

THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA
CHARLESTON, SOUTH CAROLINA
YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-16
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	17-18
Statement of Revenues, Expenses, and Changes in Net Position	19
Statement of Cash Flows	20-21
Non-Governmental Discretely Presented Component Units	
Statements of Financial Position	22
Statements of Activities	23
Notes to the Financial Statements	24-62
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of The Citadel's Proportionate Share of the Net Pension Liability	63
Schedule of The Citadel's Contributions	64



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel), a component unit of the State of South Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise The Citadel's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of The Citadel Foundation and The Citadel Brigadier Foundation were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of The Citadel as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Updated Opinion on Financial Statements

In our report dated October 12, 2015, we expressed an opinion that the financial statements did not fairly present the financial position of the primary government, the changes in its financial position, or its cash flows in conformity with accounting principles generally accepted in the United States of America because the previous financial statements did not include financial data for The Citadel Brigadier Foundation, a discretely presented component unit. As described in Note 24 to the financial statements, The Citadel has restated its financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the financial statements, as presented herein, is different from that expressed in our previous report.

Implementation of New Accounting Standard

As discussed in Notes 9 and 10 to the financial statements, the College adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* effective July 1, 2014. Our audit opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as shown on pages 3 – 16, and the Schedule of The Citadel's Proportionate Share of the Net Pension Liability and the Schedule of The Citadel's Contributions, as shown on pages 62 and 63, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2015 on our consideration of The Citadel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Citadel's internal control over financial reporting and compliance.



Charleston, South Carolina

October 12, 2015, except for The Citadel Brigadier Foundation information presented on pages 22, 23, 26, 34, 35, 55, and 56, as well as Notes 21 and 24, as to which the date is June 28, 2016

**The Citadel
The Military College of South Carolina**

**Management’s Discussion and Analysis
June 30, 2015**

Overview of the Financial Statements and Financial Analysis

The Citadel (or “College”) is pleased to present its financial statements for fiscal year 2015. While audited financial statements for fiscal year 2014 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. This discussion focuses on the combined operations and financial positions of the College, defined for purposes of this discussion as both the primary institution — The Citadel, and its blended component unit — The Citadel Trust. The discussion excludes the College’s non-governmental component units – The Citadel Foundation and The Citadel Brigadier Foundation.

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

Total State appropriations, which include other items such as State health insurance allocations, increased \$397,173 from \$9,472,688 in 2014 to \$9,869,861 in 2015. Total State appropriations peaked in fiscal year 2008 at \$16,895,424, and have declined 42% since that timeframe. The Citadel also received \$1.3 million in one-time appropriations for the College’s new Mechanical Engineering Department, and \$222,316 in lottery capital appropriations in 2015 to fund College deferred maintenance.

The Citadel increased student fees to help support advancing the College’s LEAD 2018 Strategic Plan, pay the College’s share of State-mandated cost of living adjustment, and fund new programs such as the College’s Mechanical Engineering Program. Continued strong cadet enrollment and the increase in cadet fees resulted in a \$0.5 million increase in student tuition and fee revenue, net of scholarship allowances.

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

Student Category	Fall 2014* Enrollment	Fall 2013** Enrollment	# Increase / (Decrease)	% Increase / (Decrease)
Cadets	2,352	2,343	9	0.4%
Graduate Students	829	863	(34)	-3.9%
Evening Undergraduate Students	134	139	(5)	-3.6%
Others (Includes Active Duty, Veteran Student, etc.)	277	253	24	9.5%
Totals	3,592	3,598	(6)	-0.2%

* Source: Citadel Institutional Research Fall 2014 Student Enrollment Profile

** Source: Citadel Institutional Research Fall 2013 Student Enrollment Profile

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

Cohort	Fall 2014 Retention***	Fall 2013 Retention****
Retention rate of full-time bachelor’s degree seeking undergraduate student who entered institution in the prior Fall	86%	85%

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

**** Source: Citadel Institutional Research Common Data Set 2013-2014

**The Citadel
The Military College of South Carolina**

**Management's Discussion and Analysis
June 30, 2015**

Overview of the Financial Statements and Financial Analysis, Continued

Pledged revenues from auxiliary fee-based and profit-based revenue were relatively flat over the prior year. Auxiliary student fee revenue increased by \$0.1 million based on continued strong enrollment and small increases in the Laundry / Dry Cleaning fee by \$90 per student. This increase, however, was offset by a \$0.2 million increase in scholarship allowances. Auxiliary sales, or profit-based, revenue was relatively flat over the prior year. Increases recognized in Aramark Profit-Based and Vending (\$0.2 million) were offset by a \$0.2 million decrease in The Cadet Store. Non-pledged auxiliary revenues, such as event management revenue, increased by \$0.5 million due to increased rental revenues from The Citadel Beach House and various external organizations holding conferences on campus.

Athletics fee-based revenue increased by approximately \$150,000 due to small increases in the Athletic Operations fee by \$70 per student. Athletics sales revenue decreased by \$0.4 million primarily due to a \$0.2 million decrease in football and basketball guarantees and a \$0.2 million decrease in gate receipts, promotions, and rental services. Athletics compensation increased \$0.3 million while Athletics other operating expenses increased approximately \$0.4 million. 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. 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.

Operating expenses increased significantly in 2015. Compensation and benefits increased by \$3.7 million due to a 2% State-mandated cost of living allowance effective July 1, 2014, a 3.9% increase in the employer's share of insurance effective January 1, 2015, and the College's adoption of Governmental Accounting Standards Board Statement 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement No. 27). Services and supplies expenses increased by \$2.9 million primarily due to an increase in campus deferred maintenance projects in response to the College's implementation of a formal long-term capital asset management plan.

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 7 for additional information. The reduction of long term debt balances continued in 2015. Scheduled debt payments prior to the issuance of the refinanced bonds reduced long term debt balances by a net amount of \$5.5 million in 2015, on top of a reduction of \$4.7 million in 2014. No new debt funding actions have been initiated.

The Citadel implemented GASB 68 in the fiscal year ended June 30, 2015. The implementation of the Statement required the College to record beginning net pension liability and the effects on unrestricted net position of contributions made by the College during the measurement period (fiscal year ended June 30, 2014). To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement of all prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated. In such circumstances, beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. Since the information for the restatement of beginning balances of deferred inflows of resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as restatement to beginning net position as of July 1, 2014. As a result, beginning unrestricted net position for the College, as of July 1, 2014, decreased by \$63,017,388. This decrease resulted in the cumulative restatement of unrestricted net position to a deficit balance of \$36,528,451 for the year ended June 30, 2014.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2015

Overview of the Financial Statements and Financial Analysis, Continued

The most significant influence on the financial results of The Citadel Trust, Incorporated (The Trust) during 2015 was the decline in investment returns. After two consecutive years with investment returns greater than 10%, the Trust's unitized investment pool returned 3.1% for the 12 months ended June 30, 2015. Approximately 47% 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 traditional investments as well as in alternative investments such as private equity, venture capital, real assets and hedge funds. The Richmond Fund's return declined from 15.6% in 2014 to 5.8% in 2015. The Trust's remaining pooled assets are invested in a managed portfolio of traditional investments held at Morgan Stanley. Returns for this managed portfolio declined from 16.4% in fiscal year 2014 to 0.7% in 2015. The blended investment return of 3.1% for the entire portfolio is above a blended benchmark return of 1.1% for fiscal year 2015. Investment book values increased by \$4,543,754 from \$72,267,640 in 2014 to \$76,811,394 in 2015. Investment market values (including cash and money market holdings within existing positions) increased by \$521,360 from \$88,439,197 in 2014 to \$88,960,557 in 2015.

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

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

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

Statement of Net Position

The Statement of Net Position presents the assets and deferred outflows, liabilities and deferred inflows, and net position of the College as of the end of the fiscal year. The Citadel adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015. The Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Position presents end-of-year data concerning Assets (property that we own and what we are owed by others), Deferred Outflows of 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).

**The Citadel
The Military College of South Carolina**

**Management's Discussion and Analysis
June 30, 2015**

Statement of Net Position, Continued

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 recent adoption of GASB 68. The negative balance resulting from The Citadel's portion of the unfunded pension liability of the State of South Carolina exceeds the positive unrestricted net position of the various other unrestricted funds within the College.

Condensed Summary of Net Position (thousands of dollars)				
Assets:	2015	2014	Increase/ (Decrease)	Percent Change
Current assets	\$ 65,005	\$ 65,554	\$ (549)	-0.84%
Capital assets, net	125,283	127,971	(2,688)	-2.10%
Other assets	<u>78,486</u>	<u>78,699</u>	<u>(213)</u>	<u>-0.27%</u>
Total Assets	<u>268,774</u>	<u>272,224</u>	<u>(3,450)</u>	<u>-1.27%</u>
Deferred Outflows of Resources	5,675	-	5,675	100%
Liabilities:				
Current Liabilities	15,856	17,093	(1,237)	-7.24%
Noncurrent Liabilities	<u>97,216</u>	<u>37,308</u>	<u>59,908</u>	<u>160.58%</u>
Total Liabilities	<u>113,072</u>	<u>54,401</u>	<u>58,671</u>	<u>107.85%</u>
Deferred Inflows of Resources	5,595	340	5,255	1545.59%
Net Position:				
Net investment in capital assets	95,808	92,949	2,859	3.08%
Restricted - nonexpendable	48,564	48,061	503	1.05%
Restricted – expendable	40,271	40,255	16	0.04%
Unrestricted	<u>(28,861)</u>	<u>36,218</u>	<u>(65,079)</u>	<u>-179.69%</u>
Total Net Position	<u>\$ 155,782</u>	<u>\$ 217,483</u>	<u>\$ (61,701)</u>	<u>-28.37%</u>

Total Assets – overall decrease of \$3.4 million

- The \$0.5 million decrease in current assets is composed of a \$0.9 million decrease in Citadel current assets and a \$0.4 million increase in Citadel Trust ("Trust") current assets.

**The Citadel
The Military College of South Carolina**

**Management's Discussion and Analysis
June 30, 2015**

Statement of Net Position, Continued

Total Assets – overall decrease of \$3.4 million, continued

The \$0.9 million decrease in Citadel current assets is primarily attributable to decreases in current unrestricted cash and increases in current restricted cash. Current unrestricted cash decreased by \$2.2 million primarily due to the usage of maintenance reserves in response to the College's implementation of a formal long-term capital asset management plan. Restricted cash increased

by \$1.1 million due to temporary cash balances in ongoing construction project funds that were funded by restricted donor gifts. Accounts receivable decreased \$0.6 million due to the collection of \$625,000 in Charleston County accommodation tax in arrears; when excluding this item, overall accounts receivable remained stable from the prior year.

The \$0.4 million increase in Trust current assets is primarily attributable the net effect of positive investment returns and the expenditure of various gift funds. Current unrestricted cash decreased by approximately \$1 million primarily due to the deployment of last year's \$500,000 unrestricted gift from a key donor towards the College's LEAD 2018 Strategic Plan. Board approved transfers totaling \$300,000 to support Athletic scholarships and an additional \$133,600 towards miscellaneous strategic initiatives also contributed to the decline of Trust current unrestricted cash. Current restricted cash increased by \$0.4 million primarily due to the Board approved liquidation of a quasi-endowment to be deployed to pay down the College's notes payable in the upcoming budget year. The value of current unrestricted and restricted investments increased by \$0.9 million due to low, but positive investment returns of 3.1% and a \$100,000 unrestricted gift from a key donor. Due from other funds were eliminated during the year by the repayment of an approximately \$260,000 temporary intra-fund loan at June 30, 2014 between unrestricted funds for The Trust's annual transfer to supplement athletic scholarships.

- The \$2.7 million decrease in capital assets is composed of a \$2.8 million decrease in Citadel capital assets and a \$0.1 million increase in Trust capital assets.

Citadel capital assets (net of depreciation) decreased by \$2.8 million as depreciation expense exceeded newly capitalized assets. Depreciation expense of \$5.3 million remained stable from the prior year. Equipment and vehicles totaling \$185,388 net of disposals were purchased and capitalized in 2015. The following construction projects were completed and capitalized for a total cost of \$1,641,720 during 2015: Daniel Library Fire Sprinkler Installation and Librarian's Office Renovation. Several projects are in process and comprise the \$1,876,812 remaining in construction in progress: Capers Hall Replacement Study, New Capers Hall Building, Coin Laundry Relocation, Mechanical Engineering Lab and Equipment, Mechanical Engineering Fabrication Shop, New School of Business Building, Citadel War Memorial, and the Cadet Accountability System.

