \$2.3 million. This increase is composed of a \$947,072 increase in Citadel nonoperating revenues and a \$1.3 million increase in Citadel Trust nonoperating revenue.

The major components of the Citadel increase in nonoperating revenues were increases in State appropriations and gifts, and a decrease in nonoperating grants. Total State appropriations, which include other items such as State health insurance allocations, increased \$679,022 from \$8,687,068 in 2012 to \$9,366,090 in 2013. Total State appropriations peaked in fiscal year 2008 at \$16,895,424, and have declined 44% since that timeframe.

Gift revenue increased by \$977,014 in 2013. The Krause Center received a total of \$263,947 in cash gifts during the year and recorded an additional \$566,147 in noncurrent pledges receivable.

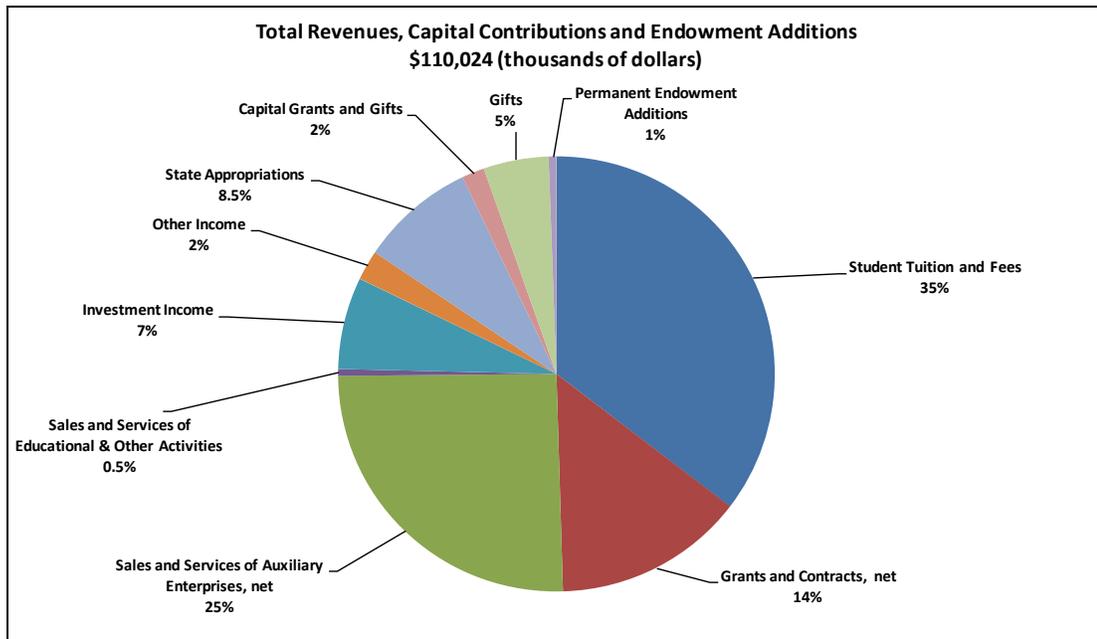
Nonoperating grant revenue decreased by \$583,832 in 2013. The Citadel Foundation annual grant to the college declined by \$575,965 due to reduction in prior year rollover grant funding. In addition to the recurring TCF annual grant, The Citadel Foundation agreed in 2012 to fund selected initiatives over a 2 year period 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 \$1.1 million of the TCF supplemental grant was received by The Citadel in 2013, which is a decline of \$160,760 from the prior year.

The \$184,130 decrease in investment income primarily relates to a decline in interest revenue in interest bearing State sub-funds including auxiliary maintenance reserves.

The \$1.3 million increase in Trust nonoperating revenue is chiefly attributable to an increase in gift revenue. The Trust received a \$2 million gift from a key donor in 2013. Excluding that gift, overall Trust gift revenue would have declined by \$691,595 over the prior year.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2013



Total Expenses – increase of \$6.4 million

- Operating expenses increased by \$6.6 million. The major component of this increase is salary and fringe benefit expenses, which increased by \$3.9 million. Compensation and benefits increased due to a State mandated 3% cost of living adjustment, the employer's share of insurance increased 5%, and the State fringe rate for retirement increased an average of 1%. In addition, selected high performing employees received merit increases. The TCF supplemental grant funded approximately \$1.1 million of salaries and fringe benefits for positions created as a result of the grant in 2012. These pay actions increased salaries by approximately \$2.6 million and fringe benefits by approximately \$1.2 million.

Service and supply expenses increased by \$1.9 million. \$556,113 of this increase relates to deferred maintenance projects funded either through the TCF supplemental grant or other College funds. Increases in the cost of goods sold at auxiliaries caused services and supplies expenditures to increase at the Dining Hall (\$631,187), Cadet Store (\$346,441), and Tailor Shop (\$196,934). Other service and supply categories increased, with most notable increases occurring in marketing and advertising.

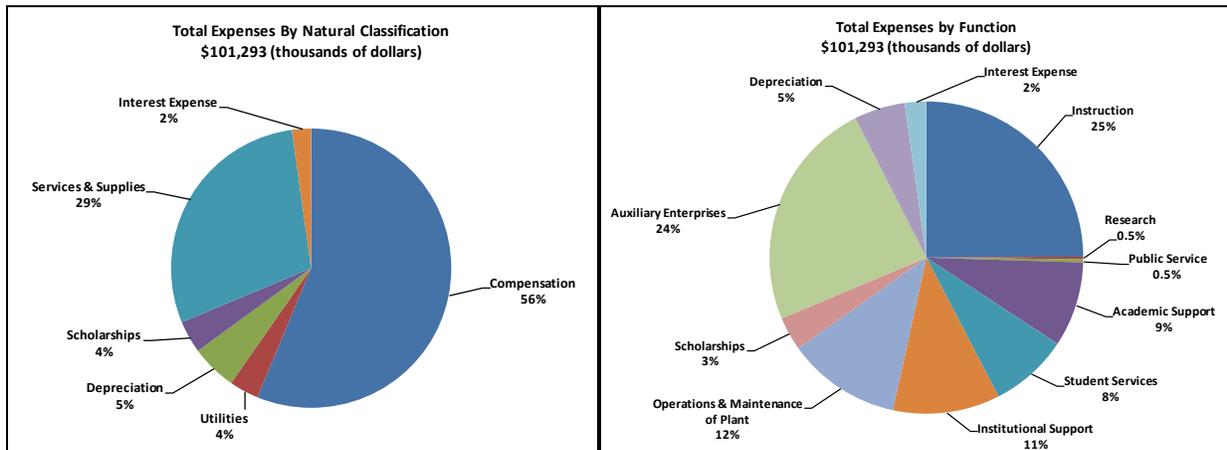
Utility costs and depreciation expense remained fairly constant, with utility costs increasing by approximately \$89,000 and depreciation expense decreasing by approximately \$34,000.

Scholarship expenses increased by \$728,433. 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. Total scholarships increased by approximately \$1.2 million and scholarship allowance increased by \$474,236. As a result, the proportional amount refunded to students slightly increased while the amount that applied to College tuition and fee revenue slightly decreased.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2013

- Nonoperating expenses decreased by approximately \$222,000 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 – decrease of \$2.4 million

- Capital grants and appropriations decreased by \$2.25 million primarily due to the \$1.99 million of the TCF supplemental grant received in 2012 for deferred maintenance. The Citadel received \$937,691 in state capital appropriations and \$412,919 in Lottery appropriations in 2013 to fund College deferred maintenance. The Citadel has allocated this funding to the following deferred maintenance projects: Byrd Hall Auditorium Renovation, Byrd Hall Chemistry Stockroom, Daniel Library Fire Sprinkler Installation, Jenkins Hall Arms Room, and Jenkins Hall Auditorium Renovation.
- Permanent endowment additions decreased by \$147,996 in the current year which is consistent with the decline in overall gifts in 2013, when excluding the individual large gift to the Trust from a key donor in 2013.

