THE CITADEL

THE MILITARY COLLEGE OF SOUTH CAROLINA

CHARLESTON, SOUTH CAROLINA

YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

TABLE OF CONTENTS

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, 2016, 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 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, 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, 2016, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as shown on pages 3 – 16, and the Schedule of The Citadel's Proportionate Share of the Net Pension Liability and the Schedule of The Citadel's Contributions, as shown on pages 65 and 66, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016 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.

Elliott Davis Decosimo, LLC

Charleston, South Carolina
October 20, 2016

Overview of the Financial Statements and Financial Analysis

The Citadel (or "College") is pleased to present its financial statements for fiscal year 2016. While audited financial statements for fiscal year 2015 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 2015, The Citadel received a renewed 10-year accreditation from the Southern Association of Colleges and Schools ("SACS") with no recommendations for improvements or further action required.

Total State appropriations, which include other items such as State health insurance allocations, increased $458,841 from $9,869,861 in 2015 to $10,328,702 in 2016. Total State appropriations peaked in fiscal year 2008 at $16,895,424 and have declined 39% since that timeframe. The Citadel also received $1.355 million in one-time appropriations for the Byrd Hall Lab renovation, $562,000 for the Deas Hall renovation, and $404,484 for Deas Hall equipment.

The Citadel increased student fees to help support advancing the College's LEAD 2018 Strategic Plan, pay the College's share of State-mandated cost of living adjustment, and fund new programs such as the College's Mechanical Engineering Program. Despite continued strong cadet enrollment and an increase in cadet fees there was a $0.001 decrease in student tuition and fee revenue, net of scholarship allowances. This decrease was the result of a decline in out of state enrollment. However, other fees charged to students increased by $1.1 million

The Citadel Graduate College and Citadel Evening Undergraduate College enrollment decreased 3.9% and 3.6%, respectively, between fiscal years. The decline was partially offset by a significant increase in an other student category: specifically, the veteran student population.

Student Category	Fall 2015* Enrollment	Fall 2014** Enrollment	# Increase / (Decrease)	% Increase / (Decrease)
Cadets	2,291	2,352	(61)	(2.59%)
Graduate Students	835	829	6	.7%
Evening Undergraduate Students	139	134	5	3.73%
Others (Includes Active Duty, Veteran Student, etc.)	241	277	(36)	(13.0%)
Totals	**3,506**	**3,592**	**(86)**	**(3.45%)**

* Source: Citadel Institutional Research Fall 2015 Student Enrollment Profile
** Source: Citadel Institutional Research Fall 2014 Student Enrollment Profile

The College continued to increase its retention rate as various campus programs such as the College Success Institute ("CSI") and the Academic Support Center have begun to mitigate the at-risk student population. The College is also implementing an Early Alert System to continue to increase its retention rates.

Cohort	Fall 2015 Retention***	Fall 2014 Retention****
Retention rate of full-time bachelor's degree seeking undergraduate student who entered institution in the prior Fall	86%	86%

*** Source: Citadel Institutional Research Common Data Set 2015-2016
**** Source: Citadel Institutional Research Common Data Set 2014-2015

Overview of the Financial Statements and Financial Analysis, Continued

Pledged revenues from auxiliary fee-based and profit-based revenue were relatively flat over the prior year. Auxiliary student fee revenue decreased by $ 0.34 million based on lower cadet enrollment. In addition, there was a small decrease in scholarship allowances. Auxiliary sales, or profit-based, revenue increased by $0.72 million. Increases recognized in The Cadet Store ($0.1 million) and Barnes & Noble ($0.39 million) were offset by a decrease in Aramark Profit-Based and Vending ($0.1 million). Non-pledged auxiliary revenues (sales and services of the Athletic Department), increased by $0.3 million due to various increases in Athletic revenue.

Athletics fee-based revenue decreased by approximately $234,300 due to a decrease in the cadet population. Athletics sales revenue increased by $94,777. In July 2015, Citadel Finance management identified and communicated to senior management, the Citadel Board of Visitors, and The Citadel's external auditors that The Citadel's Athletics Department was not able to cover unfunded Athletic Grant in Aid due to operating deficits in FY15. In FY16, The Citadel and The Citadel Athletic Department continued to address the issue. This issue should not have any impact on the College's ability to pay its annual debt service, but it has been disclosed for transparency purposes to specify potential contingencies to the College's unrestricted net position. See Note 23 for additional information.

On the night of May 28, 2016, The Citadel Beach House caught fire. The cause of the fire was investigated by Isle of Palms authorities but the cause was not determined. The Citadel insured the building with the State of South Carolina Insurance Reserve Fund for $2 million plus $100,000 additional for required structural upgrades. The cost estimate for repairs is approximately $2.3 - $2.4 million. The Insurance Reserve Fund has stated that they would cover $2.1 million, and The Citadel will cover the remaining balance from Auxiliary profits. In addition, The Citadel had a Business Interruption policy that will cover the revenue from the events that were unable to be held during the construction phase.

Operating expenses increased significantly in 2016. Compensation and benefits increased by $3.48 million due a to state mandated bonus totaling $496,481 ($800 per FTE), a $1.087 million increase in classified salaries (related to results identified in a recent salary study), a $472,377 increase in dual employment pay, and a 3.9% increase in the employer's share of insurance effective January 1, 2015. Services and supplies expenses increased by $2.845 million primarily due to an increase in campus deferred maintenance projects in response to the College's implementation of a formal long-term capital asset management plan and increased expenses related to the October 2015 storm damage in Bond and Byrd Hall. $763,792 of the storm damage was covered by the Insurance Reserve Fund.

In an effort to capitalize on the low interest rate environment, the College refinanced three separate bonds totaling $26.9 million or 99% of bonds payable outstanding at June 30, 2015. See Note 8 for additional information. The reduction of long term debt balances continued in 2016. In FY16 interest on debt service dropped 35% due to the effects of refinance and lower interest rates. In FY16, The Citadel did not enter into any new debt agreements.

The Citadel Real Estate Foundation, which will be a discretely presented component unit of The Citadel, was formed on January 20, 2016 with a December 31st year end and had no activity through June 30, 2016. In FY17, The Citadel plans to enter into a 10 year lease agreement with The Citadel Real Estate Foundation for classroom and office space in Bastin Hall. The Citadel will lease land to The Citadel Real Estate Foundation, and The Citadel Real Estate Foundation will pay for the construction of Bastin Hall using a combination of gifts and bonds financed through South Carolina Jobs - Economic Development Authority "JEDA". Once Bastin Hall is built, The Citadel will lease the building back for 10 years. At the end of the 10 year lease agreement, The Citadel Real Estate Foundation will donate the building to The Citadel. Bastin Hall will house The Citadel School of Business.

Overview of the Financial Statements and Financial Analysis, Continued

In FY16, The Citadel adjusted the net pension liability based on guidance from the South Carolina Public Employee Benefit Authority. In FY16, the pension liability beginning balance was $63.9 million. During FY16 adjustments to the net pension liability were made based on actuarial data and a change in expected investment returns. The net pension liability was increased by a $0.6 million change in deferred outflows, a $5.2 million change in deferred inflows due to changes in expected investment returns, and $1.5 million in pension expense. These adjustments increased the pension liability to $71.2 million

The most significant influence on the financial results of The Citadel Trust, Incorporated "The Trust" during 2016 was the decline in investment returns. Approximately 49% 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 invests in traditional investments as well as in alternative investments such as private equity, venture capital, real assets, and hedge funds. The Richmond Fund's return declined from 15.6% in 2014 to 5.8% in 2015 and to -4.64% in FY16. The Trust's remaining pooled assets are invested in a managed portfolio of traditional investments held at Morgan Stanley. Returns for this managed portfolio declined from 16.4% in fiscal year 2014 to 0.7% in 2015 and to 0.4% in FY16. Investment book values increased by $1,965,265 from $76,811,394 in 2015 to $78,776,659 in 2016. Investment market values (including cash and money market holdings within existing positions) decreased by $2,710,082 from $88,960,557 in 2015 to $86,250,475 in 2016.

In August 2013, The Trust's Board of Director's ratified a memorandum of understanding ("MOU") with The Citadel Alumni Association ("CAA") allowing the CAA to invest in The Trust's unitized investment pool and gain access to The Trust's more diversified pool of investments managed by Morgan Stanley and Spider Management. The CAA contributed $3,100,000 in October 2013 and $830,313 in March 2014. Per the MOU, these funds were invested in the same manner and with the same due care in which The Trust's funds are invested. The fair market value of the CAA investments at June 30, 2015 is $4,503,318. The fair market value of the CAA investments at June 30, 2016 is $4,395,468. This investment has been recorded on the Statement of Net Position included within Investments in the Assets category and within Funds Held for Others in the Liabilities category. The Trust does not recognize any revenues from the investment returns on the CAA investments.

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 deferred outflows and liabilities and deferred inflows) 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 and deferred outflows, liabilities and deferred inflows, and net position of the College as of the end of the fiscal year. The Citadel adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015. 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), Deferred Outflows of

Statement of Net Position, Continued

Resources (a consumption of assets applicable to a future reporting period), Liabilities (what we owe to others and have collected from others before we have provided the service), Deferred Inflows of Resources (an acquisition of net assets that is applicable to a future reporting position), and Net Position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources). 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 and deferred outflows of resources minus liabilities and deferred inflows of resources) 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 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. Unrestricted net position is reported as a net negative balance as a result of The Citadel's prior year adoption of GASB 68. The negative balance resulting from The Citadel's portion of the unfunded pension liability of the State of South Carolina exceeds the positive unrestricted net position of the various other unrestricted funds within the College.

Condensed Summary of Net Position (thousands of dollars)

Assets:	**2016**	**2015**	**Increase/ Decrease**	**Percent Change**
Current assets	$ 65,649	$ 65,005	$ 644	0.99%
Capital assets, net	123,063	125,283	(2,220)	-1.77%
Other assets	75,380	78,486	(3,106)	-3.96%
Total Assets	264,092	268,774	(4,682)	-1.74%
Deferred Outflows of Resources	6,366	5,675	691	12.18%
Liabilities:				
Current Liabilities	18,069	15,856	2,213	13.96%
Noncurrent Liabilities	100,266	97,216	3,050	3.14%
Total Liabilities	118,335	113,072	5,263	4.65%
Deferred Inflows of Resources	332	5,595	(5,263)	-94.07%
Net Position:				
Net investment in capital assets	97,081	95,808	1,273	1.33%
Restricted - nonexpendable	46,505	48,564	(2,059)	-4.24%
Restricted – expendable	39,291	40,271	(980)	-2.43%
Unrestricted	(31,086)	(28,861)	(2,225)	-7.71%
Total Net Position	$ 151,791	$ 155,782	$ (3,991)	-2.56%

Statement of Net Position, Continued

Total Assets – overall decrease of $4.7 million

- The $0.6 million increase in current assets is composed of a $2.5 million increase in Citadel current assets and a $1.9 million decrease in Citadel Trust ("Trust") current assets.

  The $2.5 million increase in Citadel current assets is attributable to increases in current unrestricted cash and accounts receivable, reduced by a decrease in prepaid expenses. Current unrestricted cash increased by $1.1 million primarily due to increases in auxiliary maintenance reserves. Accounts receivable increased by $1.9 million. Student receivables decreased by $95,250, grant receivables decreased by $227,440, customer receivables decreased by $725,225 and a Capital Reserve Fund receivable increase of $1.286 million made up the majority of the increase in accounts receivable.

  The $1.9 million dollar decrease in Trust current assets is primarily attributable to the net effect of negative investment returns and the expenditure of various gift funds. Current unrestricted cash decreased by approximately $576,000 primarily due to increased spending in unrestricted gifts and the Turner Fund. New gifts of $381,506 did increase unrestricted gift balances. In addition, prepaid expenses decreased by $323,768 primarily due to a FY15 Band Travel prepaid expense of $291,020. Current restricted cash decreased by $2.8 million primarily due to a 5.5% decrease due to investment returns.

- The $2.2 million decrease in capital assets is composed of a $2.4 million decrease in Citadel capital assets and a $0.2 million increase in Trust capital assets.

