THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA

CHARLESTON, SOUTH CAROLINA

FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION, AND SCHEDULE OF FEDERAL AWARDS AND REPORTS UNDER THE UNIFORM GUIDANCE THEREON

Year Ended June 30, 2018

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the non-governmental 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, 2018, and the related notes to the financial statements, which collectively comprise The Citadel's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the reports of another auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the non-governmental discretely presented component units of The Citadel as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 11 and 12 to the basic financial statements, The Citadel implemented the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other than Pensions,* effective July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as shown on pages 4 and 18, the Schedule of The Citadel's Proportionate Share of the Net Pension Liability and the Schedule of The Citadel's Pension Contributions, as shown on pages 72 and 73, and The Citadel's Proportionate Share of the Net OPEB Liability and the Schedule of The Citadel's OPEB Contributions, as shown on pages 74 and 75, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2018, on our consideration of The Citadel's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Citadel's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Greenville, South Carolina
September 30, 2018

Overview of the Financial Statements and Financial Analysis

The Citadel ("the College") is pleased to present its financial statements for fiscal year 2018. While audited financial statements for fiscal year 2017 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. This discussion focuses on the combined operations and financial positions of the College, defined for purposes of this discussion as both the primary institution – The Citadel, and its blended component unit – The Citadel Trust. The discussion excludes the College's non-governmental component units – The Citadel Foundation, The Citadel Brigadier Foundation, and The Citadel Real Estate Foundation.

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

Total State appropriations, which include other items such as State health insurance allocations, increased $0.3 million from $10.8 million in 2017 to $11.0 million in 2018. Total State appropriations peaked in fiscal year 2008 at $16.9 million and have declined 35% since that timeframe.

The Citadel increased student fees to help support advancing the College's LEAD 2018 Strategic Plan, pay the College's share of State-mandated cost of living adjustment, State-mandated pension and benefit increases, and fund new programs such as the College's Mechanical Engineering Program. Based on continued strong cadet enrollment and a tuition increase, plus an increase in cadet fees, there was a $1.7 million increase in student tuition and fee revenue, net of scholarship allowances. The Citadel is monitoring the in-state vs out-of-state mix of students. A decline in the number of out of state students can impact revenue.

The Citadel Graduate College increased 6.15% and Citadel Evening Undergraduate College increased 66.05%, between fiscal years. A 2.82% increase in other student categories occurred as well. During the fiscal year 2018 year, The Citadel ramped up online programs for evening and graduate populations. Increases in enrollment for Spring 2018 are expected to continue as the programs begin enrolling more students.

Student Category	Fall 2017* Enrollment	Fall 2016** Enrollment	# Increase / (Decrease)	% Increase / (Decrease)
Cadets	2,349	2,323	26	1.12%
Graduate Students	880	829	51	6.15%
Evening Undergraduate Students	269	162	107	66.05%
Others (Includes Active Duty, Veteran Student, etc.)	219	213	6	2.82%
Totals	**3,717**	**3,527**	**190**	**5.39%**

* Source: Citadel Institutional Research Fall 2017 Student Enrollment Profile
** Source: Citadel Institutional Research Fall 2016 Student Enrollment Profile

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

Overview of the Financial Statements and Financial Analysis, Continued

Cohort	Fall 2017 Retention***	Fall 2016 Retention****
Retention rate of full-time bachelor's degree seeking undergraduate student who entered institution in the prior Fall	85%	86%

*** Source: Citadel Institutional Research Common Data Set 2017-2018
**** Source: Citadel Institutional Research Common Data Set 2016-2017

Pledged revenues from auxiliary fee-based and profit-based revenue increased by $1.9 million over last year. Auxiliary student fee revenue increased based on higher cadet enrollment. In addition, there was a small increase in scholarship allowances. July 1, 2017, The Citadel changed food service providers. Following several decades with Aramark, The Citadel started a partnership with Sodexo. New services and a Chick-fil-A were part of the agreement and The Citadel recognized larger revenues and profit sharing as a result in the new contract. Revenues for Sodexo fee increased ($0.5 million). Increases recognized in The Cadet Store ($0.1 million) were added to by an increase in Sodexo Profit-Based and Vending ($0.2 million). Sales and services in Athletics decreased $0.8 million while gifts and contributions increased ($0.4). Revenues from the Athletic Facility Fee increased ($0.1 million).