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 Position.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2013

Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, at June 30, 2013 and June 30, 2012 were as follows:

Capital Assets (net of accumulated depreciation)				
Capital Assets:	<u>2013</u>	<u>2012</u>	<u>Increase/ (decrease)</u>	<u>Percent Change</u>
Land	\$ 4,827,669	\$ 4,827,669	\$ -	0.00%
Construction in Progress	516,334	1,166,842	(650,508)	-55.75%
Fine Arts	357,120	357,120	-	0.00%
Land improvements	5,578,106	6,418,915	(840,809)	-13.10%
Buildings and improvements	112,691,644	114,459,823	(1,768,179)	-1.54%
Equipment	1,562,306	1,702,631	(140,325)	-8.24%
Vehicles	15,108	43,521	(28,413)	-65.29%
Intangibles	<u>3,965,348</u>	<u>4,164,538</u>	<u>(199,190)</u>	-4.78%
Total	<u>\$ 129,513,635</u>	<u>\$ 133,141,059</u>	<u>\$ (3,627,424)</u>	-2.72%

The following four construction projects were completed and capitalized for a total cost of \$2,074,142 during 2013: The Laundry Renovation (\$0.5 million), Snack Bar Renovation (\$0.5 million), Daniel Library Envelope (\$0.9 million), and Class of 1980 Leadership Room in Daniel Library (\$0.2 million).

Several construction projects are in process and comprise the \$516,333 remaining in construction in progress: Byrd Hall Auditorium Renovation, Byrd Hall Chemistry Stockroom, Byrd Hall Lab Renovation, Daniel Library Fire Sprinkler Installation, Johnson Hagood East Grandstands, Johnson Hagood Stadium Plaza, Jenkins Hall Arms Room, Jenkins Hall Auditorium Renovation, and Mark Clark Hall Exterior.

The Citadel capitalized \$310,220 of new equipment in 2013 and recognized depreciation expense of approximately \$5.36 million.

The College did not initiate any additional borrowing during the current year and debt payments reduced long term liabilities by \$4.91 million. The investment in plant fund net position increased by \$1,027,668 during the year as the decrease of long term debt netted against the decrease in capital asset net 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 continued to recover in 2013. The Citadel's Base State appropriation will increase by a total of \$559,361 from \$8,494,888 in 2013 to \$9,054,249 in 2014. The College will also receive a capital appropriation of \$1.5 million for a Cadet Accountability System.

Robust enrollment and tuition increases during fiscal year 2013 helped the College continue to advance its 2012 – 2018 strategic plan, The LEAD Plan. Additional tuition increases for fiscal year 2014 and strong enrollment will continue to help The Citadel provide a quality education to its students.

In September 2012 [U.S. News & World Report](#), named The Citadel the No. 1 top public institution in The South for the second consecutive year. The Citadel was ranked No. 5 among both public and private regional universities offering up to a master's degree. The Citadel's School of Engineering was also ranked No. 17 for best undergraduate engineering programs in the nation.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2013

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 2013 and there is no expectation that this will change during the next 12 month period. 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 during market downturns while achieving modest gains during market rallies. The Morgan Stanley Smith Barney managed portfolio expects to benefit more significantly when the stock market is improving, but is exposed to more volatility and higher potential losses during market downturns. 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%. In 2013, The Richmond Fund return of 11.4% unexpectedly outperformed the 10.7% return of the Morgan Stanley Smith Barney portfolio. This can be attributed to the Morgan Stanley Smith Barney portfolio underperforming its blended industry benchmark by 1.6%, and the Richmond Fund's tactical decision to increase its exposure to a number of diversified domestic equity and international equity managers in advance of the recent market rally.

The Citadel currently is involved in a number of significant legal proceedings. Please see Footnote 19 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 Position

June 30, 2013

	The Citadel	The Citadel Trust	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 23,924,970	\$ 440,250	\$ 24,365,220
Marketable securities (at fair value)	-	1,992,916	1,992,916
Investment in limited partnership (at fair value)	-	1,767,995	1,767,995
Restricted Assets - Current			
Cash and cash equivalents	4,764,306	2,004,658	6,768,964
Marketable securities (at fair value)	-	4,947,021	4,947,021
Investment in limited partnership (at fair value)	-	3,666,978	3,666,978
Contributions receivable, net	3,431	136,633	140,064
Student loans receivable, net	-	67,520	67,520
Accounts receivable, net	12,535,231	118,340	12,653,571
Due from component units/primary government	519,233	2,953	522,186
Contributions receivable, net	-	95,878	95,878
Inventories	1,522,638	-	1,522,638
Prepaid expenses	901,821	2,436	904,257
Total current assets	<u>44,171,630</u>	<u>15,243,578</u>	<u>59,415,208</u>
Noncurrent Assets			
Marketable securities (at fair value)	-	2,319,995	2,319,995
Investment in limited partnership (at fair value)	-	2,022,919	2,022,919
Contributions receivable, net	-	176,171	176,171
Cash surrender value of life insurance	-	12,217	12,217
Restricted Assets - Noncurrent			
Cash and cash equivalents	1,262,890	595,323	1,858,213
Marketable securities (at fair value)	-	31,143,540	31,143,540
Investment in limited partnership (at fair value)	-	26,379,754	26,379,754
Contributions receivable, net	570,962	108,460	679,422
Student loans receivable, net	639,044	82,204	721,248
Cash surrender value of life insurance	-	77,039	77,039
Capital assets not being depreciated	3,518,993	2,182,129	5,701,122
Capital assets, net of accumulated depreciation	123,812,513	-	123,812,513
Total noncurrent assets	<u>129,804,402</u>	<u>65,099,751</u>	<u>194,904,153</u>
Total assets	<u>\$ 173,976,032</u>	<u>\$ 80,343,329</u>	<u>\$ 254,319,361</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 1,537,769	\$ 46,321	\$ 1,584,090
Due to component units/primary government	7,651	350,000	357,651
Retainages payable	44,114	-	44,114
Accrued payroll and related liabilities	2,129,766	1,634	2,131,400
Accrued compensated absences and related liabilities	1,298,660	-	1,298,660
Accrued interest payable	602,136	-	602,136
Unearned revenues	3,073,103	-	3,073,103
Bonds payable	3,592,379	-	3,592,379
Capital leases payable	15,109	-	15,109
Notes payable	1,301,517	-	1,301,517
Deposits	1,929,534	-	1,929,534
Annuities payable	-	9,450	9,450
Total current liabilities	<u>15,531,738</u>	<u>407,405</u>	<u>15,939,143</u>
Noncurrent Liabilities			
Federal loan funds	494,691	-	494,691
Accrued compensated absences and related liabilities	1,566,467	4,963	1,571,430
Deposits	797,448	-	797,448
Unearned revenues	740,000	-	740,000
Bonds payable	31,255,383	-	31,255,383
Notes payable	3,584,632	-	3,584,632
Annuities payable	-	12,760	12,760
Funds held for others	120,573	-	120,573
Total noncurrent liabilities	<u>38,559,194</u>	<u>17,723</u>	<u>38,576,917</u>
Total liabilities	<u>\$ 54,090,932</u>	<u>\$ 425,128</u>	<u>\$ 54,516,060</u>
COMMITMENTS AND CONTINGENCIES (NOTES 12 AND 19)			
NET POSITION			
Net investment in capital assets	\$ 87,593,896	\$ 2,182,129	\$ 89,776,025
Restricted for Nonexpendable:			
Scholarships	-	37,006,389	37,006,389
Other	-	4,910,088	4,910,088
Annuity	-	64,262	64,262
Restricted for Expendable:			
Scholarships, research, instruction and other	2,913,446	25,658,225	28,571,671
Loans	229,062	1,507,537	1,736,599
Capital projects	4,376,162	119,698	4,495,860
Debt service	250,651	-	250,651
Unrestricted	24,521,883	8,469,873	32,991,756
Total net position	<u>\$ 119,885,100</u>	<u>\$ 79,918,201</u>	<u>\$ 199,803,301</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 Position
For the year ended June 30, 2013