Trust capital assets increased by \$0.1 million due to Trust unrestricted funds currently being used to purchase a student recruiting system for the College. The system and its implementation are expected to exceed the College's \$100,000 capitalization threshold for software, so the \$88,390 in expenditures has been recorded in Construction in Progress.

- The \$0.2 million decrease in other assets is primarily attributable to The Citadel, as other assets for the Citadel Trust only decreased by \$777.

The Citadel's decrease in other assets relates to \$1.0 million decrease in noncurrent restricted cash and a \$0.8 million increase in noncurrent contributions receivable. The majority of the decrease in noncurrent restricted cash relates to the expenditure of \$0.8 million in State funding for the Cadet Accountability System. The increase in noncurrent contributions receivable relates to the noncurrent portion of a \$1.0 million pledge received by Anita Zucker towards the newly named Zucker Family School of Education.

**The Citadel
The Military College of South Carolina**

**Management's Discussion and Analysis
June 30, 2015**

Statement of Net Position, Continued

Total Assets – overall decrease of \$3.4 million, continued

The relatively unchanged overall other assets balance in the Citadel Trust consists of significant decreases in cash and significant increases in investments. Noncurrent cash decreased by \$2.1 million primarily due to temporary cash holdings at June 30, 2014 used during a July 2014 capital call by the Trust to invest in an open-end real estate investment trust (REIT). Investment values increased by \$2.3 million due to investment returns, and the aforementioned usage of temporary cash holdings to invest in a REIT to further diversify the Trust's investment portfolio.

Deferred Outflows of Resources – overall increase of \$5.7 million

- In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, The Citadel recorded pension payments made after the measurement date of June 30, 2014, totaling \$3.9 million to Deferred Outflows of Resources. In addition, \$1.8 million was recorded to Deferred Outflows of Resources related to differences between expected and actual experience related to the net pension liability.

Total Liabilities – overall increase of \$58.7 million

- Citadel current liabilities decreased by approximately \$1.2 million. The major component of this decrease is a \$1.0 million decrease in current bonds payable. The College's 2005 Athletic Facility bond was paid off in 2015 resulting in a \$0.7 million reduction in current bonds payable for 2016. In an effort to capitalize on the low interest rate environment, the College refinanced three separate bonds totaling \$26.9 million or 99% of bonds payable outstanding at June 30, 2015. See Note 7 for additional information. As a result of these refinance efforts, the College's 2015 Revenue Bond, formerly the 2005 Revenue Bond, will also experience a \$0.3 million reduction in current bonds payable in 2016. Current notes payable also declined \$0.5 million due to lower 2015 debt service on the EIS Master Lease which will be paid off in July 2015.

Accrued interest payable decreased \$0.5 million due to two of the College's aforementioned three refinancing efforts having been completed in June 2015. All previously accrued interest was paid at the time of issuance of the newly refinanced bonds which left only \$12,128 in accrued interest outstanding at June 30, 2015.

Citadel accounts payable increased by \$0.3 million. The majority of that increase relates to a one-time payable for the Coward Hall Fire Sprinkler System construction project totaling approximately \$327,000 at June 30, 2015.

Other changes in current liabilities include a \$0.5 million increase in deposits, primarily related to a reclassification of approximately \$176,000 in debit deposit balances to accounts receivable, and approximately \$250,000 in increased student deposits to their campus One Card accounts.

Trust current liabilities decreased by \$85,739 as a result of changes in Due to Other Funds, Accounts Payable, and Accrued Payroll. Due to Other Funds was eliminated during the year by the aforementioned repayment of an approximately \$260,000 temporary intra-fund loan at June 30, 2014 which also eliminated the Due from Other Funds balance. Accounts Payable and Accrued Payroll increased approximately \$185,000 due to a pending year-end payment for the College's executive search to replace its recently retired Provost and contractual obligations for an executive deferred compensation payment.

- Citadel noncurrent liabilities increased by \$59.8 million as a result of the College's implementation of GASB 68. The Citadel recorded a \$63.9 million noncurrent liability for The Citadel's share of the State's unfunded pension liability at June 30, 2015. 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 7 for additional information.

**The Citadel
The Military College of South Carolina**

**Management's Discussion and Analysis
June 30, 2015**

Statement of Net Position, Continued

Total Liabilities – overall increase of \$58.7 million, continued

Trust noncurrent liabilities increased by \$0.1 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 \$5.3 million

- In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, The Citadel recorded \$5.4 million was recorded to Deferred Outflows of Resources related to differences between projected and actual earnings on pension plan investments related to the net pension liability. The increase was offset by a decrease of \$170,000 of unearned revenue related to the Daktronics contract as revenue for the current year was recorded.

Net Position – overall decrease of \$61.7 million

- Net investment in capital assets, increased by \$2.9 million due to reductions in both capital assets, net of depreciation, and capital debt. Citadel capital assets, net of depreciation, decreased by \$2.8 million, while Trust capital assets increased by \$0.1 million. The College's related long term debt decreased by a net amount of \$5.6 million. The net effect on the overall \$2.7 million decrease in capital assets and \$5.6 million decrease in long-term liabilities results in the overall \$2.9 million increase in net investment in capital assets.
- Restricted – nonexpendable assets increased by \$0.5 million. The increase in Trust endowment assets is related to the 3.1% overall investment return for the portfolio and various additions to permanent endowments including \$110,000 to the Daniel McKeithan Fund.
- Restricted – expendable assets remained stable with only a \$16,032 increase. Citadel restricted expendable assets decreased by \$0.4 million. Net position restricted for scholarships, research and other purposes increased by \$1.6 million primarily due to an increase in gifts and pledges towards the LEAD 2018 Strategic Plan. Net position restricted for capital projects decreased by \$1.5 million as the College began addressing its deferred maintenance needs through the implementation of a formal long-term capital asset management plan. Net position restricted for debt service decreased by \$0.4 million due to payments for accrued interest at the time of issuance on the three bonds the College refinanced.

Citadel Trust restricted expendable assets increased by \$0.4 million due to the 3.1% overall investment return for the portfolio and the receipt of \$250,000 pledge by a donor, Tommy Baker, for a Veteran Student Fellowship Program.

- Unrestricted net position decreased by \$65.1 million. The \$64.5 million decrease in Citadel unrestricted net position is primarily attributable to the College's implementation of GASB 68. The College recorded a \$63.9 million noncurrent liability for The Citadel's share of the State's unfunded pension liability at June 30, 2015. The remaining decrease is primarily attributable to the aforementioned \$0.8 million unfunded balance in Athletic Grant in Aid during 2015. See Note 23 for additional information.

Citadel Trust unrestricted net position decreased by \$0.6 million primarily due to the deployment of unrestricted donor gifts toward the College's LEAD 2018 Strategic Plan.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2015

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."

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

Revenues:	2015	2014	Increase/ (Decrease)	Percent Change
Student tuition and fees	\$ 42,148	\$ 41,602	\$ 546	1.31%
Sales and services	30,317	30,246	71	0.23%
Grants and contracts	5,361	5,280	81	1.53%
Investment income	2,463	11,580	(9,117)	-78.73%
Other operating revenues	2,531	3,171	(640)	-20.18%
Total Operating Revenues	<u>82,820</u>	<u>91,879</u>	<u>(9,059)</u>	<u>-9.86%</u>
State appropriations	9,870	9,473	397	4.19%
Grants	10,334	10,256	78	0.76%
Gifts	5,016	4,274	742	17.36%
Investment income	164	296	(132)	-44.59%
Other nonoperating revenues/expenses	540	519	21	4.05%
Total Nonoperating Revenues	<u>25,924</u>	<u>24,818</u>	<u>1,106</u>	<u>4.46%</u>
Total Revenues	<u>108,744</u>	<u>116,697</u>	<u>(7,953)</u>	<u>-6.82%</u>
Expenses:				
Compensation and employee benefits	61,623	57,901	3,722	6.43%
Services and supplies	33,285	30,444	2,841	9.33%
Utilities	3,931	3,875	56	1.45%
Depreciation	5,392	5,356	36	0.67%
Scholarships and fellowships	3,866	4,240	(374)	-8.82%
Total operating expenses	<u>108,097</u>	<u>101,816</u>	<u>6,281</u>	<u>6.17%</u>
Interest expense on capital asset-related debt	1,812	2,113	(301)	-14.25%
Total Nonoperating Expenses	<u>1,812</u>	<u>2,113</u>	<u>(301)</u>	<u>-14.25%</u>
Total Expenses	<u>109,909</u>	<u>103,929</u>	<u>5,980</u>	<u>5.75%</u>
Income before capital contributions, additions to permanent endowments and transfers	<u>(1,165)</u>	<u>12,768</u>	<u>(13,933)</u>	<u>-109.12%</u>
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	1,746	4,042	(2,296)	-56.80%
Permanent endowment additions	735	870	(135)	-15.52%
Total capital contributions, additions to permanent endowments and transfers	<u>2,481</u>	<u>4,912</u>	<u>(2,431)</u>	<u>-49.49%</u>
Change in Net Position	<u>1,316</u>	<u>17,680</u>	<u>(16,364)</u>	<u>-92.56%</u>
Net Position, Beginning (as adjusted)	<u>154,466</u>	<u>199,803</u>	<u>(45,337)</u>	<u>-22.69%</u>
Net Position, Ending	<u>\$ 155,782</u>	<u>\$ 217,483</u>	<u>\$ (61,701)</u>	<u>-28.37%</u>

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2015

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

Total Revenues – overall decrease of \$8.0 million

- Operating revenues decreased by \$9.1 million. The majority of this decrease was from The Citadel Trust, as Citadel operating revenues were relatively stable with an increase of only \$57,846.

Citadel tuition and fees increased by \$0.6 million in fiscal year 2015. The mandatory cadet fee increase of 2.4% for in-state and 3.6% for out-of-state students generated an additional \$1.5 million in gross tuition and fee revenue. This increase was partially offset by a \$0.9 million increase in scholarship allowances.

Operating grant revenue increased by \$0.1 million. Federal operating grants increased by \$0.1 million, State operating grants increased by \$0.1 million, and nongovernmental operating grants decreased by \$0.1 million. The increase in Federal operating grants is primarily due to a Project Global Officer grant totaling approximately \$141,000. This grant is a critical language scholarship initiative for cadets and midshipmen in U.S. Air Force, Army, and Navy (including Marine option) ROTC programs. The increase in State operating grants is primarily due to an approximately \$121,000 increase in the State Life Scholarship financial aid. The decrease in nongovernmental operating grants is related to the final \$123,000 payment of the original \$5.0 million TCF supplemental grant to the College that was received in 2014.

Auxiliary revenue pledged for revenue bonds decreased by \$0.1 million. Auxiliary student fee revenue increased by \$0.1 million based on continued strong enrollment and small increases in the Laundry / Dry Cleaning fee by \$90 per student. This increase, however, was offset by a \$0.2 million increase in scholarship allowances. Auxiliary sales revenue was relatively flat over the prior year. Increases recognized in Aramark Profit-Based and Vending of \$0.2 million were offset by a \$0.2 million decrease in The Cadet Store.

Athletics sales revenue and event management revenue, the only auxiliary revenues not pledged for revenue bonds, increased by \$0.1 million in fiscal year 2015. Event management revenue increased by \$0.5 million while Athletics revenue decreased by \$0.4 million. 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. Basketball and football guarantees decreased by \$0.2 million and gate receipts decreased by approximately \$55,000. Athletic promotions and rental services both decreased by approximately \$53,000 and \$45,000, respectively.

In July 2015, 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 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.

Other operating revenues decreased by approximately \$0.6 million. This decrease primarily relates to \$0.4 million in 2014 revenue from an agreement the College signed with a vendor to allow dredging material disposal in the College's spoil site. The remaining decrease relates to \$0.1 million fewer insurance claim proceeds received in 2015 than the prior year.

The \$9.1 million decrease in Trust operating revenues is solely attributable to a significant decline in investment returns within the Trust's unitized investment pool. The return for the Richmond Fund investment decreased from 15.6% in 2014 to 5.8% in 2015. The Morgan Stanley managed portfolio return decreased from 16.4% in 2014 to 0.7% in 2015.

**The Citadel
The Military College of South Carolina**

**Management’s Discussion and Analysis
June 30, 2015**

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

Total Revenues – overall decrease of \$8.0 million, continued

- Nonoperating revenues increased by \$1.1 million. This increase is composed of a \$1.2 million increase in Citadel nonoperating revenues and a \$0.1 million decrease in Citadel Trust nonoperating revenue.