  Citadel capital assets (net of depreciation) decreased by $1.8 million as depreciation expense exceeded newly capitalized assets. Depreciation expense of $4.9 million decreased slightly from $5.2 million in the prior year. Equipment and vehicles totaling $613,460 were purchased and capitalized in 2016. The following construction projects were completed and capitalized for a total cost of $2.4 million during 2016: Coin Laundry Relocation, Mechanical Engineering Fabrication Shop and the Cadet Accountibility software. Several projects are in process and comprise the $1,302,782 remaining in construction in progress: Capers Hall Replacement Study, New Capers Hall Building, Mechanical Engineering Lab and Equipment, , New School of Business Building and Hagood Housing Demolition, and The Citadel War Memorial.

  Trust capital assets increased by $0.2 million due to Trust unrestricted funds currently being used to purchase a student recruiting system for the College. The system and its implementation are expected to exceed the College's $100,000 capitalization threshold for software, so $290,846 in expenditures have been recorded in Construction in Progress.

- The $3.1 million decrease in other assets is primarily attributable to The Trust, as other assets for the Citadel only increased by $0.16 million.

The majority of the decrease is due to the overall negative investment returns.

Deferred Outflows of Resources – overall increase of $.7 million

- In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions*, The Citadel recorded pension payments made after the measurement date of June 30, 2015, totaling $4,025,295 million, to Deferred Outflows of Resources. In addition, $0.5 million was recorded to Deferred Outflows of Resources related to differences between expected and actual experience related to the net pension liability in FY16.

Statement of Net Position, Continued

Total Liabilities – overall increase of $5.3 million

- Citadel current liabilities increased by approximately $2.3 million. A major component of this increase is a $734,472 increase in current bonds payable due to a scheduled higher payment for one bond due in 2017. The College's 2005 Athletic Facility bond was paid off in 2015 resulting in a $0.7 million reduction in current bonds payable for 2016. In an effort to capitalize on the low interest rate environment, the College refinanced three separate bonds totaling $26.9 million or 99% of bonds payable outstanding at June 30, 2015.

  Accrued interest payable increased by $321,935 due to the completion of two of the College's aforementioned three refinancing efforts in June 2015. All previously accrued interest was paid at the time of issuance of the newly refinanced bonds, which left only $12,128 in accrued interest outstanding at June 30, 2015. The accrued interest for 2016 is $334,063.

  Citadel accounts payable increased by $0.5 million. The majority of that increase relates to an increase in capital project accounts payable of $851,445. This amount includes $370,774 for the Beach House Fire Project, $251,342 for Stevens Barracks restrooms and $341,120 for Jenkins Hall summer maintenance. These increases were partially offset by a decline of $609,609 in payroll fringe benefits payable.

  Other changes in current liabilities include an increase of approximately $0.8 in unearned revenue, primarily related to $684,305 in General Fund deferred revenue related to higher enrollment in Summer II 2016. In addition, student deposits to their campus One Card accounts increased by $113,349, and enrollment deposits increased slightly.

  Trust current liabilities decreased by $129,260. In FY15, accounts payable and accrued payroll amounts of approximately $185,000 were payable due to a pending year-end payment for the College's executive search to replace its recently retired Provost and contractual obligations for an executive deferred compensation payment. The FY16 amount was $551.

- Citadel noncurrent liabilities increased by $3.1 million, primarily due to the $7.3 million increase in the net pension liability as of June 30, 2016. This increase was partially offset by the $3.4 million decrease in bonds payable. As the bonds are nearing maturity, the noncurrent portion is decreasing.

  Trust noncurrent liabilities decreased by $0.1 million due to an decrease in Funds Held for Others in correlation with the investment returns earned by the CAA investments within the Trust's unitized investment pool.

Deferred Inflows of Resources – overall decrease of $5.3 million

- In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions,* The Citadel reduced deferred inflows of resources by $5.3 million in FY16. This adjustment was required because of differences between projected and actual earnings on pension plan investments related to the net pension liability. In addition, advanced receipt of revenues increased by $10,000 related to the $180,000 revenue received in advance for a Barnes and Noble contract offset by the recognition of the final $170,000 advance on the Daktronics contract.

Statement of Net Position, Continued

Net Position – overall decrease of $3.9 million

- Net investment in capital assets increased by $1 million as previously discussed; capitalized assets decreased by $2.4 because depreciation expense was higher than additions to capitalized assets. The net position increased because the bonds and notes payable balances decreased by $3.4 million.

- Restricted – nonexpendable assets decreased by $2 million. The decrease in Trust expendable assets of $1.8 million is due to a 4.54% decrease in investment returns.

- Restricted – expendable assets decreased by $1 million. Citadel restricted expendable assets increased by $0.9 million. Net position restricted for capital projects increased by $254,000 as the College began addressing its deferred maintenance needs through the implementation of a formal long-term capital asset management plan. In addition, restricted cash increases of $392,000 for Deas Hall equipment, and $121,000 related to the creation of The Riley Institute on Public Policy increased restricted expendable funds. Both of these projects were funded through the State of South Carolina.

- Unrestricted net position decreased by $2.2 million. The $1.2 million decrease in Citadel unrestricted net position is primarily attributable to the College's recognition of its proportionate share of the net pension liability.

  Citadel Trust unrestricted net position decreased by $1 million primarily due to the effect of negative investment returns and Trust spending.

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 (loss) before other revenues and transfers."

Statement of Revenues, Expenses, and Changes in Net Position, Continued

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

Revenues:	2016	2015	Increase/ (Decrease)	Percent Change
Student tuition and fees	$ 42,147	$ 42,148	$ (1)	0.00%
Sales and services	30,719	30,317	402	1.33%
Grants and contracts	6,093	5,361	732	13.65%
Investment income	(1,701)	2,463	(4,164)	-169.06%
Other operating revenues	4,863	2,531	2,332	92.14%
Total Operating Revenues	82,121	82,820	(699)	-0.84%
State appropriations	10,329	9,870	459	4.65%
Grants	9,956	10,334	(378)	-3.66%
Gifts	4,442	5,016	(574)	-11.44%
Investment income	339	164	175	106.71%
Other nonoperating revenues/expenses	522	540	(18)	-3.33%
Total Nonoperating Revenues	25,558	25,924	(336)	-1.30%
Total Revenues	107,709	108,744	(1,035)	-0.95%
Expenses:				
Compensation and employee benefits	65,105	61,623	3,482	5.65%
Services and supplies	36,136	33,285	2,851	8.57%
Utilities	3,834	3,931	(97)	-2.47%
Depreciation	4,921	5,392	(471)	-8.74%
Scholarships and fellowships	4,515	3,866	649	16.79%
Total operating expenses	14,511	108,097	6,414	5.93%
Interest expense on capital asset-related debt	1,167	1,812	(645)	-35.60%
Total Nonoperating Expenses	1,167	1,812	(645)	-35.60%
Total Expenses	115,678	109,909	5,769	5.25%
Income before capital contributions, additions to permanent endowments and transfers	(7,969)	(1,165)	(6,804)	-584.03%
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	3,220	1,746	1,474	84.42%
Permanent endowment additions	758	735	23	3.13%
Total capital contributions, additions to permanent endowments and transfers	3,978	2,481	1,497	60.34%
Change in Net Position	(3,991)	1,316	(5,307)	-403.27%
Net Position, Beginning	155,782	154,466	1,316	0.85%
Net Position, Ending	$ 151,791	$ 155,782	$ (3,991)	-2.56%

Total Revenues – overall decrease of $0.9 million

- Operating revenues decreased by $0.7 million. The majority of this decrease was associated with The Citadel Trust, as Citadel operating revenues increased by $6.09 million.

  Citadel tuition and fees decreased by $1,872 in fiscal year 2016, while Citadel other fees increased by $1,104,288. The increase in other fees is a result of The Citadel increasing fees for leadership programs, and creating a business targeted fee and an engineering targeted fee.

  Operating grant revenue increased by $0.7 million. Federal operating grants increased by $0.2 million, while State operating grants increased by $0.4 million, and nongovernmental operating grants increased by $0.1 million. The increase in Federal operating grants is primarily due to a Project Global Officer grant totaling approximately $168,000. This grant is a critical language scholarship initiative for cadets and midshipmen in U.S. Air Force, Army, and Navy (including Marine option) ROTC programs. The increase in State operating grants is primarily due to an approximately $322,000 increase in the State Life Scholarship. The increase in nongovernmental operating grants is related to Skybox revenue received from TCF.

Statement of Revenues, Expenses, and Changes in Net Position, Continued

Total Revenues – overall decrease of $0.9 million, continued

Auxiliary revenue pledged for revenue bonds increased by $0.5 million. Auxiliary student fee revenue decreased by $0.34 million based on slightly lower enrollment. This increase, however, was offset by a reduction in scholarship allowances. Auxiliary sales revenue increased over the prior year, $0.7 million. These increases included increases of $0.4 million for Barnes and Noble, $0.1 million for The Cadet Store and $0.3 million for Event Management. Event management revenue increased due to increased rental revenues from The Citadel Beach House and from various conferences and events held on campus by external organizations. In May 2016, The Citadel Beach House experienced a fire. The Citadel does maintain Business Interruption Insurance on the facility and the lost revenue will be paid to us by insurance.

Athletics sales revenue, the only auxiliary revenues not pledged for revenue bonds, increased by $94,777 million in fiscal year 2016.

In July 2015, The Citadel Finance management identified that The Citadel's Athletics Department was not able to cover unfunded Athletic Grant in Aid due to operating deficits in FY15. This issue does not have any impact on the College's ability to pay its annual debt service, but it has been disclosed for transparency purposes to specify potential contingencies to the College's unrestricted net position. In 2016, The Citadel expanded the use of monthly budget reports and started working with the Athletic department budget to correct prior year deficits. See Note 23 for additional information.

Other operating revenues increased by approximately $1.2 million. This increase primarily relates to $736,792 in insurance proceeds for storm damage and Byrd Hall damage and $419,660 from the State of South Carolina for Veterans tuition differential.

The $4.1 million decrease in Trust operating revenues is solely attributable to a significant decline in investment returns within the Trust's unitized investment pool. The return for the Richmond Fund investment decreased from 5.8% in 2015 to -4.64% in 2016. The Morgan Stanley managed portfolio return decreased from 0.7% in 2015 to 0.4% in 2016.

Nonoperating revenues decreased by 3.3%. This increase is composed of a $0.5 million increase in Citadel nonoperating revenues and a $0.1 million decrease in Citadel Trust nonoperating revenue.

The major components of the Citadel increase in nonoperating revenues was a $0.4 million increase in State appropriations, a $0.6 million decrease in interest on capital asset related debt, a $0.3 million decrease in gifts, a $0.4 million decrease in Federal Pell Grants and $0.2 million increase in investment income.

