THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA

CHARLESTON, SOUTH CAROLINA

FINANCIAL STATEMENTS

Year Ended June 30, 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To 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, 2017, and the related notes to the financial statements, which collectively comprise The Citadel's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Citadel Foundation, The Citadel Brigadier Foundation, and The Citadel Real Estate Foundation, which are presented as non-governmental discretely presented component units. The Citadel Foundation, The Citadel Brigadier Foundation, and The Citadel Real Estate Foundation represent 100% of total assets and 100% of total revenues of the non-governmental discretely presented component units. Those statements were audited by another auditor whose reports have been provided to us, and our opinions, insofar as they relate to the amounts included for The Citadel Foundation, The Citadel Brigadier Foundation, and The Citadel Real Estate Foundation, are based solely on the reports of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of The Citadel Foundation, The Citadel Brigadier Foundation, and The Citadel Real Estate Foundation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of another auditor, 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as shown on pages 3 – 17, 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 66 and 67, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Citadel's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017, on our consideration of The Citadel's internal control over financial reporting and on 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.

Cherry Bekaert LLP

Greenville, South Carolina
October 2, 2017

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2017

Overview of the Financial Statements and Financial Analysis

The Citadel ("the College") is pleased to present its financial statements for fiscal year 2017. While audited financial statements for fiscal year 2016 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, The Citadel Brigadier Foundation, and The Citadel Real Estate Foundation.

During fiscal year 2015, The Citadel received a renewed 10-year accreditation from the Southern Association of Colleges and Schools Commission on Colleges ("SACSCOC"), with no recommendations for improvements or further action required.

Total State appropriations, which include other items such as State health insurance allocations, increased $434,225 from $10,328,702 in 2016 to $10,762,927 in 2017. Total State appropriations peaked in fiscal year 2008 at $16,895,424 and have declined 36% since that timeframe. The Citadel also received $132,940 in a one-time appropriations for a mechanical engineering lab and 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, State-mandated pension and benefit increases, and fund new programs such as the College's Mechanical Engineering Program. Based on continued strong cadet enrollment and a tuition increase, plus an increase in cadet fees there was a $2.2 million increase in student tuition and fee revenue, net of scholarship allowances. The Citadel is monitoring the instate vs out of state mix of students. A decline in the number of out of state students can impact revenue.

The Citadel Graduate College decreased 0.7% and Citadel Evening Undergraduate College increased 16.55%, between fiscal years. An 11.61% decrease in Other student categories occurred as well. During the FY17 year, The Citadel ramped up Online programs for Evening and Graduate populations. Increases in enrollment for Spring 2017 are expected to continue as the programs begin enrolling more students.

Student Category	Fall 2016* Enrollment	Fall 2015** Enrollment	# Increase / (Decrease)	% Increase / (Decrease)
Cadets	2,323	2,291	32	1.39%
Graduate Students	829	835	(6)	(0.7%)
Evening Undergraduate Students	162	139	23	16.55%
Others (Includes Active Duty, Veteran Student, etc.)	213	241	(28)	(11.61%)
Totals	**3,527**	**3,506**	**21**	**0.60%**

* Source: Citadel Institutional Research Fall 2016 Student Enrollment Profile
** Source: Citadel Institutional Research Fall 2015 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.

Overview of the Financial Statements and Financial Analysis, Continued

Cohort	Fall 2016 Retention***	Fall 2015 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 2016-2017
**** Source: Citadel Institutional Research Common Data Set 2015-2016

Pledged revenues from auxiliary fee-based and profit-based revenue increased by $0.8 million over last year. Auxiliary student fee revenue increased based on higher cadet enrollment. In addition, there was a small increase in scholarship allowances. Increases recognized in The Cadet Store ($0.16 million) and Barnes & Noble ($0.29 million) were added to by an increase in Aramark Profit-Based and Vending ($0.027 million). Non-pledged auxiliary revenues (sales and services of the Athletic Department), increased by $0.719 million due to various increases in Athletic revenue.

Athletics fee-based revenue increased by approximately $257,000 due to an increase in the cadet population. Due to events around Hurricane Matthew, the Athletic Department had to reschedule a home game. 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 FY17, 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 for repairs was $2.5 million. The Insurance Reserve Fund has covered $2.1 million, and The Citadel covered the remaining balance from Auxiliary profits. In addition, The Citadel had a Business Interruption policy that paid $340,066 as replacement revenue from the events that were unable to be held during the construction phase.

Operating expenses increased significantly in 2017. Compensation and benefits increased by $4.537 million due to a $1.215 million increase in classified salaries (related to results identified in a recent salary study), and a $0.677 increase in fringes and a $2.643 million increase in pension expense employer's share. Services and supplies expenses decreased by $1.063 million primarily due to a decrease in campus deferred maintenance projects in response to the College's implementation of a formal long-term capital asset management plan.

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 2017. In FY17, bond liabilities on debt service decreased $3,446,455 due to the effects of refinance and bond debt retirement. In FY17, The Citadel made the final payment on institutional bond debt. The remaining bond debt for The Citadel falls in revenue and athletic bonds. In FY17, The Citadel did not enter into any new debt agreements.

Overview of the Financial Statements and Financial Analysis, Continued

The Citadel Real Estate Foundation, which is 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, site preparation and construction document work were done and the expenses for this were paid by The Citadel Real Estate Foundation. Construction on the building will be done in FY18 and FY19. In FY18, 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.

In FY17, The Citadel adjusted the net pension liability based on guidance from the South Carolina Public Employee Benefit Authority. In FY17, the pension liability beginning balance was $71.2 million. During FY17 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 $4.8 million change in deferred outflows, a $0.3 million change in deferred inflows due to changes in expected investment returns, and $4 million in pension expense. These adjustments increased the pension liability to $79.7 million.

The most significant influence on the financial results of The Citadel Trust, Incorporated ("the Trust") during 2017 was the increase in investment returns. Approximately 50% 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 increased from -4.64% in FY16 to 11.99% in FY17. The Trust's remaining pooled assets are invested in a managed portfolio of traditional investments held at Morgan Stanley. Returns for this managed portfolio increased from 0.4% in FY16 to 10.2% in FY17. Investment book values decreased by $201,576 from $78,776,659 in FY16 to $78,575,083 in FY17. Investment market values (including cash and money market holdings within existing positions) increased by $5,397,882 from $86,250,475 in 2016 to $91,648,357 in 2017.

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 value of the CAA investments at June 30, 2016 was $4,395,468. The fair value of the CAA investments at June 30, 2017 is $4,623,994. 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.

Overview of the Financial Statements and Financial Analysis, Continued

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 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 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, *Accounting and Financial Reporting for Pensions*, in fiscal year 2015. 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.

Statement of Net Position, Continued

Condensed Summary of Net Position (thousands of dollars)

Assets:	**2017**	**2016**	**Increase/ Decrease**	**Percent Change**
Current assets	$ 67,997	$ 65,649	$ 2,348	3.58%
Capital assets, net	125,371	123,063	2,308	1.86%
Other assets	83,403	75,380	8,023	10.64%
Total Assets	276,771	264,092	12,679	4.80%
Deferred Outflows of Resources	11,177	6,366	4,811	75.57%
Liabilities:				
Current liabilities	16,741	18,069	(1,328)	-7.35%
Noncurrent liabilities	108,994	100,446	8,548	8.51%
Total Liabilities	125,735	118,515	7,220	6.09%
Deferred Inflows of Resources	485	152	333	219.08%
Net Position:				
Net investment in capital assets	103,447	97,081	6,366	6.56%
Restricted - nonexpendable	50,133	46,505	3,628	7.80%
Restricted – expendable	40,472	39,291	1,181	3.00%
Unrestricted	(32,323)	(31,086)	(1,237)	-3.98%
Total Net Position	$ 161,729	$ 151,791	$ 9,938	6.55%

Total Assets – overall increase of $12.7 million

- The $2.3 million increase in current assets is composed of a $2.9 million increase in Citadel current assets and a $0.6 million decrease in Citadel Trust ("Trust") current assets.

  The $2.9 million increase in Citadel current assets is attributable to increases in current unrestricted cash, accounts receivable and inventories, reduced by a decrease in current restricted cash. Current unrestricted cash increased by $4 million. Approximately $4 million of this increase is related to cash generated by increased student fee revenue. Student tuition and fee revenue increased by $2.2 million and other fee revenue increased by $1.8 million in 2017. In addition, cash set aside for auxiliary reserves increased by approximately $1 million. Both accounts receivable and inventories increased by $0.2 million, each. These increases were partially reduced by a $1.5 million decrease in current restricted cash. $1.25 million of cash restricted for capital projects was expended in 2017. In addition, cash in restricted grant funds decreased by approximately $250,000.

  The $0.6 million decrease in Trust current assets is primarily attributable to the expenditure of various gift funds. Current unrestricted cash and investments decreased by approximately $1.2 million due to spending of unrestricted gift funds, including amounts in the Turner Fund, Brittlebank Proceeds Fund and Adna Wilde Trust. Current restricted cash and investments increased by $0.9 million, primarily due to a 12.8% increase in investment returns. In addition, contributions receivable decreased by approximately $0.2 million, as current pledged contributions were paid and fewer new contributions were pledged.

- The $2.3 million increase in capital assets is composed of a $2.6 million increase in Citadel capital assets and a $0.3 million decrease in Trust capital assets.

Statement of Net Position, Continued

Total Assets – overall increase of $12.7 million, continued

Citadel capital assets (net of depreciation) increased by $2.6 million. Equipment and vehicles totaling approximately $400,000 were purchased and capitalized in 2017. The following construction projects were completed and capitalized for a total cost of $5.5 million during 2017: Byrd Hall Organic Chemistry Lab ($1,342,720), Coward Hall Sprinklers ($711,523), Stevens Hall Restrooms ($556,309), Jenkins Hall Exterior Renovation ($1,200,880), Grimsley Hall Lecture Room ($112,858), The Citadel Beach House ($1,608,227). The demolition of Hagood Housing units reduced capitalized buildings by $234,785. Several projects are in process and comprise the $2,139,706 remaining in construction in process: Capers Hall Replacement Study, New Capers Hall Building, The Citadel War Memorial, Boat Center Redevelopment, Barracks Restroom Replacements, Krause Renovation, Nursing Simulation Lab and Deas Hall Renovations.

Depreciation expense of $4.8 million decreased slightly from $4.9 million in the prior year.

Trust capital assets decreased by $0.3 million as the completed student recruiting system was transferred from The Trust and capitalized by The Citadel.

- The $8 million increase in other assets is composed of a $2.7 million increase in Citadel other assets and a $5.3 million increase in Trust other assets.

  The $2.7 increase in Citadel other assets is primarily due to an increase of $3 million in restricted noncurrent cash. $2.1 million of this increase is cash held for others for campus construction projects. The remaining increase of $0.9 million is funding for the Citadel War Memorial construction project. These increases in restricted noncurrent cash are reduced by a $0.25 million decrease in noncurrent contributions receivable and a $0.1 million decrease in noncurrent student loans receivable.

  The increase in Trust other assets is primarily attributable a $5.7 million increase in investments related to the 12.8% increase in investment returns. A decrease of $0.2 million in noncurrent contributions receivable offset this increase in investment value.

Deferred Outflows of Resources – overall increase of $4.8 million

- Deferred outflows of resources increased by $4.8 million in 2017 as a reflection of the $8.7 increase in the net pension liability.

Total Liabilities – overall increase of $7.2 million

- The $1.3 million decrease in current liabilities is solely attributable to a decrease in Citadel current liabilities. A major component of this decrease is a $2 million decrease in current bonds payable due to the payoff of one bond in FY17 and a reduction in the principal portion due on one of the revenue bonds. 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, during FY2015.