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
REVENUES			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of \$10,206,854)	\$ 38,956,722	\$ -	\$ 38,956,722
Federal grants and contracts	642,733	-	642,733
State grants and contracts	3,254,088	-	3,254,088
Nongovernmental grants and contracts	769,027	-	769,027
Sales and services of educational and other activities	555,184	-	555,184
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of \$4,663,900)	25,491,015	-	25,491,015
Sales and services of auxiliary enterprises - not pledged	2,379,331	-	2,379,331
Other fees	1,286,403	-	1,286,403
Investment income (net investment expenses of \$459,350)	-	5,954,438	5,954,438
Endowment income	-	1,353,443	1,353,443
Other operating revenues	818,187	-	818,187
Total operating revenues	<u>74,152,690</u>	<u>7,307,881</u>	<u>81,460,571</u>
EXPENSES			
Operating Expenses			
Compensation and employee benefits	56,925,711	72,560	56,998,271
Services and supplies	29,401,707	78,551	29,480,258
Utilities	3,418,635	-	3,418,635
Depreciation expense	5,358,450	-	5,358,450
Scholarships and fellowships	3,803,962	-	3,803,962
Total operating expenses	<u>98,908,465</u>	<u>151,111</u>	<u>99,059,576</u>
Operating income (loss)	<u>(24,755,775)</u>	<u>7,156,770</u>	<u>(17,599,005)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	9,366,090	-	9,366,090
Federal grants and contracts	2,675,092	-	2,675,092
State grants and contracts	13,982	-	13,982
Nongovernmental grants	7,698,927	477,228	8,176,155
Gifts	1,404,666	3,902,313	5,306,979
Investment income	216,037	-	216,037
Interest on capital asset-related debt	(2,233,450)	-	(2,233,450)
Gain on disposal of capital assets	10,182	-	10,182
Other nonoperating revenues	72,771	247,756	320,527
Net nonoperating revenues	<u>19,224,297</u>	<u>4,627,297</u>	<u>23,851,594</u>
Income (loss) before other revenues and transfers	<u>(5,531,478)</u>	<u>11,784,067</u>	<u>6,252,589</u>
State capital appropriations and research infrastructure bond proceeds	487,639	-	487,639
Capital grants and gifts	1,359,522	-	1,359,522
Additions to permanent endowments	-	631,433	631,433
Transfers to/from component unit	5,065,304	(5,065,304)	-
Total other revenues and transfers	<u>6,912,465</u>	<u>(4,433,871)</u>	<u>2,478,594</u>
Increase in net position	<u>1,380,987</u>	<u>7,350,196</u>	<u>8,731,183</u>
NET POSITION			
Net position-beginning of year	118,504,113	72,568,005	191,072,118
Net position-end of year	<u>\$ 119,885,100</u>	<u>\$ 79,918,201</u>	<u>\$ 199,803,301</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, 2013

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	\$ 39,766,537	\$ -	\$ 39,766,537
Grants and contracts	4,716,679	-	4,716,679
Sales and services of educational and other activities	(4,790,492)	-	(4,790,492)
Sales and services of auxiliary enterprises	27,205,983	-	27,205,983
Other operating receipts	1,435,992	-	1,435,992
Payments to employees for salaries and benefits	(57,363,018)	(72,560)	(57,435,578)
Payments to suppliers	(29,345,696)	(78,551)	(29,424,247)
Payments for utilities	(3,388,671)	-	(3,388,671)
Payments to students for scholarships and fellowships	(3,803,962)	-	(3,803,962)
Loans issued to students	(72,625)	-	(72,625)
Collection of loans to students	104,608	-	104,608
Funds held for others	68,193	-	68,193
Student direct lending receipts	27,773,834	-	27,773,834
Student direct lending disbursements	(27,773,834)	-	(27,773,834)
Net cash used by operating activities	<u>(25,466,472)</u>	<u>(151,111)</u>	<u>(25,617,583)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	9,366,090	-	9,366,090
Gifts and grants for other than capital purposes	11,032,657	5,212,470	16,245,127
Other non-operating revenues/expenses	72,771	512,257	585,028
Transfers from (to) component unit	5,065,304	(5,065,304)	-
Net cash provided by noncapital financing activities	<u>25,536,822</u>	<u>659,423</u>	<u>26,196,245</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
State capital appropriations	487,639	-	487,639
Capital grants and gifts received	1,378,158	-	1,378,158
Proceeds from sale of capital assets	13,008	-	13,008
Purchases of capital assets	(3,158,168)	-	(3,158,168)
Principal paid on capital debt and leases, net of discount	(4,628,217)	-	(4,628,217)
Interest paid on capital related debt	(2,296,203)	-	(2,296,203)
Net cash used by capital and related financing activities	<u>(8,203,783)</u>	<u>-</u>	<u>(8,203,783)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	19,850,080	19,850,080
Interest and dividends on investments	258,368	907,411	1,165,779
Purchase of investments	-	(20,511,713)	(20,511,713)
Net cash provided by investing activities	<u>258,368</u>	<u>245,778</u>	<u>504,146</u>
Net change in cash	(7,875,065)	754,090	(7,120,975)
Cash and cash equivalents - beginning of year	37,827,231	2,286,141	40,113,372
Cash and cash equivalents - end of year	<u>\$ 29,952,166</u>	<u>\$ 3,040,231</u>	<u>\$ 32,992,397</u>
Reconciliation of net operating revenues (expense) to net cash used by operating activities:			
Operating income (loss)	\$ (24,755,775)	\$ 7,156,770	\$ (17,599,005)
Adjustments to reconcile operating income (loss) to net cash used by operating activities			
Depreciation expense	5,358,450	-	5,358,450
Interest and dividends on investments	-	(1,069,962)	(1,069,962)
Realized and unrealized gains and losses on investments	-	(6,237,919)	(6,237,919)
Funds held for others	68,193	-	68,193
Changes in assets and liabilities			
Accounts receivable, net	(5,942,477)	-	(5,942,477)
Inventories	(66,283)	-	(66,283)
Student loans receivable, net	31,983	-	31,983
Prepaid expenses	(96,929)	-	(96,929)
Accounts payable and accrued expenses	(531,486)	-	(531,486)
Accrued salaries and related expenses	89,388	-	89,388
Accrued compensated absences and related liabilities	229,610	-	229,610
Unearned revenue	(130,592)	-	(130,592)
Student and other deposits	279,446	-	279,446
Net cash used by operating activities	<u>\$ (25,466,472)</u>	<u>\$ (151,111)</u>	<u>\$ (25,617,583)</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, 2013