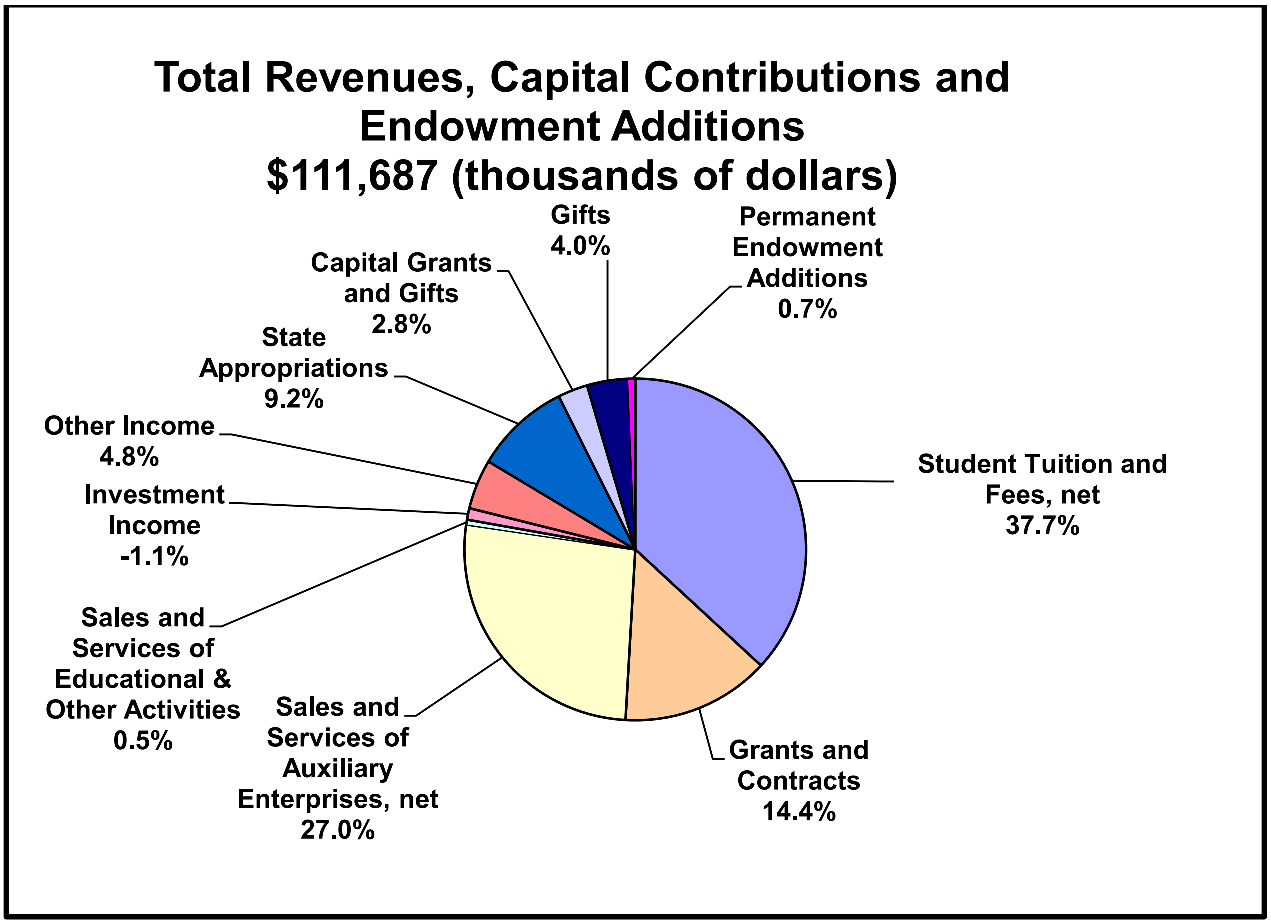
Total State appropriations, which include other items such as State health insurance allocations, increased by $458,841, from $9,869,861 in 2015 to $10,328,702 in 2016. Total State appropriations peaked in fiscal year 2008 at $16,895,424, and have declined 39% since that timeframe.

Federal nonoperating grants decreased by approximately $373,000 due to lower Pell grant funding. Nongovernmental nonoperating grant revenue decreased by approximately $94,363. Investment income increased by $0.2 million as a result of an increase in investment returns for State invested funds.

Statement of Revenues, Expenses, and Changes in Net Position, Continued

Total Revenues – overall decrease of $0.9 million, continued

The $0.1 million decrease in Trust nonoperating revenue is chiefly attributable to a $0.2 million decrease in gifts and a $0.1 million increase in Trust grants for salaries and deferred compensation from The Citadel Foundation.



Total Expenses – overall increase of $5.8 million

- Operating expenses increased by $6.4 million. Compensation and benefits increased by $3.4 million. In FY16, the College increased classified salaries as a result of a compensation study. These salary increases resulted in a $1 million increase in compensation. Other increases included approximately $0.5 million in state mandated employee bonuses, a $0.8 million increase in fringe benefits primarily due to a 3.9% increase in the employer's share of insurance effective January 1, 2015, and an increase in employer retirement contributions required in FY16. In addition, The Citadel increased dual employment compensation by $0.5 million. Pension expense decreased by $0.3 million.

Statement of Revenues, Expenses, and Changes in Net Position, Continued

Total Expenses – overall increase of $5.8 million, continued

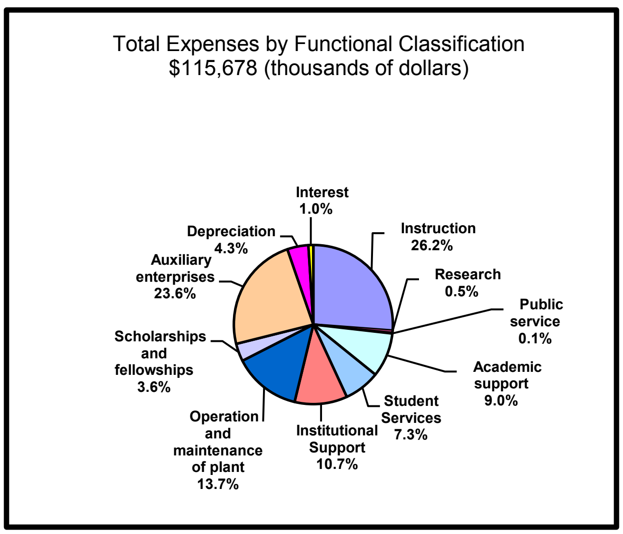
Services and supplies expenses increased by $2.8 million. Approximately $1.9 million of that amount is due to an increase in campus deferred maintenance projects in response to the College's implementation of a formal long-term capital asset management plan. The remaining increase relates to $0.2 million in academic and administrative computing, $0.3 million in general administration expenses, $0.16 million for a quality enhancement program and $0.18 for the office of the Associate Provost for Assessment.

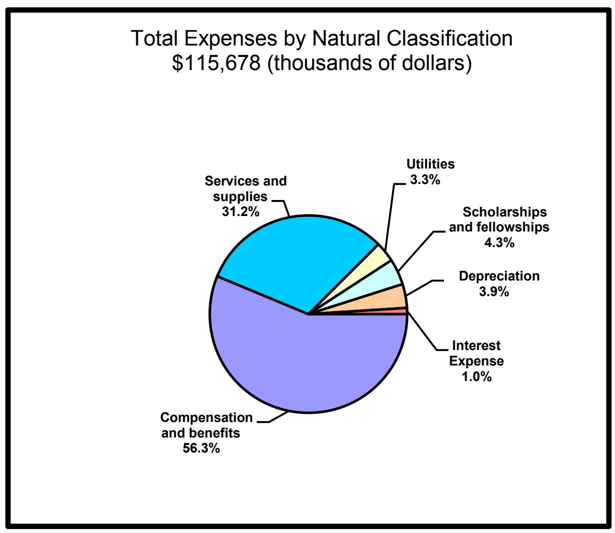
Utility costs decreased by approximately $97,000 as a result of normal price decreases.

Depreciation expense decreased by $0.5 million based on the depreciation schedule.

Scholarship expenses increased by $0.65 million. 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 $0.3 million and the scholarship allowance decreased by $0.4 million. As a result, the proportional amount refunded to students slightly decreased while the amount that applied to College tuition and fee revenue slightly increased.

- Nonoperating expenses decreased by $0.6 million due to a reduction in interest expense. As previously noted, the College refinanced three separate bonds totaling $26.9 million or 99% of bonds payable outstanding at June 30, 2015. See Note 8 for additional information.





Capital Contributions and Additions to Permanent Endowments – overall increase of $1.5 million

- Citadel capital grants and appropriations and transfers from The Citadel Trust increased by $2.3 million. State capital appropriations increased by $2.5 million. This increase was a result of $1.35 million capital appropriation for a Byrd Hall lab renovation and approximately $1 million for Deas Hall renovations and equipment. Capital grants decreased by $1 million. In FY15, The Citadel received $0.8 million for the Boat Center rehabilitation and $250,000 for the new School of Business building. Trust transfers increased by $0.8 million due to increased Trust funding for salaries, supplies, and scholarships.

Statement of Revenues, Expenses, and Changes in Net Position, Continued

Capital Contributions and Additions to Permanent Endowments – overall increase of $1.5 million

Trust capital grants and gifts are currently presented with a negative value of ($10,152) as a result of an allowance created for a doubtful pledge of $19,336.

- Permanent endowment additions decreased by approximately $22,000.

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 provided (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 provided (used) to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, at June 30, 2016 and June 30, 2015 were as follows:

Capital Assets (net of accumulated depreciation)

	2016	2015	Increase/ (decrease)	Percent Change
Capital Assets:				
Land	$ 4,903,347	$ 4,903,347	$ -	0.00%
Construction in Progress	1,593,628	1,965,201	(371,573)	-18.91%
Fine Arts	368,801	357,120	11,681	3.27%
Land improvements	3,587,902	3,896,491	(308,589)	-7.92%
Buildings and improvements	105,909,489	109,036,969	(3,127,480)	-2.87%
Equipment	1,644,319	1,469,284	175,035	11.91%
Vehicles	86,896	87,310	(414)	-0.47%
Intangibles	4,968,277	3,566,963	1,401,314	39.29%
Total	$ 123,062,659	$ 125,282,685	$ (2,220,026)	-1.77%

The following construction projects were completed and capitalized for a total cost of $2.4 million during 2016, including: Coin Laundry relocation ($0.5 million), Mechanical Engineering Fabrication Shop ($0.3 million), and the Cadet Accountability System ($1.6 million).

Several projects are in process and comprise the $1.3 million remaining in Citadel construction in progress: Capers Hall Replacement Study, New Capers Hall Building, Mechanical Engineering and Lab Equipment, New School of Business Building, and The Citadel War Memorial.

Trust capital assets increased by $0.2 million due to Trust unrestricted funds currently being used to purchase a student recruiting system for the College. The system and its implementation are expected to exceed the College's $100,000 capitalization threshold for software, so the $290,846 in expenditures has been recorded in Trust construction in progress.

The Citadel capitalized $0.6 million of new equipment and vehicles net of disposals in 2016 and recognized depreciation expense of approximately $4.9 million.

Statement of Revenues, Expenses, and Changes in Net Position, Continued

Capital Assets and Debt Administration, Continued

Net investment in capital assets, increased by $1.3 million due to reductions in both capital assets, net of depreciation, and capital debt. Citadel capital assets, net of depreciation, decreased by $2.4 million, while Trust capital assets increased by $0.2 million. The College's related long term debt decreased by $3.5 million. The net effect of the $2.2 million decrease in capital assets and the $3.5 million decrease in long-term liabilities results in an overall $1.3million increase in net investment in capital assets.

Economic Outlook

The economic position of The Citadel is closely tied to that of the State of South Carolina and the City of Charleston. The South Carolina economy continued to show strength in 2015, with the City of Charleston leading that growth. Charleston has recently been dubbed the Silicon Harbor as it is becoming one of the new start-up technology hubs of the country. Charleston has attracted many fortune 500 businesses including Boeing and Volvo to the area. And from a tourism standpoint, Charleston was recently ranked the #1 city in the nation by Travel and Leisure magazine.

In September 2016, U.S. News & World Report named The Citadel the No. 1 public institution in the South for the sixth consecutive year. The Citadel was also ranked No. 1 for best colleges for veterans in the South, and ranked No. 5 for best value among public colleges in the South in The Citadel's category. The Citadel's School of Engineering was also ranked No. 13 for best undergraduate engineering programs in the nation.

All of these factors have resulted in the recent robust enrollment at the College. Additional tuition increases for fiscal year 2016, continued strong enrollment, and the continuation of a capital campaign for the College's LEAD 2018 Strategic Plan will continue to help The Citadel provide a quality education to its students. The College's refinancing of 99% of its bonds payable to lower interest rates will provide benefits to the College through lower debt service. As the College continues to pay down long-term debt, its financial position should continue to strengthen over the upcoming years. The College is currently addressing the business model within the Athletics Department to reduce the aforementioned losses to make that area a profitable auxiliary again. The College is also beginning the planning efforts for various construction efforts including a new primary academic building, Capers Hall, and in the 2018 timeframe, an occupancy of Bastin Hall, a facility owned by The Citadel Real Estate Foundation. Donor support for at least partial funding of this effort is promising.

The Citadel's Base State appropriation will increase by a total of $113,928 from $10,328,702 in 2016 to $10,442,000 in 2017. This includes increases for pay plan, retirement, and the state mandated bonus.

The outlook for The Citadel Trust is closely aligned with the outlook for the economy as a whole and with the financial markets. Although The Trust has benefited from several fiscal years with very positive returns, the Trust's 2015 return of 3.1% and 2016 return of -4.64% in the Richmond Fund and 0.4% in the Morgan Stanley portfolio comes amid significant market volatility, the potential for rising interest rates. 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 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. The Trust Directors hope that this diversified approach will dampen the effect of the current economic uncertainties on The Trust investment returns in the upcoming year. The Directors, however, are closely monitoring the Trust's current spending policy of 5% of the 5 year rolling average of endowment market values, and are prepared to make changes as needed if the outlook for long-term market returns trends in a manner where it cannot fulfill the Trust's spending rate. Although the effect of

Statement of Revenues, Expenses, and Changes in Net Position, Continued

Economic Outlook, Continued

the current economic conditions on charitable contributions remains uncertain, the Trust should expect to see an increase in gift contributions related to the College's upcoming capital campaign for its LEAD 2018 Strategic Plan.