  Other significant changes in current liabilities include an increase of $0.7 million in unearned revenue. Approximately $400,000 of this amount is related to Summer II tuition and auxiliary fees. This increase was caused by slightly higher student enrollment and an increase in credit hours and auxiliary fees. Skybox and football ticket sales for the upcoming football season also increased by approximately $230,000.

  Trust current liabilities remained relatively unchanged.

Statement of Net Position, Continued

Total Liabilities – overall increase of $7.2 million, continued

- The $8.5 million increase in noncurrent liabilities is composed of an $8.3 million increase in Citadel noncurrent liabilities and a $0.2 million increase in Trust noncurrent liabilities.

  The Citadel increase in noncurrent liabilities is primarily due to the $8.5 million increase in the net pension liability as of June 30, 2017. In addition, funds held for others increased by $2 million due to cash held for others for campus construction projects. These increases were offset by the $2.2 million decrease in bonds payable. As the bonds are nearing maturity, the noncurrent portion is decreasing.

  Trust noncurrent liabilities increased by $0.2 million due to an increase 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 increase of $0.3 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 increased deferred inflows of resources by $0.3 million in FY17. This adjustment was required because of differences between projected and actual earnings on pension plan investments related to the net pension liability.

Net Position – overall increase of $9.9 million

- Net investment in capital assets increased by $6.4 million. The net position increased primarily because the bonds and notes payable balances decreased by $4.0 million. Capitalized assets increased by $7.2 million due to additions of capital assets less depreciation expense of $4.8 million.

- Restricted – nonexpendable assets increased by $3.6 million. This increase in Trust nonexpendable assets is due to a 12.8% increase in investment returns.

- Restricted – expendable assets increased by $1.2 million. Citadel restricted expendable assets decreased by $0.8 million. Net assets restricted for scholarships and other purposes decreased by $866,280. Approximately $381,000 of this amount was expended for Deas Hall Equipment, and the remainder represents gift and grant funds expended for their restricted purposes. Net assets restricted for capital projects decreased by approximately $178,000 as funds were expended for current construction projects. In addition, expendable net assets restricted for debt service increased by approximately $247,000 as The Citadel collected more funds than required for current year debt service.

  Trust expendable assets increased by $2.0 million primarily due to the 12.8% increase in investment returns.

- Unrestricted net position decreased by $1.2 million. The $0.2 million decrease in Citadel unrestricted net position is primarily attributable to the College's recognition of its $4 million proportionate share of the net pension liability. The Citadel also expended $1.5 million of unrestricted net assets in 2017 for construction projects. These decreases were partially offset by several revenue increases. Auxiliary net assets increased by $2.1 million as a reflection of the $1.6 million increase in auxiliary sales and service income in 2017. Student tuition and fee and other fee increases resulted in increases to unrestricted net assets of approximately $4 million.

Statement of Net Position, Continued

Net Position – overall increase of $9.9 million, continued

The $1 million decrease in Citadel Trust unrestricted net position is primarily attributable to the spending of unrestricted gift funds, including amounts in the Turner Fund, Brittlebank Proceeds Fund and Adna Wilde Trust.

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."

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2017

Statement of Revenues, Expenses, and Changes in Net Position

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

Revenues:	**2017**	**2016**	**Increase/ (Decrease)**	**Percent Change**
Student tuition and fees, net	$ 44,358	$ 42,147	$ 2,211	5.25%
Sales and services	32,391	30,719	1,672	5.44%
Grants and contracts	6,598	6,093	505	8.29%
Investment income	8,808	(1,701)	10,509	617.81%
Other operating revenues	6,282	4,863	1,419	29.18%
Total Operating Revenues	98,437	82,121	16,316	19.87%
State appropriations	10,763	10,329	434	4.20%
Grants	10,413	9,956	457	4.59%
Gifts	3,116	4,442	(1,326)	-29.85%
Investment income	466	339	127	37.46%
Other nonoperating revenues/expenses	2,308	522	1,786	342.15%
Total Nonoperating Revenues	27,066	25,588	1,478	5.78%
Total Revenues	125,503	107,709	17,794	16.52%
Expenses:				
Compensation and employee benefits	69,643	65,105	4,538	6.97%
Services and supplies	35,073	36,136	(1,063)	-2.94%
Utilities	3,828	3,834	(6)	-0.16%
Depreciation	4,825	4,921	(96)	-1.95%
Scholarships and fellowships	4,357	4,515	(158)	-3.50%
Total operating expenses	117,726	114,511	3,215	2.81%
Interest expense on capital asset-related debt	1,006	1,167	(161)	-13.80%
Total Nonoperating Expenses	1,006	1,167	(161)	-13.80%
Total Expenses	118,732	115,678	3,054	2.64%
Income before capital contributions, additions to permanent endowments and transfers	6,771	(7,969)	14,740	184.97%
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	2,558	3,220	(662)	-20.56%
Permanent endowment additions	609	758	(149)	-19.66%
Total capital contributions, additions to permanent endowments and transfers	3,167	3,978	(811)	-20.39%
Change in Net Position	9,938	(3,991)	13,929	349.01%
Net Position, Beginning	151,791	155,782	(3,991)	-2.56%
Net Position, Ending	$ 161,729	$ 151,791	$ 9,938	6.55%

Total Revenues – overall increase of $17.8 million

- Operating revenues increased by $16.3 million. Citadel operating revenues increased by $8.1 million and Citadel Trust operating revenues increased by $8.2 million.

  Citadel tuition and fees increased by $2.2 million in 2017.

  Sales and services revenue increased by $1.7 million in 2017. This increase is composed of a $0.85 million increase in auxiliary revenue pledged for revenue bonds, a $0.76 increase in auxiliary revenue not pledged for revenue bonds, and a small increase in sales and service revenue of educational and other activities.

  Auxiliary revenue pledged for revenue bonds increased by $0.85 million. Auxiliary student fee revenue increased on higher enrollment. In addition, there was a slight increase in scholarship allowances. Auxiliary sales revenue increased over the prior year, $0.8 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 received $0.3 million in Business Interruption Insurance payments to offset revenue lost during reconstruction.

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

Total Revenues – overall increase of $17.8 million, continued

Athletics sales revenue, the only auxiliary revenues not pledged for revenue bonds, increased by $0.76 million in fiscal year 2017.

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 and going forward, 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.

Operating grant revenue increased by $0.5 million. Federal operating grants increased by $0.4 million, while State operating grants increased by $0.2 million, and nongovernmental operating grants decreased by $61,000. The increase in Federal operating grants is primarily due two new federal grants – Henry M. Jackson Foundation Subaward and National Geospatial Intelligence grant. The increase in State operating grants is primarily due to increases of $259,000 in Life Scholarships and $113,000 in SC Hope Scholarship grants. These increases were partially offset by decreases in National Guard Cap and SC Need Based grant revenue. The small decrease in nongovernmental operating grants is related to Skybox revenue received from TCF.

Other operating revenues increased by approximately $1.4 million. This increase is related to other fees charged by The Citadel for services provided.

The $10.5 million increase in Trust operating revenues is solely attributable to a significant increase in investment returns within the Trust's unitized investment pool. The return for the Richmond Fund investment increased from -4.64% in 2016 to 11.99% in 2017. The Morgan Stanley managed portfolio return increased from 0.4% in 2016 to 10.2% in 2017.

- Nonoperating revenues increased by $1.5 million. This increase is composed of a $2.4 million increase in Citadel nonoperating revenues and a $0.9 million decrease in Citadel Trust nonoperating revenue.

  The major components of the Citadel increase in nonoperating revenues were a $0.4 million increase in State appropriations, a $0.1 million increase in Federal Pell grants, a $0.5 million increase in nongovernmental grants, a $0.5 million decrease in gifts, a $1.9 million increase in other nonoperating revenues related to insurance recoveries for The Citadel beach house fire, and $0.1 million increase in investment income.

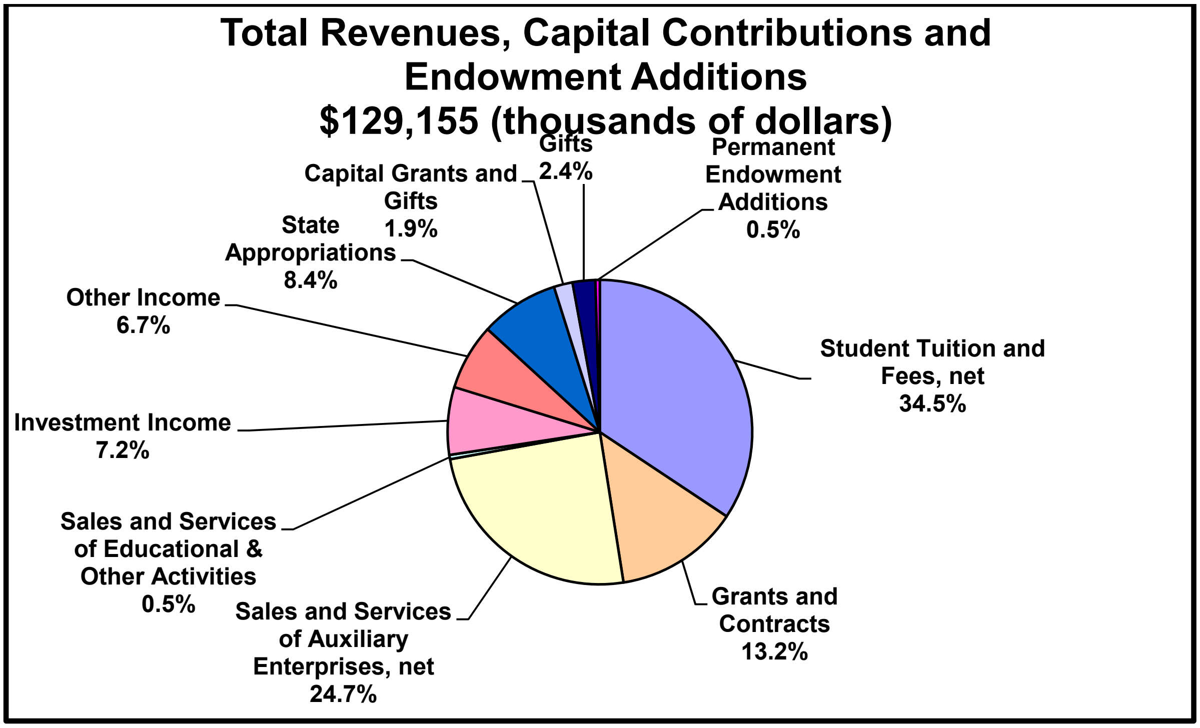
  Total State appropriations, which include other items such as State health insurance allocations, increased by $434,225, from $10,328,702 in 2016 to $10,762,927 in 2017. Total State appropriations peaked in fiscal year 2008 at $16,895,424, and have declined 36% since that timeframe.

  Federal nonoperating grants increased by approximately $97,000 due to higher Pell grant funding. Nongovernmental nonoperating grant revenue increased by approximately $454,000. Investment income increased by $0.1 million as a result of an increase in investment returns for State invested funds.

  The $0.9 million decrease in Trust nonoperating revenue is chiefly attributable to a $0.86 million decrease in gifts.

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

Total Revenues – overall increase of $17.8 million, continued



Total Expenses – overall increase of $3.0 million

- Operating expenses increased by $5.3 million. Compensation and benefits increased by $4.5 million. In FY17, the College increased classified salaries as a result of a compensation study. These salary increases resulted in a $1.215 million increase in compensation. Other increases included a $0.677 million increase in fringe benefits primarily due to an increase in the employer's share of insurance effective January 1, 2016, and an increase in employer retirement contributions required in FY17. Pension expense increased by $2.643 million.