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
Non-cash transactions			
Decrease (increase) in fair value of investments	\$ (181,160)	\$ 3,603,609	\$ 3,422,449
Disposal of capital assets	\$ 850	\$ -	\$ 850
Reconciliation of Cash and Cash Equivalent Balances:			
Current assets			
Cash and cash equivalents	\$ 23,924,970	\$ 440,250	\$ 24,365,220
Restricted cash and cash equivalents	4,764,306	2,004,658	6,768,964
Noncurrent assets			
Restricted cash and cash equivalents	1,262,890	595,323	1,858,213
Total cash and cash equivalents	<u>\$ 29,952,166</u>	<u>\$ 3,040,231</u>	<u>\$ 32,992,397</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, 2012</u>	The Citadel Brigadier Foundation <u>June 30, 2013</u>
ASSETS		
Cash and cash equivalents	\$ 4,404,512	\$ 726,348
Unconditional promises to give/receivable, net	6,736,731	315,863
Prepaid expenses	146,871	-
Long-term investments (at fair value)	144,258,152	9,452,017
Investments related to split-interest agreements (at fair value)	2,472,054	-
Other investments	35,332	-
Notes receivable	-	20,000
Other receivables	771	-
Cash value of life insurance	798,117	398,358
Property and equipment, net of accumulated depreciation	71,928	23,339
Land, improvements and other assets held for investment	1,086,816	-
Total assets	\$ 160,011,284	\$ 10,935,925
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 481,723	\$ 9,311
Compensated absences payable	-	22,161
Grants payable - The Citadel	3,641,793	-
Due to related parties	155,355	-
Notes payable	23,405	-
Annuities and life income funds payable	1,079,583	-
Charitable gift annuities	1,030,107	-
Total liabilities	6,411,966	31,472
Net Assets		
Unrestricted	82,025,109	348,921
Temporarily restricted	34,424,076	3,281,107
Permanently restricted	37,150,133	7,274,425
Total net assets	153,599,318	10,904,453
Total liabilities and net assets	\$ 160,011,284	\$ 10,935,925

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, 2012</u>	Citadel Brigadier Foundation Year Ended <u>June 30, 2013</u>
REVENUES, GAINS AND OTHER SUPPORT		
Unrestricted		
Contributions and membership revenue	\$ 1,154,906	\$ 780,409
Investment losses	(14,585)	-
Net unrealized and realized gains (losses) on investments	(3,567)	-
Fundraising activities	-	291,496
Miscellaneous	2,245	8,625
Other investment income	55,119	-
Gain on sale of land held for investment	3,460	-
Equity gain of The Richmond Fund, LP	8,999,819	-
Changes in value of split interest agreements	(99,387)	-
Net assets released from program restrictions	8,501,195	1,244,668
Change in donor restricted funding deficiency	116,737	-
Transfers of net assets	(290,153)	-
Total unrestricted	<u>18,425,789</u>	<u>2,325,198</u>
Temporarily Restricted		
Contributions and membership revenue	6,420,305	1,363,281
Investment income	-	447,255
Net unrealized and realized gains (losses) on investments	(862)	631,345
Equity gain of The Richmond Fund, LP	6,685,582	-
Changes in allowance on promises to give	(697,150)	-
Changes in value of split interest agreements	267,112	-
Net assets released from program restrictions	(8,501,195)	(1,244,668)
Change in donor restricted funding deficiency	(116,737)	-
Transfers of net assets	(737,398)	-
Total temporarily restricted	<u>3,319,657</u>	<u>1,197,213</u>
Permanently Restricted		
Contributions	1,944,009	-
Equity gain of The Richmond Fund, LP	1,524	-
Transfers of net assets	1,027,551	-
Total permanently restricted	<u>2,973,084</u>	<u>-</u>
Total revenue, gains and other support	<u>24,718,530</u>	<u>3,522,411</u>
EXPENSES AND LOSSES		
Unrestricted		
Grants to The Citadel	8,881,275	1,179,991
Other gift grants to The Citadel	3,122,034	-
General and administrative	1,100,221	529,977
Fundraising	2,903,487	334,488
Income tax expense	4,355	-
Total unrestricted	<u>16,011,372</u>	<u>2,044,456</u>
Total expenses	<u>16,011,372</u>	<u>2,044,456</u>
CHANGE IN NET ASSETS		
Unrestricted	2,414,417	280,742
Temporarily restricted	3,319,657	1,197,213
Permanently restricted	2,973,084	-
Total change in net assets	<u>8,707,158</u>	<u>1,477,955</u>
Net assets at beginning of period		
Unrestricted	79,610,692	68,179
Temporarily restricted	31,104,419	2,083,894
Permanently restricted	34,177,049	7,274,425
Total net assets at beginning of period	<u>144,892,160</u>	<u>9,246,498</u>
Net assets at end of period		
Unrestricted	82,025,109	348,921
Temporarily restricted	34,424,076	3,281,107
Permanently restricted	37,150,133	7,274,425
Total net assets at end of period	<u>\$ 153,599,318</u>	<u>\$ 10,904,453</u>

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Citadel (“The Citadel” or “College”) 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 Citadel is governed by the Board of Visitors, which has eleven members, seven members appointed by the General Assembly, three by The Citadel Alumni Association, and one by the Governor. The Board administers, has jurisdiction over, and is responsible for the management of The Citadel.

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

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

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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.

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 position, revenues, expenses and changes in net position 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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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 Position 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, 2013; 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 Position.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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 were 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 2013.

Unearned Revenues and Deposits: Unearned 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. Unearned 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 position, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Position.

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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

Net Position: The Citadel's net position is classified as follows:

Net investment in capital assets: 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 net investment in capital assets.

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

Restricted net position - nonexpendable: Nonexpendable restricted net position consists 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 position: Unrestricted net position represents 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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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 Position. 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, 2013.

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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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 Position amounts:

Statement of Net Position:	The Citadel	The Citadel Trust	Total
Current assets			
Cash and cash equivalents	\$ 23,924,970	\$ 440,250	\$ 24,365,220
Marketable securities (at fair value)	-	1,992,916	1,992,916
Investment in limited partnership (at fair value)	-	1,767,995	1,767,995
Restricted assets			
Cash and cash equivalents	4,764,306	2,004,658	6,768,964
Marketable securities (at fair value)	-	4,947,021	4,947,021
Investment in limited partnership (at fair value)	-	3,666,978	3,666,978
Noncurrent assets			
Marketable securities (at fair value)	-	2,319,995	2,319,995
Investment in limited partnership (at fair value)	-	2,022,919	2,022,919
Restricted assets			
Cash and cash equivalents	1,262,890	595,323	1,858,213
Marketable securities (at fair value)	-	31,143,540	31,143,540
Investment in limited partnership (at fair value)	-	26,379,754	26,379,754
Total Statement of Net Position	<u>\$ 29,952,166</u>	<u>\$ 77,281,349</u>	<u>\$ 107,233,515</u>
Notes: Deposits and Investments			
Cash on hand	\$ 18,625	\$ -	\$ 18,625
Deposits held by State Treasurer	29,848,833	199,099	30,047,932
Other deposits	84,708	137,644	222,352
Marketable securities (at fair value)	-	43,106,960	43,106,960
Investment in limited partnership (at fair value)	-	33,837,646	33,837,646
Total Notes	<u>\$ 29,952,166</u>	<u>\$ 77,281,349</u>	<u>\$ 107,233,515</u>