The Citadel currently is involved in a number of significant legal proceedings. Please see Note 21 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, 2016

	The Citadel		The Citadel Trust		Total
ASSETS					
Current Assets					
Cash and cash equivalents	$	31,581,636	$	775,443	$ 32,357,079
Marketable securities (at fair value)		-		1,275,470	1,275,470
Investment in limited partnership (at fair value)		-		1,276,708	1,276,708
Restricted Assets - Current					
Cash and cash equivalents		7,307,338		834,954	8,142,292
Marketable securities (at fair value)		-		6,084,228	6,084,228
Investment in limited partnership (at fair value)		-		5,382,552	5,382,552
Contributions receivable, net		124,687		229,941	354,628
Student loans receivable, net		-		43,909	43,909
Accounts receivable, net		7,713,035		111,246	7,824,281
Contributions receivable, net		-		100,259	100,259
Inventories		1,909,838		-	1,909,838
Prepaid items		877,866		19,896	897,762
Total current assets		49,514,400		16,134,606	65,649,006
Noncurrent Assets					
Marketable securities (at fair value)		-		2,229,879	2,229,879
Investment in limited partnership (at fair value)		-		2,232,044	2,232,044
Contributions receivable, net		-		258,559	258,559
Cash surrender value of life insurance		-		13,092	13,092
Restricted Assets - Noncurrent					
Cash and cash equivalents		961,330		934,502	1,895,832
Marketable securities (at fair value)		-		34,077,337	34,077,337
Investment in limited partnership (at fair value)		-		32,529,454	32,529,454
Contributions receivable, net		1,285,708		160,313	1,446,021
Student loans receivable, net		615,132		-	615,132
Cash surrender value of life insurance		-		82,607	82,607
Capital assets not being depreciated		4,317,123		2,548,653	6,865,776
Capital assets, net of accumulated depreciation		116,196,883		-	116,196,883
Total noncurrent assets		123,376,176		75,066,440	198,442,616
Total assets	$	172,890,576	$	91,201,046	$ 264,091,622
DEFERRED OUTFLOWS OF RESOURCES	$	6,366,036	$	-	$ 6,366,036
Amounts related to net pension liability	$	6,366,036	$	-	$ 6,366,036
Total deferred outflows of resources					
LIABILITIES					
Current Liabilities					
Accounts payable	$	3,334,537	$	129,273	$ 3,463,810
Retainages payable		82,684		-	82,684
Accrued payroll and related liabilities		2,418,600		551	2,419,151
Accrued compensated absences and related liabilities		1,485,127		-	1,485,127
Accrued interest payable		334,063		-	334,063
Unearned revenues		3,881,830		-	3,881,830
Bonds payable		3,446,455		-	3,446,455
Capital leases payable		13,760		-	13,760
Notes payable		597,547		-	597,547
Deposits		2,335,009		-	2,335,009
Annuities payable		-		9,450	9,450
Total current liabilities		17,929,612		139,274	18,068,886

THE CITADEL
The Military College of South Carolina
Statement of Net Position
June 30, 2016

		The Citadel		The Citadel Trust		Total
Noncurrent Liabilities						
Federal loan funds		477,599		-		477,599
Accrued compensated absences and related liabilities		1,522,115		6,170		1,528,285
Deposits		653,458		-		653,458
Unearned revenues		62,183		-		62,183
Bonds payable		21,001,004		-		21,001,004
Capital leases payable		22,392		-		22,392
Notes payable		900,948		-		900,948
Annuities payable		-		8,609		8,609
Net pension liability		71,211,557		-		71,211,557
Funds held for others		4,191		4,395,468		4,399,659
Total noncurrent liabilities		95,855,447		4,410,247		100,265,694
Total liabilities	$	113,785,059	$	4,549,521	$	118,334,580
DEFERRED INFLOWS OF RESOURCES						
Advance receipt of revenues	$	180,000	$	-	$	180,000
Amounts related to net pension liability		152,148		-		152,148
Total deferred inflows of resources	$	332,148	$	-	$	332,148
COMMITMENTS AND CONTINGENCIES (NOTES 14 AND 21)						
NET POSITION						
Net investment in capital assets	$	94,531,900	$	2,548,653	$	97,080,553
Restricted for Nonexpendable:						
Scholarships		-		40,887,237		40,887,237
Other		-		5,550,634		5,550,634
Annuity		-		67,900		67,900
Restricted for Expendable:						
Scholarships, research, instruction and other		5,832,074		28,019,478		33,851,552
Loans		221,148		1,183,242		1,404,390
Capital projects		3,384,318		306,614		3,690,932
Debt service		343,979		-		343,979
Unrestricted		(39,174,014)		8,087,767		(31,086,247)
Total net position	$	65,139,405	$	86,651,525	$	151,790,930

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, 2016

	The Citadel	The Citadel Trust	Total
REVENUES			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of $11,171,169)	$ 42,146,665	$ -	$ 42,146,665
Federal grants and contracts	1,097,331	-	1,097,331
State grants and contracts	4,179,267	-	4,179,267
Nongovernmental grants and contracts	815,996	-	815,996
Sales and services of educational and other activities	515,691	-	515,691
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of $4,852,064)	27,184,641	-	27,184,641
Sales and services of auxiliary enterprises - not pledged	3,018,576	-	3,018,576
Other fees	3,060,434	-	3,060,434
Investment loss (net of investment expenses of $485,449)	-	(2,446,475)	(2,446,475)
Endowment income	-	745,448	745,448
Other operating revenues	1,802,974	-	1,802,974
Total operating revenues	83,821,575	(1,701,027)	82,120,548
EXPENSES			
Operating Expenses			
Compensation and employee benefits	65,024,047	81,283	65,105,330
Services and supplies	36,067,562	67,916	36,135,478
Utilities	3,834,143	-	3,834,143
Depreciation	4,920,801	-	4,920,801
Scholarships and fellowships	4,514,580	-	4,514,580
Total operating expenses	114,361,133	149,199	114,510,332
Operating income (loss)	(30,539,558)	(1,850,226)	(32,389,784)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	10,328,702	-	10,328,702
Federal grants and contracts	2,681,241	-	2,681,241
State grants and contracts	122,848	-	122,848
Nongovernmental grants	6,801,458	350,616	7,152,074
Gifts	1,486,361	2,956,410	4,442,771
Investment income	338,649	-	338,649
Interest on capital asset-related debt	(1,167,255)	-	(1,167,255)
Gain on disposal of capital assets	15,643	-	15,643
Other nonoperating revenues	250,000	255,762	505,762
Net nonoperating revenues	20,857,647	3,562,788	24,420,435
Income (loss) before other revenues and transfers	(9,681,911)	1,712,562	(7,969,349)
OTHER REVENUES AND TRANSFERS			
State capital appropriations	2,905,063	-	2,905,063
Capital grants and gifts, net adjustments	325,569	(10,152)	315,417
Additions to permanent endowments	-	757,906	757,906
Transfers to/from component unit	7,186,596	(7,186,596)	-
Total other revenues and transfers	10,417,228	(6,438,842)	3,978,386
Increase (decrease) in net position	735,317	(4,726,280)	(3,990,963)
NET POSITION			
Net position-beginning of year	64,404,088	91,377,805	155,781,893
Net position-end of year	$ 65,139,405	$ 86,651,525	$ 151,790,930

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, 2016

	The Citadel	The Citadel Trust	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	$ 46,107,295	$ -	$ 46,107,295
Grants and contracts	5,928,652	-	5,928,652
Sales and services of educational and other activities	(154,609)	-	(154,609)
Sales and services of auxiliary enterprises	30,188,527	-	30,188,527
Other operating receipts	1,885,944	-	1,885,944
Payments to employees for salaries and benefits	(64,138,863)	(81,283)	(64,220,146)
Payments to suppliers	(35,093,627)	(67,916)	(35,161,543)
Payments for utilities	(3,821,836)	-	(3,821,836)
Payments to students for scholarships and fellowships	(4,514,580)	-	(4,514,580)
Loans issued to students	(90,763)	-	(90,763)
Collection of loans to students	105,261	-	105,261
Funds held for others	(48,578)	-	(48,578)
Student direct lending receipts	27,629,419	-	27,629,419
Student direct lending disbursements	(27,602,547)	-	(27,602,547)
Net cash used for operating activities	(23,620,305)	(149,199)	(23,769,504)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	10,328,702	-	10,328,702
Gifts and grants for other than capital purposes	11,142,745	3,854,984	14,997,729
Other non-operating revenues/expenses	250,000	489,416	739,416
Transfers from (to) component unit	7,186,596	(7,186,596)	-
Net cash provided by (used for) noncapital financing activities	28,908,043	(2,842,196)	26,065,847
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
State capital appropriations	1,619,536	-	1,619,536
Capital grants and gifts received	326,753	19,366	346,119
Proceeds from sale of capital assets	15,643	-	15,643
Purchases of capital assets	(1,630,018)	(202,456)	(1,832,474)
Principal paid on capital debt and leases, net of discount	(3,479,031)	-	(3,479,031)
Interest paid on capital related debt	(858,664)	-	(858,664)
Net cash used by capital and related financing activities	(4,005,781)	(183,090)	(4,188,871)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	21,216,486	21,216,486
Interest and dividends on investments	317,843	536,990	854,833
Purchase of investments	-	(20,752,651)	(20,752,651)
Net cash provided by investing activities	317,843	1,000,825	1,318,668
Net change in cash	1,599,800	(2,173,660)	(573,860)
Cash and cash equivalents - beginning of year	38,250,504	4,718,559	42,969,063
Cash and cash equivalents - end of year	$ 39,850,304	$ 2,544,899	$ 42,395,203

THE CITADEL
The Military College of South Carolina
Statement of Cash Flows
For the year ended June 30, 2016

	The Citadel	The Citadel Trust	Total
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	$ (30,539,558)	$ (1,850,226)	$ (32,389,784)
Adjustments to reconcile operating income (loss) to net cash used by operating activities			
Depreciation	4,920,801	-	4,920,801
Amortization of pension expense	1,347,152	-	1,347,152
Interest and dividends on investments	-	(995,768)	(995,768)
Realized and unrealized losses on investments	-	2,696,795	2,696,795
Funds held for others	(21,706)	-	(21,706)
Changes in assets and liabilities			
Accounts receivable, net	(631,055)	-	(631,055)
Inventories	(160,029)	-	(160,029)
Student loans receivable, net	14,498	-	14,498
Prepaid expenses	886,414	-	886,414
Accounts payable and accrued expenses	(343,486)	-	(343,486)
Accrued salaries and related expenses	157,382	-	157,382
Accrued compensated absences and related liabilities	(9,741)	-	(9,741)
Unearned revenue	663,861	-	663,861
Student and other deposits	95,162	-	95,162
Net cash used by operating activities	$ (23,620,305)	$ (149,199)	$ (23,769,504)
Non-cash transactions			
Increase (decrease) in fair value of investments	$ 226,351	$ (3,543,413)	$ (3,317,062)
Reconciliation of Cash and Cash Equivalent Balances:			
Current assets			
Cash and cash equivalents	$ 31,581,636	$ 775,443	$ 32,357,079
Restricted cash and cash equivalents	7,307,338	834,954	8,142,292
Noncurrent assets			
Restricted cash and cash equivalents	961,330	934,502	1,895,832
Total cash and cash equivalents	$ 39,850,304	$ 2,544,899	$ 42,395,203

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 December 31, 2015	The Citadel Brigadier Foundation December 31, 2015
ASSETS		
Cash and cash equivalents	$ 10,439,841	$ 55,537
Unconditional promises to give receivable, net	21,107,893	1,440,970
Prepaid expenses	155,763	-
Long-term investments (at fair value)	164,261,515	12,600,018
Investments related to split-interest agreements (at fair value)	2,858,359	-
Other investments	1,029,263	-
Due from related parties	-	1,070,679
Note receivable	-	20,000
Other receivables	461,173	-
Cash value of life insurance policies	965,063	432,877
Property and equipment, net of accumulated depreciation	107,832	11,894
Land, improvements and other assets held for investment	1,046,360	-
Total assets	$ 202,433,062	$ 15,631,975
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 2,309,161	$ 38,850
Net grants payable to The Citadel	4,710,377	-
Due to related parties	1,070,548	6,173
Notes payable	46,231	-
Annuities and life income funds payable	1,630,909	-
Charitable gift annuities	1,230,244	13,144
Total liabilities	10,997,470	58,167
Net Assets		
Unrestricted	85,393,531	(3,598)
Temporarily restricted	51,785,578	1,888,856
Permanently restricted	54,256,483	13,688,550
Total net assets	191,435,592	15,573,808
Total liabilities and net assets	$ 202,433,062	$ 15,631,975