  Services and supplies expenses decreased by $1 million. The Citadel spent approximately $540,000 more in advertising in 2017, particularly geared toward on-line education. Software license fees increased by approximately $360,000, as the new Banner Recruiting software was activated in early 2017. Purchases of equipment under $5,000 decreased by approximately $1.5 million and travel expenditures increased by approximately $646,000. The increase in travel expenditures was primarily associated with the new Global Studies program. During 2017 Citadel students traveled to and attended classes in Cyprus. Cellphone expenses decreased by $176,000 as the College changed to a stipend program for cellphone service. Telephone expense also decreased when The Citadel implemented VOIP telephone services.

  Utility costs did not change significantly from 2016.

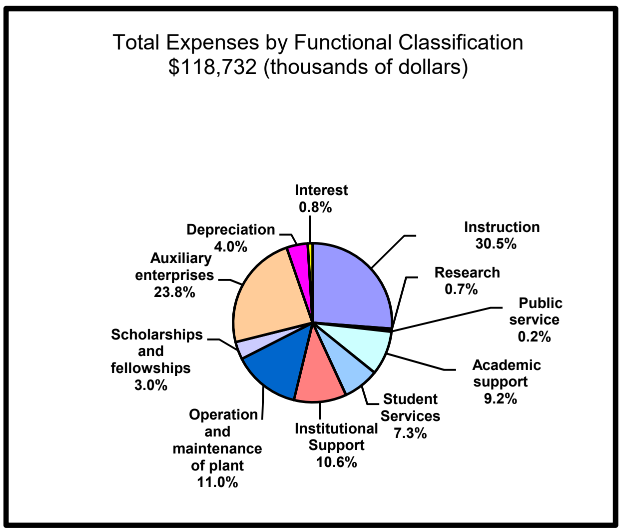
  Depreciation expense decreased by $96,000 based on the depreciation schedule.

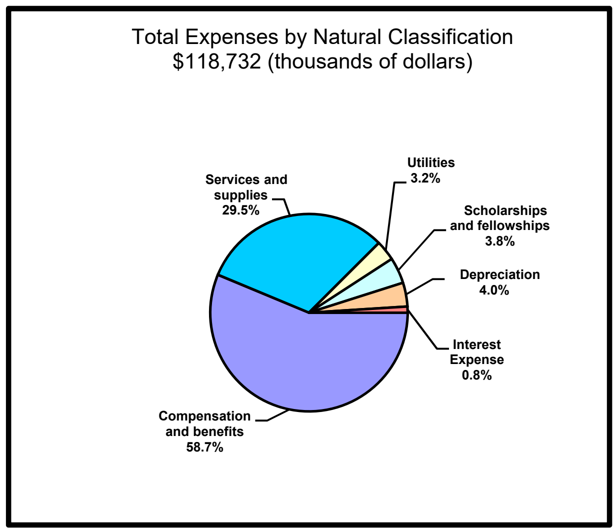
Statement of Revenues, Expenses, and Changes in Net Position, Continued

Total Expenses – overall increase of $3.0 million, Continued

Scholarship expenses decreased by $0.2 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 $0.8 million and the scholarship allowance increased by $1 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 $0.2 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 decrease of $0.8 million

- Citadel capital grants and appropriations and transfers from The Citadel Trust decreased by $0.4 million. State one-time capital appropriations decreased by $2.8 million. In 2016 The Citadel received state capital appropriations of $1.35 million for a Byrd Hall lab renovation and approximately $1 million for Deas Hall renovations and equipment. In 2017, The Citadel received $132,940 for a mechanical engineering lab. Capital grants increased by $2.1 million. The major components of this increase are approximately $800,000 for the Nursing Simulation Lab, $905,000 for The Citadel War Memorial, and approximately $180,000 for the Johnson Hagood East Stands Demolition. Trust transfers increased by $0.4 million due to increased Trust funding for salaries, supplies, and scholarships.

- Permanent endowment additions decreased by approximately $150,000.

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 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, 2017 and 2016 were as follows:

Capital Assets (net of accumulated depreciation)

	2017	2016	Increase/ (Decrease)	Percent Change
Capital Assets:				
Land	$ 4,903,347	$ 4,903,347	$ -	0.00%
Construction in progress	2,139,706	1,593,628	546,078	34.27%
Fine arts	368,801	368,801	-	0.00%
Land improvements	3,295,984	3,587,902	(291,918)	-8.14%
Buildings and improvements	107,671,530	105,909,489	1,762,041	0.17%
Equipment	1,811,265	1,644,319	166,947	10.15%
Vehicles	92,873	86,896	5,977	6.87%
Intangibles	5,087,563	4,968,277	119,286	2.40%
Total	$ 125,371,069	$ 123,062,659	$ 2,308,411	1.88%

The following construction projects were completed and capitalized for a total cost of $5.4 million during 2017, including: Byrd Hall Organic Chemistry Lab ($1.3 million), Jenkins Hall Exterior Renovation ($1.2 million), Coward Hall Sprinklers ($0.7 million), Stevens Hall Restrooms ($0.5 million), Grimsley Hall Lecture ($0.1 million), and Beach House Reconstruction ($1.6 million). In addition, Hagood Housing units were demolished and $0.2 million was removed from capitalized buildings.

Several projects are in process and comprise the $2.1 million remaining in Citadel construction in progress: Capers Hall Replacement Study, New Capers Hall Building, The Citadel War Memorial, Boat Center Redevelopment, Barracks Restroom Replacements, Krause Renovation, Nursing Simulation Lab and Deas Hall Renovations.

Trust capital assets decreased by $0.3 million as the completed student recruiting system was transferred from The Trust to The Citadel.

The Citadel capitalized $0.4 million of new equipment and vehicles net of disposals in 2017 and recognized depreciation expense of approximately $4.8 million.

Net investment in capital assets, increased by $6.4 million due to a small increase in capital assets, net of depreciation, and a reduction in capital debt. Citadel capital assets, net of depreciation, increased by $2.7 million, while Trust capital assets decreased by $0.3 million. The College's related long term debt decreased by $4 million. The net effect of the $2.4 million increase in capital assets and the $4 million decrease in long-term liabilities results in an overall $6.4 million 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 2017, with the City of Charleston and the Coastal regions 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 2017, U.S. News & World Report named The Citadel the No. 1 public institution in the South for the seventh consecutive year. The Citadel was also ranked No. 1 for best colleges for veterans in the South. 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 2017, 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. In FY17, the College paid off all remaining institutional (non revenue/athletic) bond debt. The College has started planning for funding a future Capers Hall and is working diligently to fund on campus maintenance needs. 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 increased by a total of $439,225 from $10,328,702 in 2016 to $10,767,927 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. The Trust benefited from positive investment results in FY17. The Richmond Fund saw an increase in return of 4.64% in FY16 and an 11.99% return in FY17. The Morgan Stanley portfolio saw an increase in the rate of return moving from 0.4% in FY16 to 10.2% in FY17. 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 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, 2017

	The Citadel	The Citadel Trust	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 35,592,474	$ 372,952	$ 35,965,426
Marketable securities (at fair value)	-	817,815	817,815
Investment in limited partnership (at fair value)	-	902,100	902,100
Restricted Assets - Current:	-		
Cash and cash equivalents	5,779,464	932,631	6,712,095
Marketable securities (at fair value)	-	6,232,743	6,232,743
Investment in limited partnership (at fair value)	-	6,041,238	6,041,238
Contributions receivable, net	195,172	74,070	269,242
Student loans receivable, net	-	38,987	38,987
Accounts receivable, net	7,916,021	70,895	7,986,916
Contributions receivable, net	-	72,377	72,377
Inventories	2,123,280	-	2,123,280
Prepaid expenses	815,434	19,638	835,072
Total current assets	52,421,845	15,575,446	67,997,291
Noncurrent Assets			
Marketable securities (at fair value)	-	2,252,662	2,252,662
Investment in limited partnership (at fair value)	-	2,484,822	2,484,822
Contributions receivable, net	-	150,398	150,398
Cash surrender value of life insurance	-	13,092	13,092
Restricted Assets - Noncurrent:	-		
Cash and cash equivalents	4,014,014	658,378	4,672,392
Marketable securities (at fair value)	-	35,129,368	35,129,368
Investment in limited partnership (at fair value)	-	36,958,696	36,958,696
Contributions receivable, net	1,027,097	117,081	1,144,178
Student loans receivable, net	514,540	-	514,540
Cash surrender value of life insurance	-	82,607	82,607
Capital assets not being depreciated	5,154,047	2,257,807	7,411,854
Capital assets, net of accumulated depreciation	117,959,215	-	117,959,215
Total noncurrent assets	128,668,913	80,104,911	208,773,824
Total assets	$ 181,090,758	$ 95,680,357	$ 276,771,115
DEFERRED OUTFLOWS OF RESOURCES			
Amounts related to net pension liability	$ 11,177,393	$ -	$ 11,177,393
Total deferred outflows of resources	$ 11,177,393	$ -	$ 11,177,393
LIABILITIES			
Current Liabilities			
Accounts payable	$ 3,281,289	$ 62,811	$ 3,344,100
Retainages payable	37,024	-	37,024
Accrued payroll and related liabilities	2,348,598	41,669	2,390,267
Accrued compensated absences and related liabilities	1,517,339	-	1,517,339
Accrued interest payable	299,964	-	299,964
Unearned revenues	4,543,417	-	4,543,417
Bonds payable	1,476,004	-	1,476,004
Capital leases payable	14,707	-	14,707
Note payable	629,110	-	629,110
Deposits	2,479,667	-	2,479,667
Annuities payable	-	9,450	9,450
Total current liabilities	16,627,119	113,930	16,741,049

The accompanying notes to the financial statements are an integral part of this statement.

THE CITADEL
The Military College of South Carolina
Statement of Net Position
June 30, 2017

	The Citadel	The Citadel Trust	Total
Noncurrent Liabilities			
Federal loan funds	489,567	-	489,567
Accrued compensated absences and related liabilities	1,540,014	5,185	1,545,199
Deposits	661,824	-	661,824
Unearned revenues	120,000	-	120,000
Bonds payable	19,525,000	-	19,525,000
Capital leases payable	7,686	-	7,686
Note payable	271,838	-	271,838
Annuities payable	-	8,607	8,607
Net pension liability	79,681,367	-	79,681,367
Funds held for others	2,059,085	4,623,994	6,683,079
Total noncurrent liabilities	104,356,381	4,637,786	108,994,167
Total liabilities	$ 120,983,500	$ 4,751,716	$ 125,735,216
DEFERRED INFLOWS OF RESOURCES			
Amounts related to net pension liability	$ 484,520	$ -	$ 484,520
Total deferred inflows of resources	$ 484,520	$ -	$ 484,520
NET POSITION			
Net investment in capital assets	$ 101,188,917	$ 2,257,807	$ 103,446,724
Restricted for Nonexpendable:			
Scholarships	-	44,102,349	44,102,349
Other	-	5,963,033	5,963,033
Annuity	-	67,687	67,687
Restricted for Expendable:			
Scholarships, research, instruction and other	4,965,794	29,921,112	34,886,906
Loans	226,690	1,300,155	1,526,845
Capital projects	3,205,995	261,143	3,467,138
Debt service	590,789	-	590,789
Unrestricted	(39,378,054)	7,055,355	(32,322,699)
Total net position	$ 70,800,131	$ 90,928,641	$ 161,728,772

The accompanying notes to the financial statements are an integral part of this statement.