Athletics fee-based revenue decreased by approximately $0.1 million. Due to events around Hurricane Irma, the Athletic Department had to reschedule a home game. In July 2015, Citadel Finance management identified and communicated to senior management, the Citadel Board of Visitors, and The Citadel's external auditors that The Citadel's Athletics Department was not able to cover unfunded Athletic Grant in Aid due to operating deficits in fiscal year 2015. In fiscal year 2018, The Citadel and The Citadel Athletic Department continued to address the issue. This issue should not have any impact on the College's ability to pay its annual debt service, but it has been disclosed for transparency purposes to specify potential contingencies to the College's unrestricted net position. See Note 24 for additional information.

On the night of May 28, 2016, The Citadel Beach House caught fire. The cause of the fire was investigated by Isle of Palms authorities but the cause was not determined. The Citadel insured the building with the State of South Carolina Insurance Reserve Fund for $2.0 million plus $100,000 additional for required structural upgrades. The cost for repairs was $2.5 million. The Insurance Reserve Fund has covered $2.1 million, and The Citadel covered the remaining balance from Auxiliary profits. In addition, The Citadel had a Business Interruption policy that paid $0.3 million as replacement revenue from the events that were unable to be held during the construction phase. The building was brought back online in April 2018. Rental revenues will be increasing in 2019.

Operating expenses increased in 2018. Compensation and benefits increased by $4.1 million due to a $1.3 million increase in classified salaries (related to results identified in a recent salary study), and a $1.1 increase in fringes and a $1.7 million increase in pension and other postemployment benefits ("OPEB") expense employer's share. Services and supplies expenses increased by $1.3 million primarily due to a decrease in campus deferred maintenance projects in response to the College's implementation of a formal long-term capital asset management plan.

The reduction of long-term debt balances continued in 2018. In fiscal year 2018, bond liabilities on debt service decreased $1.5 million due to the scheduled debt payments. In fiscal year 2017, The Citadel made the final payment on institutional bond debt. The remaining bond debt for The Citadel falls in revenue and athletic bonds. In fiscal year 2018, The Citadel did not enter into any new debt agreements.

Overview of the Financial Statements and Financial Analysis, Continued

The Citadel Real Estate Foundation, which is a discretely presented component unit of The Citadel, was formed on January 20, 2016 with a December 31st year end and had no activity through June 30, 2016. In fiscal year 2017 and 2018, site preparation and construction document work were done for the Bastin Hall project and the expenses for this were paid by The Citadel Real Estate Foundation. Construction on the building will be done in fiscal year 2019. In fiscal year 2019, The Citadel plans to enter into a 10 year lease agreement with The Citadel Real Estate Foundation for classroom and office space in Bastin Hall. The Citadel will lease land to The Citadel Real Estate Foundation, and The Citadel Real Estate Foundation will pay for the construction of Bastin Hall using a combination of gifts and bonds financed through South Carolina Jobs - Economic Development Authority "JEDA". Once Bastin Hall is built, The Citadel will lease the building back for 10 years. At the end of the 10 year lease agreement, The Citadel Real Estate Foundation will donate the building to The Citadel. Bastin Hall will house The Citadel School of Business.

In fiscal year 2018, The Citadel adjusted the net pension liability based on guidance from the South Carolina Public Employee Benefit Authority. In fiscal year 2018, the pension liability beginning balance was $79.7 million. During fiscal year 2018, adjustments to the net pension liability were made based on actuarial data and a change in expected investment returns. The net pension liability was increased by a $0.7 million change in deferred outflows, a $0.1 million decrease in deferred inflows, and $4.1 million in pension expense. These adjustments increased the pension liability to $84.5 million.