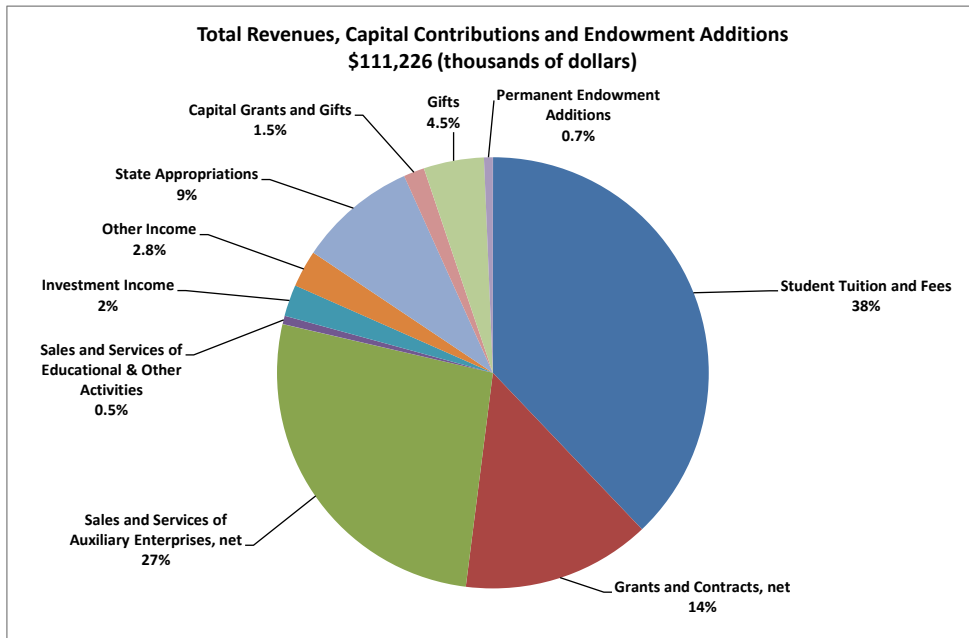
The major components of the Citadel increase in nonoperating revenues was a \$0.4 million increase in State appropriations, \$0.5 million increase in gifts, and \$0.3 million increase in nonoperating grant revenue.

Total State appropriations, which include other items such as State health insurance allocations, increased \$397,173 from \$9,472,688 in 2014 to \$9,869,861 in 2015. Total State appropriations peaked in fiscal year 2008 at \$16,895,424, and have declined 42% since that timeframe.

Nonoperating grant revenue increased by \$0.3 million in 2015 as a result of increases in federal and nongovernmental nonoperating grant revenue. Federal nonoperating grants increased approximately \$150,000 due to higher Pell grant funding. Nongovernmental nonoperating grant revenue increased approximately \$160,000 due to additional grant funding from The Citadel Foundation for the College’s LEAD 2018 Strategic Plan. Similarly, gift revenue increased by \$0.5 million due to the receipt of additional donor gifts related to the LEAD Plan.

Investment income decreased \$0.1 million as a result of the draw down of cash balances in auxiliary maintenance reserves to be used for campus deferred maintenance projects.

The \$0.1 million decrease in Trust nonoperating revenue is chiefly attributable to a \$175,000 grant from The Citadel Foundation received in 2014 for equipment for the Electrical Engineering Department.



**The Citadel
The Military College of South Carolina**

**Management's Discussion and Analysis
June 30, 2015**

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

Total Expenses – overall increase of \$6.0 million

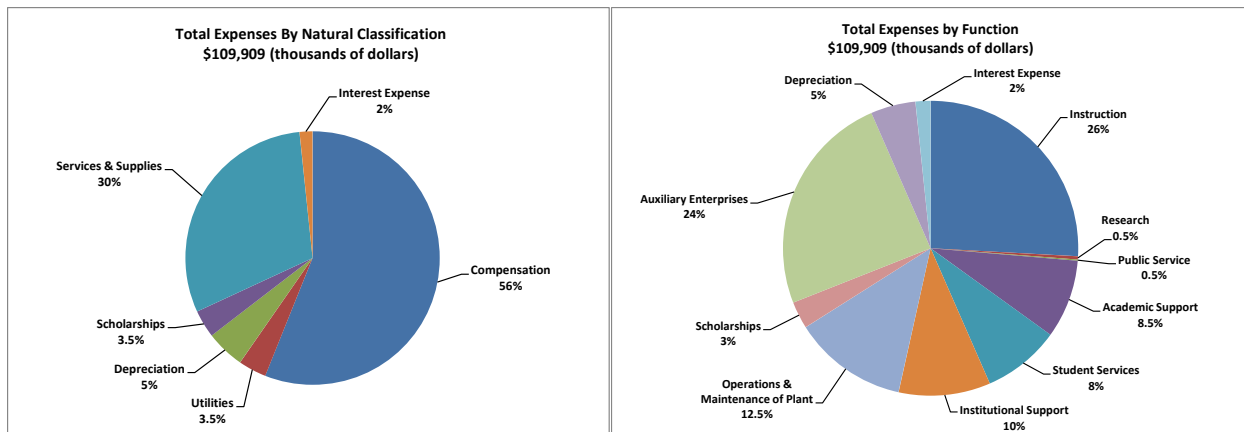
- Operating expenses increased by \$6.3 million. Compensation and benefits increased by \$3.7 million. Approximately \$2.1 million of this increase is due to a 2% State-mandated cost of living allowance effective July 1, 2014, and a 3.9% increase in the employer's share of insurance effective January 1, 2015. The remaining \$1.6 million is the result of 2015 pension expense recorded as the College adopted GASB 68.

Services and supplies expenses increased by \$2.9 million. Approximately \$2.4 million of that amount is due to an increase in campus deferred maintenance projects in response to the College's implementation of a formal long-term capital asset management plan. The remaining increase relates to a Board approved liquidation and transfer of an approximately \$500,000 quasi-endowment, the CDF Student Loan Fund, from the Trust to The Citadel Foundation to be converted into an unrestricted scholarship endowment. As a loan fund, the CDF Fund had been historically underutilized, so the Board anticipates that converting this quasi-endowment to a scholarship fund will result in the generation of additional student aid.

Utility costs increased by approximately \$56,000 as a result of normal price increases due to inflationary factors. Depreciation expense remained consistent from the prior year with an insignificant increase of approximately \$36,000.

Scholarship expenses decreased by \$0.4 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 \$1.1 million and scholarship allowance increased by \$1.5 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 \$0.3 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 7 for additional information.



**The Citadel
The Military College of South Carolina**

**Management's Discussion and Analysis
June 30, 2015**

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

Capital Contributions and Additions to Permanent Endowments – overall decrease of \$2.4 million

- Citadel capital grants and appropriations decreased by \$2.3 million primarily due to a \$1.5 million State capital appropriation to The Citadel for the Cadet Accountability System and \$0.6 million Charleston County accommodation tax in arrears received in 2014.

Trust capital grants and gifts are currently presented with a negative value of (\$17,404) on the Statement of Revenues, Expenses, and Changes in Net Position. This negative value is the result of a pledge adjustment made to reserve for delinquent STEM Center pledges via the allowance for uncollectible pledges.

- Permanent endowment additions decreased by \$0.1 million from the prior year. Although various endowment additions were received, including \$110,000 to the Daniel T. McKeithan Scholarship Fund, the Trust's prior year results included a \$260,000 distribution from the Dr. Edgar W. King, Jr. estate to an endowed scholarship in his name within The Trust.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used 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, 2015 and June 30, 2014 were as follows:

Capital Assets (net of accumulated depreciation)				
	<u>2015</u>	<u>2014</u>	<u>Increase/ (decrease)</u>	<u>Percent Change</u>
Capital Assets:				
Land	\$ 4,903,347	\$ 4,903,347	\$ -	0.00%
Construction in Progress	1,965,201	1,238,262	726,939	58.71%
Fine Arts	357,120	357,120	-	0.00%
Land improvements	3,896,491	4,737,299	(840,808)	-17.75%
Buildings and improvements	109,036,969	111,307,672	(2,270,703)	-2.04%
Equipment	1,469,284	1,590,341	(121,057)	-7.61%
Vehicles	87,310	70,569	16,741	23.72%
Intangibles	3,566,963	3,766,155	(199,192)	-5.29%
Total	<u>\$ 125,282,685</u>	<u>\$ 127,970,765</u>	<u>\$ (2,688,080)</u>	<u>-2.10%</u>

The following construction projects were completed and capitalized for a total cost of \$1.6 million during 2015, including: Daniel Library Fire Sprinkler Installation (\$1.4 million) and Librarian's Office Renovation (\$0.2 million).

**The Citadel
The Military College of South Carolina**

**Management's Discussion and Analysis
June 30, 2015**

Capital Assets and Debt Administration, Continued

Several projects are in process and comprise the \$2.0 million remaining in Citadel construction in progress: Capers Hall Replacement Study, New Capers Hall Building, Coin Laundry Relocation, Mechanical Engineering Lab and Equipment, Mechanical Engineering Fabrication Shop, New School of Business Building, Citadel War Memorial, and the Cadet Accountability System.

Trust capital assets increased by \$0.1 million due to Trust unrestricted funds currently being used to purchase a student recruiting system for the College. The system and its implementation are expected to exceed the College's \$100,000 capitalization threshold for software, so the \$88,390 in expenditures has been recorded in Trust construction in progress.

The Citadel capitalized \$0.2 million of new equipment and vehicles net of disposals in 2015 and recognized depreciation expense of approximately \$5.4 million.

Net investment in capital assets, increased by \$2.9 million due to reductions in both capital assets, net of depreciation, and capital debt. Citadel capital assets, net of depreciation, decreased by \$2.8 million, while Trust capital assets increased by \$0.1 million. 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 7 for additional information. The College's related long term debt decreased by a net amount of \$5.6 million. The net effect on the overall \$2.7 million decrease in capital assets and \$5.6 million decrease in long-term liabilities results in the overall \$2.9 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 2015, with the City of Charleston leading that growth. Charleston has recently been dubbed the Silicon Harbor as it is becoming one of the new start-up technology hubs of the country. Charleston has attracted many fortune 500 businesses including Boeing and Volvo to the area. And from a tourism standpoint, Charleston was recently ranked the #1 city in the nation by Travel and Leisure magazine.

In September 2015, [U.S. News & World Report](#) named The Citadel the No. 1 public institution in the South for the fifth consecutive year. The Citadel was also ranked No. 3 for best colleges for veterans, and ranked No. 5 for best value among public colleges in the South in The Citadel's category. The Citadel's School of Engineering was also ranked No. 22 for best undergraduate engineering programs in the nation.

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

The Citadel's Base State appropriation will increase by a total of \$416,090 from \$9,054,249 in 2015 to \$9,470,339 in 2016. The College will also receive one-time appropriations of \$1,355,300 for a renovation of the Byrd Hall Organic Chemistry Labs, \$966,484 for a renovation of Deas Hall, and \$250,000 for the Riley Chair in American Government.

**The Citadel
The Military College of South Carolina**

**Management's Discussion and Analysis
June 30, 2015**

Economic Outlook, Continued

The outlook for The Citadel Trust is closely aligned with the outlook for the economy as a whole and with the financial markets. Although The Trust has benefited from two straight fiscal years with greater than 10% investment returns in 2013 and 2014, the Trust's 2015 return of 3.1% comes amid significant market volatility, the potential for rising interest rates, and a recent downturn in the Chinese market. 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, 2015