The Citadel

The Military College of South Carolina

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2017

	The Citadel	The Citadel Trust	Total
REVENUES:			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of $11,987,567)	$ 44,358,169	$ -	$ 44,358,169
Federal grants and contracts	1,460,884	-	1,460,884
State grants and contracts	4,381,941	-	4,381,941
Nongovernmental grants and contracts	755,380	-	755,380
Sales and services of educational and other activities	580,497	-	580,497
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of $5,077,265)	28,031,194	-	28,031,194
Sales and services of auxiliary enterprises - not pledged	3,779,260	-	3,779,260
Other fees	4,911,263	-	4,911,263
Investment income (net of investment expenses of $518,600)	-	7,682,742	7,682,742
Endowment income	-	1,124,882	1,124,882
Other operating revenues	1,371,174	-	1,371,174
Total operating revenues	89,629,762	8,807,624	98,437,386
EXPENSES:			
Operating Expenses			
Compensation and employee benefits	69,551,642	90,878	69,642,520
Services and supplies	34,950,413	122,462	35,072,875
Utilities	3,828,161	-	3,828,161
Depreciation	4,824,720	-	4,824,720
Scholarships and fellowships	4,357,386	-	4,357,386
Total operating expenses	117,512,322	213,340	117,725,662
Operating income (loss)	(27,882,560)	8,594,284	(19,288,276)
NONOPERATING REVENUES (EXPENSES):			
State appropriations	10,762,927	-	10,762,927
Federal grants and contracts	2,778,339	-	2,778,339
State grants and contracts	123,490	-	123,490
Nongovernmental grants	7,255,734	255,093	7,510,827
Gifts	1,021,702	2,094,025	3,115,727
Investment income	465,971	-	465,971
Interest on capital asset-related debt	(1,005,747)	-	(1,005,747)
Loss on disposal of capital assets	(8,052)	-	(8,052)
Other nonoperating revenues	2,004,901	310,924	2,315,825
Net nonoperating revenues	23,399,265	2,660,042	26,059,307
Income (loss) before other revenues and transfers	(4,483,295)	11,254,326	6,771,031
State capital appropriations	132,940	-	132,940
Capital grants and gifts, net of adjustments	2,414,417	10,827	2,425,244
Additions to permanent endowments	-	608,627	608,627
Transfers to/from component units	7,596,664	(7,596,664)	-
Total other revenues and transfers	10,144,021	(6,977,210)	3,166,811
Increase in net position	5,660,726	4,277,116	9,937,842
NET POSITION			
Net position - beginning of year	65,139,405	86,651,525	151,790,930
Net position - end of year	$ 70,800,131	$ 90,928,641	$ 161,728,772

The accompanying notes to the financial statements are an intergral part of this statement.

The Citadel

The Military College of South Carolina

Statement of Cash Flows

For the year ended June 30, 2017

	The Citadel	The Citadel Trust	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	$ 49,616,383	$ -	$ 49,616,383
Grants and contracts	6,525,837	-	6,525,837
Sales and services of educational and other activities	(701,252)	-	(701,252)
Sales and services of auxiliary enterprises	32,065,943	-	32,065,943
Other operating receipts	1,383,142	-	1,383,142
Payments to employees for salaries and benefits	(64,730,440)	(90,878)	(64,821,318)
Payments to suppliers	(35,352,544)	(122,462)	(35,475,006)
Payments for utilities	(3,840,153)	-	(3,840,153)
Payments to students for scholarships and fellowships	(4,357,386)	-	(4,357,386)
Loans issued to students	(55,310)	-	(55,310)
Collection of loans to students	155,902	-	155,902
Funds held for others	2,124,297	-	2,124,297
Student direct lending receipts	25,704,204	-	25,704,204
Student direct lending disbursements	(25,773,607)	-	(25,773,607)
Net cash used in operating activities	(17,234,984)	(213,340)	(17,448,324)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	10,701,401	-	10,701,401
Gifts and grants for other than capital purposes	11,421,866	2,693,153	14,115,019
Other non-operating revenues/expenses	2,490,326	898,695	3,389,021
Transfers from (to) component unit	7,305,818	(7,305,818)	-
Net cash provided by (used in) noncapital financing activities	31,919,411	(3,713,970)	28,205,441
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
State capital appropriations	1,428,072	-	1,428,072
Capital grants and gifts received	2,408,943	10,827	2,419,770
Proceeds from sale of capital assets	10,106	-	10,106
Purchases of capital assets	(8,322,774)	-	(8,322,774)
Principal paid on capital debt and leases, net of discount	(4,044,002)	-	(4,044,002)
Interest paid on capital related debt	(1,053,605)	-	(1,053,605)
Net cash provided by (used in) capital and related financing activities	(9,573,260)	10,827	(9,562,433)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	23,188,078	23,188,078
Interest and dividends on investments	424,481	2,292,931	2,717,412
Purchase of investments	-	(22,145,464)	(22,145,464)
Net cash provided by investing activities	424,481	3,335,545	3,760,026
Net change in cash and cash equivalents	5,535,648	(580,938)	4,954,710
Cash and cash equivalents - beginning of year	39,850,304	2,544,899	42,395,203
Cash and cash equivalents - end of year	$ 45,385,952	$ 1,963,961	$ 47,349,913

The accompanying notes to the financial statements are an integral part of this statement.

The Citadel

The Military College of South Carolina

Statement of Cash Flows

For the year ended June 30, 2017

	The Citadel	The Citadel Trust	Total
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	$ (27,882,560)	$ 8,594,284	$ (19,288,276)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Depreciation	4,824,720	-	4,824,720
Pension expense	3,990,825	-	3,990,825
Interest and dividends on investments	-	(777,595)	(777,595)
Realized and unrealized gains on investments	-	(8,030,029)	(8,030,029)
Funds held for others	2,054,894	-	2,054,894
Changes in assets and liabilities:			
Accounts receivable, net	(1,444,103)	-	(1,444,103)
Inventories	(213,442)	-	(213,442)
Student loans receivable	100,592	-	100,592
Prepaid expenses	62,432	-	62,432
Accounts payable and accrued expenses	599,122	-	599,122
Accrued salaries and related expenses	(70,002)	-	(70,002)
Accrued compensated absences and related liabilities	50,111	-	50,111
Unearned revenue	539,403	-	539,403
Student and other deposits	153,024	-	153,024
Net cash used in operating activities	$ (17,234,984)	$ (213,340)	$ (17,448,324)
Non-cash transactions			
Increase in fair value of investments	$ 141,131	$ 5,235,722	$ 5,376,853
Transfer of capital assets	$ 290,846	$ (290,846)	$ -
Reconciliation of Cash and Cash Equivalent Balances:			
Current assets:			
Cash and cash equivalents	$ 35,592,474	$ 372,952	$ 35,965,426
Restricted cash and cash equivalents	5,779,464	932,631	6,712,095
Noncurrent assets:			
Restricted cash and cash equivalents	4,014,014	658,378	4,672,392
Total cash and cash equivalents	$ 45,385,952	$ 1,963,961	$ 47,349,913

The accompanying notes to the financial statements are an integral part of this statement.

THE CITADEL

The Military College of South Carolina
Non-Governmental Discretely Presented Component Units
Statements of Financial Position

	The Citadel Foundation December 31, 2016		The Citadel Brigadier Foundation December 31, 2016		The Citadel Real Estate Foundation December 31, 2016	
ASSETS						
Cash and cash equivalents	$	11,226,758	$	55,550	$	1,228,484
Restricted cash held at The Citadel		-		-		1,327,409
Unconditional promises to give receivable, net		17,925,077		1,640,812		-
Prepaid expenses		156,998		-		-
Long-term investments (at fair value)		165,644,155		14,877,004		-
Investments related to split-interest agreements (at fair value)		3,033,094		-		-
Other investments		52,441		-		-
Due from related parties		46,704		856,318		-
Note receivable		-		20,000		-
Other receivables		461,173		-		-
Cash value of life insurance policies		944,235		435,827		-
Deferred financing costs, net		-		-		316,623
Property and equipment, net of accumulated depreciation		81,142		3,061		172,591
Land, improvements and other assets held for investment		1,477,360		-		-
Total assets	$	201,049,137	$	17,888,572	$	3,045,107
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable and accrued expenses	$	2,436,468	$	29,748	$	-
Net grants payable to The Citadel		3,565,925		-		-
Due to related parties		864,528		5,173		22,502
Bonds payable		-		-		50,000
Notes payable		30,714		-		-
Annuities and life income funds payable		1,758,316		-		-
Charitable gift annuities		763,241		46,938		-
Total liabilities		9,419,192		81,859		72,502
Net Assets						
Unrestricted		81,471,889		62,679		466,141
Temporarily restricted		53,224,818		2,285,268		2,506,464
Permanently restricted		56,933,238		15,458,766		-
Total net assets		191,629,945		17,806,713		2,972,605
Total liabilities and net assets	$	201,049,137	$	17,888,572	$	3,045,107

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

	The Citadel Foundation For the Year Ended December 31, 2016	The Citadel Brigadier Foundation For the Year Ended December 31, 2016	The Citadel Real Estate Foundation For the Year Ended December 31, 2016
REVENUES, GAINS AND OTHER SUPPORT			
Unrestricted			
Contributions	$ 368,433	$ 1,578,572	$ -
Special events	-	179,013	-
Donated services	-	-	19,715
Other income	-	27,433	-
Loss on other investments, net	(3,707)	-	-
Net unrealized and realized losses on investments	(17,614)	-	-
Loss on sale of property and equipment	(33,000)	(5,657)	-
Equity gain of The Richmond Fund, LP	3,896,870	-	-
Changes in value of split interest agreements	(130,838)	(1,413)	-
Net assets released from restrictions	15,002,885	843,239	493,536
Change in donor restricted funding deficiency	(1,319)	72,330	-
Transfers of net assets	(47,370)	-	
Total unrestricted	19,034,340	2,693,517	513,251
Temporarily restricted			
Contributions	13,714,686	445,828	3,000,000
Net unrealized and realized gains (losses) on investments	21,214	538,580	-
Investment income	-	342,311	-
Equity gain of The Richmond Fund, LP	2,985,388	-	-
Changes in allowance on promises to give	(270,186)	(29,838)	-
Changes in value of split interest agreements	(57,666)	-	-
Net assets released from restrictions	(15,002,885)	(843,239)	(493,536)
Change in donor restricted funding deficiency	1,319	(72,330)	-
Transfers of net assets	47,370	15,100	-
Total temporarily restricted	1,439,240	396,412	2,506,464
Permanently restricted			
Contributions	2,852,844	1,785,316	-
Equity gain of The Richmond Fund, LP	382	-	-
Changes in allowance on promises to give	(176,471)	-	-
Transfers of net assets	-	(15,100)	-
Total permanently restricted	2,676,755	1,770,216	-
Total revenue, gains and other support	23,150,335	4,860,145	3,019,715
EXPENSES			
Unrestricted			
Foundation grants for The Citadel	12,952,607	-	-
Other gift grants to The Citadel	3,782,675	-	-
Program	-	1,819,242	24,037
General and administrative	1,627,891	542,133	23,073
Fundraising	4,486,709	265,865	-
Income tax expense	106,100	-	-
Total unrestricted	22,955,982	2,627,240	47,110
Total expenses	22,955,982	2,627,240	47,110
CHANGE IN NET ASSETS			
Unrestricted	(3,921,642)	66,277	466,141
Temporarily restricted	1,439,240	396,412	2,506,464
Permanently restricted	2,676,755	1,770,216	-
Total change in net assets	194,353	2,232,905	2,972,605
Net assets at beginning of the 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 beginning of period	191,435,592	15,573,808	-
Net assets at end of the period:			
Unrestricted	81,471,889	62,679	466,141
Temporarily restricted	53,224,818	2,285,268	2,506,464
Permanently restricted	56,933,238	15,458,766	-
Total net assets at end of period	$ 191,629,945	$ 17,806,713	$ 2,972,605

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 a nonmajor discretely presented component unit of the State of South Carolina.