In fiscal year 2018, the College implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of GASB Statement No. 75 is to revise and establish new financial reporting requirements for most governments that provide their employees with OPEB. The new standards will improve the way State and local governments report their OPEB liabilities and expenses. Net OPEB 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. As a result of this implementation, the College will now report its proportionate share of the State of South Carolina's net unfunded OPEB 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, totaling $75.8 million, is be shown as restatement to beginning net position as of July 1, 2017. The effect of this implementation is discussed in Notes 11 and 12. As of June 30, 2018, recorded deferred outflows of $2.8 million, deferred inflows of $6.9 million, a net OPEB liability of $73.3 million and net OPEB expense of $1.6 million.

An influence on the financial results of The Citadel Trust, Incorporated ("the Trust") during 2018 was the increase in investment returns. Approximately 50% of The Trust's pooled assets are invested in the Richmond Fund, a limited partnership managed by Spider Management, a subsidiary of the University of Richmond. The Richmond Fund invests in traditional investments as well as in alternative investments such as private equity, venture capital, real assets, and hedge funds. The Richmond Fund's return decreased from 11.99% in fiscal year 2017 to 8.06% in fiscal year 2018. The Trust's remaining pooled assets are invested in a managed portfolio of traditional investments held at Morgan Stanley. Returns for this managed portfolio decreased from 10.20% in fiscal year 2017 to 7.72% in fiscal year 2018. Investment book values increased by $2.9 million from $78.6 million in fiscal year 2017 to $81.5 million in fiscal year 2018. Investment market values (including cash and money market holdings within existing positions) increased by $5.4 million from $91.6 million in 2017 to $97.1 million in 2018.

Overview of the Financial Statements and Financial Analysis, Continued

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 $3.1 million in October 2013 and $0.8 million in March 2014. Per the MOU, these funds were invested in the same manner and with the same due care in which The Trust's funds are invested. The fair value of the CAA investments at June 30, 2017 was $4.6 million. The fair value of the CAA investments at June 30, 2018 is $5.0 million. 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 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 Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Position presents end-of-year data concerning Assets (property that we own and what we are owed by others), Deferred Outflows of Resources (a consumption of assets applicable to a future reporting period), Liabilities (what we owe to others and have collected from others before we have provided the service), Deferred Inflows of Resources (an acquisition of net assets that is applicable to a future reporting position), and Net Position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources). It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the College. They are also able to determine how much the College owes vendors and lending institutions. Finally, the Statement of Net Position provides a picture of the net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) and their availability for expenditure by the institution.

Statement of Net Position, Continued

Net position is divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant, and equipment owned by the institution. The next category is restricted net position, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net position consists solely of the College's permanent endowment funds that are only available for investment purposes. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted assets are available to the institution for any lawful purpose of the institution. Although unrestricted net position is subject to externally imposed stipulations, substantially all of the College's unrestricted net position has been designated for various academic and research programs and initiatives. Unrestricted net position is reported as a net negative balance as a result of The Citadel's prior year adoption of GASB 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2015 and GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* in fiscal year 2018. The negative balance resulting from The Citadel's portion of the unfunded pension and OPEB liabilities 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:	**2018**	**2017**	**Increase/ Decrease**	**Percent Change**
Current assets	$ 75,824	$ 67,997	$ 7,827	12%
Capital assets, net	124,432	125,371	(939)	(1)%
Other assets	89,163	83,404	5,759	7%
Total Assets	289,419	276,772	12,647	5%
Deferred Outflows of Resources	14,655	11,177	3,478	31%
Liabilities:				
Current liabilities	16,294	16,741	(447)	(3)%
Noncurrent liabilities	183,735	108,994	74,741	69%
Total Liabilities	200,029	125,735	74,294	59%
Deferred Inflows of Resources	7,381	485	6,896	1,422%
Net Position:				
Net investment in capital assets	104,657	103,447	1,210	1%
Restricted - nonexpendable	52,697	50,133	2,564	5%
Restricted – expendable	46,401	40,472	5,929	15%
Unrestricted	(107,091)	(32,323)	(74,768)	(231)%
Total Net Position	$ 96,664	$ 161,729	(65,065)	(40)%