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

	The Citadel Foundation December 31, 2015	The Citadel Brigadier Foundation For the six months ended December 31, 2015
REVENUES, GAINS AND OTHER SUPPORT		
Unrestricted		
Contributions and membership revenue	$ 863,593	$ 398,057
Gain on other investments	11,676	-
Net unrealized and realized losses on investments	(35,867)	-
Loss on sale of property and equipment	(1,104)	-
Equity gain of The Richmond Fund, LP	1,541,697	-
Changes in value of split interest agreements	(108,222)	(539)
Net assets released from program restrictions	12,901,204	36,509
Net assets released from time restrictions	-	342,800
Change in donor restricted funding deficiency	(22,524)	(93,181)
Transfers of net assets	134,390	(45,297)
Total unrestricted	15,284,843	638,349
Temporarily Restricted		
Contributions and membership revenue	14,373,413	323,860
Gain (loss) on other investments	(28)	251,466
Net unrealized and realized gains (losses) on investments	145,200	(1,081,095)
Equity gain of The Richmond Fund, LP	1,025,498	-
Changes in allowance on promises to give	(117,888)	100,026
Changes in value of split interest agreements	(72,343)	-
Net assets released from program restrictions	(12,901,204)	(36,509)
Net assets released from time restrictions	-	(342,800)
Change in donor restricted funding deficiency	22,524	93,181
Transfers of net assets	(1,154,765)	(54,016)
Total temporarily restricted	1,320,407	(745,887)
Permanently restricted		
Contributions	6,490,316	1,218,506
Equity gain of The Richmond Fund, LP	2,309	-
Transfers of net assets	1,020,375	99,313
Total permanently restricted	7,513,000	1,317,819
Total revenue, gains and other support	24,118,250	1,210,281
EXPENSES		
Unrestricted		
Grants to The Citadel	8,166,200	4,158
Other gift grants to The Citadel	5,879,992	-
General and administrative	1,731,810	131,601
Fundraising	3,989,264	251,856
Income tax expense	(3,797)	-
Total unrestricted	19,763,469	387,615
Total expenses	19,763,469	387,615
CHANGE IN NET ASSETS		
Unrestricted	(4,486,220)	250,734
Temporarily restricted	1,320,407	(745,887)
Permanently restricted	7,513,000	1,317,819
Total change in net assets	4,347,187	822,666
Net assets at beginning of period		
Unrestricted	89,879,751	(254,332)
Temporarily restricted	50,465,171	2,634,743
Permanently restricted	46,743,483	12,370,731
Total net assets at beginning of period	187,088,405	14,751,142
Net assets at end of period		
Unrestricted	85,393,531	(3,598)
Temporarily restricted	51,785,578	1,888,856
Permanently restricted	54,256,483	13,688,550
Total net assets at end of period	$ 191,435,592	$ 15,573,808

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 Trust, 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 discretely presented 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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

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 discretely presented component unit of the College. TCBF reports its financial results on a calendar-year basis. 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 FASB pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

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* and GASB Statement No. 72, *Fair Value Measurement and Application*. 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, 2016; 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. In the current fiscal year, The Citadel changed the methodology used to determine the estimated uncollectible amounts. See Note 4.

Inventories: Inventories, which consist of uniforms and accessories, postage stamps, and 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.

Prepaid Items: 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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

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 and the Citadel Trust follow 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 2013, a full year of depreciation was taken the year the asset was 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 2016.

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 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.

Deferred Outflows of Resources and Deferred Inflows of Resources: Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources. Deferred inflows of resources also include sales of future revenues received from contract sponsors that have not yet been earned.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

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, net of the College's pension plan liability. 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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

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, 2016.

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Recently Issued Accounting Pronouncements:

The GASB issued Statement No. 72, *Fair Value Measurement and Application*, in February 2015 which was effective for the year ended June 30, 2016. This statement provides guidance for determining fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. See Note 3 for the impact of adoption.

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	$ 31,581,636	$ 775,443	$ 32,357,079
Marketable securities (at fair value)	-	1,275,470	1,275,470
Investment in limited partnership (at fair value)	-	1,276,708	1,276,708
Restricted assets			
Cash and cash equivalents	7,307,338	834,954	8,142,292
Marketable securities (at fair value)	-	6,084,228	6,084,228
Investment in limited partnership (at fair value)	-	5,382,552	5,382,552
Noncurrent assets			
Marketable securities (at fair value)	-	2,229,879	2,229,879
Investment in limited partnership (at fair value)	-	2,232,044	2,232,044
Restricted assets			
Cash and cash equivalents	961,330	934,502	1,895,832
Marketable securities (at fair value)	-	34,077,337	34,077,337
Investment in limited partnership (at fair value)	-	32,529,454	32,529,454
Total Statement of Net Position	$ 39,850,304	$ 87,632,571	$ 127,482,875
Notes: Deposits and Investments			
Cash on hand	$ 18,625	$ -	$ 18,625
Deposits held by State Treasurer	39,748,065	(25,747)	39,722,318
Other deposits	83,614	842,019	925,634
Marketable securities (at fair value)	-	45,395,541	45,395,540
Investment in limited partnership (at fair value)	-	41,420,758	41,420,758
Total Notes	$ 39,850,304	$ 87,632,571	$ 127,482,875

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

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.

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 held by The Trust, a component unit of The Citadel. See disclosure below regarding investments held on behalf of the Citadel Alumni Association. 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 the 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 Morgan Stanley.

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

Marketable Securities, continued

As of June 30, 2016, The Trust had marketable securities and maturities as shown below:

		MATURITIES IN YEARS			
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More than 10**
Money Market Funds	$ 1,728,627	$ 1,728,627	$ -	$ -	$ -
U.S. Treasury Bonds	2,875,878	-	1,766,136	1,109,742	-
U.S. Agency Bonds	1,606,319	97,746	349,186	54,480	1,104,907
Corporate Bonds	4,415,273	380,959	2,042,573	1,663,884	327,857
Mutual Bond Funds	2,561,824	78,767	647,105	1,525,601	310,351
Total fixed income investments	$ 13,187,921	$ 2,286,099	$ 4,805,000	$ 4,353,707	$ 1,743,115
Common Stocks	$ 5,430,182				
Fixed Income	13,187,921				
Mutual Equity Funds	22,559,179				
REIT	4,218,259				
Total marketable securities	$ 45,395,541				

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.

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.

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

Marketable Securities, continued

At June 30, 2016, The Trust had fixed income securities and quality ratings as shown below:

		Quality Rating				
Investment Type	**Fair Value**	**Aaa/Aa**	**A**	**Baa/Ba**	**Below Ba**	**Unrated**
Money Market Funds	$ 1,728,627	$ -	$ -	$ -	$ -	$1,728,627
U.S. Treasury Bonds	2,875,878	2,875,878	-	-	-	-
U.S. Agency Bonds	1,606,319	1,606,319	-	-	-	-
Corporate Bonds	4,415,273	633,181	1,608,617	2,173,475	-	-
Mutual Bond Funds	2,561,824	47,795	59,118	943,411	1,333,128	178,372
Totals	$13,187,921	$ 5,163,173	$1,667,735	$3,116,886	$ 1,333,128	$1,906,999

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). There were no investments with concentrations above the stated thresholds at June 30, 2016. The Trust's Board of Directors reviews substantial equity positions for the entire investment pool on a quarterly basis.

Foreign Currency Risk: Foreign currency risk is the risk of loss arising from changes in exchange rates for investments denominated in foreign currencies. The Trust's international investment allocation is invested in U.S. dollar denominated mutual funds – the American Funds EuroPacific Growth Fund, First Eagle Global Fund, and Virtus Emerging Markets Opportunities Fund. These funds invest in companies. Based chiefly in Europe, the Pacific Basin, Asia and Latin America. The market value of these holdings at June 30, 2016 was $8,028,668. 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."

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

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 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, 2016, the fair value of the investment in The Richmond Fund, LP was $41,420,758 or 49% 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 – The Citadel Alumni Association

In August 2013, The Trust's Board of Director's ratified a memorandum of understanding ("MOU") with The Citadel Alumni Association ("CAA") which allowed the CAA to invest in The Trust's unitized investment pool to gain access to The Trust's more diversified pool of investments. The CAA contributed $3,100,000 in October 2013 and $830,313 in March 2014. Per the MOU, these funds were invested in the same manner and with the same due care in which The Trust's funds are invested. The fair market value of the CAA investments at June 30, 2016 is $4,395,468. These funds have been recorded on the Statement of Net Position in Investments in the Assets category and in Funds Held for Others in the Liabilities category. The Trust does not recognize any revenues from the investment returns on the CAA investments.

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.

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

Investments – Non Governmental Discretely Presented Component Units, continued
At December 31, 2015, TCBF's investments are as follows:

Investments carried at fair value	**Cost**	**Fair Value**
Mutual funds	$ 10,223,927	$ 9,853,138
Common stock - equities	2,410,235	2,260,932
Real estate investment trusts	109,498	112,863
Money market fund	373,085	373,085
Total investments	$ 13,116,745	$ 12,600,018

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, 2015:

Investments carried at fair value	**Cost**	**Fair Value**
Investment in The Richmond Fund, LP	$ 151,090,333	$ 164,261,515
Mutual funds – various equities and fixed income	2,760,219	2,656,900
Mutual funds – Oppenheimer Strategic Income Fund	70,548	64,902
Equities	316,733	495,933
Cash and money market funds	669,887	669,887
Total investments	$ 154,907,720	$ 168,149,137

NOTE 3—FAIR VALUE MEASUREMENTS

The Trust has adopted applicable accounting standards for its financial assets and liabilities which clarify that fair value is an exit price, representing the price that would be received to sell as asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Trust utilizes market data or assumptions that market participants would use in pricing the asset or liability. The standards establish a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy are as follows:

Investments that are measured and reported at fair value are classified according to the following hierarchy:

- Level 1: Investments reflect prices quoted in active markets.
- Level 2: Investments reflect prices that are based on similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3: Investments reflect prices based upon unobservable sources.

NOTE 3—FAIR VALUE MEASUREMENTS, *Continued*

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Debt securities, equity securities and mutual funds classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. There are no assets classified as Level 3 for the year ended June 30, 2016.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at June 30, 2016:

		Fair Value Measurements Using		
Investments by Fair Value Level	**06/30/2016**	**Level 1**	**Level 2**	**Level 3**
Debt Securities				
US Government	$ 2,891,590	$ -	$ 2,891,590	$ -
Federal Agency	1,601,423	-	1,601,423	-
Corporate Bonds	3,968,454	-	3,968,454	-
Mortgage and Asset Backed	4,896	-	4,896	-
Other Fixed Income	431,105	-	431,105	-
Total Debt Securities	8,897,468	-	8,897,468	-
Equity Securities				
Equity – Common Stock	5,318,466	5,318,466	-	-
Alternative – Common Stock	111,717	111,717	-	-
Total Equity Securities	5,430,183	5,430,183	-	-
Mutual Funds				
Equities	18,483,912	18,483,912	-	-
Fixed Income	2,486,425	2,486,425	-	-
Alternative	4,178,154	4,178,154	-	-
Total Mutual Funds	25,148,491	25,148,491	-	-
Total Investments by Fair Value Level	$39,476,142	$30,578,674	$ 8,897,468	$ -

Investments Measured at the Net Asset Value (NAV)	
Investment in Richmond Fund, LP	$ 41,420,758
Investment in AEW Core Property Trust (U.S.) Inc.	4,190,772
Total Investments Measured at NAV	45,611,530
Total Investments	$ 85,087,672

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below.