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 30,436,568	\$ 199,435	\$ 30,636,003
Marketable securities (at fair value)	-	1,993,453	1,993,453
Investment in limited partnership (at fair value)	-	2,053,829	2,053,829
Restricted Assets - Current			
Cash and cash equivalents	7,114,475	3,680,480	10,794,955
Marketable securities (at fair value)	-	5,029,265	5,029,265
Investment in limited partnership (at fair value)	-	4,320,440	4,320,440
Contributions receivable, net	115,998	168,614	284,612
Student loans receivable, net	-	63,272	63,272
Accounts receivable, net	5,803,727	82,824	5,886,551
Contributions receivable, net	-	84,831	84,831
Inventories	1,749,809	-	1,749,809
Prepaid items	1,764,280	343,664	2,107,944
Total current assets	<u>46,984,857</u>	<u>18,020,107</u>	<u>65,004,964</u>
Noncurrent Assets			
Marketable securities (at fair value)	-	2,371,132	2,371,132
Investment in limited partnership (at fair value)	-	2,388,598	2,388,598
Contributions receivable, net	-	75,731	75,731
Cash surrender value of life insurance	-	13,092	13,092
Restricted Assets - Noncurrent			
Cash and cash equivalents	699,461	838,644	1,538,105
Marketable securities (at fair value)	-	35,101,032	35,101,032
Investment in limited partnership (at fair value)	-	34,674,264	34,674,264
Contributions receivable, net	1,366,892	230,119	1,597,011
Student loans receivable, net	629,630	14,987	644,617
Cash surrender value of life insurance	-	82,607	82,607
Capital assets not being depreciated	4,879,471	2,346,197	7,225,668
Capital assets, net of accumulated depreciation	118,057,017	-	118,057,017
Total noncurrent assets	<u>125,632,471</u>	<u>78,136,403</u>	<u>203,768,874</u>
Total assets	<u>\$ 172,617,328</u>	<u>\$ 96,156,510</u>	<u>\$ 268,773,838</u>
DEFERRED OUTFLOWS OF RESOURCES			
Amounts related to net pension liability	\$ 5,675,316	\$ -	\$ 5,675,316
Total deferred outflows of resources	<u>\$ 5,675,316</u>	<u>\$ -</u>	<u>\$ 5,675,316</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 2,832,844	\$ 152,923	\$ 2,985,767
Due to component units/primary government	48,554	2,794	51,348
Retainages payable	65,829	-	65,829
Accrued payroll and related liabilities	2,261,218	103,367	2,364,585
Accrued compensated absences and related liabilities	1,442,410	-	1,442,410
Accrued interest payable	12,128	-	12,128
Unearned revenues	3,210,473	-	3,210,473
Bonds payable	2,711,983	-	2,711,983
Capital leases payable	13,344	-	13,344
Notes payable	767,048	-	767,048
Deposits	2,221,660	-	2,221,660
Annuities payable	-	9,450	9,450
Total current liabilities	<u>15,587,491</u>	<u>268,534</u>	<u>15,856,025</u>

THE CITADEL
The Military College of South Carolina
Statement of Net Position
June 30, 2015

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
Noncurrent Liabilities			
Federal loan funds	471,333	-	471,333
Accrued compensated absences and related liabilities	1,574,573	-	1,574,573
Deposits	671,644	-	671,644
Unearned revenues	79,679	-	79,679
Bonds payable	24,447,459	-	24,447,459
Capital leases payable	36,152	-	36,152
Notes payable	1,498,495	-	1,498,495
Annuities payable	-	9,688	9,688
Net pension liability	63,900,517	-	63,900,517
Funds held for others	25,897	4,500,483	4,526,380
Total noncurrent liabilities	<u>92,705,749</u>	<u>4,510,171</u>	<u>97,215,920</u>
Total liabilities	<u>\$ 108,293,240</u>	<u>\$ 4,778,705</u>	<u>\$ 113,071,945</u>
DEFERRED INFLOWS OF RESOURCES			
Advance receipt of revenues	\$ 170,000	\$ -	\$ 170,000
Amounts related to net pension liability	5,425,316	-	5,425,316
Total deferred inflows of resources	<u>\$ 5,595,316</u>	<u>\$ -</u>	<u>\$ 5,595,316</u>
COMMITMENTS AND CONTINGENCIES (NOTES 14 AND 21)			
NET POSITION			
Net investment in capital assets	\$ 93,462,008	\$ 2,346,198	\$ 95,808,206
Restricted for Nonexpendable:			
Scholarships	-	42,853,959	42,853,959
Other	-	5,642,157	5,642,157
Annuity	-	68,179	68,179
Restricted for Expendable:			
Scholarships, research, instruction and other	5,056,295	29,757,834	34,814,129
Loans	218,246	1,224,884	1,443,130
Capital projects	3,145,726	366,094	3,511,820
Debt service	501,629	-	501,629
Unrestricted	(37,979,816)	9,118,500	(28,861,316)
Total net position	<u>\$ 64,404,088</u>	<u>\$ 91,377,805</u>	<u>\$ 155,781,893</u>

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

THE CITADEL
The Military College of South Carolina
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2015

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
REVENUES			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of \$11,444,683)	\$ 42,148,537	\$ -	\$ 42,148,537
Federal grants and contracts	871,212	-	871,212
State grants and contracts	3,774,830	-	3,774,830
Nongovernmental grants and contracts	715,363	-	715,363
Sales and services of educational and other activities	693,943	-	693,943
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of \$4,952,573)	26,698,760	-	26,698,760
Sales and services of auxiliary enterprises - not pledged	2,923,799	-	2,923,799
Other fees	1,956,146	-	1,956,146
Investment income (net of investment expenses of \$442,755)	-	903,489	903,489
Endowment income	-	1,559,956	1,559,956
Other operating revenues	574,640	-	574,640
Total operating revenues	<u>80,357,230</u>	<u>2,463,445</u>	<u>82,820,675</u>
EXPENSES			
Operating Expenses			
Compensation and employee benefits	61,539,077	83,718	61,622,795
Services and supplies	33,221,675	63,412	33,285,087
Utilities	3,930,981	-	3,930,981
Depreciation	5,392,061	-	5,392,061
Scholarships and fellowships	3,866,485	-	3,866,485
Total operating expenses	<u>107,950,279</u>	<u>147,130</u>	<u>108,097,409</u>
Operating income (loss)	<u>(27,593,049)</u>	<u>2,316,315</u>	<u>(25,276,734)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	9,869,861	-	9,869,861
Federal grants and contracts	3,054,374	-	3,054,374
State grants and contracts	142,635	-	142,635
Nongovernmental grants	6,895,821	240,881	7,136,702
Gifts	1,813,813	3,201,881	5,015,694
Investment income	163,950	-	163,950
Interest on capital asset-related debt	(1,811,915)	-	(1,811,915)
Gain on disposal of capital assets	7,596	-	7,596
Other nonoperating revenues	291,543	241,365	532,908
Net nonoperating revenues	<u>20,427,678</u>	<u>3,684,127</u>	<u>24,111,805</u>
Income (loss) before other revenues and transfers	<u>(7,165,371)</u>	<u>6,000,442</u>	<u>(1,164,929)</u>
OTHER REVENUES AND TRANSFERS			
State capital appropriations	348,046	-	348,046
Capital grants and gifts	1,415,149	(17,404)	1,397,745
Additions to permanent endowments	-	735,544	735,544
Transfers to/from component unit	6,337,640	(6,337,640)	-
Total other revenues and transfers	<u>8,100,835</u>	<u>(5,619,500)</u>	<u>2,481,335</u>
Increase in net position	<u>935,464</u>	<u>380,942</u>	<u>1,316,406</u>
NET POSITION			
Net position-beginning of year, as originally reported	126,486,012	90,996,863	217,482,875
Effect of GASB 68 implementation	(63,017,388)	-	(63,017,388)
Net position-beginning of year, as restated	<u>63,468,624</u>	<u>90,996,863</u>	<u>154,465,487</u>
Net position-end of year	<u>\$ 64,404,088</u>	<u>\$ 91,377,805</u>	<u>\$ 155,781,893</u>

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

THE CITADEL
The Military College of South Carolina
Statement of Cash Flows
For the year ended June 30, 2015

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	\$ 44,675,392	\$ -	\$ 44,675,392
Grants and contracts	5,155,587	-	5,155,587
Sales and services of educational and other activities	853,231	-	853,231
Sales and services of auxiliary enterprises	29,160,416	-	29,160,416
Other operating receipts	509,496	-	509,496
Payments to employees for salaries and benefits	(59,960,961)	(83,718)	(60,044,679)
Payments to suppliers	(34,833,341)	(63,412)	(34,896,753)
Payments for utilities	(3,950,622)	-	(3,950,622)
Payments to students for scholarships and fellowships	(3,866,485)	-	(3,866,485)
Loans issued to students	(149,607)	-	(149,607)
Collection of loans to students	106,963	-	106,963
Funds held for others	(81,005)	-	(81,005)
Student direct lending receipts	28,809,017	-	28,809,017
Student direct lending disbursements	(28,825,280)	-	(28,825,280)
Net cash used for operating activities	<u>(22,397,199)</u>	<u>(147,130)</u>	<u>(22,544,329)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	9,869,861	-	9,869,861
Gifts and grants for other than capital purposes	11,565,980	4,121,315	15,687,295
Other non-operating revenues/expenses	291,543	129,075	420,618
Funds held for others	-	124,284	124,284
Transfers from (to) component unit	6,337,640	(6,337,640)	-
Net cash provided by (used for) noncapital financing activities	<u>28,065,024</u>	<u>(1,962,966)</u>	<u>26,102,058</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
State capital appropriations	348,046	-	348,046
Capital grants and gifts received	1,479,010	(17,404)	1,461,606
Proceeds from sale of capital assets	7,596	-	7,596
Purchases of capital assets	(1,906,037)	(88,390)	(1,994,427)
Principal paid on capital debt and leases, net of discount	(5,559,595)	-	(5,559,595)
Interest paid on capital related debt	(2,345,038)	-	(2,345,038)
Net cash used by capital and related financing activities	<u>(7,976,018)</u>	<u>(105,794)</u>	<u>(8,081,812)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	12,329,990	12,329,990
Interest and dividends on investments	175,815	3,063,694	3,239,509
Purchase of investments	-	(16,121,784)	(16,121,784)
Net cash provided by (used for) investing activities	<u>175,815</u>	<u>(728,100)</u>	<u>(552,285)</u>
Net change in cash	(2,132,378)	(2,943,990)	(5,076,368)
Cash and cash equivalents - beginning of year	40,382,882	7,662,549	48,045,431
Cash and cash equivalents - end of year	<u>\$ 38,250,504</u>	<u>\$ 4,718,559</u>	<u>\$ 42,969,063</u>

THE CITADEL
The Military College of South Carolina
Statement of Cash Flows
For the year ended June 30, 2015

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	\$ (27,593,049)	\$ 2,316,315	\$ (25,276,734)
Adjustments to reconcile operating income (loss) to net cash used by operating activities			
Depreciation	5,392,061	-	5,392,061
Amortization of pension expense	633,129	-	633,129
Interest and dividends on investments	-	(1,407,307)	(1,407,307)
Realized and unrealized losses on investments	-	(1,056,138)	(1,056,138)
Funds held for others	(97,268)	-	(97,268)
Changes in assets and liabilities			
Accounts receivable, net	(17,562)	-	(17,562)
Inventories	(10,752)	-	(10,752)
Student loans receivable, net	(42,644)	-	(42,644)
Prepaid expenses	(809,143)	-	(809,143)
Accounts payable and accrued expenses	(189,930)	-	(189,930)
Accrued salaries and related expenses	91,331	-	91,331
Accrued compensated absences and related liabilities	243,734	-	243,734
Unearned revenue	(295,421)	-	(295,421)
Student and other deposits	298,315	-	298,315
Net cash used by operating activities	<u>\$ (22,397,199)</u>	<u>\$ (147,130)</u>	<u>\$ (22,544,329)</u>
Non-cash transactions			
Decrease in fair value of investments	\$ (3,088)	\$ (3,967,062)	\$ (3,970,150)
Capital assets acquired through capital leases	\$ 19,812	\$ -	\$ 19,812
Reconciliation of Cash and Cash Equivalent Balances:			
Current assets			
Cash and cash equivalents	\$ 30,436,568	\$ 199,435	\$ 30,636,003
Restricted cash and cash equivalents	7,114,475	3,680,480	10,794,955
Noncurrent assets			
Restricted cash and cash equivalents	699,461	838,644	1,538,105
Total cash and cash equivalents	<u>\$ 38,250,504</u>	<u>\$ 4,718,559</u>	<u>\$ 42,969,063</u>

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

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

	The Citadel Foundation December 31, 2014	The Citadel Brigadier Foundation June 30, 2015
ASSETS		
Cash and cash equivalents	\$ 7,333,078	\$ 1,119,771
Unconditional promises to give/receivable, net	15,258,739	1,314,640
Prepaid expenses	155,943	-
Long-term investments (at fair value)	166,192,011	12,179,283
Investments related to split-interest agreements (at fair value)	3,125,653	-
Other investments	355,680	-
Due from related parties	38,588	-
Note receivable	-	20,000
Other receivables	771	-
Cash value of life insurance policies	935,786	432,877
Property and equipment, net of accumulated depreciation	123,174	13,118
Land and property held for sale	-	185,000
Land, improvements and other assets held for investment	799,360	-
Total assets	\$ 194,318,783	\$ 15,264,689
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 798,389	\$ 64,915
Net grants payable to The Citadel	2,844,295	-
Due to related parties	410,012	435,252
Notes payable	54,952	-
Annuities and life income funds payable	1,841,630	-
Charitable gift annuities	1,281,100	13,380
Total liabilities	7,230,378	513,547
Net Assets		
Unrestricted	89,879,751	(254,332)
Temporarily restricted	54,462,028	2,634,743
Permanently restricted	42,746,626	12,370,731
Total net assets	187,088,405	14,751,142
Total liabilities and net assets	\$ 194,318,783	\$ 15,264,689