Statement of Net Position, Continued

Total Assets – overall increase of $12.6 million

- The $7.8 million increase in current assets is composed of a $7.1 million increase in Citadel current assets and a $0.7 million increase in Citadel Trust ("Trust") current assets.

  The $7.1 million increase in Citadel current assets is attributable to increases in current restricted cash of $3.0m, accounts receivable of $5.2m and amounts due from component units of $1.2m, reduced by a decrease in current unrestricted cash of $2.2m. The increase in restricted cash is driven primarily by increased cash revenue being reserved for future capital projects, while the increases in accounts receivable and amounts due from component units are driven primarily by administrative turnover resulting in some processes being delayed. Current unrestricted cash decreased due to the increase in services and supplies expenses.

  The $0.7 million increase in Trust current assets is primarily attributable to increased market. Current unrestricted cash and investments increased by $0.4 million and current restricted cash and investments increased by $0.4 million due to a strong market. In addition, contributions receivable decreased by approximately $0.1 million, as current pledged contributions were paid and fewer new contributions were pledged.

- The $0.9 million decrease in capital assets is composed of a $0.9 million decrease in Citadel capital assets and no change in Trust capital assets.

  Citadel capital assets (net of depreciation) decreased by $0.9 million. Equipment and vehicles totaling approximately $0.7 million were purchased and capitalized in 2018. The following construction projects were completed and capitalized for a total cost of $2.9 million during 2018: Deas Hall renovations ($0.5 million), Krause Center renovations ($0.2 million), nursing simulation lab ($0.5 million), Murray Barracks restroom renovation ($0.2 million), The Citadel War Memorial ($1.0 million), Bell Tower inspection ($0.2 million), LeTellier 204 & 205 renovation ($0.1 million), and MCH electrical service upgrades ($0.1 million). Several projects are in process and comprise the $2.5 million remaining in construction in process: Capers Hall Replacement Study, New Capers Hall Building, Mark Clark Hall Reception Room, Stevens Barracks Restroom, and North Campus Transformer Upgrade, and Barracks Restroom Replacements.

  Depreciation expense of $4.8 million remained the same as the prior year.

  There was no change in Trust capital assets

- The $5.8 million increase in other assets is composed of a $2.0 million increase in Citadel other assets and a $3.8 million increase in Trust other assets.

  The increase in Trust other assets is primarily attributable to a $4.4 million increase in investments due to an increase in investment returns.

Deferred Outflows of Resources – overall increase of $3.5 million

- In accordance with GASB Statement Nos. 68 and 75, The Citadel increased deferred outflows of resources related to the net pension liability and net OPEB liability by $0.7 million and $2.8 million, respectively, in fiscal year 2018.

Statement of Net Position, Continued

Total Liabilities – overall increase of $74.3 million

- The $0.4 million decrease in current liabilities is primarily attributable to a decrease in Citadel current liabilities and bonds and notes payable. A component of this decrease is a $0.2 million decrease in current bonds payable and a $0.4 million decrease in current notes payable to the payoff of one bond in fiscal year 2018 and a reduction in the current principal portion due on the remaining bonds and rate payable.

  Other changes in current liabilities include an decrease of $0.1 million in unearned revenue and an overall increase of accounts payable and accruals of $0.2 million.

  Trust current liabilities remained relatively unchanged increasing by $0.1 million.

- The $74.7 million increase in noncurrent liabilities is composed of a $74.3 million increase in Citadel noncurrent liabilities and a $0.4 million increase in Trust noncurrent liabilities.