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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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's 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, 2013, 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	\$ 2,703,488	\$ 2,703,488	\$ -	\$ -	\$ -
U.S. Treasury Bonds	1,235,853	105,562	824,324	305,967	-
Treasury Inflation Protected (TIPS)	2,052,000	18,263	739,130	751,237	543,370
U.S. Agency Bonds	519,231	-	390,176	-	129,055
Corporate Bonds	2,179,746	279,539	1,199,387	700,820	-
Mutual Bond Funds	5,291,108	193,571	1,445,882	1,407,101	2,244,554
Total fixed income investments	13,981,426	<u>\$ 3,300,423</u>	<u>\$ 4,598,899</u>	<u>\$ 3,165,125</u>	<u>\$ 2,916,979</u>
Common Stocks	9,267,399				
Fixed Income	13,981,567				
Mutual Equity Funds	19,858,135				
Total marketable securities	<u>\$43,106,960</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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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, 2013, 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	\$ 2,703,488	\$ -	\$ -	\$ -	\$ -	\$2,703,488
U.S. Treasury Bonds	1,235,853	1,235,853	-	-	-	-
Treasury Inflation Protected	2,052,000	2,044,818	-	-	-	7,182
U.S. Agency Bonds	519,231	519,231	-	-	-	-
Corporate Bonds	2,179,746	343,353	941,139	895,254	-	-
Mutual Bond Funds	5,291,108	1,243,224	961,421	1,507,041	1,492,755	86,667
Totals	\$ 13,981,426	\$5,386,479	\$1,902,560	\$2,402,295	\$1,492,755	\$2,797,337

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 and 10% for fixed income investments (except for securities issued by the U.S. government and its agencies). The First Eagle Global investment was 5.07% of the total portfolio at June 30, 2013. This investment trended slightly above the 5.0% threshold due to strong market returns in 2013. The Trust's Board of Directors reviews substantial equity positions for the entire investment pool on a quarterly basis.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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, Templeton Global Bonds, 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, 2013 was \$11,821,365. 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's 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, 2013, the fair value of the investment in The Richmond Fund, LP was \$33,837,646 or 43.79% 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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

At June 30, 2013, TCBF's investments are as follows:

Investments carried at fair value	Cost	Fair Value
Equity funds and individual securities	\$ 6,180,475	\$ 6,193,917
Fixed income funds and individual debt securities	2,752,680	3,288,100
Total investments	\$ 8,933,155	\$ 9,452,017

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, 2012:

	Cost	Fair Value
Investment in limited partnership interest	\$ 135,561,614	\$ 144,258,152
Various equity securities	2,245,567	2,477,987
Cash and money market funds	29,399	29,399
Total	\$ 137,836,580	\$ 146,765,538

NOTE 3—ACCOUNTS RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2013, are summarized as follows:

	The Citadel	The Citadel Trust	Total
Receivables:			
Student fees	\$ 3,027,913	\$ -	\$ 3,027,913
Grants and contracts	350,781	-	350,781
Accrued interest	57,265	43,386	100,651
Other	9,514,086	74,954	9,589,040
Gross receivables	12,950,045	118,340	13,068,385
Less allowance for uncollectible:			
Student fees	414,814	-	414,814
Accounts receivable, net	\$ 12,535,231	\$ 118,340	\$ 12,653,571

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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 2013 and 2012. The composition of contributions receivable at June 30, 2013, is summarized as follows:

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
Gift Pledges Outstanding:			
Operations	\$ 608,500	\$ 708,041	\$ 1,316,541
Total gift pledges outstanding	608,500	708,041	1,316,541
Less:			
Unamortized discount to present value	34,107	28,610	62,717
Allowance for doubtful accounts	-	162,289	162,289
Total contributions receivable, net	<u>\$ 574,393</u>	<u>\$ 517,142</u>	<u>\$ 1,091,535</u>

Payments on contributions receivable as of June 30, 2013, are expected to be received in the following years ending June 30:

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
2014	\$ 3,431	\$ 232,511	\$ 235,942
2015	1,941	132,529	134,470
2016	1,922	89,339	91,261
2017	952	29,840	30,792
2018	95,147	14,082	109,229
Due after 2018	471,000	18,841	489,841
	<u>\$ 574,393</u>	<u>\$ 517,142</u>	<u>\$ 1,091,535</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 \$326,515 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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

Student loans receivable at June 30, 2013 are summarized as follows:

	The Citadel	The Citadel Trust	Total
Loans receivable	\$ 639,044	\$ 263,324	\$ 902,368
Less allowance for uncollectible loans	-	113,600	113,600
Net loans receivable	<u>\$ 639,044</u>	<u>\$ 149,724</u>	<u>\$ 788,768</u>

NOTE 4—RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2013 are as follows:

Asset /Restricted for	The Citadel	The Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	\$ 1,569,583	\$ 1,775,356
Debt service	249,500	-
College administered loan program	-	228,133
Capital projects	2,945,223	1,169
Total cash and cash equivalents	<u>\$ 4,764,306</u>	<u>\$ 2,004,658</u>
Investments (at fair value):		
Donor/sponsor specified	\$ -	\$ 4,947,021
Investment in limited partnership (at fair value):		
Donor/sponsor specified	\$ -	\$ 3,666,978
Contributions Receivable:		
Donor/sponsor specified	\$ 3,431	\$ 136,633
Student Loans Receivable:		
College administered loan program	\$ -	\$ 67,520
Noncurrent:		
Cash and cash equivalents		
Endowment	\$ 388,000	\$ 595,323
Federal Perkins loan program	84,708	-
Capital projects	893,020	-
Cash held for other parties	(102,838)	-
Total cash and cash equivalents	<u>\$ 1,262,890</u>	<u>\$ 595,323</u>
Investments (at fair value):		
Endowment	\$ -	\$ 30,531,961
College administered loan program	-	611,579
Total investments	<u>\$ -</u>	<u>\$ 31,143,540</u>
Investment in limited partnership (at fair value):		
Endowment	\$ -	\$ 25,861,724
College administered loan program	-	518,030
Total investments in limited partnership	<u>\$ -</u>	<u>\$ 26,379,754</u>
Contributions Receivable		
Donor/sponsor specified	\$ 570,962	\$ 108,460
Total contributions receivable	<u>\$ 570,962</u>	<u>\$ 108,460</u>
Student Loans Receivable		
College administered loan program	\$ -	\$ 82,204
Federal Perkins Loan Program	639,044	-
Total student loans receivable	<u>\$ 639,044</u>	<u>\$ 82,204</u>
Cash Surrender Value of Life Insurance:		
Endowments	\$ -	\$ 77,039

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

NOTE 5—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, is summarized as follows:

	July 1, 2012	Increases	Decreases	June 30, 2013
Capital assets not being depreciated:				
Land and improvements	\$ 4,827,669	\$ -	\$ -	\$ 4,827,669
Construction-in-progress	1,166,842	1,423,633	2,074,142	516,333
Fine arts	357,120	-	-	357,120
Total capital assets not being depreciated	<u>6,351,631</u>	<u>1,423,633</u>	<u>2,074,142</u>	<u>5,701,122</u>
Other capital assets:				
Land improvements	13,889,396	-	-	13,889,396
Buildings and improvements	174,221,773	2,074,140	-	176,295,913
Machinery, equipment, and other	5,959,563	310,220	69,816	6,199,967
Vehicles	597,192	-	-	597,192
Intangibles	4,926,236	-	-	4,926,236
Total other capital assets at historical cost	<u>199,594,160</u>	<u>2,384,360</u>	<u>69,816</u>	<u>201,908,704</u>
Less accumulated depreciation for:				
Land improvements	7,470,481	840,808	-	8,311,289
Buildings and improvements	59,761,950	3,842,319	-	63,604,269
Machinery, equipment, and other	4,256,932	457,372	66,990	4,647,314
Vehicles	553,671	18,759	-	572,430
Intangibles	761,698	199,191	-	960,889
Total accumulated depreciation	<u>72,804,732</u>	<u>5,358,449</u>	<u>66,990</u>	<u>78,096,191</u>
Other capital assets, net	<u>126,789,428</u>	<u>(2,974,089)</u>	<u>2,826</u>	<u>123,812,513</u>
Capital assets, net	<u>\$ 133,141,059</u>	<u>\$ (1,550,456)</u>	<u>\$ 2,076,968</u>	<u>\$ 129,513,635</u>

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

Gain on disposal	\$ 21,408
Loss on disposal	(11,226)
Net gain on disposal	<u>\$ 10,182</u>

NOTE 6—UNEARNED REVENUES

The composition of unearned revenues at June 30, 2013, is summarized as follows:

	Citadel	Citadel Trust	Total
Student fees	\$ 1,859,101	\$ -	\$ 1,859,101
Sales and services, auxiliary enterprises	1,903,299	-	1,903,299
State grants and contracts	23,214	-	23,214
Nongovernmental grants and contracts	27,489	-	27,489
Total unearned revenues	<u>\$ 3,813,103</u>	<u>\$ -</u>	<u>\$ 3,813,103</u>

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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, 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 unearned revenues in a straight line fashion over the ten years of the contract period. In fiscal year 2013, \$170,000 of the unearned amount was recognized as revenue. \$170,000 of the remaining Daktronics' unearned revenue is recorded as current unearned revenue, and the remaining \$340,000 is recorded as noncurrent unearned 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 unearned revenue, and the remaining \$400,000 is recorded as noncurrent unearned revenue.