The Citadel is governed by the Board of Visitors ("BOV"), 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 No. 39, *Determining Whether Certain Organizations are Component Units,* and further amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, 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 BOV. 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 BOV, 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.

The Citadel Real Estate Foundation ("TCREF") was formed and created in January 2016 and is a separately chartered corporation. TCREF was organized for the specific purpose to operate exclusively for the benefit of The Citadel, as well as to perform the functions of and to carry out the purposes of The Citadel, by providing support and assistance to The Citadel in such a manner as determined by TCREF's Board of Directors. TCREF was created to purchase, receive, hold, invest, reinvest, lease, mortgage, develop, and administer cash and other property of any nature (real, personal, intangible, or mixed). All directors of TCREF's board must be appointed by vote of TCREF's Board, and the Chairman of the Citadel BOV is entitled to nominate one candidate to represent the BOV which must be approved by TCREF's board. The Chairman of TCF's Board is entitled to also nominate one candidate to represent TCF which must be approved by TCREF's board. The Chairman of the BOV, the Chairman of TCF's Board, and the President of The Citadel serve as ex officio, nonvoting advisers to TCREF's board. Because TCREF's sole purpose is to benefit The Citadel, its basic financial statements are discretely presented with those of The Citadel. Copies of TCREF's separately issued financial statements can be obtained by sending a request to the following address: The Citadel Real Estate Foundation, 171 Moultrie St., Charleston, SC 29409.

TCF, TCBF and TCREF 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, TCBF's and TCREF'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.

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

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

Investments and Related Income: The Citadel Trust's investments in marketable securities at the date of the Statement of Net Position are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* 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, 2017; 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.

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 is included in the change in net assets in the Statements of Activities. TCBF carries its investments in real estate at fair market value as of the date the real estate was donated to TCBF.

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

Inventories: Inventories, which consist of 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.

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

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.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or acquisition 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 2017.

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.

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

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.

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.

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*

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

> ***Operating revenues and expenses**:* Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) grants and contracts that are essentially the same as contracts for services that finance programs The Citadel would not otherwise undertake. For The Trust, operating revenues consist of investment income and net increases or decreases in fair value of investments. Operating expenses include all expense transactions incurred other than those related to investing, capital, or noncapital financing activities.

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

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, 2017.

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

Recently Issued Accounting Pronouncements:

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016, requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB Statement No. 81 requires that a government recognize revenue when the resources become applicable to the reporting period. The impact to The Citadel and the Trust upon adoption of this statement is currently being evaluated by management.

GASB Statement No. 87, *Leases,* effective for periods beginning after December 15, 2019, requires lessees to recognize certain lease assets and lease liabilities for leases that previously were classified as operating leases. The statement requires the recognition of amortization expense for using the leased asset over the shorter of the term of the lease or the useful life of the underlying asset, interest expense on the lease liability, and note disclosures about the lease. The impact to The Citadel and the Trust upon adoption of this statement is currently being evaluated by management.

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	$ 35,592,474	$ 372,952	$ 35,965,426
Marketable securities (at fair value)	-	817,815	817,815
Investment in limited partnership (at fair value)	-	902,100	902,100
Restricted assets			
Cash and cash equivalents	5,779,464	932,631	6,712,095
Marketable securities (at fair value)	-	6,232,743	6,232,743
Investment in limited partnership (at fair value)	-	6,041,238	6,041,238
Noncurrent assets			
Marketable securities (at fair value)	-	2,252,662	2,252,662
Investment in limited partnership (at fair value)	-	2,484,822	2,484,822
Restricted assets			
Cash and cash equivalents	4,014,014	658,378	4,672,392
Marketable securities (at fair value)	-	35,129,368	35,129,368
Investment in limited partnership (at fair value)	-	36,958,696	36,958,696
Total Statement of Net Position	$ 45,385,952	$ 92,783,405	$ 138,169,357
Notes: Deposits and Investments			
Cash on hand	$ 22,625	$ -	$ 22,625
Deposits held by State Treasurer	45,161,610	303,703	45,465,313
Other deposits	201,717	1,660,258	1,861,975
Marketable securities (at fair value)	-	44,432,588	44,432,588
Investment in limited partnership (at fair value)	-	46,386,856	46,386,856
Total Notes	$ 45,385,952	$ 92,783,405	$ 138,169,357

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, 2017, 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	$ 1,186,445	$ 1,186,445	$ -	$ -	$ -
U.S. Treasury Bonds	2,609,632	15,004	1,685,793	908,835	-
U.S. Agency Bonds	665,276	-	211,703	450,593	2,980
Corporate Bonds	5,399,525	385,703	2,479,142	2,534,680	-
Mutual Bond Funds	2,892,425	-	2,892,425	-	-
Total fixed income investments	$ 12,753,303	$ 1,587,152	$ 7,269,063	$ 3,894,108	$ 2,980
Common Stocks	$ 4,232,052				
Fixed Income	12,753,303				
Mutual Equity Funds	24,955,614				
REIT	3,678,064				
Total marketable securities	$ 45,619,033				

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, 2017, 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	$ 1,186,445	$ -	$ -	$ -	$ -	$1,186,445
U.S. Treasury Bonds	2,609,632	2,609,632	-	-	-	-
U.S. Agency Bonds	665,276	665,276	-	-	-	-
Corporate Bonds	5,399,525	29,766	2,127,287	3,242,472	-	-
Mutual Bond Funds	2,892,425	-	84,958	-	-	2,807,467
Totals	$12,753,303	$ 3,304,674	$2,212,245	$3,242,472	$ -	$3,993,912

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, 2017. 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, 2017 was $8,920,066. 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, 2017, the fair value of the investment in The Richmond Fund, LP was $46,386,856 or 51% of total Trust 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 value of the CAA investments at June 30, 2017 is $4,623,994. 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, 2016, TCBF's investments are as follows:

Investments carried at fair value	Cost	Fair Value
Mutual funds	$ 11,563,405	$ 11,624,230
Common stock - equities	2,603,735	2,687,829
Real estate investment trusts	56,493	68,760
Partnerships	305,071	300,326
Money market fund	195,859	195,859
Total investments	$ 14,724,563	$ 14,877,004

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, 2016:

Investments carried at fair value	Cost	Fair Value
Investment in The Richmond Fund, LP	$ 147,336,705	$ 165,644,155
Mutual funds – various equities and fixed income	2,802,698	2,761,451
Equities	5,933	5,933
Cash and money market funds	318,151	318,151
Total investments	$ 150,463,487	$ 168,729,690

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 an 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, 2017.

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, 2017:

		Fair Value Measurements Using		
Investments by Fair Value Level	**06/30/2017**	**Level 1**	**Level 2**	**Level 3**
Debt Securities				
U.S. Treasury	$ 2,609,632	$ -	$ 2,609,632	$ -
U.S. Agency	665,276	-	665,276	-
Corporate Bonds	5,399,525	-	5,399,525	-
Total Debt Securities	8,674,433	-	8,674,433	-
Equity Securities				
Equity – Common Stock	4,174,462	4,174,462	-	-
Alternative – Common Stock	57,590	57,590	-	-
Total Equity Securities	4,232,052	4,232,052	-	-
Mutual Funds				
Equities	20,226,317	20,226,317	-	-
Fixed Income	2,892,425	2,892,425	-	-
Alternative	4,729,297	4,729,297	-	-
Total Mutual Funds	27,848,039	27,848,039	-	-
Total Investments by Fair Value Level	$40,754,524	$32,080,091	$ 8,674,433	$ -

Investments Measured at the Net Asset Value (NAV)	
Investment in Richmond Fund, LP	$ 46,386,856
Investment in AEW Core Property Trust (U.S.) Inc.	3,678,064
Total Investments Measured at NAV	50,064,920
Total Investments	$ 90,819,444

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

Redemption Notice Period	**06/30/2017**	**Redemption**	**Frequency**
Investment in Richmond Fund, LP (1)	$ 46,386,856	(a)	(a)
Investment in AEW Core Property Trust (U.S.) Inc. (2)	3,678,064	Quarterly	45 Days
Total Investments Measured at NAV	$ 50,064,920		

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, 2017, are summarized as follows:

	The Citadel	The Citadel Trust	Total
Receivables:			
Student fees	$ 1,452,165	$ -	$ 1,452,165
Grants and contracts	760,040	-	760,040
Accrued interest	98,991	70,895	169,886
Capital Reserve Fund	12,579	-	12,579
Customers-Auxiliaries	6,088,008	-	6,088,008
Miscellaneous	29,995	-	29,995
Gross receivables	8,441,778	70,895	8,512,673
Less allowance for uncollectible:			
Student fees	(525,757)	-	(525,757)
Accounts receivable, net	$ 7,916,021	$ 70,895	$ 7,986,916

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 2017.

The composition of contributions receivable at June 30, 2017 is summarized as follows:

	The Citadel	The Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	$ 1,287,536	$ 556,429	$ 1,843,965
Total gift pledges outstanding	1,287,536	556,429	1,843,965
Less:			
Unamortized discount to present value	(44,535)	(11,048)	(55,583)
Allowance for doubtful accounts	(20,732)	(131,455)	(152,187)
Total contributions receivable, net	$ 1,222,269	$ 413,926	$ 1,636,195

Payments on contributions receivable as of June 30, 2017 are expected to be received in the following years ending June 30:

	The Citadel	The Citadel Trust	Total
2018	$ 195,172	$ 146,447	$ 341,619
2019	210,315	125,574	335,889
2020	198,780	65,874	264,654
2021	192,196	65,222	257,418
2022	190,294	9,867	200,161
Due after 2020	235,512	942	236,454
	$ 1,222,269	$ 413,926	$ 1,636,195

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 $234,677 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, 2017 are summarized as follows:

	The Citadel	The Citadel Trust	Total
Loans receivable	$ 514,540	$ 198,327	$ 712,867
Less allowance for uncollectible loans	-	(159,340)	(159,340)
Net loans receivable	$ 514,540	$ 38,987	$ 553,527

NOTE 5—RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2017 are as follows:

Asset /Restricted for	The Citadel	The Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	$ 2,535,463	$ 412,323
Debt service	605,453	-
College administered loan program	-	334,145
Capital projects	2,638,548	186,163
Total cash and cash equivalents	$ 5,779,464	$ 932,631
Investments (at fair value):		
Donor/sponsor specified	$ -	$ 6,232,743
Investment in limited partnership (at fair value):		
Donor/sponsor specified	$ -	$ 6,041,238
Contributions Receivable:		
Donor/sponsor specified	$ 195,172	$ 74,070
Student Loans Receivable:		
College administered loan program	$ -	$ 38,987
Noncurrent:		
Cash and cash equivalents:		
Endowment	$ 489,542	$ 623,614
Federal Perkins loan program	201,717	-
Capital projects	1,263,670	-
Cash held for other parties	2,059,085	34,764
Total cash and cash equivalents	$ 4,014,014	$ 658,378
Investments (at fair value):		
Endowment	$ -	$ 34,671,900
College administered loan program	-	457,468
Total investments	$ -	$ 35,129,368
Investment in limited partnership (at fair value):		
Endowment	$ -	$ 36,482,556
College administered loan program	-	476,140
Total investments in limited partnership	$ -	$ 36,958,696
Contributions Receivable:		
Donor/sponsor specified	$ 1,027,097	$ 117,081
Total contributions receivable	$ 1,027,097	$ 117,081
Student Loans Receivable:		
College administered loan program	$ -	$ -
Federal Perkins Loan Program	514,540	-
Total student loans receivable	$ 514,540	$ -
Cash Surrender Value of Life Insurance:		
Endowments	$ -	$ 82,607

NOTE 6—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, is summarized as follows:

	July 1, 2016	Increases	Decreases	June 30, 2017
Capital assets not being depreciated:				
Land and improvements	$ 4,903,347	$ -	$ -	$ 4,903,347
Construction-in-progress	1,593,628	5,841,530	5,295,452	2,139,706
Fine arts	368,801	-	-	368,801
Total capital assets not being depreciated	6,865,776	5,841,530	5,295,452	7,411,854
Other capital assets:				
Land improvements	13,889,396	-	-	13,889,396
Buildings and improvements	181,297,521	6,017,942	720,210	186,595,253
Machinery, equipment, and other	7,263,889	650,015	92,684	7,821,220
Vehicles	610,141	45,149	44,092	611,198
Intangibles	6,525,876	377,528	-	6,903,404
Total other capital assets at historical cost	209,586,823	7,090,634	856,986	215,820,471
Less accumulated depreciation for:				
Land improvements	10,301,494	291,918	-	10,593,412
Buildings and improvements	75,388,032	3,752,319	216,628	78,923,723
Machinery, equipment, and other	5,619,571	483,068	92,684	6,009,955
Vehicles	523,242	39,175	44,092	518,325
Intangibles	1,557,601	258,240	-	1,815,841
Total accumulated depreciation	93,389,940	4,824,720	353,404	97,861,256
Other capital assets, net	116,196,883	2,265,914	503,582	117,959,215
Capital assets, net of accumulated depreciation	$ 123,062,659	$ 8,107,444	$ 5,799,034	$ 125,371,069

The net loss on disposed assets of $8,052 consisted of net undepreciated historical cost of demolished housing buildings of $18,158 less $10,106 of sales proceeds from fully depreciated vehicles and equipment.