	06/30/2016	**Redemption**	**Frequency**
Redemption Notice Period			
Investment in Richmond Fund, LP (1)	$ 41,420,758	(a)	(a)
Investment in AEW Core Property Trust (U.S.) Inc. (2)	4,190,772	Quarterly	45 Days
Total Investments Measured at NAV	$ 45,611,531		

NOTE 3—FAIR VALUE MEASUREMENTS, *Continued*

1. Richmond Fund, LP. consists of investments in securities and investment funds to achieve investment returns that mirror that investment returns achieved by the University of Richmond's endowment through a blended rate of return agreement.

    a. Each limited partner in The Richmond Fund, LP has the right to withdraw an amount not to exceed 10% of its capital account as of the last business day of each fiscal quarter upon at least 60 days' prior written notice to the General Partner stating the amount to be withdrawn, provided that the limited partner must maintain a capital account of not less than $50,000,000, after giving effect to the partial withdrawal, subject to the right of the General Partner to waive such thresholds. Each limited partner has the right to withdraw an amount not to exceed 50% of its capital account as of the last business day of the fiscal quarter upon at least one year's prior written notice to the General Partner stating the amount to be withdrawn, provided that the partner became a limited partner at least five years prior to the date of such withdrawal, and provided further that the capital account balance shall be at least $50,000,000 following such withdrawal. In the event that a limited partner requests the withdrawal of all its capital account, 50% will be distributed pursuant to the above and the balance shall be distributed over time as reasonably practical as cash becomes available. Distributions of any capital withdrawals by a limited partner shall equal the ownership interest of the partner's capital less any expenses of the Fund in connection with the withdrawal and any early withdrawal penalty fee. The five year period and one year notice period described above may be waived upon an early employee withdrawal event or an early investment withdrawal event. An early employee withdrawal event occurs if there is a change in management of the Partnership by the General Partner without approval from two-thirds of the limited partners. An early investment withdrawal event occurs if there is a change of greater than 15% from one fiscal quarter to the immediately following fiscal quarter in any asset allocation in the Fund's investment policy. Upon either of the abovementioned early withdrawal events, a limited partner shall have three months to provide the general partner with notice of its intention to withdraw all, but not less than all, of its capital account. Such withdrawals shall be distributed as reasonably practical as cash becomes available over a two year period on the last day of each fiscal quarter.

2. AEW Core Property Trust (U.S.), Inc. consists of real estate assets that will, in combination, produce core real estate returns. This investment is valued at NAV. Redemptions will be approved based on whether the Fund has liquid assets.

NOTE 4—ACCOUNTS RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2016, are summarized as follows:

	The Citadel	The Citadel Trust	Total
Receivables:			
Student fees	$ 1,351,116	$ -	$ 1,351,116
Grants and contracts	613,997	8,888	622,885
Accrued interest	57,501	102,063	159,564
Capital Reserve Fund	1,307,711	-	1,307,711
Customers-Auxiliaries	4,812,302	-	4,812,302
Miscellaneous	96,165	295	96,460
Gross receivables	8,238,792	111,246	8,350,038
Less allowance for uncollectible:			
Student fees	525,757	-	525,757
Accounts receivable, net	$ 7,713,035	$ 111,246	$ 7,824,281

NOTE 4—ACCOUNTS RECEIVABLES, Continued

Accounts Receivable, continued

Allowances for estimated uncollectible accounts receivable are established and will be evaluated annually based upon the following aging methodology adopted by The Citadel in the current fiscal year. Receivable balances aged less than 1 year are considered current, balances aged between 1 year and 3 years are reserved for via the allowance for uncollectible accounts, and all balances aged greater than 3 years are written off.

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 2016.

The composition of contributions receivable at June 30, 2016 is summarized as follows:

	The Citadel	The Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	$ 1,499,155	$ 882,735	$ 2,381,890
Total gift pledges outstanding	1,499,155	882,735	2,381,890
Less:			
Unamortized discount to present value	85,232	17,745	102,977
Allowance for doubtful accounts	3,528	115,918	119,446
Total contributions receivable, net	$ 1,410,395	$ 749,072	$ 2,159,467

Payments on contributions receivable as of June 30, 2016 are expected to be received in the following years ending June 30:

	The Citadel	The Citadel Trust	Total
2016	$ 124,687	$ 330,200	$ 454,887
2017	259,278	352,286	611,564
2018	277,492	35,845	313,337
2019	272,917	26,379	299,296
2020	295,859	4,362	300,221
Due after 2020	180,162	-	180,162
	$ 1,410,395	$ 749,072	$ 2,159,467

Pledges for permanent endowments do not meet the eligibility requirements, as defined by GASB Statement 33, until the related gift is received. Accordingly, permanent endowment pledges to the Trust totaling $272,331 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.

NOTE 4—ACCOUNTS RECEIVABLES, Continued

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.

Student loans receivable at June 30, 2016 are summarized as follows:

	The Citadel	The Citadel Trust	Total
Loans receivable	$ 615,132	$ 215,690	$ 830,822
Less allowance for uncollectible loans	-	(171,781)	(171,781)
Net loans receivable	$ 615,132	$ 43,909	$ 659,041

NOTE 5—RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2016 are as follows:

Asset /Restricted for	The Citadel	The Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	$ 3,078,053	$ 372,171
Debt service	343,620	-
College administered loan program	-	295,702
Capital projects	3,885,665	167,081
Total cash and cash equivalents	7,307,338	834,954
Investments (at fair value):		
Donor/sponsor specified	-	6,084,228
Investment in limited partnership (at fair value):		
Donor/sponsor specified	-	5,382,552
Contributions Receivable:		
Donor/sponsor specified	124,687	229,941
Student Loans Receivable:		
College administered loan program	-	43,909
Noncurrent:		
Cash and cash equivalents:		
Endowment	469,667	880,933
Federal Perkins loan program	83,615	-
Capital projects	403,857	-
Cash held for other parties	4,191	53,569
Total cash and cash equivalents	961,330	934,502
Investments (at fair value):		
Endowment	-	33,646,098
College administered loan program	-	431,239
Total investments	-	34,077,337
Investment in limited partnership (at fair value):		
Endowment	-	32,117,803
College administered loan program	-	411,651
Total investments in limited partnership	-	32,529,454
Contributions Receivable:		
Donor/sponsor specified	1,285,708	160,313
Total contributions receivable	1,285,708	160,313
Student Loans Receivable:		
College administered loan program	-	-
Federal Perkins Loan Program	615,132	-
Total student loans receivable	615,132	-
Cash Surrender Value of Life Insurance:		
Endowments	-	82,607

NOTE 6—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, is summarized as follows:

	July 1, 2015	Increases	Decreases	June 30, 2016
Capital assets not being depreciated:				
Land and improvements	$ 4,903,347	$ -	$ -	$ 4,903,347
Construction-in-progress	1,965,201	2,061,640	2,433,213	1,593,628
Fine arts	357,120	11,681	-	368,801
Total capital assets not being depreciated	7,225,668	2,073,321	2,433,213	6,865,776
Other capital assets:				
Land improvements	13,889,396	-	-	13,889,396
Buildings and improvements	180,449,954	847,567	-	181,297,521
Machinery, equipment, and other	6,756,329	594,819	87,259	7,263,889
Vehicles	650,958	18,641	59,458	610,141
Intangibles	4,926,236	1,599,640	-	6,525,876
Total other capital assets at historical cost	206,672,873	3,060,667	146,717	209,586,823
Less accumulated depreciation for:				
Land improvements	9,992,905	308,589	-	10,301,494
Buildings and improvements	71,412,985	3,975,047	-	75,388,032
Machinery, equipment, and other	5,287,045	419,785	87,259	5,619,571
Vehicles	563,648	19,052	59,458	523,242
Intangibles	1,359,273	198,328	-	1,557,601
Total accumulated depreciation	88,615,856	4,920,801	146,717	93,389,940
Other capital assets, net	118,057,017	(1,860,134)	-	116,196,883
Capital assets, net of accumulated depreciation	$ 125,282,685	$ 213,187	$ 2,433,213	$ 123,062,659

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

Gain on disposal	$ 15,643
Loss on disposal	-
Net gain on disposal	$ 15,643

NOTE 7—UNEARNED REVENUES

The composition of unearned revenues at June 30, 2016 is summarized as follows:

	Citadel	Citadel Trust	Total
Student fees	$ 2,929,148	$ -	$ 2,929,148
Sales and services, auxiliary enterprises	327,360	-	327,360
Other	687,505	-	687,505
Total unearned revenues	$ 3,944,013	$ -	$ 3,944,013

The Citadel entered into a five year contract with Barnes and Noble in fiscal year 2016. The contract required Barnes and Noble to pay The Citadel $300,000 at the beginning of the contract period. This payment will be amortized over the life of the contract. $60,000 of this contractual payment was recognized as revenue in the current year. $60,000 of the remaining Barnes and Noble contractual revenue is recorded as current unearned revenue, and $180,000 is recorded as advanced receipt of revenues.

NOTE 8—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2016:

	Interest Rate	Maturity Dates	Balance June 30, 2016	Debt Retired in Fiscal Year 2015
State Institution Bonds				
Series 2001D adjustable from	4.50% to 4.75%	12/01/2016	$ 250,000	$ 235,000
			250,000	235,000
Revenue Bonds				
Series 2015	Fixed at 3.49%	04/01/2029	12,200,000	1,740,000
			12,200,000	1,740,000
Athletic Facilities Revenue Bonds				
Series 2014	Fixed at 1.74%	02/15/2018	527,459	256,983
Series 2015	Fixed at 4.67%	02/01/2031	11,470,000	480,000
			11,997,459	736,983
Total Bonds Payable			$ 24,447,459	$ 2,711,983

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of 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 $691,350 which results in a legal debt margin at June 30, 2016, of $622,215. The Citadel's maximum annual debt service, which occurred in fiscal year 2016, is $255,937.

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, 2016, management believes it is in compliance with all related bond covenants of its issued debt.

NOTE 8—BONDS AND NOTES PAYABLE, Continued

Bonds Payable, continued

All bonds are payable in semiannual installments plus interest, with the exception of the Athletic Facilities Revenue Bonds, Series 2014, which are payable in annual installments. The scheduled maturities of bonds payable by type are as follows:

State Institution Bonds	**Principal**	**Interest**	**Payments**
2017	$ 250,000	$ 5,938	$ 255,938
	$ 250,000	$ 5,938	$ 255,938
Revenue Bonds			
2017	$ 3,196,455	$ 970,607	$ 4,167,062
2018	1,506,004	857,254	2,363,258
2019	1,290,000	802,624	2,092,624
2020	1,345,000	750,582	2,095,582
2021	1,390,000	696,266	2,086,266
2022 – 2026	7,870,000	2,589,540	10,459,540
2027 – 2031	7,600,000	888,392	8,488,392
	$ 24,197,459	$ 7,555,265	$ 31,752,724

The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2016:

Bond Type	**Principal**	**Interest**
State Institution Bonds	$ 235,000	$ 17,397
Revenue Bonds	1,740,000	377,042
Athletic Facilities Revenue Bonds	736,983	353,139
	$ 2,711,983	$ 747,578

Notes Payable

At June 30, 2016, notes payable consisted of the following:

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%.	$ 1,498,495

NOTE 8—BONDS AND NOTES PAYABLE, *Continued*

Notes Payable, continued

The scheduled maturities of the notes payable are as follows:

Notes Payable	Principal	Interest	Payments
2017	$ 597,547	$ 63,302	$ 660,849
2018	629,110	31,739	660,849
2019	271,838	3,516	275,354
	$ 1,498,495	$ 98,557	$ 1,597,052

Total principal paid on notes payable was $767,048 for the year ended June 30, 2016. Total interest paid on notes payable was $95,107.

NOTE 9—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, 2016 were as follows:

Year ending June 30,	Capital Leases/ Equipment
2017	$ 16,909
2018	16,909
2019	8,583
Total minimum lease payments	42,401
Less: Interest	3,794
Executory and other costs	2,455
Present value of minimum lease payments	$ 36,152

All leases are with parties outside of state government.

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2016 were $16,909, of which $2,634 represented interest and $931 represented executory costs. Total principal paid on capital leases was $13,344 for the year ended June 30, 2016. The following is a summary of the carrying values of assets held under capital lease at June 30, 2016.

Equipment acquired under capital leases	$ 63,785
Less accumulated amortization	29,044
Equipment acquired under capital leases, net	$ 34,741

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. In the current fiscal year, The Citadel did not have any noncancelable operating leases.

NOTE 10—PENSION PLANS

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as a co-trustee of the Systems in conducting that review.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan descriptions:

The South Carolina Retirement System (SCRS), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

The South Carolina Police Officers Retirement System (PORS), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

Membership:

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

NOTE 10—PENSION PLANS, *Continued*

Membership, continued:

State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least $2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits:

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five or eight years earned service requirement, respectively.