NOTE 7—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2013:

	Interest Rate	Maturity Dates	Balance June 30, 2013	Debt Retired in Fiscal Year 2013
State Institution Bonds				
Series 2001D	adjustable from 4.50% to 4.75%	12/01/2017	\$ 930,000	\$ 205,000
			<u>930,000</u>	<u>205,000</u>
Revenue Bonds				
Series 1997	5.125%	04/01/2013	-	275,000
Series 2005	adjustable from 3.50% to 4.50%	04/01/2029	18,765,000	1,770,000
			<u>18,765,000</u>	<u>2,045,000</u>
Athletic Facilities Revenue Bonds				
Series 2003	Fixed at 4.19%	02/15/2018	1,271,878	224,526
Series 2005	Fixed at 4.19%	02/15/2015	1,404,882	659,938
Series 2010	Fixed at 6.94%	02/01/2031	12,645,000	335,000
			<u>15,321,760</u>	<u>1,219,464</u>
Subtotal Bonds Payable			35,016,760	3,469,464
Less unamortized bond discount and deferred loss on bonds			168,998	90,166
Total Bonds Payable			<u>\$ 34,847,762</u>	<u>\$ 3,379,298</u>

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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 \$675,582 which results in a legal debt margin at June 30, 2013, of \$608,024. 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.

As of June 30, 2013, 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
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>\$ 930,000</u>	<u>\$ 89,883</u>	<u>\$ 1,019,883</u>
Revenue and Athletic Facilities Bonds			
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	1,410,674	1,206,386	2,617,060
2019 – 2023	6,630,000	4,998,369	11,628,369
2024 – 2028	6,800,000	2,972,593	9,772,593
2029 – 2033	6,280,000	604,895	6,884,895
	<u>\$ 34,086,760</u>	<u>\$ 15,947,880</u>	<u>\$ 50,034,640</u>

The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2013:

Bond Type	Principal	Interest
State Institution Bonds	\$ 205,000	\$ 47,788
Revenue Bonds	2,045,000	834,932
Athletic Facilities Revenue Bonds	1,219,464	1,043,186
	<u>\$ 3,469,464</u>	<u>\$ 1,925,906</u>

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

Notes Payable

At June 30, 2013, 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%.	\$ 1,731,570
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%.	3,117,198
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 one remaining annual payment of \$37,381, maturing in January 2013.	<u>37,381</u>
	<u>\$ 4,886,149</u>

The scheduled maturities of the notes payable are as follows:

Notes Payable	Principal	Interest	Payments
2014	\$ 1,301,517	\$ 201,935	\$ 1,503,452
2015	1,319,090	146,982	1,466,072
2016	767,047	95,107	862,154
2017	597,547	63,302	660,849
2018	629,109	31,739	660,848
2019 - 2020	271,839	3,516	275,355
	<u>\$ 4,886,149</u>	<u>\$ 542,581</u>	<u>\$ 5,428,730</u>

Total principal paid on notes payable was \$1,248,919 for the year ended June 30, 2013. Total interest paid on notes payable was \$254,533.

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, 2013 were as follows:

Year ending June 30,	Capital Leases/ Equipment	Operating Leases/ Equipment
2014	\$ 23,922	\$ 370
Total minimum lease payments	23,922	<u>\$ 370</u>
Less: Interest	624	
Executory and other costs	8,189	
Present value of minimum lease payments	<u>\$ 15,109</u>	

All leases are with parties outside state government.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2013 were \$34,982, of which \$2,465 represented interest and \$12,022 represented executory costs. Total principal paid on capital leases was \$20,495 for the year ended June 30, 2013. The following is a summary of the carrying values of assets held under capital lease at June 30, 2013.

Equipment acquired under capital leases	\$ 87,664
Less accumulated amortization	<u>84,755</u>
Equipment acquired under capital leases, net	<u>\$ 2,909</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 2013 was \$1,109. In the current fiscal year, The Citadel incurred expenses of \$140,470 for office copier service on a cost-per-copy basis.

NOTE 9 – PENSION PLANS

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 of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position 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, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members.

The Retirement Division maintains five 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 South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

Disability annuity benefits are payable to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members qualify for disability annuity benefits provided they have a minimum of eight years of credited service. An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018.

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. Employer contributions for State ORP include a 5.45% employer retirement contribution, 4.55% retiree insurance surcharge and .15% incidental death program. The Citadel's actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year <u>Ended</u>	<u>Retirement</u>		<u>Incidental Death</u>	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2013	10.450%	\$2,594,056	.15%	\$37,235
2012	9.385%	\$2,212,793	.15%	\$35,367
2011	9.240%	\$2,008,308	.15%	\$34,078

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. 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 PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental 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.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2012, employees participating in the PORS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for PORS was 16.85%. Included in the total PORS employer contribution rate is a base retirement contribution of 11.90%, .20% for the incidental death program, .20% for the accidental death program, and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The Citadel's actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2013, 2012, and 2011 were:

Fiscal Year Ended	Retirement		Incidental Death		Accidental Death	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2013	11.900%	\$90,469	.20%	\$1,520	.20%	\$1,520
2012	11.363%	\$82,737	.20%	\$1,456	.20%	\$1,456
2011	11.130%	\$69,826	.20%	\$1,362	.20%	\$1,362

As an alternative to membership to SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for State ORP plan other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.55% from the employer in fiscal year 2013. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% and .15% incidental death program contribution amounts are remitted to SCRS.

For fiscal year 2013, total contributions requirements to the ORP were approximately \$1,543,837 (excluding the surcharge) from The Citadel as employer and approximately \$1,029,050 from its employees as plan members.

The amounts paid by The Citadel for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

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, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, The Citadel's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, The Citadel recognizes no contingent liability for unfunded costs associated with participation in the plans.

NOTE 10—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

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 South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA).

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 beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 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.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, 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, 4.55% of annual covered payroll for 2013 and 4.30% of annual covered payroll for 2012. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Citadel paid approximately \$1,644,201 and \$1,486,950 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2013 and 2012, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2013 and 2012. The Citadel recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$20,399 and \$20,186 for the years ended June 30, 2013 and 2012, respectively.