NOTE 7—UNEARNED REVENUES

The composition of unearned revenues at June 30, 2017 is summarized as follows:

	Citadel	Citadel Trust
Advance collection of student fees	$ 3,352,572	$ -
Advance payment for box & club suites	736,713	-
Deposits for event rentals	38,693	-
Advance fall football tickets sales	355,439	-
Barnes & Noble contractual revenue (see below)	180,000	-
Total unearned revenue	$ 4,663,417	$ -

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 is being amortized over the life of the contract. $60,000 of this contractual payment was recognized as revenue in fiscal years 2017 and 2016. $60,000 of the remaining Barnes and Noble contractual revenue is recorded as current unearned revenue, and $120,000 is recorded as noncurrent unearned revenue.

NOTE 8—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2017:

	Interest Rate	Maturity Dates	Balance June 30, 2017	Debt Retired in Fiscal Year 2017
State Institution Bonds				
Series 2001D adjustable from	4.50% to 4.75%	12/01/2016	$ -	$ 250,000
			-	250,000
Revenue Bonds				
Series 2015	Fixed at 3.49%	04/01/2029	9,805,000	2,395,000
			9,805,000	2,395,000
Athletic Facilities Revenue Bonds				
Series 2014	Fixed at 1.74%	02/15/2018	266,004	261,455
Series 2015	Fixed at 4.67%	02/01/2031	10,930,000	540,000
			11,196,004	801,455
Total Bonds Payable			$ 21,001,004	$ 3,446,455

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 $686,323 which results in a legal debt margin at June 30, 2017, of $617,691. The Citadel's debt service on the retired State institution bond (paid off in fiscal year 2017) was $254,948.

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, 2017, management believes it is in compliance with all related bond covenants of its outstanding 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:

	Principal	Interest	Payments
Revenue Bonds			
2018	$ 1,476,004	$ 857,254	$ 2,333,258
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	1,450,000	640,143	2,090,143
2023 – 2027	8,200,000	2,270,806	10,470,806
2028 – 2031	5,850,000	566,986	6,416,986
	$ 21,001,004	$ 6,584,661	$ 27,585,665

The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2017:

Bond Type	Principal	Interest
State Institution Bonds	$ 250,000	$ 4,948
Revenue Bonds	2,395,000	404,884
Athletic Facilities Revenue Bonds	801,455	532,613
	$ 3,446,455	$ 942,445

Note Payable

At June 30, 2017, note 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%.	$ 900,948

NOTE 8—BONDS AND NOTES PAYABLE, *Continued*

Note Payable, continued

The scheduled maturities of the note payable are as follows:

Notes Payable	Principal	Interest	Payments
2018	$ 629,110	$ 31,739	$ 660,849
2019	271,838	3,516	275,354
	$ 900,948	$ 35,255	$ 936,203

Total principal paid on notes payable was $597,547 for the year ended June 30, 2017. Total interest paid on notes payable was $63,302.

NOTE 9—LEASE OBLIGATIONS

The Citadel's future commitments for capital leases having remaining noncancelable terms in excess of one year as of June 30, 2017 were as follows:

Year ending June 30,	Capital Leases/ Equipment
2018	$ 16,909
2019	8,583
Total minimum lease payments	25,492
Less: Interest	1,575
Executory and other costs	1,524
Present value of minimum lease payments	$ 22,393

All leases are with parties outside of the State government.

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2017 were $16,909, of which $2,219 represented interest and $931 represented executory costs. Total principal paid on capital leases was $13,759 for the year ended June 30, 2017. The following is a summary of the carrying values of assets held under capital lease at June 30, 2017.

Equipment acquired under capital leases	$ 63,785
Less accumulated amortization	42,941
Equipment acquired under capital leases, net	$ 20,844

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 (the "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 (the "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 (the "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 (the "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 (the "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 SCRS 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 SCRS with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the SCRS 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 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 2017	Fiscal Year 2016
SCRS:		
Employee Class Two	8.66%	8.16%
Employee Class Three	8.66%	8.16%
State ORP:		
Employee	8.66%	8.16%
PORS:		
Employee Class Two	9.24%	8.74%
Employee Class Three	9.24%	8.74%

Required employer contribution rates[1] are as follows:

	Fiscal Year 2017	Fiscal Year 2016
SCRS:		
Employer Class Two	11.41%	10.91%
Employer Class Three	11.41%	10.91%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP:		
Employer Contribution[2]	11.41%	10.91%
Employer Incidental Death Benefit	0.15%	0.15%
PORS:		
Employer Class Two	13.84%	13.34%
Employer Class Three	13.84%	13.34%
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 State ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

Of the State ORP employer contribution of 11.41% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the State 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, State ORP, and PORS pension plans from the College were $3,093,102, $1,141,063 and $97,840 for the year ended June 30, 2017, 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, 2017, the College reported liabilities of $78,151,289 and $1,530,078 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. The net pension liabilities were measured as of June 30, 2016, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of July 1, 2015 projected forward to June 30, 2016. 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, 2016, the College's proportionate shares of the SCRS and PORS plans were .365879% and .06032%, which was the same as its proportionate shares of the net pension liabilities measured as of June 30, 2016, respectively.

Pension expense:

For the year ended June 30, 2017, the College recognized pension expense for the SCRS and PORS plans of $7,029,654 and $152,114, respectively.

Deferred inflows of resources and deferred outflows of resources:

At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the combined plans:

	SCRS & PORS	
	Deferred outflows of resources	**Deferred inflows of resources**
Difference between expected and actual experience	$ 832,832	$ 84,872
Net difference between projected and actual earnings on pension plan investments	6,748,526	-
Contributions subsequent to the measurement date	3,192,748	-
Changes in proportion and differences between the College's contributions and proportionate share of contributions	403,287	399,648
Total deferred inflows and outflows of resources	$ 11,177,393	$ 484,520

NOTE 10—PENSION PLANS, Continued

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

The $3,192,748 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date for the SCRS and PORS plans during the year ended June 30, 2017 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2018.

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:

	SCRS
Year ended June 30:	
2017	$ (1,812,291)
2018	(1,388,831)
2019	(2,620,656)
2020	(1,482,146)
Total	$ (7,303,924)

	PORS
Year ended June 30:	
2017	$ (44,176)
2018	(43,025)
2019	(69,416)
2020	(39,584)
Total	$ (196,201)

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. An experience report on the Systems was most recently issued as of July 1, 2015. As a result of the experience study, the actuary recommended adjustments to the actuarial assumptions, which included salary increase, payroll growth, mortality, retirement, terminations, refunds, disability, inflation, and asset valuation method. The experience study also recommended reducing the long-term investment rate of return assumption, which is a prescribed assumption that is set in state statute by the General Assembly, from 7.50 to 7.25 percent. With the exception of the rate of return, all recommended assumption and method changes were adopted by both the PEBA Board and SFAA, as co-fiduciaries. The General Assembly did not change the assumed annual rate of return during the 2016 legislative session so that assumption currently remains at 7.50 percent. The newly adopted assumptions and methods were first used to perform the July 1, 2016 actuarial assumption, the results of which were used in determining the total pension liability as of the June 30, 2017 measurement date.

NOTE 10—PENSION PLANS, Continued

Actuarial assumptions and methods (continued):

The June 30, 2016, total pension liability, net pension liability, and sensitivity information were determined by consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on the July 1, 2015, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2016, 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, 2015, 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, 2015, 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

Long-term expected rate of return:

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital market outlook at the end of the third quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted beginning January 1, 2016. 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.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	**43.0%**		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	**8.0%**		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	**20.0%**		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	**17.0%**		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	**12.0%**		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	100.0%		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			7.85%

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.

NOTE 10—PENSION PLANS, Continued

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.

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	$ 97,491,500	$ 78,151,289	$ 62,051,155
PORS	2,005,298	1,530,078	1,103,003

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, 2016 (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, 2016.

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 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.

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued

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 2017 and 5.00% of annual covered payroll for 2016. The IB sets the employer contribution rate based on a pay-as-you-go basis.

The Citadel paid approximately $2,056,523 and $1,900,650 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2017 and 2016, 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, 2017 and 2016. The Citadel recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately $21,487 and $22,066 for the years ended June 30, 2017 and 2016, 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, 2017, was as follows:

	July 1, 2016	Additions	Reductions	June 30, 2017	Due Within One Year
Bonds, Notes Payable, and Capital Lease Obligations:					
State Institution Bonds	$ 250,000	$ -	$ 250,000	$ -	$ -
Total State Institution Bonds	250,000	-	250,000	-	-
Revenue Bonds	12,200,000		2,395,000	9,805,000	670,000
Athletic Facilities Revenue Bonds	11,997,459	-	801,455	11,196,004	806,004
Total Revenue Bonds Payable	24,197,459	-	3,196,455	21,001,004	1,476,004
Total Bonds Payable	24,447,459	-	3,446,455	21,001,004	1,476,004
Notes Payable	1,498,495	-	597,547	900,948	629,110
Capital Lease Obligations	36,152	-	13,759	22,393	14,707
Total Bonds, Notes & Capital Leases	25,982,106	-	4,057,761	21,924,345	2,119,821
Other Liabilities:					
Federal loan funds	477,599	11,968	-	489,567	-
Accrued compensated absences	3,013,412	1,534,253	1,485,127	3,062,538	1,517,339
Deposits	2,988,467	2,488,033	2,335,009	3,141,491	2,479,667
Unearned revenues	4,124,013	4,481,234	3,941,830	4,663,417	4,543,417
Annuities payable	18,059	-	2	18,057	9,450
Funds held for others	4,399,659	2,533,420	250,000	6,683,079	-
Net pension liability	71,211,557	8,469,810	-	79,681,367	-
Total Other Liabilities	86,232,766	19,518,718	8,011,968	97,739,516	8,549,873
Total Long-term Liabilities	$ 112,214,872	$ 19,518,718	$ 12,069,729	$ 119,663,861	$ 10,669,694

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 resources at June 30, 2017, is summarized as follows:

	Citadel	Citadel Trust	Total
Amounts related to net pension liabilities	484,520	-	484,520
Total deferred inflows of resources	$ 484,520	$ -	$ 484,520

See Note 10 for a description of the deferred inflows of resources 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 $8,855,977. Of the total estimated cost, approximately $6,716,272 is unexpended at June 30, 2017. This excludes approximately $752,000 expended for the future Bastin Hall building reported in funds held for others and described in Note 17. Of the unexpended balance at June 30, 2017, The Citadel had remaining commitment balances of approximately $1,324,639 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. During the current year, The Citadel capitalized substantially complete and in-use projects in the amount of $3,924,290.