NOTE 10—PENSION PLANS, *Continued*

Benefits (continued):

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. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions:

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the Budget and Control Board for approval an increase in the SCRS and PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

NOTE 10—PENSION PLANS, *Continued*

Contributions (continued):

Required employee contribution rates[1] are as follows:

	Fiscal Year 2016	Fiscal Year 2015
SCRS		
Employee Class Two	8.16%	8.00%
Employee Class Three	8.16%	8.00%
State ORP		
Employee	8.16%	8.00%
PORS		
Employee Class Two	8.74%	8.41%
Employee Class Three	8.74%	8.41%

Required employer contribution rates[1] are as follows:

	Fiscal Year 2016	Fiscal Year 2015
SCRS		
Employer Class Two	10.91%	10.75%
Employer Class Three	10.91%	10.75%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution[2]	10.91%	10.75%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	13.34%	13.01%
Employer Class Three	13.34%	13.01%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

[1] Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

[2] Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

Of the ORP employer contribution of 10.91% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

As described above, total required employer contributions to the SCRS, ORP, and PORS pension plans from the College were $2,848,509, $1,071,121 and $105,665 for the year ended June 30, 2016, respectively.

NOTE 10—PENSION PLANS, *Continued*

Contributions (continued):

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 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 benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

Net pension liability:

At June 30, 2016, the College reported liabilities of $69,867,963 and $1,343,594 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. The net pension liabilities were measured as of June 30, 2015, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of July 1, 2014 projected forward to June 30, 2015. The College's proportionate shares of the net pension liabilities were based on a projection of the College's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the College's proportionate shares of the SCRS and PORS plans were .368395% and .06165%, which was the same as its proportionate shares of the net pension liabilities measured as of June 30, 2015, respectively.

Pension expense:

For the year ended June 30, 2016, the College recognized pension expense for the SCRS and PORS plans of $5,261,560 and $112,459, respectively.

Deferred inflows of resources and deferred outflows of resources:

At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for each of the respective plans:

	SCRS	
	Deferred outflows of resources	**Deferred inflows of resources**
Differences between expected and actual experience	$ 1,241,314	$ 124,946
Changes of assumptions	-	-
Net difference between projected and actual	467,661	-
earnings on pension plan investments	-	-
Changes in proportion and differences between College	589,649	-
contributions and proportionate share of contributions	-	-
College contributions subsequent to the measurement date	3,920,416	-
Total	$ 6,219,040	$ 124,946

NOTE 10—PENSION PLANS, *Continued*

Deferred inflows of resources and deferred outflows of resources (continued):

	PORS	
	Deferred outflows of resources	**Deferred inflows of resources**
Differences between expected and actual experience	$ 26,630	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	14,701	-
Changes in proportion and differences between College contributions and proportionate share of contributions	-	27,202
College contributions subsequent to the measurement date	105,665	-
Total	$ 146,996	$ 27,202

The $3,920,416 and $105,665 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date for the SCRS and PORS plans, respectively, during the year ended June 30, 2016 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the SCRS and PORS plans, respectively:

Year ended June 30:	**SCRS**
2017	$ (485,481)
2018	(485,481)
2019	(59,109)
2020	(1,143,607)
Total	$ (2,173,678)

Deferred inflows of resources and deferred outflows of resources, continued:

Year ended June 30:	**PORS**
2017	$ 2,975
2018	2,975
2019	4,152
2020	(24,231)
Total	$ (14,129)

Actuarial assumptions and methods:

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

NOTE 10—PENSION PLANS, Continued

Actuarial assumptions and methods (continued):

The June 30, 2015, total pension liability, net pension liability, and sensitivity information were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2014, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for SCRS and PORS.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return[1]	7.5%	7.5%
Projected salary increases	3.5% to 12.5% (varies by service)[1]	4.0% to 10.0% (varies by service)[1]
Benefit adjustments	lesser of 1% or $500 annually	lesser of 1% or $500 annually
[1] *Includes inflation at 2.75%*		

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014, valuations for SCRS and PORS are as follows.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

NOTE 10—PENSION PLANS, Continued

Actuarial assumptions and methods (continued):

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2015, for SCRS and PORS are presented below.

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	$ 44,097,310,230	$ 25,131,828,101	$ 18,965,482,129	57.0%
PORS	6,151,321,222	3,971,824,838	2,179,496,384	64.6%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

NOTE 10—PENSION PLANS, Continued

Actuarial assumptions and methods (continued):

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	**5.00%**		
Cash	2.00%	1.90%	0.04%
Short Duration	3.00%	2.00%	0.06%
Domestic Fixed Income	**13.00%**		
Core Fixed Income	7.00%	2.70%	0.19%
Mixed Credit	6.00%	3.80%	0.23%
Global Fixed Income	**9.00%**		
Global Fixed Income	3.00%	2.80%	0.08%
Emerging Markets Debt	6.00%	5.10%	0.31%
Global Public Equity	**31.00%**	7.10%	2.20%
Global Tactical Asset Allocation	**10.00%**	4.90%	0.49%
Alternatives	**32.00%**		
Hedge Funds (Low Beta)	8.00%	4.30%	0.34%
Private Debt	7.00%	9.90%	0.69%
Private Equity	9.00%	9.90%	0.89%
Real Estate (Broad Market)	5.00%	6.00%	0.30%
Commodities	3.00%	5.90%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

Discount rate:

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity analysis:

The following table presents the College's proportionate share of the net pension liabilities of the respective plans calculated using the discount rate of 7.50 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

NOTE 10—PENSION PLANS, Continued

Sensitivity analysis (continued):

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	**1.00% Decrease (6.50%)**	**Current Discount Rate (7.50%)**	**1.00% Increase (8.50%)**
SCRS	$ 88,083,442	$ 69,867,963	$ 54,600,937
PORS	1,830,289	1,343,594	908,515

Additional financial and actuarial information

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2015 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2015.

NOTE 11—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, 5.33% of annual covered payroll for 2016 and 5.00% of annual covered payroll for 2015. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Citadel paid

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued

Funding Policies, continued

approximately $1,900,650 and $1,854,847 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2016 and 2015, 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, 2016 and 2015. The Citadel recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately $22,066 and $20,927 for the years ended June 30, 2016 and 2015, 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.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

NOTE 12—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016, was as follows:

	July 1, 2015	Additions	Reductions	June 30, 2016	Due Within One Year
Bonds and Notes Payable and Capital Lease Obligations:					
State Institution Bonds	$ 485,000	$ -	$ 235,000	$ 250,000	$ 250,000
Total State Institution Bonds	485,000	-	235,000	250,000	250,000
Revenue Bonds	13,940,000		1,740,000	12,200,000	2,395,000
Athletic Facilities Revenue Bonds	12,734,442	-	736,983	11,997,459	801,455
Total Revenue Bonds Payable	26,674,442	-	2,476,983	24,197,459	3,196,455
Total Bonds Payable	27,159,442	-	2,711,983	24,447,459	3,446,455
Notes Payable	2,265,543	-	767,048	1,498,495	597,547
Capital Lease Obligations	49,496	-	13,344	36,152	13,760
Total Bonds, Notes & Capital Leases	29,474,481	-	3,492,375	25,982,106	4,057,762
Other Liabilities					
Federal loan funds	471,333	6,266	-	477,599	-
Accrued compensated absences	3,016,983	1,438,839	1,442,410	3,013,412	1,485,127
Deposits	2,893,304	291,413	196,250	2,988,467	2,335,009
Unearned revenues	3,290,152	1,004,994	351,133	3,944,013	3,881,830
Annuities payable	19,138	8,371	9,450	18,059	9,450
Funds held for others	4,526,380	4,191	130,912	4,399,659	-
Net pension liability	63,900,517	7,311,040	-	71,211,557	-
Total Other Liabilities	78,117,807	10,065,114	2,130,155	86,052,766	7,711,416
Total Long-term Liabilities	$ 107,592,288	$ 10,065,114	$ 5,622,530	$ 112,034,872	$ 11,769,178

Additional information regarding Bonds and Notes Payable is included in Note 8. Additional information regarding Capital Lease Obligations is included in Note 9. Additional information regarding Unearned Revenues is included in Note 7. Additional information regarding Net Pension Liabilities is included in Note 10.

NOTE 13—DEFERRED INFLOWS OF RESOURCES

The composition of deferred inflows of revenues at June 30, 2016, is summarized as follows:

	Citadel	Citadel Trust	Total
Advance receipt of revenues	$ 180,000	$ -	$ 180,000
Amounts related to net pension liabilities	152,148	-	152,148
Total deferred inflows of resources	$ 332,148	$ -	$ 332,148

The Citadel entered into a five year contract with Barnes and Noble in fiscal year 2015. The contract required Barnes and Noble to pay The Citadel $300,000 at the beginning of the contract period. This payment will be amortized over the life of the contract. $60,000 of this contractual payment was recognized as revenue in the current year. $60,000 of the remaining Barnes and Noble contractual revenue is recorded as current unearned revenue, and $180,000 is recorded as advanced receipt of revenues. Also see Note 7. See Note 10 for a description of the deferred inflows resulting from amounts related to the net pension liabilities.

NOTE 14—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 three years at an estimated cost of $3,983,078. Of the total estimated cost, approximately $1,744,927 is unexpended at June 30, 2016. Of the unexpended balance at June 30, 2016, The Citadel had remaining commitment balances of approximately $1,125,941 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 $2,433,213.

Major capital projects at June 30, 2016, which constitute construction in progress that will be capitalized when completed, are listed below.

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

Project Title	Estimated Cost	Amount Expended
New Capers Hall	$ 250,000	$ 249,281
Capers Hall Replacement Study	100,000	54,275
Barber Shop Relocation	250,000	16,335
Byrd Hall Organic Chemistry Lab	1,355,300	65,009
School of Business Building	250,000	249,357
The Citadel War Memorial	27,100	12,412
Banner Recruiter	350,000	290,846
Hagood Housing Demolition	340,000	268,119
Nursing Simulation Lab	40,000	8,290
Mechanical Engineering Lab & Equipment	1,020,678	379,704
	$ 3,983,078	$ 1,593,628

NOTE 14—CONSTRUCTION COSTS AND COMMITMENTS, Continued

Non-Capitalized
At June 30, 2016, 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 $9,883,565. This amount includes costs incurred to date of $5,935,563 and estimated costs to complete of $3,948,002. The Citadel has remaining commitment balances with certain parties related to these projects of approximately $1,638,138.

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, lottery appropriations 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, 2016, The Citadel had $636,378 of authorized other nonrecurring State capital appropriations remaining. There were no authorized capital reserve funds, authorized research infrastructure bonds, or lottery capital appropriations remaining.

NOTE 15—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, 2016, net appreciation of $3,350,309 is available to be spent, of which $3,296,375 is restricted to specific purposes.

NOTE 16—SPLIT INTEREST AGREEMENTS

In December 1993 a benefactor established a charitable remainder uni-trust, consisting of publicly traded common stock valued at $60,000,000, to which The Citadel Trust, Inc., is entitled to one-third of the remaining assets upon the benefactor's death. 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.

NOTE 16—SPLIT INTEREST AGREEMENTS, Continued

During fiscal year 2000 a donor established a charitable gift annuity that provides for fixed payments to the donor for his lifetime. At the termination of the agreement the remaining assets of the gift annuity will become available to The Citadel Trust for general institutional purposes. This annuity fund is held and separately managed by The Citadel Trust. At the end of each fiscal year an adjustment is made between the liability and the nonexpendable net asset value to record the actuarial gain or loss due to the recomputation of the present value of the liability based on the revised life expectancy of the donor. At June 30, 2016, the present value of the annuity payable was $18,059.

NOTE 17—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, 2016.

The Citadel Foundation **("TCF")**
For the fiscal year ended June 30, 2016, TCF received current year contributions of $4,641,936 on behalf of The Citadel and The Trust -- $3,918,613 of this total was recorded as gifts, $757,906 was recorded as additions to permanent endowments, and ($34,583) was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of $509,493 for its fundraising services. An additional $524,158 in gifts was received directly through donors instead of through TCF.

The Citadel and The Trust recorded non-governmental grants of $6,438,613 from TCF for the fiscal year ended June 30, 2016. These funds were used to support scholarships, salaries and various academic programs and at the College. In addition, TCF provided a total of $92,435 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 $228,232 for the year ended June 30, 2016. TCF also provided $12,870 to partially fund The Citadel Magazine.