Effective May 1, 2008 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 SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

A copy of the complete financial statements for the benefit plans and the trust funds from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

NOTE 11—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013, was as follows:

	July 1, 2012	Additions	Reductions	June 30, 2013	Due Within One Year
Bonds and Notes Payable and Capital Lease Obligations:					
State Institution Bonds	\$ 1,135,000	\$ -	\$ 205,000	\$ 930,000	\$ 215,000
Less unamortized bond discount	<u>1,282</u>	<u>-</u>	<u>419</u>	<u>863</u>	<u>342</u>
Total State Institution Bonds	<u>1,133,718</u>	<u>-</u>	<u>204,581</u>	<u>929,137</u>	<u>214,658</u>
Revenue Bonds	20,810,000	-	2,045,000	18,765,000	2,120,000
Athletic Facilities Revenue Bonds	16,541,224	-	1,219,464	15,321,760	1,281,812
Less deferred loss on refunding	62,183	-	62,183	-	-
Less unamortized bond discount	<u>195,700</u>	<u>-</u>	<u>27,565</u>	<u>168,135</u>	<u>24,091</u>
Total Revenue Bonds Payable	<u>37,093,341</u>	<u>-</u>	<u>3,174,716</u>	<u>33,918,625</u>	<u>3,377,721</u>
Total Bonds Payable	38,227,059	-	3,379,297	34,847,762	3,592,379
Notes Payable	6,135,069	-	1,248,920	4,886,149	1,301,517
Capital Lease Obligations	<u>35,604</u>	<u>-</u>	<u>20,495</u>	<u>15,109</u>	<u>15,109</u>
Total Bonds, Notes & Capital Leases	<u>44,397,732</u>	<u>-</u>	<u>4,648,712</u>	<u>39,749,020</u>	<u>4,909,005</u>
Other Liabilities					
Accrued compensated absences	2,738,147	1,366,571	1,234,628	2,870,090	1,298,660
Federal loan funds	501,574	-	6,883	494,691	-
Unearned revenues	3,940,207	2,953,570	3,080,674	3,813,103	3,073,103
Deposits	2,447,534	927,107	647,659	2,726,982	1,929,534
Annuities payable	23,861	6,539	8,190	22,210	9,450
Funds held for others	<u>52,380</u>	<u>120,573</u>	<u>52,380</u>	<u>120,573</u>	<u>-</u>
Total Other Liabilities	<u>9,703,703</u>	<u>5,374,360</u>	<u>5,030,414</u>	<u>10,047,649</u>	<u>6,310,747</u>
Total Long-term Liabilities	<u>\$ 54,101,435</u>	<u>\$ 5,374,360</u>	<u>\$ 9,679,126</u>	<u>\$ 49,796,669</u>	<u>\$ 11,219,752</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 Unearned Revenues is included in Note 6.

NOTE 12—CONSTRUCTION COSTS AND COMMITMENTS

Capitalized

The Citadel has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that The Citadel has sufficient resources available and/or future resources identified to satisfactorily complete the construction of these projects which are expected to be completed in varying phases over the next five years at an estimated cost of \$3,631,164. Of the total estimated cost, approximately \$3,314,822 is unexpended at June 30, 2013. Of the unexpended balance at June 30, 2013, The Citadel had remaining commitment balances of approximately \$1,332,287 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 \$2,074,142.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

Major capital projects at June 30, 2013, which constitute construction in progress that will be capitalized when completed, are listed below.

Project Title	Estimated Cost	Amount Expended
Byrd Hall Lab Renovation	\$ 150,000	\$ 60,578
Byrd Hall Chemistry Stockroom Ventilation	100,000	4,755
Byrd Hall Auditorium Renovation	230,000	1,990
Daniel Library Fire Sprinkler Installation	450,000	12,963
Jenkins Hall Auditorium Renovation	370,610	98,306
Mark Clark Hall Exterior	1,128,804	205,912
Johnson Hagood Stadium East Stands Repair	900,000	51,640
Jenkins Hall Arms Room	200,000	6,757
Johnson Hagood Stadium Plaza	101,750	73,433
	<u>\$ 3,631,164</u>	<u>\$ 516,334</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, 2013, 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 \$34,803,118. This amount includes costs incurred to date of \$18,438,398 and estimated costs to complete of \$16,364,720. The Citadel has remaining commitment balances with certain parties related to these projects of approximately \$66,973.

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, 2013, The Citadel had \$6,253 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.

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, 2013, net appreciation of \$3,777,672 is available to be spent, of which \$3,715,825 is restricted to specific purposes.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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, 2013, the present value of the annuity payable was \$22,210.

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, 2013.

The Citadel Foundation ("TCF")

For the fiscal year ended June 30, 2013, TCF received current year contributions of \$3,783,005 on behalf of The Citadel and The Trust -- \$3,136,662 of this total was recorded as gifts, \$631,433 was recorded as additions to permanent endowments, and \$14,910 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of \$419,344 for its fundraising services. An additional \$2,170,318 in gifts was received directly through donors instead of through TCF.

The Citadel and The Trust recorded non-governmental grants of \$7,632,177 and capital grants of \$994,612 from TCF for the fiscal year ended June 30, 2013. 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 \$86,421 of external sales proceeds to The Citadel which includes Skybox Amenity revenue.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled \$114,968 for the year ended June 30, 2013. TCF also provided \$10,556 to partially fund The Citadel Magazine.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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 Statement of Financial Position dated December 31, 2012, shows a grant payable to The Citadel of \$3,641,793. The amount due to The Citadel from TCF at June 30, 2013, is \$302,931.

The Citadel Brigadier Foundation (TCBF)

The Citadel and The Citadel Trust recorded non-governmental grants of \$1,179,991 from TCBF in the fiscal year ended June 30, 2013. 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 \$254,128 for the year ended June 30, 2013. TCBF did not owe The Citadel any amounts at June 30, 2013.

An additional \$133,013 in grant funding and \$350,000 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's net assets totaled \$4,656,886 at December 31, 2012.

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, 2013.

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, 2013, 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 \$411,538 for the year ended June 30, 2013.

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.

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 CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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, 2013:

State Appropriations	
Original appropriation	\$ 8,494,888
Agency additions	446,020
Appropriation allocations from the State Commission on Higher Education	
For Academic Endowment Match	10,418
For Technology Grant Program	414,764
Total State Appropriation Revenues	\$ 9,366,090

The following is a reconciliation of state capital appropriations and research infrastructure bond proceeds. The Citadel received during the fiscal year ended June 30, 2013:

	Capital Reserve Fund Appropriations	Lottery Proceeds	Research Infrastructure Bond Proceeds	Total
Proceeds drawn during the current fiscal year	\$ 6,283	\$ 412,919	\$ 1,964	\$ 421,166
Plus: Expenses incurred but not drawn during current fiscal year	66,473	-	-	66,473
Total	\$ 72,756	\$ 412,919	\$ 1,964	\$ 487,639

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, 2013:

Other amounts received from State agencies	Operating Revenue	Nonoperating Revenue
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	\$ 2,285,679	\$ -
Palmetto Fellows Scholarships	362,200	-
Need-Based Grants	203,923	-
Hope Scholarships	252,000	-
SC National Guard	148,500	-
Received from various other state agencies	1,786	13,982
	\$ 3,254,088	\$ 13,982

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

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

The Citadel had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, insurance coverage, office supplies, and interagency mail.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

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 2013 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, claim 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 fifteen lawsuits pending. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is reasonably possible in ten of the cases, all of which involve The Citadel's former summer camp (collectively, "summer camp cases"). At this time, however, the outcome of the legal proceedings and claims, including losses, cannot be reasonably estimated. Therefore, an estimated liability has not been recorded. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for the remaining five, non-camp-related cases, is not likely.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

Summer Camp Cases

Background:

From 1957 until 2006, The Citadel operated a summer camp for children between ten and fifteen years old. Between 1997 and 2001, "Counselor 1", a 1997 graduate of The Citadel, served in various positions as counselor at the camp. During the summers of 2000, 2001, and 2002, "Counselor 2" served as a counselor.