Major capital projects at June 30, 2017, which constitute construction in progress that will be capitalized when completed, are listed below.

The amount expended includes only capitalized project expenditures for projects that are less than 90% complete and does not include any non-capitalized expenditures.

Project Title	Estimated Cost	Amount Expended
New Capers Hall	$ 250,000	$ 249,511
Capers Hall Replacement Study	100,000	54,275
Boat Center Redevelopment	5,000,000	161,326
Barracks Restroom Replacements	1,100,000	355,055
The Citadel War Memorial	877,100	165,025
Krause Renovation	165,000	109,792
Nursing Simulation Lab	801,877	751,964
Deas Hall Renovations	562,000	292,757
	$ 8,855,977	$ 2,139,705

Non-Capitalized

At June 30, 2017, 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 $2,271,603. This amount includes costs incurred to date of $1,550,709 and estimated costs to complete of $720,894.

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, 2017, The Citadel had $503,438 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, 2017, net appreciation of $3,489,610 is available to be spent, of which $3,441,336 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 $1,000,000 of stock from this charitable remainder uni-trust to each of the three beneficiaries. Annually the uni-trust is to pay to the benefactor 6% of the net fair market value of the assets in the charitable remainder trust, valued as of the first day of each taxable year of such trust. If income from these assets is insufficient to pay this amount, it will be paid from principal. The uni-trust is irrevocable and is not managed by The Citadel or The Citadel Trust. Since the ultimate amount received cannot be reasonably estimated and the eligibility requirement for the gift has not been met, these uni-trust assets are not included in these financial statements.

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

During fiscal year 2000 a donor established a charitable gift annuity that provides for fixed payments to the donor for his lifetime. At the termination of the agreement the remaining assets of the gift annuity will become available to The Citadel Trust for general institutional purposes. This annuity fund is held and separately managed by The Citadel Trust. At the end of each fiscal year an adjustment is made between the liability and the nonexpendable net asset value to record the actuarial gain or loss due to the recomputation of the present value of the liability based on the revised life expectancy of the donor. At June 30, 2017, the present value of the annuity payable was $18,057.

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, 2017.

NOTE 17—DISCRETELY PRESENTED COMPONENT UNITS, Continued

The Citadel Foundation ("TCF")
For the fiscal year ended June 30, 2017, TCF received current year contributions of $5,379,176 on behalf of The Citadel and The Trust -- $3,091,493 of this total was recorded as gifts, $598,775 was recorded as additions to permanent endowments, and $1,688,908 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of $464,205 for its fundraising services. An additional $66,490 in gifts was received directly through donors instead of through TCF.

The Citadel and The Trust recorded non-governmental grants of $5,840,007 from TCF for the fiscal year ended June 30, 2017. These funds were used to support scholarships, salaries and various academic programs at the College. In addition, TCF provided a grant of $121,024 to support stadium debt service.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled $246,014 for the year ended June 30, 2017.

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, 2016, shows a grant payable to The Citadel of $3,565,925. The net amount due to The Citadel from TCF at June 30, 2017, is $67,920.

The Citadel Real Estate Foundation ("TCREF") is a supporting organization of The Citadel Foundation. As of June 30, 2017 The Citadel is holding net unexpended agency fund capital contributions from TCREF in the amount of $1,422,491. These funds are restricted for pre-construction costs for the future Bastin Hall School of Business on The Citadel's campus, and are included in funds held for others.

The Citadel Brigadier Foundation ("TCBF")
The Citadel and The Citadel Trust recorded non-governmental grants of $1,556,326 from TCBF in the fiscal year ended June 30, 2017. 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 $137,288 for the year ended June 30, 2017, and $2,127 is due to The Citadel at June 30, 2017.

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.

As described in Note 2, CAA has an investment in The Trust's unitized investment pool. As of June 30, 2017 CAA's portion of this investment is $4,623,994, and is included in funds held for others.

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, 2017.

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, 2017, The Citadel's share of John Monroe Holliday Alumni operating profits was $250,000 and is recorded as other nonoperating revenue.

NOTE 18—RELATED PARTIES, Continued

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled $466,483 for the year ended June 30, 2017.

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, 2017:

State Appropriations	
Original appropriation	$ 10,058,294
Agency additions	383,706
Appropriation allocations from the State Commission on Higher Education	
For Academic Endowment Match	13,299
For Technology Grant Program	307,628
Total State Appropriation Revenues	$ 10,762,927

The following is a reconciliation of state capital appropriations and research infrastructure bond proceeds received during the fiscal year ended June 30, 2017:

	Capital Reserve Fund Appropriations	Other Nonrecurring State Capital Appropriations	Total
Proceeds drawn during the current fiscal year	$ 1,295,132	$ 132,940	$ 1,428,072
Plus: Revenue recognized but not expended or drawn during current fiscal year	12,579	-	12,579
Less: Revenue recognized in prior fiscal year but drawn during current fiscal year	(1,307,711)	-	(1,307,711)
Total	$ -	$ 132,940	$ 132,940

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.

NOTE 19—TRANSACTIONS WITH STATE ENTITIES, Continued

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, 2017:

Other amounts received from State agencies	Operating Revenue	Nonoperating Revenue
Received from the Commission on Higher Education:		
LIFE Scholarships	$ 3,161,250	$ -
Palmetto Fellows Scholarships	334,450	-
Need-Based Grants	293,928	-
Hope Scholarships	378,000	-
SC National Guard	214,313	-
Veterans Tuition Differential	-	
Received from various other state agencies	-	123,490
	$ 4,381,941	$ 123,490

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 2017 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:

1. Unemployment compensation benefits
2. Worker’s compensation benefits for job-related illnesses or injuries
3. Health and dental insurance benefits
4. 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.

NOTE 20—RISK MANAGEMENT, Continued

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:

1. Theft, damage to, or destruction of assets
2. Real property, its contents, and other equipment
3. Motor vehicles and watercraft
4. Torts
5. Natural disasters
6. 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 ten lawsuits pending, all of which involve The Citadel's former summer camp (collectively, "summer camp cases"). In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these cases is not likely. 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.

Summer Camp Cases

Background:
From 1957 until 2006, The Citadel operated a summer camp for children between ten and fifteen years old. Between 1997 and 2001, "Counselor 1", a 1997 graduate of The Citadel, served in various positions as counselor at the camp. During the summers of 2000, 2001, and 2002, "Counselor 2" served as a counselor, 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 $3,850,000. The Insurance Reserve Fund paid approximately $3,300,000 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.

NOTE 21—CONTINGENCIES AND LITIGATION, Continued

Summer Camp Cases (continued)

In 2011, Counselor 2 was arrested for sexually abusing numerous boys in the Charleston area. In 2012, he was sentenced to fifty (50) years imprisonment.

Litigation:

Counselor 1: 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: Twelve plaintiffs filed a total of eighteen (18) cases against The Citadel and four of its employees in connection with Counselor 2's actions. All twelve filed cases in state court against The Citadel alleging gross negligence against the school. The Citadel settled two of the cases during the spring of 2017. The trial court granted The Citadel summary judgment in two additional cases, and both of those plaintiffs have appealed. The South Carolina Court of Appeals heard oral argument in those cases in May 2017. The Court affirmed the trial court in both cases during the summer. Both plaintiffs have moved for reconsideration. We assume that, if the Court of Appeals denies those motions, the plaintiffs will petition the S.C. Supreme Court for a writ of certiorari. In the meantime, the trial court has informally stayed any further proceedings in the remaining cases, pending a final decision by the S.C. Supreme Court.

Six of these plaintiffs 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 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 November 2016, the Fourth Circuit affirmed the trial court's grant of summary judgment to The Citadel. The plaintiffs did not petition for reconsideration or petition the U.S. Supreme Court for a writ of certiorari, therefore those cases have ended. The remaining four cases pending in District Court have also ended, as the Court's stay became a final order of dismissal upon the Fourth Circuit's affirmance in November.

The State IRF has defended 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.

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.

NOTE 21—CONTINGENCIES AND LITIGATION, Continued

Other Possible Contingencies

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, 2017 are summarized as follows:

	Compensation and Employee Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 32,441,923	$ 3,365,716	$ -	$ 124,745	$ -	$ 35,932,384
Research	313,534	445,815	-	21,872	-	781,221
Public Service	32,334	178,265	-	-	-	210,599
Academic Support	6,599,829	3,445,229	-	822,264	-	10,867,322
Student Services	6,513,252	2,055,380	-	22,704	-	8,591,336
Institutional Support	8,903,242	3,852,548	-	86,940	-	12,842,730
Operations & Maint. of Plant	5,681,406	4,855,334	2,747,380	-	-	13,284,120
Scholarships & Fellowships	258,146	218,438	-	3,202,515	-	3,679,099
Auxiliary Enterprises	8,898,854	16,656,150	1,080,781	76,346	-	26,712,131
Depreciation	-	-	-	-	4,824,720	4,824,720
Total Operating Expenses	$ 69,642,520	$ 35,072,875	$ 3,828,161	$ 4,357,386	$ 4,824,720	$117,725,662

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 2017 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

NOTE 23—UNFUNDED ATHLETIC GRANT-IN-AID, Continued

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 require bond coverage ratios of 110% and 100%, respectively. As of June 30, 2017, the College reported an above adequate bond coverage ratio for the combined Athletic Facility Bonds.

THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA

SCHEDULE OF THE CITADEL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

FOR THE YEARS ENDED JUNE 30, 2014 THROUGH JUNE 30, 2017

Fiscal year	The Citadel's proportion of net pension liability	The Citadel's proportionate share of the net pension liability	The Citadel's total covered payroll during the measurement period	The Citadel's proportionate share of the net pension liability as a percentage of total covered payroll	Plan fiduciary net position as a percentage of the total pension liability
South Carolina Retirement System (SCRS)					
2017	0.365879%	$ 78,151,289	$ 43,430,316	179.9%	52.90%
2016	0.368400%	69,867,963	42,226,239	165.46%	56.99%
2015	0.364117%	62,688,876	40,281,067	155.63%	59.90%
2014	0.364117%	65,309,600	39,597,063	164.94%	56.39%
Police Officers' Retirement System (PORS)					
2017	0.060320%	$ 1,530,078	$ 769,034	199.0%	64.60%
2016	0.061650%	1,343,594	763,719	175.9%	64.57%
2015	0.063290%	1,211,641	761,174	159.2%	67.55%
2014	0.063290%	1,311,984	760,247	172.6%	62.98%

This data is presented for those years in which information is available.

THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA

SCHEDULE OF THE CITADEL'S CONTRIBUTIONS

FOR THE YEARS ENDED JUNE 30, 2011 THROUGH JUNE 30, 2017

Fiscal year	Actuarial required contribution	Actual contributions	Contribution deficiency (excess)	The Citadel's total covered payroll	Contributions as a percentage of total covered payroll
South Carolina Retirement System (SCRS)					
2017	$ 4,234,165	$ 4,234,165	-	$ 44,909,987	9.43%
2016	3,919,630	3,919,630	-	43,430,316	9.03%
2015	3,765,017	3,765,017	-	42,226,239	8.92%
2014	3,545,182	3,545,182	-	40,281,067	8.80%
2013	3,458,611	3,458,611	-	39,597,063	8.73%
2012	2,864,624	2,864,624	-	37,171,451	7.71%
2011	2,595,501	2,595,501	-	35,317,858	7.35%
Police Officers' Retirement System (PORS)					
2017	$ 97,840	$ 97,840	-	$ 706,945	13.84%
2016	105,665	105,665	-	769,034	13.74%
2015	102,415	102,415	-	763,719	13.41%
2014	97,735	97,735	-	761,174	12.84%
2013	93,510	93,510	-	760,247	12.30%
2012	85,649	85,649	-	728,123	11.76%
2011	72,551	72,551	-	681,226	10.65%

This data is presented for those years in which information is available.