  The Citadel increase in noncurrent liabilities is primarily due to the implementation of GASB Statement No. 75, which resulted in a net OPEB liability of $73.3 million at June 30, 2018. Additionally, the annual GASB Statement No. 68 adjustment resulted in a $4.8 million increase in the net pension liability as of June 30, 2018. Funds held for others decreased by $1.2 million due Bastin Hall capital expenditures from amounts provided by The Citadel Real Estate Foundation. Further, there was a $1.3 million decrease in bonds payable due to ongoing scheduled payments, while accrued compensated absences decreased by $0.7 million due to the termination of the State's TERI program.

  Trust noncurrent liabilities increased by $0.4 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 $6.9 million

- In accordance with GASB Statement No. 68, The Citadel decreased deferred inflows of resources related to net pension expense by approximately $0.1 million in fiscal year 2018. In accordance with GASB Statement No. 75, The Citadel increased deferred inflows of resources related to net OPEB expense by $6.8 million in fiscal year 2018.

Net Position – overall decrease of $65.1 million

- Net investment in capital assets increased by $1.2 million. The net position increased primarily because the bonds and notes payable balances decreased by $2.1 million. Capitalized assets increased by $3.9 million due to additions of capital assets less depreciation expense of $4.8 million.

- Restricted – nonexpendable assets increased by $2.6 million. This increase in Trust nonexpendable assets is due to a 8.06% rate of return in the Richmond Fund and a 7.22% rate of return in Morgan Stanley.

- Restricted – expendable assets increased by $5.9 million. Citadel restricted expendable assets decreased by $4.8 million. Net assets restricted for scholarships and other purposes decreased by $0.2 million. The Citadel restricted for expendable capital projects increased $5.5 million as The Citadel increased the amounts held for specific capital projects. In addition, expendable net assets restricted for debt service decreased by approximately $0.5 million as The Citadel collected more funds than required for current year debt service.

Statement of Net Position, Continued

Net Position – overall decrease of $65.1 million, continued

Trust expendable assets increased by $1.1 million, primarily due to the 8.06% rate of return for Spider and 7.72% for Morgan Stanley.

- Unrestricted net position decreased by $74.8 million. As a result of the GASB Statement No. 75 implementation, the prior year net position balance was restated to account for $75.8 million in prior year net OPEB liability. A further $4.0 million decrease in Citadel unrestricted net position is primarily attributable to the College's recognition of its $4 million proportionate share of the net pension liability. These decreases were partially offset by several revenue increases. Auxiliary net assets increased by $1.9 million as a reflection of the $1.9 million increase in auxiliary sales and service income in 2018. Student tuition and fee and other fee increases resulted in increases to unrestricted net assets of approximately $2.2 million.

The $0.4 million increase in Citadel Trust unrestricted net position is primarily due to increase in gift fund balance.

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, expenses, gains or losses".