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

	The Citadel Foundation December 31, 2014	The Citadel Brigadier Foundation June 30, 2015
REVENUES, GAINS AND OTHER SUPPORT		
Unrestricted		
Contributions and membership revenue	\$ 1,577,190	\$ 597,947
Investment losses	(12,722)	-
Net unrealized and realized losses on investments	(19,487)	-
Fundraising activities	-	209,769
Rental income	27,000	-
Gain (loss) on sale of property and equipment	6,000	(1,134)
Gain on sale of property held for investment	1,229,848	-
Equity gain of The Richmond Fund, LP	6,584,223	-
Changes in value of split interest agreements	(103,430)	(1,097)
Net assets released from program restrictions	9,646,122	1,270,454
Change in donor restricted funding deficiency	-	2,580
Transfers of net assets	15,794	-
Total unrestricted	18,950,538	2,078,519
Temporarily Restricted		
Contributions and membership revenue	14,064,138	919,361
Investment income	3,200	355,967
Net unrealized and realized gains (losses) on investments	84,800	(343,991)
Equity gain of The Richmond Fund, LP	4,909,433	-
Changes in allowance on promises to give	(310,320)	(145,118)
Changes in value of split interest agreements	(59,147)	-
Net assets released from program restrictions	(9,646,122)	(1,270,454)
Change in donor restricted funding deficiency	-	(2,580)
Transfers of net assets	(170,204)	-
Total temporarily restricted	8,875,778	(486,815)
Permanently restricted		
Contributions	2,172,776	1,182,652
Transfers of net assets	154,410	-
Total permanently restricted	2,327,186	1,182,652
Total revenue, gains and other support	30,153,502	2,774,356
EXPENSES		
Unrestricted		
Grants to The Citadel	8,126,886	1,376,574
Other gift grants to The Citadel	4,366,583	-
General and administrative	1,651,563	398,994
Fundraising	3,692,019	287,798
Income tax expense	96,576	-
Total unrestricted	17,933,627	2,063,366
Total expenses	17,933,627	2,063,366
CHANGE IN NET ASSETS		
Unrestricted	1,016,911	15,153
Temporarily restricted	8,875,778	(486,815)
Permanently restricted	2,327,186	1,182,652
Total change in net assets	12,219,875	710,990
Net assets at beginning of period, as restated		
Unrestricted	88,862,840	(269,485)
Temporarily restricted	45,586,250	3,121,558
Permanently restricted	40,419,440	11,188,079
Total net assets at beginning of period, as restated	174,868,530	14,040,152
Net assets at end of period		
Unrestricted	89,879,751	(254,332)
Temporarily restricted	54,462,028	2,634,743
Permanently restricted	42,746,626	12,370,731
Total net assets at end of period	\$ 187,088,405	\$ 14,751,142

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Citadel (“The Citadel” or “College”) is a State-assisted, coeducational institution of higher education. The College is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of The Citadel. The Citadel was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina.

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

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

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

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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’s fiscal year ends on June 30. Copies of TCBF’s separately issued financial statements can be obtained by sending a request to the following address: The Citadel Brigadier Foundation, 171 Moultrie St., Charleston, SC 29409.

TCF and TCBF are private not-for-profit organizations that report under Financial Accounting Standard Board (FASB) standards. Because these organizations are deemed not to be governmental entities and use a different reporting model, their balances and transactions are reported on separate financial statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to TCF’s and TCBF’s financial information in the College’s financial reporting entity for these differences.

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

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

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

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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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

Investments and Related Income: The Citadel Trust's investments in marketable securities at the date of the Statement of Net Position are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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, 2015; however, such investment is not marketable and some of the underlying investments held by the limited partnership do not have quoted market values. The estimated value is subject to uncertainty and could differ had a ready market existed, and such difference could be material. The amount of gain or loss associated with this investment is reflected in the accompanying financial statements based on The Trust's relative share of investment in the limited partnership. Actual gains or losses are dependent upon the general partners' distributions during the life of the partnership.

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

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

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to The Citadel's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. In the current fiscal year, The Citadel changed the methodology used to determine the estimated uncollectible amounts. See Note 3.

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

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

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. On assets capitalized prior to fiscal year 2013, a full year of depreciation was taken the year the asset is placed in service and no depreciation is taken in the year of disposition. Beginning in fiscal year 2012, assets were depreciated based on the number of months the asset was in service during the fiscal year.

The Citadel capitalizes, as a component of construction in progress, interest cost in excess of earnings on debt proceeds associated with the capital projects; therefore, asset values in capital assets include such interest costs. There was no capitalized interest for fiscal year 2015.

Unearned Revenues and Deposits: Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences: Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statement of Net Position, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Position.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year, and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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

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

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

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

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

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

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

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

The Trust is a not-for-profit organization as described in Internal Revenue Code Section 501(c) (3) and related income is exempt from federal income tax under Code Section 501(a).

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

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

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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

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

Sales and Services of Educational and Other Activities: Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public.

Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by intercollegiate athletics, cadet store, bookstore, barracks, dining hall, infirmary, laundry, tailor shop, and faculty / staff quarters. Revenues of internal service and auxiliary enterprise activities and the related expenditures of College departments have been eliminated.

Scholarship Discounts and Allowances: Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in The Citadel's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Rebatable Arbitrage: Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes.

The Citadel is not aware of any rebatable arbitrage liabilities as of June 30, 2015.

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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

Recently Issued Accounting Pronouncements:

GASB No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. The objective of GASB Statement No. 68 is to revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The new standards will improve the way state and local governments report their pension liabilities and expenses. Net pension liabilities are reported on the Statement of Net Position, providing citizens and other users of these financial reports with a clearer picture of the size and nature of the financial obligations to current and former employees for past services rendered.

GASB Statement No. 68 had a significant impact on the financial statements and disclosures for the College. Currently, South Carolina's retirement system is underfunded. As a result of the System's funding status and the implementation of GASB Statement No. 68, the College has recorded its proportionate share of the underfunded liability on the College's Statement of Net Position.

Effective for the fiscal year ended June 30, 2015, the College adopted GASB Statement No. 68. As a result of this implementation, the College will now report its portion of the State of South Carolina's net pension liability. Since the information for the restatement of beginning balances of deferred inflows of resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as restatement to beginning net position as of July 1, 2014. The effect of this implementation is discussed in Notes 9 and 10.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and the South Carolina Police Officers Retirement System (PORS) and additions to/deductions from SCRS's and PORS' fiduciary net position have been determined on the same basis as they are reported by SCRS or PORS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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

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	\$ 30,436,568	\$ 199,435	\$ 30,636,003
Marketable securities (at fair value)	-	1,993,453	1,993,453
Investment in limited partnership (at fair value)	-	2,053,829	2,053,829
Restricted assets			
Cash and cash equivalents	7,114,475	3,680,480	10,794,955
Marketable securities (at fair value)	-	5,029,265	5,029,265
Investment in limited partnership (at fair value)	-	4,320,440	4,320,440
Noncurrent assets			
Marketable securities (at fair value)	-	2,371,132	2,371,132
Investment in limited partnership (at fair value)	-	2,388,598	2,388,598
Restricted assets			
Cash and cash equivalents	699,461	838,644	1,538,105
Marketable securities (at fair value)	-	35,101,032	35,101,032
Investment in limited partnership (at fair value)	-	34,674,264	34,674,264
Total Statement of Net Position	<u>\$ 38,250,504</u>	<u>\$ 92,650,572</u>	<u>\$ 130,901,076</u>
Notes: Deposits and Investments			
Cash on hand	\$ 18,625	\$ -	\$ 18,625
Deposits held by State Treasurer	38,171,930	-	38,171,930
Other deposits	59,949	(515,898)	(455,949)
Marketable securities (at fair value)	-	49,729,339	49,729,339
Investment in limited partnership (at fair value)	-	43,437,131	43,437,131
Total Notes	<u>\$ 38,250,504</u>	<u>\$ 92,650,572</u>	<u>\$ 130,901,076</u>

Deposits

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

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

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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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

Investment Pool, continued

Investments contributed to The Trust are recorded at the fair value on the date of the gift. Purchases and sales are accounted for on the settlement date. The increase or decrease in the fair value of marketable securities is recorded on a monthly basis. Earnings are recorded monthly. Authorized investments include U.S. government/government-insured securities, corporate stocks and bonds, and open-ended mutual funds, as authorized by trust agreements and The Citadel Trust Board of Directors. The investment in limited partnership is stated using net asset value of the Trust's investment in the fund. Investment earnings are recorded on a quarterly basis.

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

Marketable Securities

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

As of June 30, 2015, The Trust had marketable securities and maturities as shown below:

Investment Type	Fair Value	MATURITIES IN YEARS			
		Less Than 1	1-5	6-10	More than 10
Money Market Funds	\$ 5,234,456	\$ 5,234,456	\$ -	\$ -	\$ -
U.S. Treasury Bonds	2,893,848	185,189	1,801,931	906,728	-
U.S. Agency Bonds	649,707	51,100	132,682	35,760	430,165
Corporate Bonds	3,014,729	261,226	1,363,369	1,196,082	194,052
Mutual Bond Funds	5,485,337	1,669,742	1,682,242	1,962,185	171,168
Total fixed income investments	<u>\$ 17,278,077</u>	<u>\$ 7,401,713</u>	<u>\$ 4,980,224</u>	<u>\$ 4,100,755</u>	<u>\$ 795,385</u>
Common Stocks	7,489,618				
Fixed Income	17,278,077				
Mutual Equity Funds	21,200,080				
REIT	3,761,564				
Total marketable securities	<u>\$ 49,729,339</u>				

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

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."

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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

Marketable Securities, continued

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

At June 30, 2015, The Trust had fixed income securities and quality ratings as shown below:

Investment Type	Fair Value	Quality Rating				
		Aaa/Aa	A	Baa/Ba	Below Ba	Unrated
Money Market Funds	\$ 5,234,456	\$ -	\$ -	\$ -	\$ -	\$5,234,456
U.S. Treasury Bonds	2,893,848	2,893,848	-	-	-	-
U.S. Agency Bonds	649,707	649,707	-	-	-	-
Corporate Bonds	3,014,729	441,948	1,132,957	1,439,824	-	-
Mutual Bond Funds	5,485,337	912,181	1,387,828	1,897,420	1,287,599	309
Totals	\$17,278,077	\$4,897,684	\$2,520,785	\$3,337,244	\$1,287,599	\$5,234,765

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, 2015. 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, Templeton Global Bonds, and Virtus Emerging Markets Opportunities Fund. These funds invest in companies based chiefly in Europe, the Pacific Basin, Asia and Latin America. The market value of these holdings at June 30, 2015 was \$12,399,626. 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."

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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 addition of a new investment manager stemmed from the Trust's need for a more active and experienced manager and an existing investment relationship held between The Citadel Foundation and the Fund since February 2008. Due diligence was performed on the Fund and its affiliated management by the Trust Directors prior to the commencement of the investment relationship.

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

At June 30, 2015, the fair value of the investment in The Richmond Fund, LP was \$43,437,131 or 47% of total investments. The Fund is audited on a semi-annual basis on June 30th and December 31st. In addition, the Trust hired an independent advisor to act as an agent of management to perform due diligence and ongoing monitoring of this limited partnership interest. The independent advisor monitors the management, governance, strategy, structure, transparency, reporting and internal controls of the investment manager. The independent advisor performs valuation services consistent with AICPA and other available guidance. The independent advisor reports findings back to management and the Directors of the Trust on a quarterly basis.

Investments – The Citadel Alumni Association

In August 2013, The Trust's Board of Director's ratified a memorandum of understanding (MOU) with The Citadel Alumni Association (CAA) which allowed the CAA to invest in The Trust's unitized investment pool to gain access to The Trust's more diversified pool of investments. The CAA contributed \$3,100,000 in October 2013 and \$830,313 in March 2014. Per the MOU, these funds were invested in the same manner and with the same due care in which The Trust's funds are invested. The fair market value of the CAA investments at June 30, 2015 is \$4,500,483. 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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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

Investments – Non Governmental Discretely Presented Component Units, continued

At June 30, 2015, TCBF's investments are as follows:

Investments carried at fair value	Cost	Fair Value
Equity funds and individual securities	\$ 11,264,959	\$ 11,820,758
Money market funds	235,628	235,628
Real estate investment trusts	126,804	122,897
Total investments	\$ 11,627,391	\$ 12,179,283

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, 2014:

	Cost	Fair Value
Investment in limited partnership interest	\$ 145,511,667	\$ 166,192,011
Various equity securities	3,343,037	3,377,923
Cash and money market funds	103,410	103,410
Total	\$ 148,958,114	\$ 169,673,344

NOTE 3—ACCOUNTS RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2015, are summarized as follows:

	The Citadel	The Citadel Trust	Total
Receivables:			
Student fees	\$ 1,446,367	\$ -	\$ 1,446,367
Grants and contracts	474,395	-	474,395
Accrued interest	36,695	64,589	101,284
Other	4,316,618	18,235	4,334,853
Gross receivables	6,274,075	82,824	6,356,899
Less allowance for uncollectible:			
Student fees	470,348	-	470,348
Accounts receivable, net	\$ 5,803,727	\$ 82,824	\$ 5,886,551

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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 3—ACCOUNTS RECEIVABLES, *Continued*

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 2015.