Report of Independent Auditor on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the business-type activities and the discretely presented component units of The Citadel, The Military College of South Carolina ("The Citadel"), a component unit of the State of South Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise of The Citadel's basic financial statements, and have issued our report thereon dated October 2, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of The Citadel Foundation, The Citadel Brigadier Foundation, and The Citadel Real Estate Foundation (non-governmental discretely presented component units of The Citadel) were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with The Citadel Foundation, The Citadel Brigadier Foundation, and The Citadel Real Estate Foundation.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Cherry Bekaert LLP

Greenville, South Carolina
October 2, 2017

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited The Citadel, The Military College of South Carolina ("The Citadel")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on The Citadel's major federal program for the year ended June 30, 2017. The Citadel's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for The Citadel's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Citadel's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of The Citadel's compliance.

Opinion on Each Major Federal Program

In our opinion, the Citadel complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-01. Our opinion on the major federal program is not modified with respect to this matter.

The Citadel's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Citadel's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of The Citadel is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Citadel's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Citadel's internal control over compliance.

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

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

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

Cherry Bekaert LLP

Greenville, South Carolina
October 2, 2017

THE CITADEL
The Military College of South Carolina
Schedule of Findings and Questioned Costs
June 30, 2017

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the financial statements:	Unmodified			
Internal control over financial reporting:				
• Material weakness identified?	____	yes	X	no
• Significant deficiency identified?	____	yes	X	none reported
Noncompliance material to financial statements noted?	____	yes	X	no

Federal Awards

Internal control over major federal programs:				
• Material weakness identified?	____	yes	X	no
• Significant deficiency identified?	____	yes	X	none reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	yes	____	no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Student Financial Assistance Programs Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan-Federal Capital Contributions
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?	X	yes	_____	no

Section II. Financial Statement Findings

None noted

Section III. Federal Award Findings and Questioned Costs

Finding No. 2017-01

Information on the Federal Program:

Federal program:	Student Financial Assistance Programs Cluster
Federal agency:	Department of Education
CFDA No.	84.007 - Federal Supplemental Educational Opportunity Grants 84.033 - Federal Work-Study Program 84.038 - Federal Perkins Loan-Federal Capital Contributions 84.063 - Federal Pell Grant Program 84.268 - Federal Direct Student Loans
Award Year:	2016 - 2017

Criteria:
Students may not be awarded federal aid in excess of their calculated financial need.

Condition:
The College over-awarded federal aid to a student in excess of his need.

Questioned Cost:
Impermissible disbursement of $1,233 in federal aid to a student in excess of his calculated need.

Context:
Of the 40 students tested receiving $583,228 of federal aid during the year, 1 student received $1,233 of federal aid in excess of his calculated need.

Effect:
A student was over-awarded due to his direct loan amount not being properly adjusted for a scholarship that he subsequently received.

Cause:
A student received a scholarship subsequent to the initial awarding of his direct loans, requiring an adjustment to reduce his direct loan amount. In instances where adjustments are to be made to direct loans awarded to students, two separate forms in the College's financial aid system need to be updated. In this instance, only one of the forms was updated, which resulted in the adjustment not being made to the student's account. The financial aid system automatically flagged this as an error that needed to be addressed; however, the College did not identify this error tracking flag during the awarding process and consequently did not have the student's aid adjusted.

Recommendation:
We recommend that the College implement procedures to regularly monitor the financial aid system for any error tracking flags that indicate discrepancies in student information that could result in improper aid being disbursed.

Views of Responsible Officials and Planned Corrective Actions:
See management's attached planned corrective actions.

THE CITADEL
The Military College of South Carolina
Summary Schedule of Prior Year Audit Findings
June 30, 2017

Section I. Prior Year Audit Findings

None noted

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
June 30, 2017

Federal grantor/pass-through grantor/program title	CFDA Number	Grant / Award Number	Total Federal Expenditures
Research and Development Cluster:			
Department of Interior			
Fish and Wildlife Services			
Lindera Melissifolia Gulf South YR 2	99.990	N69450-12D-0073	$ 3,177
Total Department of Interior			3,177
US Department of Navy			
Pondberry Mapping and Monitoring at Marine Corps Air Station Beaufort, SC	12.300	N62470-16-2-9010	7,384
Total US Department of Navy			7,384
National Aeronautics and Space Administration			
Passed through College of Charleston			
SC Space Grant Consortium - Director	43.001	NNX15AL49H/521179-CD-CT	2,500
Passed through Space Telescope Science Institute			
Advanced Spectral Library Project: Hot Stars	43.001	HST-GO-13346.02-A	20,043
Total National Aeronautics and Space Administration			22,543
SC Sea Grant Consortium			
Clemson Subaward 1904-223-2021808	11.417	N468(R/ER-46)/1904-223-2021808	4,771
Educational Poster Printing	11.417	NA14OAR4170088/M/PM-2J	2,434
CURE-Citadel Undergraduate Research Experience	11.417	NA14OAR4170088/P/M-2D, Year 2	3,044
Building Community Resilience to Water-Related Hazards In Charleston, SC	11.417	NA16NOS4730012/R/CRN-1c	19,783
Total SC Sea Grant Consortium			30,032
Department of Transportation			
Passed through Clemson University			
Clemson Subaward - 17952232010467	20.205	1692; SPR No. 716/17952232010467	10,048
Clemson Subaward - 18032232010701	20.205	SPR No. 719/18032232010701	5,593
Clemson Subaward - 18482232021197	20.205	N368 (R/ER-46)/18482232021197	28,918
Total Department of Transportation			44,559
SC Emergency Management Division			
The Citadel Mitigation Plan	97.039	FEMA-DR-4166-SC-031	41,540
SC Earthquake Education and Preparedness Program Workshop	97.039	EMW-2015-CA-00202/521242-CD	1,950
Total SC Emergency Management Division			43,490
NRCS (National Resources Conservation Service)			
Passed through Longleaf Alliance	10.902	FC.A049/FC.A050	
Longleaf Alliance			3,367
Total NRCS			3,367
Department of Defense			
NGA - Grant to The Citadel	12.630	HMO4761610002/159431/155536	136,003
Total Department of Defense			136,003
Uniformed Services of the Health Science			
Passed through Henry M Jackson Foundation	12.750	HU-14-1-0047/3120	
Test and Evaluation of Physiologic Neuro-Assessment Devices			157,583
Total Uniformed Services of the Health Science			157,583
National Security Agency			
GenCyber Program	12.903	H98230-16-1-0153	58,518
Total National Security Agency			58,518
National Science Foundation			
Enhancing Undergraduate Civil Engineering Opportunities for Socioeconomically Disadvantaged, Minorities and Female Students in South Carolina	47.076	DUE-1059945	101,707
Recruit, Educate, Certify and Obtain New Teachers (RECON)	47.076	DUE-1339901	81,364
Passed through Morehouse College			
Broading Participation Research Project: Exploring Computing Careers through a Virtual Career Fair using Embodied Conversational Agents	47.076	1533627	14,312
Passed through James Madison University			
Developing and Assessing Engineering Students Cognitive Flexibility in the Domanin of Sustainable Design	47.041	S15-071-01	18,037
Passed through Georgia State University			
Confidence Judgements and Metacognition in Comparative & Developmental Perspective	47.075	1552405	10,569
Total National Science Foundation			225,989
Total Research and Development Cluster			732,645

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
June 30, 2017

Federal grantor/pass-through grantor/program title	CFDA Number	Grant / Award Number	Total Federal Expenditures
Student Financial Aid Cluster:			
Department of Education			
Federal Supplemental Education Opportunity Grants	84.007	P007A163769	87,419
Federal Work-Study Program	84.033	P033A163769	137,517
Federal Perkins Loan - Federal Capital Contributions	84.038	P038A093769	670,442
Federal Pell Grant Program	84.063	P063P160375	2,778,339
Federal Direct Student Loans	84.268	P268K170375	25,773,607
Total Student Financial Aid Cluster			29,447,324
Other Programs:			
Department of Education			
Passed through National Writing Project Corporation			
LWP SEED 2017	84.367	99-SC09-SEED2017	15,000
Improving Teacher Quality FY17	84.367		5,493
Passed through Hampton One School District			
TEAMS: Hampton One 2015-16	84.366	H630110008213	17,048
Passed through Charleston County School District			
Minnie Hughes Summer Camp			14,619
Total Department of Education			52,160
Department of Homeland Security			
Passed through Institute of International Education	12.357		
Project Go 2015-2016		H98210-13-2-001/2603-Citadel-19-GO-017-P02	34,596
Project Go 2016-2017			285,061
Project Go 2017 Annual Meeting			67,584
Total Department of Homeland Security			387,241
National Endowment for Humanities			
Aqui-Estamos - Documenting the Latino Heritage of the SC Low Country	45.149	PY-253019-17	4,616
Total National Endowment for Humanities			4,616
Total Other Programs			444,017
Total Expenditures of Federal Awards			**$ 30,623,986**

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of The Citadel, The Military College of South Carolina ("The Citadel") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of The Citadel, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Citadel.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. There were no federal awards passed through to sub-recipients.

3. Indirect Cost Rate

The Citadel has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Loans Outstanding

The Federal Perkins Loan Program (CFDA Number 84.038) is administered directly by The Citadel and balances and transactions relating to the program are included in the loan fund of The Citadel's financial statements. Federal expenditures reported on the face of the schedule include loans outstanding at the beginning of the year and loans made during the year. The loan balance outstanding and funds advanced by The Citadel during the year ended June 30, 2017 under the Federal Perkins Loan program can be summarized as follows:

Federal Perkins Loan receivable, June 30, 2016	$ 615,132
Funds advanced to students	55,310
Less:	
Collections	(155,902)
Cancellations	-
Federal Perkins Loan receivable, June 30, 2017	$ 514,540

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

THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA

Corrective Action for Audit Finding

Background:
Federal Direct Loans (Subsidized, Unsubsidized, PLUS) can be adjusted in Banner on the Award Maintenance form (RPAAWRD) or on the Direct Loan Origination form (RLADLOR). Adjustments made on one form and not the other can result in a disbursement amount at the school being different than the disbursement amount that is reported to COD (US Department of Education).

Ellucian (Banner) created an 'Award Discrepancy Flag' on RLADLOR to assist school in finding loans where a discrepancy exists. This flag compares the sum of disbursements on RLADLOR for a term to the awarded amount on RPAAWRD. The flag is 'checked' when a discrepancy exists and needs review.

Audit Finding:
This summer's audit identified one loan in which the school made an adjustment to a student's loan on RPAAWRD but the adjustment was not made to the loan record on RLADLOR. This resulted in a loan adjustment being made at the school and not reported to COD.

The 'Award Discrepancy Flag' was 'checked' - indicating that Banner determined a discrepancy existed and needed review.

Corrective Actions:
1. The single loan identified in the audit was corrected.

2. The Office of Financial Aid & Scholarships reviewed all loan records in the 2016-17 school year and found no further discrepancies. Loan records in the current 2017-18 school year were also reviewed to ensure no discrepancies existed there either.

3. The staff has also partnered with IT to create a new report that is automatically generated on a weekly basis to identify loans where the 'Award Discrepancy Flag' is 'checked'.

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