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

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

Revenues:	**2018**	**2017**	**Increase/ (Decrease)**	**Percent Change**
Student tuition and fees, net	$ 46,087	$ 44,358	$ 1,729	4%
Sales and services	33,477	32,391	1,086	3%
Grants and contracts	7,316	6,598	718	11%
Investment income	5,852	8,808	(2,956)	(34)%
Other operating revenues	9,366	6,282	3,084	49%
Total Operating Revenues	102,098	98,437	3,661	4%
State appropriations	11,028	10,763	265	2%
Grants	11,516	10,413	1,103	11%
Gifts	4,210	3,116	1,094	35%
Investment income	183	466	(283)	(61)%
Other nonoperating revenues/expenses	391	2,308	(1,917)	(83)%
Total Nonoperating Revenues	27,328	27,066	262	1%
Total Revenues	129,426	125,503	3,923	3%
Expenses:				
Compensation and employee benefits	73,694	69,643	4,051	6%
Services and supplies	36,421	35,073	1,348	4%
Utilities	3,693	3,828	(135)	(4)%
Depreciation	4,820	4,825	(5)	(0)%
Scholarships and fellowships	4,851	4,357	494	11%
Total operating expenses	123,479	117,726	5,753	5%
Interest expense on capital asset-related debt	870	1,006	(136)	(14)%
Total Nonoperating Expenses	870	1,006	(136)	(14)%
Total Expenses	124,349	118,732	5,617	5%
Income before capital contributions, additions to permanent endowments and transfers	5,077	6,771	(1,694)	(25)%
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	4,921	2,558	2,363	92%
Permanent endowment additions	752	609	143	23%
Total capital contributions, additions to permanent endowments and transfers	5,673	3,167	2,506	79%
Change in Net Position	10,750	9,938	812	8%
Net Position, Beginning	161,729	151,791	9,938	7%
Effect of GASB 75 implementation	(75,815)	-	(75,815)	100%
Net position-beginning of year, as restated	85,914	151,791	(65,877)	(43)%
Net Position, Ending	96,664	$ 161,729	(65,065)	40%

Total Revenues – overall increase of $3.9 million

- Operating revenues increased by $3.7 million. Citadel operating revenues increased by $5.5 million and Citadel Trust operating revenues decreased by $1.8 million.

  Citadel tuition and fees increased by $1.7 million in 2018.

  Sales and services revenue increased by $1.1 million in 2018. This increase is composed of a $1.1 million increase in auxiliary revenue pledged for revenue bonds, a $0.8 increase in auxiliary revenue not pledged for revenue bonds, and a small increase in sales and service revenue of educational and other activities.

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

Total Revenues – overall increase of $3.9 million, continued

Auxiliary revenue pledged for revenue bonds increased by $1.1 million. Auxiliary student fee revenue increased on higher enrollment. In addition, there was a slight increase in scholarship allowances. Auxiliary sales revenue increased over the prior year, $0.8 million. These increases included increases of $0.4 million for Barnes and Noble, $0.1 million for The Cadet Store and $0.3 million for Event Management. Pledged revenues from auxiliary fee-based and profit-based revenue increased by $1.9 million over last year. Auxiliary student fee revenue increased based on higher cadet enrollment. As of July 1, 2017, The Citadel changed food service providers. Following several decades with Aramark, The Citadel started a partnership with Sodexo. New services and a Chick-fil-A were part of the agreement and The Citadel recognized larger revenues and profit sharing as a result in the new contract. Revenues for Sodexo fee based increased ($0.5 million). Increases recognized in The Cadet Store ($0.1 million) were added to by an increase in Sodexo Profit-Based and Vending ($0.2 million). Sales and services in Athletics decreased $0.8 million while gifts and contributions increased ($0.4). Revenues from the Athletic Facility Fee increased ($0.1 million).

Athletics sales revenue, the only auxiliary revenues not pledged for revenue bonds, increased by $0.8 million in fiscal year 2018.

Operating grant revenue increased by $0.7 million. Federal operating grants increased by $0.1 million, while State operating grants increased by $0.4 million, and nongovernmental operating grants increased by $0.2 million. The increase in State operating grants is primarily due to increases of $0.4 million in Life Scholarships offset by an approximate $0.1 million decrease in South Carolina Hope Scholarship grants.

Other operating revenues increased by approximately $3.1 million. This increase is related to other fees charged by The Citadel for services provided.

The $1.8 million decrease in Trust operating revenues is solely attributable to a decrease in investment returns within the Trust's unitized investment pool. The return for the Richmond Fund investment decreased from 11.99% in 2017 to 8.06% in 2018. The Morgan Stanley managed portfolio return decreased from 10.2% in 2017 to 7.72% in 2018.

Nonoperating revenues increased by $0.3 million. This increase is composed of a $0.4 million decrease in Citadel nonoperating revenues and a $0.7 million increase in Citadel Trust nonoperating revenue.