The composition of contributions receivable at June 30, 2015 is summarized as follows:

	The Citadel	The Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	\$ 1,575,157	\$ 628,257	\$ 2,203,414
Total gift pledges outstanding	1,575,157	628,257	2,203,414
Less:			
Unamortized discount to present value	85,526	9,262	94,788
Allowance for doubtful accounts	6,741	59,700	66,441
Total contributions receivable, net	<u>\$ 1,482,890</u>	<u>\$ 559,295</u>	<u>\$ 2,042,185</u>

Payments on contributions receivable as of June 30, 2015 are expected to be received in the following years ending June 30:

	The Citadel	The Citadel Trust	Total
2016	\$ 115,998	\$ 253,445	\$ 369,443
2017	98,981	116,286	215,267
2018	251,926	152,433	404,359
2019	273,456	26,427	299,883
2020	270,748	10,704	281,452
Due after 2020	471,781	-	471,781
	<u>\$ 1,482,890</u>	<u>\$ 559,295</u>	<u>\$ 2,042,185</u>

Pledges for permanent endowments do not meet the eligibility requirements, as defined by GASB Statement 33, until the related gift is received. Accordingly, permanent endowment pledges to the Trust totaling \$293,977 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

Student Loans Receivable

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

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 3—ACCOUNTS RECEIVABLES, *Continued*

Student Loans Receivable, continued

Student loans receivable at June 30, 2015 are summarized as follows:

	The Citadel	The Citadel Trust	Total
Loans receivable	\$ 629,630	\$ 224,676	\$ 854,306
Less allowance for uncollectible loans	-	146,417	146,417
Net loans receivable	<u>\$ 629,630</u>	<u>\$ 78,259</u>	<u>\$ 707,889</u>

NOTE 4—RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2015 are as follows:

Asset /Restricted for	The Citadel	The Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	\$ 2,525,974	\$ 3,248,048
Debt service	539,548	-
College administered loan program	-	268,470
Capital projects	4,048,953	163,962
Total cash and cash equivalents	<u>7,114,475</u>	<u>3,680,480</u>
Investments (at fair value):		
Donor/sponsor specified	-	5,029,265
Investment in limited partnership (at fair value):		
Donor/sponsor specified	-	4,320,440
Contributions Receivable:		
Donor/sponsor specified	115,998	168,614
Student Loans Receivable:		
College administered loan program	-	63,272
Noncurrent:		
Cash and cash equivalents:		
Donor/sponsor specified	217,847	-
Endowment	444,154	790,724
Federal Perkins loan program	59,949	-
Capital projects	28,317	-
Cash held for other parties	(50,806)	47,920
Total cash and cash equivalents	<u>699,461</u>	<u>838,644</u>
Investments (at fair value):		
Endowment	-	34,659,430
College administered loan program	-	441,602
Total investments	-	<u>35,101,032</u>
Investment in limited partnership (at fair value):		
Endowment	-	34,238,031
College administered loan program	-	436,233
Total investments in limited partnership	-	<u>34,674,264</u>
Contributions Receivable:		
Donor/sponsor specified	1,366,892	230,119
Total contributions receivable	<u>1,366,892</u>	<u>230,119</u>
Student Loans Receivable:		
College administered loan program	-	14,987
Federal Perkins Loan Program	629,030	-
Total student loans receivable	<u>629,030</u>	<u>14,987</u>
Cash Surrender Value of Life Insurance:		
Endowments	-	82,607

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 5—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, is summarized as follows:

	July 1, 2014	Increases	Decreases	June 30, 2015
Capital assets not being depreciated:				
Land and improvements	\$ 4,903,347	\$ -	\$ -	\$ 4,903,347
Construction-in-progress	1,238,262	2,442,091	1,715,152	1,965,201
Fine arts	357,120	-	-	357,120
Total capital assets not being depreciated	<u>6,498,729</u>	<u>2,442,091</u>	<u>1,715,152</u>	<u>7,225,668</u>
Other capital assets:				
Land improvements	13,889,396	-	-	13,889,396
Buildings and improvements	178,808,234	1,641,720	-	180,449,954
Machinery, equipment, and other	6,573,465	305,324	122,460	6,756,329
Vehicles	648,434	29,998	27,474	650,958
Intangibles	4,926,236	-	-	4,926,236
Total other capital assets at historical cost	<u>204,845,765</u>	<u>1,977,042</u>	<u>149,934</u>	<u>206,672,873</u>
Less accumulated depreciation for:				
Land improvements	9,152,097	840,808	-	9,992,905
Buildings and improvements	67,500,562	3,912,423	-	71,412,985
Machinery, equipment, and other	4,983,124	426,381	122,460	5,287,045
Vehicles	577,865	13,257	27,474	563,648
Intangibles	1,160,081	199,192	-	1,359,273
Total accumulated depreciation	<u>83,373,729</u>	<u>5,392,061</u>	<u>149,934</u>	<u>88,615,856</u>
Other capital assets, net	<u>121,472,036</u>	<u>(3,415,019)</u>	<u>-</u>	<u>118,057,017</u>
Capital assets, net of accumulated depreciation	<u>\$ 127,970,765</u>	<u>\$ (972,928)</u>	<u>\$ 1,715,152</u>	<u>\$ 125,282,685</u>

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

Gain on disposal	\$ 7,596
Loss on disposal	-
Net gain on disposal	<u>\$ 7,596</u>

NOTE 6—UNEARNED REVENUES

The composition of unearned revenues at June 30, 2015, is summarized as follows:

	Citadel	Citadel Trust	Total
Student fees	\$ 2,274,773	\$ -	\$ 2,274,773
Sales and services, auxiliary enterprises	1,015,379	-	1,015,379
Total unearned revenues	<u>\$ 3,290,152</u>	<u>\$ -</u>	<u>\$ 3,290,152</u>

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 7—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2015:

	Interest Rate	Maturity Dates	Balance June 30, 2015	Debt Retired in Fiscal Year 2015
State Institution Bonds				
Series 2001D adjustable from	4.50% to 4.75%	12/01/2016	\$ 485,000	\$ 230,000
			<u>485,000</u>	<u>230,000</u>
Revenue Bonds				
Series 2005 (refinanced to Series 2015) adjustable from	3.50% to 4.50%	04/01/2029	-	2,768,998
Series 2015	Fixed at 3.49%	04/01/2029	13,940,000	-
			<u>13,940,000</u>	<u>2,768,998</u>
Athletic Facilities Revenue Bonds				
Series 2003 (refinanced to Series 2014)	Fixed at 4.19%	02/15/2018	-	7,558
Series 2005	Fixed at 4.19%	02/15/2015	-	717,003
Series 2010 (refinanced to Series 2015)	Fixed at 6.94%	02/01/2031	-	390,000
Series 2014	Fixed at 1.74%	02/15/2018	784,442	265,558
Series 2015	Fixed at 4.67%	02/01/2031	11,950,000	-
			<u>12,734,442</u>	<u>1,380,119</u>
Total Bonds Payable			<u>\$27,159,442</u>	<u>\$ 4,379,117</u>

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. S.C. Code of Laws section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. Tuition fees for the preceding year were \$691,742 which results in a legal debt margin at June 30, 2015, of \$622,568. The Citadel's maximum annual debt service, which occurs in fiscal year 2016, is \$255,937.

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

On October 30, 2014, The Citadel completed a refinancing of the Series 2003 Athletic Facilities Revenue bond with BB&T. The refinance was completed in order to reduce the annual debt service for the bond. The interest rate for the Series 2003 bond was 4.19% compared to the new refinance rate of 1.74% on October 30, 2014. The average annual debt service for the new Series 2014 bond will be \$270,632, which is also the maximum annual debt service through 2018.

On June 22, 2015, The Citadel completed a refinancing of the Series 2005 Revenue bond with BB&T. The refinance was completed in order to reduce the annual debt service for the bond. The interest rate for the Series 2005 bond ranged from 3.50% to 4.50% compared to the new fixed refinance rate of 3.49% on June 22, 2015. The average annual debt service for the new Series 2015 Revenue bond will be \$1,221,912 with a maximum annual debt service of \$2,820,780 occurring in 2017.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 7—BONDS AND NOTES PAYABLE, *Continued*

Bonds Payable, continued

On June 22, 2015, The Citadel also completed a refinancing of the Series 2010 Athletic Facilities Revenue bond with BB&T. The refinance was completed in order to reduce the annual debt service for the bond. The interest rate for the Series 2010 bond was 6.94% compared to the new refinance rate of 4.67% on June 22, 2015. The average annual debt service for the new Series 2015 Athletic Facilities Revenue Bonds will be \$1,065,076 with a maximum annual debt service of \$1,093,802 occurring in 2031.

As of June 30, 2015, management believes it is in compliance with all related bond covenants of its issued debt.

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

State Institution Bonds	Principal	Interest	Payments
2016	\$ 235,000	\$ 17,397	\$ 252,397
2017	250,000	5,938	255,938
	<u>\$ 485,000</u>	<u>\$ 23,335</u>	<u>\$ 508,335</u>
Revenue and Athletic Facilities Bonds			
2016	\$ 2,476,983	\$ 730,181	\$ 3,207,164
2017	3,196,455	970,607	4,167,062
2018	1,506,004	857,254	2,363,258
2019	1,290,000	802,624	2,092,624
2020	1,345,000	750,582	2,095,582
2021 – 2025	7,555,000	2,895,217	10,450,217
2026 – 2030	8,260,000	1,230,179	9,490,179
2031	1,045,000	48,802	1,093,802
	<u>\$ 26,674,442</u>	<u>\$ 8,285,446</u>	<u>\$ 34,959,888</u>

The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2015:

Bond Type	Principal	Interest
State Institution Bonds	\$ 230,000	\$ 28,210
Revenue Bonds	2,768,998	826,341
Athletic Facilities Revenue Bonds	1,380,119	911,675
	<u>\$ 4,379,117</u>	<u>\$ 1,766,226</u>

Notes Payable

At June 30, 2015, notes payable consisted of the following:

Note payable secured by enterprise information system dated July 2009. Interest only for the first year, thereafter payable in quarterly principal and interest payments of \$201,306, matures July 2015, fixed interest rate of 3.66%.

\$ 199,481

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%.

2,066,062

\$ 2,265,543

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 7—BONDS AND NOTES PAYABLE, *Continued*

Notes Payable, continued

The scheduled maturities of the notes payable are as follows:

Notes Payable	Principal	Interest	Payments
2016	\$ 767,048	\$ 95,107	\$ 862,155
2017	597,547	63,302	660,849
2018	629,110	31,739	660,849
2019	271,838	3,516	275,354
	<u>\$ 2,265,543</u>	<u>\$ 193,664</u>	<u>\$ 2,459,207</u>

Total principal paid on notes payable was \$1,319,089 for the year ended June 30, 2015. Total interest paid on notes payable was \$146,982.

NOTE 8—LEASE OBLIGATIONS

The Citadel's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2015 were as follows:

Year ending June 30,	Capital Leases/ Equipment
2016	\$ 16,909
2017	16,909
2018	16,909
2019	8,583
Total minimum lease payments	59,310
Less: Interest	6,428
Executory and other costs	3,386
Present value of minimum lease payments	<u>\$ 49,496</u>

All leases are with parties outside of state government.

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2015 were \$13,560, of which \$2,690 represented interest and \$720 represented executory costs. Total principal paid on capital leases was \$10,150 for the year ended June 30, 2015. The following is a summary of the carrying values of assets held under capital lease at June 30, 2015.

Equipment acquired under capital leases	\$ 63,785
Less accumulated amortization	15,148
Equipment acquired under capital leases, net	<u>\$ 48,637</u>

Operating Leases

The Citadel's noncancelable operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. In the current fiscal year, The Citadel did not have any noncancelable operating leases.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 9—PENSION PLANS

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to South Carolina Public Employee Benefit Authority, Retirement Systems Finance, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan descriptions:

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

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

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

Membership:

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

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

State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 9—PENSION PLANS, *Continued*

Membership, continued:

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 (8.0 percent) and a portion of the employer contribution (5.0 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (0.15 percent), 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.