The amount due from TCF varies during the fiscal year based on amounts due for grants and expenses incurred on behalf of TCF and contributions collected by TCF on behalf of The Citadel. TCF's Statement of Financial Position dated December 31, 2015, shows a grant payable to The Citadel of $4,710,377. The net amount due to The Citadel from TCF at June 30, 2016, is $63,232.

The Citadel Brigadier Foundation **(TCBF)**
The Citadel and The Citadel Trust recorded non-governmental grants of $1,404,800 from TCBF in the fiscal year ended June 30, 2016. 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 $280,573 for the year ended June 30, 2016. TCBF owed The Citadel $2,098 at June 30, 2016.

An additional $124,657 in grant funding and $350,000 in capital grants were received from other non-governmental sources outside of TCF and TCBF.

NOTE 18—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 $4,305,078 at December 31, 2015.

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, 2016.

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, 2016, The Citadel's share of John Monroe Holliday Alumni operating profits was $250,000 and is recorded as other nonoperating revenue.

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled $384,692 for the year ended June 30, 2016.

NOTE 19—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 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, 2016:

State Appropriations	
Original appropriation	$ 9,470,339
Agency additions	532,372
Appropriation allocations from the State Commission on Higher Education	
For Academic Endowment Match	13,606
For Technology Grant Program	312,385
Total State Appropriation Revenues	$ 10,328,702

NOTE 19—TRANSACTIONS WITH STATE ENTITIES, Continued

The following is a reconciliation of state capital appropriations and research infrastructure bond proceeds received during the fiscal year ended June 30, 2016:

	Capital Reserve Fund Appropriations	Research Infrastructure Bond Proceeds	Lottery Capital Appropriations	Other Nonrecurring State Capital Appropriations	Total
Proceeds drawn during the current fiscal year	$ 1,036,257	$ -	$ 56,501	$ 526,778	$ 1,619,536
Plus: Revenue recognized but not expended or drawn during current fiscal year	1,290,642	-	-	-	1,290,642
Less: Revenue recognized in prior fiscal year but drawn during current fiscal year	(5,115)	-	-	-	(5,115)
Total	$ 2,321,784	$ -	$ 56,501	$ 526,778	$ 2,905,063

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, 2016:

Other amounts received from State agencies	Operating Revenue	Nonoperating Revenue
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	$ 2,902,500	$ -
Palmetto Fellows Scholarships	386,700	-
Need-Based Grants	308,217	-
Hope Scholarships	264,600	-
SC National Guard	317,250	-
Veterans Tuition Differential	419,660	
Received from various other state agencies	40,000	-
	$ 4,638,927	$ -

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

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

The Citadel had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, insurance coverage, office supplies, and interagency mail. Significant payments were also made for unemployment and workers′ compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2016 expenditures applicable to related transactions with State entities are not readily available.

NOTE 20—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 21—CONTINGENCIES AND LITIGATION

The Citadel currently has twenty-one lawsuits pending. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is possible in six of the cases, all of which involve The Citadel's former summer camp (collectively, "summer camp cases"), and all of which are pending in federal court. 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 three, state court cases, is not likely.

NOTE 21—CONTINGENCIES AND LITIGATION, Continued

Summer Camp Cases

Background:

From 1957 until 2006, The Citadel operated a summer camp for children between ten and fifteen years old. In 1985, "Student 1" served as a counselor while taking summer school classes. 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, likewise serving in various positions.

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 2011, a sixth former camper filed suit against The Citadel. In 2013, a seventh former camper, the older brother of the sixth former camper, also filed suit. In June, 2014, the South Carolina Insurance Reserve Fund, The Citadel's insurer, settled those 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.

Several months after Counselor 2 was arrested in 2011, a former camper from 1985 retained counsel and made a claim to The Citadel for an alleged sexual assault by Student 1 in 1985. The Citadel immediately reported the 1985 camper's claim to law enforcement, which eventually charged Student 1 with criminal sexual conduct. In 2016, Student 1 pled guilty to assault and battery of a high and aggravated nature, but only received probation.

Litigation:

Counselor 1: As noted above, seven former campers filed a total of eight (8) cases against The Citadel related to Counselor 1's conduct. (Camper Six filed both a general liability lawsuit against The Citadel in state court and a Section 1983 lawsuit against individual defendants in federal court.) The original five plaintiffs settled their claims with The Citadel and the Insurance Reserve Fund in June, 2006. Campers six and seven settled their claims in June, 2014.

Counselor 2: Eleven plaintiffs have filed a total of eighteen (18) cases against The Citadel and four of its employees in connection with Counselor 2's actions. All eleven have filed cases in state court against The Citadel alleging gross negligence against the school. The court has granted The Citadel summary judgment in two of those cases, and both of those plaintiffs have appealed. The South Carolina Court of Appeals has tentatively set oral argument in one of those cases for December, 2016.

NOTE 21—CONTINGENCIES AND LITIGATION, Continued

Summer Camp Cases, continued

Litigation, continued:

Six of these plaintiffs have also filed suit in federal court against the President of The Citadel, the General Counsel of The Citadel, the former director of the summer camp, and the former executive assistant to the president. The plaintiffs have brought claims pursuant to Section 1983, alleging the defendants either (1) conspired to violate their civil rights by failing to report Counselor 2 in 2007 or (2) violated their civil rights by failing to report Counselor 2 in 2007. However, in 2014, the District Court granted the president summary judgment in two nearly identical cases. The Fourth Circuit Court of Appeals subsequently affirmed the District Court's decision, and in January, 2016, the U.S. Supreme Court denied those plaintiffs' petitions for a writ of certiorari. As a direct result of the Supreme Court's action, the District Court immediately granted summary judgment in two additional cases, and the plaintiffs in those cases immediately appealed. The District Court stayed the remaining four (4) cases pending the decision of the Fourth Circuit in the two cases currently before it. In January 2016, the Supreme Court denied that petition, thus, both of these cases have ended.

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. However, the Tort Claims Act does not apply to the Section 1983 actions, and although the IRF's one million ($1,000,000) dollar insurance policy does apply, certain claims could exceed these coverages. Because the District Court granted summary judgment in the two similar cases two years ago, though, because the Fourth Circuit affirmed and the Supreme Court subsequently denied certiorari, and because the District Court subsequently granted summary judgment in two of the six cases currently pending against the school, and stayed the remaining four, The Citadel believes the risk of material loss in excess of insurance coverage for these items is less likely than in previous years.

Student 1: In July, 2016, the 1985 camper filed suit against The Citadel and Student 1 in state court. The plaintiff brought claims against both defendants for civil conspiracy and outrage. He also petitioned the court to "equitably toll" the statute of limitations to allow him to bring claims against The Citadel for gross negligence in hiring, supervising, and training Student 1, as well as claims for assault against Student 1. As with the state court claims in the camp-related cases described above, the IRF is defending The Citadel pursuant to a $1 million insurance policy, though under the Tort Claims Act, The Citadel's liability is capped at $300,000.Thus, The Citadel does not believe its potential liability in this matter exceeds its insurance coverage.

Other Cases

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

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

NOTE 22—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2016 are summarized as follows:

	Compensation and Employee Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 28,543,179	$ 1,813,173	$ -	$ 70,585	$ -	$ 30,426,937
Research	218,186	277,291	-	39,552	-	535,029
Public Service	24,441	35,053	-	-	-	59,494
Academic Support	6,864,132	2,981,251	-	609,290	-	10,454,673
Student Services	6,588,722	1,876,530	149	24,652	-	8,490,053
Institutional Support	8,486,998	3,873,189	-	17,102	-	12,377,289
Operations & Maint. Of Plant	5,639,881	7,463,938	2,723,933	-	-	15,827,752
Scholarships & Fellowships	253,009	167,009	-	3,742,679	-	4,162,697
Auxiliary Enterprises	8,486,782	17,648,044	1,110,061	10,720	-	27,255,607
Depreciation	-	-	-	-	4,920,801	4,920,801
Total Operating Expenses	$ 65,105,330	$ 36,135,478	$ 3,834,143	$ 4,514,580	$ 4,920,801	$114,510,332

NOTE 23—UNFUNDED ATHLETIC GRANT-IN-AID

The College's athletic grant-in-aid is athletic scholarships funded by private donations through The Citadel Brigadier Foundation to The Citadel. The Citadel annually awards athletic scholarships in excess of the support from The Citadel Brigadier Foundation, thus additional budgeted supplements are required from The Citadel Trust and The Citadel (via auxiliary surpluses) to help fund this aid. The Citadel's Athletic Department is a self-supporting operating unit that is responsible for covering any unfunded balances in athletic grant-in-aid through its annual operating surpluses.

In Fiscal Years 2015 and 2016, The Citadel's Athletic Department was unable to cover the remaining unfunded scholarship balance due to several factors:

- Revenue projections for ticket sales and fundraising were not met
- Non-conference guarantee game revenue declined from the prior year
- Personnel costs were higher due to a State-mandated cost of living allowance, Affordable Care Act impacts, and overlapping staff salaries due to coaching changes
- Athletic overhead allowance to cover Education and General (E&G) administrative support was also higher due to the Affordable Care Act

The College is currently working on numerous remediation strategies to position the business model within the Citadel's Athletic Department for long-term success. The College is working with the Citadel's Athletic Department to allow the Athletic Department to cover their prior and current year unfunded balances over time. The College, however, anticipates the possibility of additional unfunded athletic grant-in-aid in future years. These projected unfunded balances are not anticipated to affect the College's ability to pay its upcoming debt service. The College's bondholder of the Series 2015 Athletic Facilities Revenue bond and the Series 2014 Athletic Facilities Revenue bond requires bond coverage ratios of 110% and 100%, respectively. As of June 30, 2016, the College reported a bond coverage ratio of 676% for the combined Athletic Facility Bonds.

Schedules of Required Supplementary Information
Schedule of The Citadel's Proportionate Share of the Net Pension Liability
For the year ended June 30, 2016

	SCRS		
	2016	**2015**	**2014**
The Citadel's proportion of the net pension liability	0.368400%	0.364117%	0.364117%
The Citadel's proportionate share of the net pension liability	$ 69,867,888	$ 62,688,876	$ 65,309,600
The Citadel's covered-employee payroll during the measurement period	$ 42,226,239	$ 40,281,067	$ 39,597,063
The Citadel's proportionate share of the net pension liability as a percentage of its covered-employee payroll	165.46084%	155.62864%	164.93547%
Plan fiduciary net position as a percentage of the total pension liability	56.99%	59.90%	56.39%

	PORS		
	2016	**2015**	**2014**
The Citadel's proportion of the net pension liability	0.06165%	0.06329%	0.06329%
The Citadel's proportionate share of the net pension liability	$ 1,343,594	$ 1,211,641	$ 1,311,984
The Citadel's covered-employee payroll during the measurement period	$ 763,719	$ 761,174	$ 760,247
The Citadel's proportionate share of the net pension liability as a percentage of its covered-employee payroll		159.18056%	172.57339%
Plan fiduciary net position as a percentage of the total pension liability	64.57%	67.55%	62.98%

**Information presented for all years available*

Schedules of Required Supplementary Information
Schedule of The Citadel's Contributions
For the years ended June 30, 2011 through 2016

	SCRS					
	2016	**2015**	**2014**	**2013**	**2012**	**2011**
Contractually required contribution	$ 3,919,630	$ 3,765,017	$ 3,545,182	$ 3,458,611	$ 2,864,624	$ 2,595,501
Contributions in relation to the contractually required contribution	3,919,630	3,765,017	3,545,182	3,458,611	2,864,624	2,595,501
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
The Citadel's covered-employee payroll	$ 43,430,316	$ 42,226,239	$ 40,281,067	$ 39,597,063	$ 37,171,451	$ 35,317,858
Contributions as a percentage of covered-employee payroll	9.02510%	8.91630%	8.80111%	8.73451%	7.70652%	7.34898%

	PORS					
	2016	**2015**	**2014**	**2013**	**2012**	**2011**
Contractually required contribution	$ 105,665	$ 102,415	$ 97,735	$ 93,510	$ 85,649	$ 72,551
Contributions in relation to the contractually required contribution	105,665	102,415	97,735	93,510	85,649	72,551
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
College's covered-employee payroll	$ 769,034	$ 763,719	$ 761,174	$ 760,247	$ 728,123	$ 681,226
Contributions as a percentage of covered-employee payroll	13.73996%	13.41004%	12.84003%	12.29995%	11.76299%	10.65006%

**Information presented for all years available*