In 2001, a camper accused Counselor 1 of sexually assaulting him during the camp. Those accusations ultimately led to Counselor 1's court-martial. Five former campers subsequently filed suit alleging Counselor 1 had assaulted them while at the camp. The Citadel and its general liability insurer, the Insurance Reserve Fund, settled those claims in 2006 for \$3.85 million. The Insurance Reserve Fund paid approximately \$3.3 million to settle those cases; The Citadel contributed \$500,000 to settle the cases.

In 2007, a camper from 2002 reported that Counselor 2 had allegedly engaged in sexual misconduct with him during 2002. The former camper alleged Counselor 2 had engaged in similar conduct with other campers during 2001. The Citadel, through its General Counsel, investigated the allegations but found no corroboration. The Citadel did not report the allegations to law enforcement. In 2011, Counselor 2 was arrested for sexually abusing numerous boys in the Charleston area. In 2012, he was sentenced to fifty (50) years imprisonment.

Litigation:

Counselor 1: In December, 2011, a former camper filed suit in state court against The Citadel alleging Counselor 1 sexually assaulted him in 2000. The Citadel recently mediated the case, but has been unable to resolve it.

Counselor 2: Six plaintiffs have filed a total of nine (9) cases against The Citadel and two of its employees in connection with Counselor 2's actions. All six have filed cases in state court against The Citadel alleging gross negligence against the school. Two of these plaintiffs have also filed suit against the President of The Citadel in federal court, pursuant to Section 1983, alleging the President conspired to violate their civil rights by failing to report Counselor 2 in 2007. One of those plaintiffs has also filed a Section 1983 claim in federal court against the General Counsel of The Citadel, making similar allegations.

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.

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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2013

NOTE 20—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2013, are summarized as follows:

	Compensation and Employee Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 23,265,165	\$ 1,867,381	\$ -	\$ 89,506	\$ -	\$ 25,222,052
Research	86,256	164,463	-	25,500	-	276,219
Public Service	89,107	242,752	-	-	-	331,859
Academic Support	6,615,899	2,026,758	-	250,615	-	8,893,272
Student Services	6,312,756	1,883,754	266	15,776	-	8,212,552
Institutional Support	8,030,357	3,117,988	-	53,750	-	11,202,095
Operations & Maint. Of Plant	5,561,726	3,925,914	2,388,020	-	-	11,875,660
Scholarships & Fellowships	4,750	164,653	-	3,368,815	-	3,538,218
Auxiliary Enterprises	7,032,255	16,086,595	1,030,349	-	-	24,149,199
Depreciation	-	-	-	-	5,358,450	5,358,450
Total Operating Expenses	\$ 56,998,271	\$ 29,480,258	\$3,418,635	\$ 3,803,962	\$ 5,358,450	\$ 99,059,576

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

<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 Interior			
Fish and Wildlife Services			
Georgia Aster	16.RD	40181AJ197	\$ 1,810
Pondberry FWS	16.RD	F12AB0020	2,175
Total Department of Interior			<u>3,985</u>
USDA, Forest Service			
Propagation and Genetic of the Endangered Plant Pondberry (Lindera Melissifolia) on the Francis Marion National Forest	10.RD	10-CS-11081209-002	1,989
Total USDA, Forest Service			<u>1,989</u>
National Aeronautics and Space Administration			
Passed through College of Charleston			
SC Space Grant Consortium - SC Space Grant Yr 20	43.RD	NNX10AM76H	299
SC Space Grant Consortium - Palmetto Academy Summer 2012	43.RD	NNX10AM76H	15,726
SC Space Grant Consortium – Mathematics for Cosmic Exploration	43.RD	NNX10AM76H	3,765
SC Space Grant Consortium – NASA EPCSoR Travel 2012	43.RD	NNX10AM76H	3,644
Passed through Space Telescope Science Institute			
Advanced Spectral Library Project: Cool Stars	43.RD	HST-GO-12278.02-A	19,253
Passed through Jet Propulsion Laboratory			
JPL	43.RD	NM0711036	5,188
Total National Aeronautics and Space Administration			<u>47,875</u>
National Science Foundation			
Civil Engineering Opportunities for Socioeconomically Disadvantaged, Minorities and Female Students in South Carolina	47.RD	DUE-1059945	76,738
Total National Science Foundation			<u>76,738</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	17,902
Total National Institutes of Health			<u>17,902</u>
Department of Transportation			
Passed through Clemson University			
Clemson Subaward - 1674-223-2009400	20.RD	1674-223-2009400	118
Total Department of Transportation			<u>118</u>
Total Research and Development Cluster			<u>148,607</u>
<u>Student Financial Aid Cluster:</u>			
Department of Education			
Federal Supplemental Education Opportunity Grants	84.007	P007A103769	66,500
Federal Work Study Program	84.033	P033A103769	106,751
Federal Perkins Loan Program	84.038	P038A123769	77,211
Federal Pell Grant Program	84.063	P063P100375	2,675,092
William D. Ford Direct Loan Program	84.268	P268K110375	27,773,834
Total Student Financial Aid Cluster			<u>30,699,388</u>

(continued)

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA Number</u>	<u>Grantor's Number</u>	<u>Total Expenditures</u>
<u>Other Programs:</u>			
Department of Education			
Passed through Charleston County School District GEAR-UP Bright	84.334	n/a	17,756
Passed through National Writing Project Corporation National Writing Project	84.928	99-SC09	20,000
Passed through Hampton One School District Hampton One - TEAMS	84.366	H63010008209	24,519
Passed through SC Commission on Higher Education Improving Teacher Quality Yr 2 (2011/2012)	84.367	n/a	15,351
Improving Teacher Quality Yr 3 (2012/2013)	84.367	n/a	73,877
Improving Teacher Quality – Kiawah Island	84.367	n/a	20,841
Total Department of Education			<u>172,344</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	1,977
Total Department of Health and Human Services			<u>1,977</u>
Department of Homeland Security			
Passed through Institute of International Education Project Go 2012/2013	97.010	HQ 0034-08-2-0024	133,090
ROTC Language and Culture Projects - 2011/2012	97.010	HQ 0034-08-2-0024	4,407
Total Department of Homeland Security			<u>137,497</u>
Department of Energy			
Precision Studies of Hadronic and Electro-Weak Interactions for Collider Physics	81.049	DE-SC0005028	23,652
Total Department of Energy			<u>23,652</u>
Total Other Programs			<u>335,470</u>
Total Expenditures of Federal Awards			<u>\$ 31,183,465</u>

THE CITADEL
The Military College of South Carolina
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures 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 \$639,044 as of June 30, 2013.

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 \$33,492 for the year ended June 30, 2013 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 \$22,167 for the year ended June 30, 2013 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.



**Independent Auditor's 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, 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, the financial statements of the business-type activities and discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise The Citadel's basic financial statements, and have issued our report thereon dated October 11, 2013. Our report includes a reference to other auditors who audited the financial statements of The Citadel Brigadier Foundation, as described in our report on The Citadel's financial statements. The financial statements of The Citadel Foundation and The Citadel Brigadier Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with The Citadel Foundation and The Citadel Brigadier Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Citadel's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Citadel's internal control. Accordingly, we do not express an opinion on the effectiveness of The Citadel's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Citadel's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

Greenville, South Carolina
October 11, 2013



**Independent Auditor's Report on Compliance For Each
Major Federal Program and Report on Internal Control
Over Compliance**

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

Report on Compliance for Each Major Federal Program

We have audited The Citadel, The Military College of South Carolina (The Citadel)'s 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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The Citadel's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination on The Citadel's compliance.

Opinion on Each Major Federal Program

In our opinion, The Citadel complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of The Citadel is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Citadel's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a large, sweeping initial "E".

Greenville, South Carolina
October 11, 2013

THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2013

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 \$935,504.
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, 2013

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