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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 9—PENSION PLANS, *Continued*

Benefits (continued):

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. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and 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.

- Required **employee** contribution rates for fiscal year 2014-2015 are as follows:

SCRS

Employee Class Two	8.00% of earnable compensation
Employee Class Three	8.00% of earnable compensation

State ORP Employee	8.00% of earnable compensation
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PORS

Employee Class One	\$21 per month
Employee Class Two	8.41% of earnable compensation
Employee Class Three	8.41% of earnable compensation

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 9—PENSION PLANS, *Continued*

Contributions (continued):

- Required **employer** contributions for fiscal year 2014-2015 are as follows:

SCRS

Employer Class Two	10.75% of earnable compensation
Employer Class Three	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

State ORP

Employer Contribution	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

PORS

Employer Class One	7.80% of earnable compensation
Employer Class Two	13.01% of earnable compensation
Employer Class Three	13.01% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

Of the ORP employer contribution of 10.75% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

Contributions to the SCRS, ORP, and PORS pension plans from the College were \$2,767,406, \$1,835,254, and \$102,415 for the year ended June 30, 2015, respectively.

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, 2015, the College reported liabilities of \$62,688,876 and \$1,211,641 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. The net pension liabilities were measured as of June 30, 2014, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of July 1, 2013 projected forward to June 30, 2014. 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, 2014, the College's proportionate shares of the SCRS and PORS plans were .364117% and .06329%, which was the same as its proportionate shares of the net pension liabilities measured as of June 30, 2013, respectively.

Pension expense:

For the year ended June 30, 2015, the College recognized pension expense for the SCRS and PORS plans of \$4,393,778 and \$105,997, respectively.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 9—PENSION PLANS, *Continued*

Deferred inflows of resources and deferred outflows of resources:

At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for each of the respective plans:

	SCRS	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 1,776,339	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	5,285,129
Changes in proportion and differences between College contributions and proportionate share of contributions	-	-
College contributions subsequent to the measurement date	3,761,177	-
Total	\$ 5,537,516	\$ 5,285,129

	PORS	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 32,331	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	140,187
Changes in proportion and differences between College contributions and proportionate share of contributions	-	-
College contributions subsequent to the measurement date	105,469	-
Total	\$ 137,800	\$ 140,187

The \$3,761,177 and \$105,469 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date for the SCRS and PORS plans, respectively, during the year ended June 30, 2015 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2016.

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:	
2016	\$ (771,842)
2017	(771,842)
2018	(771,842)
2019	(1,193,264)
2020	-

	PORS
Year ended June 30:	
2016	\$ (26,661)
2017	(26,661)
2018	(26,661)
2019	(27,873)
2020	-

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 9—PENSION PLANS, *Continued*

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. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company (GRS) based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2013 valuations for the SCRS and PORS plans administered by PEBA.

	SCRS	PORS
Actuarial cost method	Entry age	Entry age
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	levels off at 3.5%	levels off at 4.0%
Includes inflation at	2.75%	2.75%
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 9—PENSION PLANS, Continued

Actuarial assumptions and methods (continued):

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.

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%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC.

For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return 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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 9—PENSION PLANS, Continued

Actuarial assumptions and methods (continued):

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term:			
Cash	2.0%	0.3%	0.01%
Short Duration	3.0%	0.6%	0.02%
Domestic Fixed Income:			
Core Fixed Income	7.0%	1.1%	0.08%
High Yield	2.0%	3.5%	0.07%
Bank Loans	4.0%	2.8%	0.11%
Global Fixed Income:			
Global Fixed Income	3.0%	0.8%	0.02%
Emerging Markets Debt	6.0%	4.1%	0.25%
Global Public Equity	31.0%	7.8%	2.42%
Global Tactical Asset Allocation	10.0%	5.1%	0.51%
Alternatives:			
Hedge Funds (Low Beta)	8.0%	4.0%	0.32%
Private Debt	7.0%	10.2%	0.71%
Private Equity	9.0%	10.2%	0.92%
Real Estate (Broad Market)	5.0%	5.9%	0.29%
Commodities	3.0%	5.1%	0.15%
Total Expected Real Return	100.0%		5.88%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.63%

Discount rate:

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. 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.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 9—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	\$ 81,123,284	\$ 62,688,876	\$ 47,309,291
PORS	1,693,130	1,211,641	813,109

Pension plan fiduciary net position:

The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2014, net pension liability amounts for SCRS and PORS are as follows (amounts expressed in thousands):

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 42,955,205,796	\$ 25,738,521,026	\$ 17,216,684,770	59.9%
PORS	5,899,529,434	3,985,101,996	1,914,427,438	67.5%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASSB 67 in the System's notes to the financial statements and required supplementary information.

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS and PORS which can be accessed via the contact information provided above.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 10—RESTATEMENT FOR IMPLEMENTATION OF AN ACCOUNTING PRONOUNCEMENT

The Citadel implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ended June 30, 2015. The implementation of the statement required The Citadel to record beginning net pension liability and the effects on unrestricted net position of contributions made by the College during the measurement period (fiscal year ended June 30, 2014). As a result, beginning unrestricted net position for The Citadel as of July 1, 2014 decreased by \$63,017,388. This decrease resulted in the restatement of unrestricted net position to a deficit balance of \$36,528,451 as of July 1, 2014.

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Citadel contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA).

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.0% of annual covered payroll for 2015 and 4.92% of annual covered payroll for 2014. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Citadel paid approximately \$1,854,847 and \$1,760,788 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2015 and 2014, 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, 2015 and 2014. The Citadel recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$20,927 and \$20,466 for the years ended June 30, 2015 and 2014, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued

Funding Policies, continued

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, 2015, was as follows:

	July 1, 2014	Additions	Reductions	June 30, 2015	Due Within One Year
Bonds and Notes Payable and Capital Lease Obligations:					
State Institution Bonds	\$ 715,000	\$ -	\$ 230,000	\$ 485,000	\$ 235,000
Total State Institution Bonds	715,000	-	230,000	485,000	235,000
Revenue Bonds	16,645,000	13,940,000	16,645,000	13,940,000	1,740,000
Athletic Facilities Revenue Bonds	14,039,948	13,000,000	14,305,506	12,734,442	736,983
Total Revenue Bonds Payable	30,684,948	26,940,000	30,950,506	26,674,442	2,476,983
Total Bonds Payable	31,399,948	26,940,000	31,180,506	27,159,442	2,711,983
Notes Payable	3,584,632	-	1,319,089	2,265,543	767,048
Capital Lease Obligations	36,861	22,785	10,150	49,496	13,344
Total Bonds, Notes & Capital Leases	35,021,441	26,962,785	32,509,745	29,474,481	3,492,375
Other Liabilities					
Federal loan funds	459,773	11,560	-	471,333	-
Accrued compensated absences	2,773,249	1,644,654	1,400,920	3,016,983	1,442,410
Deposits	2,594,989	1,745,509	1,447,194	2,893,304	2,221,660
Unearned revenues	3,419,062	3,424,046	3,552,956	3,290,152	3,210,473
Annuities payable	20,448	8,140	9,450	19,138	9,450
Funds held for others	4,499,364	4,526,380	4,499,364	4,526,380	-
Net pension liability	-	66,621,584	2,721,067	63,900,517	-
Total Other Liabilities	13,766,885	77,981,873	13,630,951	78,117,807	11,410,373
Total Long-term Liabilities	\$ 48,788,326	\$ 104,944,658	\$ 46,140,696	\$ 107,592,288	\$ 14,902,748

Additional information regarding Bonds and Notes Payable is included in Note 7. Additional information regarding Capital Lease Obligations is included in Note 8. Additional information regarding Unearned Revenues is included in Note 6. Additional information regarding Net Pension Liabilities is included in Note 9.

NOTE 13—DEFERRED INFLOWS OF RESOURCES

The composition of deferred inflows of revenues at June 30, 2015, is summarized as follows:

	Citadel	Citadel Trust	Total
Advance receipt of revenues	\$ 170,000	\$ -	\$ 170,000
Amounts related to net pension liabilities	5,425,316	-	5,425,316
Total deferred inflows of resources	\$ 5,595,316	\$ -	\$ 5,595,316

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 13—DEFERRED INFLOWS OF RESOURCES, *Continued*

During fiscal year 2007 The Citadel entered into a ten year contract with Daktronics Inc. under which Daktronics agreed to provide and install certain equipment and concourse elements at Citadel athletic facilities in exchange for advertising rights at athletic events.

Daktronics furnished a scoreboard system valued at \$1,700,000 in fiscal year 2007 and a scoreboard for the basketball arena in fiscal year 2015 and anticipates furnishing additional equipment in future years, including and an electronic billboard for the football stadium. The contract with Daktronics establishes an annual revenue threshold. When advertising revenues exceed the threshold, Daktronics and The Citadel split the excess revenue equally.

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

The Citadel treated this transaction as a sale of future revenues. The College will not maintain an active involvement in the future generation of advertising revenues. The College is amortizing the unearned revenues on a straight line basis over the ten years of the contract period.

See Note 9 for a description of the deferred inflows resulting from amounts related to the net pension liabilities.

NOTE 14—CONSTRUCTION COSTS AND COMMITMENTS

Capitalized

The Citadel has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that The Citadel has sufficient resources available and/or future resources identified to satisfactorily complete the construction of these projects which are expected to be completed in varying phases over the next three years at an estimated cost of \$4,027,778. Of the total estimated cost, approximately \$2,062,577 is unexpended at June 30, 2015. Of the unexpended balance at June 30, 2015, The Citadel had remaining commitment balances of approximately \$712,960 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 \$1,641,720.

Major capital projects at June 30, 2015, which constitute construction in progress that will be capitalized when completed, are listed below.

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 14—CONSTRUCTION COSTS AND COMMITMENTS, *Continued*

Project Title	Estimated Cost	Amount Expended
New Capers Hall	\$ 250,000	\$ 124,333
Capers Hall Replacement Study	100,000	54,275
Coin Laundry Relocation	250,000	18,018
Mechanical Engineering Fabr. Shop	285,000	97,835
School of Business Building	250,000	100,502
The Citadel War Memorial	22,100	400
Banner Recruiter	350,000	88,390
Cadet Accountability System	1,500,000	1,347,691
Mechanical Engineering Lab & Equipment	1,020,678	133,757
	<u>\$ 4,027,778</u>	<u>\$ 1,965,201</u>

Non-Capitalized

At June 30, 2015, 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 \$10,749,287. This amount includes costs incurred to date of \$5,933,320 and estimated costs to complete of \$4,815,967. The Citadel has remaining commitment balances with certain parties related to these projects of approximately \$1,518,714.

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, 2015, The Citadel had \$1,172,950 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, 2015, net appreciation of \$3,954,515 is available to be spent, of which \$3,887,680 is restricted to specific purposes.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 16—SPLIT INTEREST AGREEMENTS

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

During fiscal year 1999 another donor established a charitable remainder trust (CRT), consisting of assets valued at less than \$600,000, to which the Trust is entitled to all of the remaining assets upon the death of the CRT beneficiaries. The pledge for the CRT is restricted for scholarships. The CRT is irrevocable and is not managed by The Citadel or The Citadel Trust.

Since the ultimate amount received cannot be reasonably estimated and the eligibility requirement for this gift has not been met, these trust assets are not included in these financial statements.

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, 2015, the present value of the annuity payable was \$19,138.

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, 2015.

The Citadel Foundation ("TCF")

For the fiscal year ended June 30, 2015, TCF received current year contributions of \$6,691,925 on behalf of The Citadel and The Trust -- \$4,917,856 of this total was recorded as gifts, \$735,544 was recorded as additions to permanent endowments, and \$1,038,525 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of \$458,229 for its fundraising services. An additional \$97,839 in gifts was received directly through donors instead of through TCF.

The Citadel and The Trust recorded non-governmental grants of \$6,378,619 and capital grants of \$9,220 from TCF for the fiscal year ended June 30, 2015. These funds were used to support scholarships, salaries and various academic programs and construction projects at the College. In addition, TCF provided a total of \$80,325 of external sales proceeds to The Citadel which includes Skybox Amenity revenue.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled \$176,966 for the year ended June 30, 2015. TCF also provided \$12,922 to partially fund The Citadel Magazine.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 17—DISCRETELY PRESENTED COMPONENT UNITS, *Continued*

The Citadel Foundation (“TCF”), continued

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, 2014, shows a grant payable to The Citadel of \$2,844,295. The net amount due to The Citadel from TCF at June 30, 2015, is \$100,449.

The Citadel Brigadier Foundation (TCBF)

The Citadel and The Citadel Trust recorded non-governmental grants of \$1,344,988 from TCBF in the fiscal year ended June 30, 2015. 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 \$271,800 for the year ended June 30, 2015. TCBF did not owe The Citadel any amounts at June 30, 2015.

An additional \$128,458 in grant funding and \$350,000 in capital grants were received from other non-governmental sources outside of TCF and TCBF.

Total net assets as of July 1, 2014 were understated by approximately \$1.2 million as a result of multiple misstatements. The following adjustments have been made to restate total net assets as of July 1, 2014, including the classification of net assets among unrestricted, temporarily restricted, and permanently restricted categories:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning net assets, originally stated at July 1, 2014	\$ 475,103	\$ 3,370,942	\$ 8,957,189	\$ 12,803,234
Changes to unconditional promises to give receivable	-	354,182	1,488,243	1,842,425
Adjustment for discount to present value	-	(36,679)	(224,426)	(261,105)
Adjustment to allowance	-	(284,768)	-	(284,768)
Adjustments to correct due to/from related party	(35,499)	-	-	(35,499)
Adjustment for accrued payroll	(10,302)	-	-	(10,302)
Adjustment for charitable gift annuity	(13,833)	-	-	(13,833)
Reclassification of net assets:				
Adjustment to corpus values in Memorial Fund	-	(967,073)	967,073	-
Adjust classification of temporarily restricted net assets	(684,954)	684,954	-	-
Total restatement	(744,588)	(249,384)	2,230,890	1,236,918
Beginning net assets, restated at July 1, 2014	<u>\$ (269,485)</u>	<u>\$ 3,121,558</u>	<u>\$ 11,188,079</u>	<u>\$ 14,040,152</u>

NOTE 18—RELATED PARTIES

Citadel Alumni Association (“CAA”) is a separately chartered corporation organized exclusively to promote alumni activities at The Citadel. CAA’s activities are governed by its Board of Directors. CAA’s net assets totaled \$4,333,631 at December 31, 2014.

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, 2015.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 18—RELATED PARTIES, *Continued*

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, 2015, The Citadel's share of John Monroe Holliday Alumni operating profits was \$248,793 and is recorded as other nonoperating revenue.

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled \$408,774 for the year ended June 30, 2015.

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, 2015:

<u>State Appropriations</u>	
Original appropriation	\$ 9,054,249
Agency additions	416,090
Appropriation allocations from the State Commission on Higher Education	
For Academic Endowment Match	11,768
For Technology Grant Program	387,754
Total State Appropriation Revenues	<u>\$ 9,869,861</u>

The following is a reconciliation of state capital appropriations and research infrastructure bond proceeds received during the fiscal year ended June 30, 2015:

	<u>Capital Reserve Fund Appropriations</u>	<u>Research Infrastructure Bond Proceeds</u>	<u>Lottery Capital Appropriations</u>	<u>Other Nonrecurring State Capital Appropriations</u>	<u>Total</u>
Proceeds drawn during the current fiscal year\$	230,283	\$ -	\$ 112,541	\$ 132,728	\$ 475,552
Less: Revenue recognized in prior fiscal year but drawn during current fiscal year	<u>(127,506)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(127,506)</u>
Total	<u>\$ 102,777</u>	<u>\$ -</u>	<u>\$ 112,541</u>	<u>\$ 132,728</u>	<u>\$ 348,046</u>

The Citadel received substantial funding from the Commission on Higher Education ("CHE") for scholarships on behalf of students that is accounted for as operating State grants and contracts. Additional amounts received from CHE are accounted for as nonoperating revenue. The Citadel also receives State funds from various other State agencies for public service projects.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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, 2015:

Other amounts received from State agencies	Operating Revenue	Nonoperating Revenue
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	\$ 2,580,000	\$ -
Palmetto Fellows Scholarships	380,150	-
Need-Based Grants	320,600	-
Hope Scholarships	249,018	-
SC National Guard	243,562	-
Received from various other state agencies	1,500	142,635
	<u>\$ 3,774,830</u>	<u>\$ 142,635</u>

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

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

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 2015 expenditures applicable to related transactions with State entities are not readily available.

NOTE 20—RISK MANAGEMENT

The Citadel is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets, and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage either through a health maintenance organization or through the State's self-insured plan.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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:

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

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

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

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

NOTE 21—CONTINGENCIES AND LITIGATION

The Citadel currently has twenty-one lawsuits pending. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is reasonably possible in eleven of the cases, all of which involve The Citadel's former summer camp (collectively, "summer camp cases"). At this time, however, the outcome of the legal proceedings and claims, including losses, cannot be reasonably estimated. Therefore, an estimated liability has not been recorded. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for the remaining four, non-camp-related cases, is not likely. Indeed, one of the remaining four cases is a bankruptcy case in which a former student has attempted to discharge his outstanding, tuition and fees related debt to The Citadel.

Summer Camp Cases

Background:

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

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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 have 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: Ten plaintiffs have filed a total of sixteen (16) cases against The Citadel and four of its employees in connection with Counselor 2's actions. All ten have filed cases in state court against The Citadel alleging gross negligence against the school. The court has granted The Citadel summary judgment in two of those cases, and one of those plaintiffs has appealed. The time to appeal has not yet expired for the other.

Five of these plaintiffs have also filed suit against the President of The Citadel in federal court, pursuant to Section 1983, alleging the President 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. The District Court granted the president summary judgment in two of those cases, and though both plaintiffs appealed, the Fourth Circuit Court of Appeals affirmed the District Court's decision. Subsequent to October 12, 2015, both plaintiffs filed a petition for a writ of certiorari to the U.S. Supreme Court. In January 2016, the Supreme Court denied that petition, thus, both of these cases have ended.

Three of the plaintiffs who filed Section 1983 claims against the President have also filed Section 1983 claims in federal court against the General Counsel of The Citadel, the former director of the summer camp, and the former executive assistant to the president, making similar allegations.

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

Subsequent to October 12, 2015, five new cases involving The Citadel and four of its employees in connection with Counselor 2's actions were filed. Two plaintiffs have filed cases in state court against The Citadel alleging gross negligence against the school. In addition, three plaintiffs have also filed Section 1983 claims in federal court against the President, the General Counsel of The Citadel, the former director of the summer camp, and the former executive assistant to the president, making similar allegations. The IRF has retained the same counsel to defend The Citadel and individual defendants in these cases. As with the others, the Tort Claims Act applies to the claims in state court, but it does not apply to the cases in federal court.

Other Cases

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

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

NOTE 21—CONTINGENCIES AND LITIGATION, *Continued*

Other Cases, continued

Subsequent to October 12, 2015, two personal injury cases involving The Citadel were settled with the plaintiffs. In the first case, the IRF defended The Citadel and paid out a \$55,000 settlement. For the second case, The Citadel was defended and indemnified by a co-defendant. Therefore, The Citadel and its insurer, the IRF, were not responsible for making the settlement payment.

In addition, three new personal injury cases were filed against The Citadel, as well as personnel of The Citadel subsequent to October 12, 2015.

The first case is related to a personal injury sustained by the plaintiff during a rental of The Citadel's football stadium by a third party. The IRF has retained an attorney to defend The Citadel and enforce the third party's insurer to fulfill its obligations under the rental contract, and the IRF attorney has secured a commitment from the plaintiff's attorney to dismiss The Citadel.

The other two cases filed against The Citadel, the President of The Citadel, the Commandant of Cadets, and the Assistant Commandant of Cadets in April 2016 in state court alleges gross negligence against The Citadel in its hiring, training, and retention of the President, Commandant, and Assistant Commandant of The Citadel. Both plaintiffs also filed Section 1983 lawsuits against individual defendants in state court alleging they had violated his right to due process. The IRF is defending the case under its contract of insurance with The Citadel. The Tort Claims Act applies to the causes of action against The Citadel, though not to the Section 1983 claims against the individual defendants.

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, 2015 are summarized as follows:

	Compensation and Employee Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 26,571,837	\$ 1,811,168	\$ -	\$ 54,707	\$ -	\$ 28,437,712
Research	140,238	217,038	-	26,291	-	383,567
Public Service	50,038	96,386	-	-	-	146,424
Academic Support	6,492,719	2,308,821	-	650,932	-	9,452,472
Student Services	6,995,898	2,315,247	-	14,439	-	9,325,584
Institutional Support	8,184,177	2,845,871	-	12,260	-	11,042,308
Operations & Maint. Of Plant	5,472,478	5,546,211	2,754,038	-	-	13,772,727
Scholarships & Fellowships	31,549	149,522	-	3,099,218	-	3,280,289
Auxiliary Enterprises	7,683,861	17,994,823	1,176,943	8,638	-	26,864,265
Depreciation	-	-	-	-	5,392,061	5,392,061
Total Operating Expenses	\$ 61,622,795	\$ 33,285,087	\$ 3,930,981	\$ 3,866,485	\$ 5,392,061	\$108,097,409

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2015

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 Year 2015, The Citadel's Athletic Department was unable to cover the remaining unfunded scholarship balance due to several factors:

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

The College is currently working on numerous remediation strategies to position the business model within the Citadel's Athletic Department for long-term success. The College, however, anticipates additional unfunded athletic grant-in-aid in future years. These projected unfunded balances are not anticipated to affect the College's ability to pay its upcoming debt service. The College's bondholder of the Series 2015 Athletic Facilities Revenue bond and the Series 2014 Athletic Facilities Revenue bond requires bond coverage ratios of 110% and 100%, respectively. As of June 30, 2015, the College reported a bond coverage ratio of 674% for the combined Athletic Facility Bonds.

NOTE 24—RESTATEMENT OF FINANCIAL STATEMENTS

The financial statements have been restated to include the discretely presented component unit of The Citadel, The Citadel Brigadier Foundation, which was previously excluded from these financial statements due to the 2015 financial statements for TCBF being unavailable as of October 12, 2015. The previous financial statements did not include financial data for The Citadel's legally separate component unit, The Citadel Brigadier Foundation, which accounting principles generally accepted in the United States of America require to be reported with the financial data of The Citadel's primary government. As a result, the primary government financial statements previously did not purport to, and did not, present fairly the financial position of the reporting entity of The Citadel, as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Schedules of Required Supplementary Information
Schedule of The Citadel's Proportionate Share of the Net Pension Liability
For the year ended June 30, 2015

	SCRS	
	2015	2014
The Citadel's proportion of the net pension liability	0.364117%	0.364117%
The Citadel's proportionate share of the net pension liability	<u>\$ 62,688,876</u>	<u>\$ 65,309,600</u>
The Citadel's covered-employee payroll during the measurement period	<u>\$ 23,255,842</u>	<u>\$ 23,669,799</u>
The Citadel's proportionate share of the net pension liability as a percentage of its covered-employee payroll	269.56184%	275.91954%
Plan fiduciary net position as a percentage of the total pension liability	59.90%	56.39%
	PORS	
	2015	2014
The Citadel's proportion of the net pension liability	0.06329%	0.06329%
The Citadel's proportionate share of the net pension liability	<u>\$ 1,211,641</u>	<u>\$ 1,311,984</u>
The Citadel's covered-employee payroll during the measurement period	<u>\$ 303,167</u>	<u>\$ 276,933</u>
The Citadel's proportionate share of the net pension liability as a percentage of its covered-employee payroll	399.66124%	473.75502%
Plan fiduciary net position as a percentage of the total pension liability	67.55%	62.98%

Schedules of Required Supplementary Information
Schedule of The Citadel's Contributions
For the years ended June 30, 2011 through 2015

	SCRS				
	2015	2014	2013	2012	2011
Contractually required contribution	\$ 4,036,859	\$ 3,849,364	\$ 3,723,526	\$ 3,226,646	\$ 2,894,326
Contributions in relation to the contractually required contribution	4,036,859	3,849,364	3,723,526	3,226,646	2,894,326
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
The Citadel's covered-employee payroll	\$ 23,282,229	\$ 23,255,842	\$ 23,669,799	\$ 22,846,265	\$ 21,597,872
Contributions as a percentage of covered-employee payroll	17.33880%	16.55225%	15.73113%	14.12330%	13.40098%

	PORS				
	2015	2014	2013	2012	2011
Contractually required contribution	\$ 140,601	\$ 135,184	\$ 125,061	\$ 114,046	\$ 2,894,326
Contributions in relation to the contractually required contribution	140,601	135,184	125,061	114,046	2,894,326
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
College's covered-employee payroll	\$ 396,956	\$ 303,167	\$ 276,933	\$ 327,560	\$ 329,127
Contributions as a percentage of covered-employee payroll	35.41979%	44.59061%	45.15930%	34.81683%	879.39585%