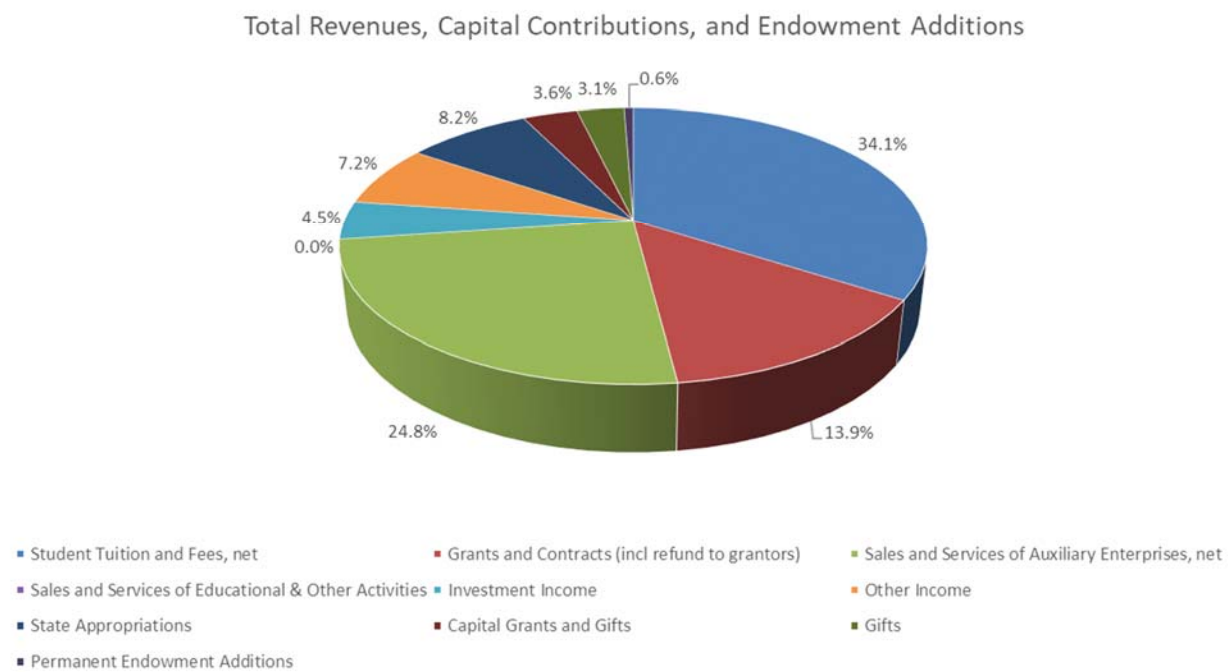
The major components of the Citadel decrease in nonoperating revenues were a $0.3 million increase in State appropriations, a $0.4 million increase in Federal Pell grants, a $0.7 million increase in nongovernmental grants, a $0.5 million increase in gifts, a $2.0 million decrease in other nonoperating revenues related to insurance recoveries for The Citadel beach house fire, and $0.3 million decrease in investment income.

Total State appropriations, which include other items such as State health insurance allocations, increased by $0.3 million, from $10.7 million in 2017 to $11.0 million in 2018. Total State appropriations peaked in fiscal year 2008 at $16.9 million, and have declined 35% since that timeframe.

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

Federal nonoperating grants increased by approximately $0.4 million due to higher Pell grant funding. Investment income increased by $0.3 million as a result of an decrease in investment returns for State invested funds.

The $0.6 million increase in Trust nonoperating revenue is chiefly attributable to a $0.6 million increase in gifts.



Total Expenses – overall increase of $5.6 million

- Operating expenses increased by $5.8 million. Compensation and benefits increased by $4.1 million. In fiscal year 2018, the College increased classified salaries as a result of a compensation study. These salary increases resulted in a $1.3 million increase in compensation. Other increases included a $1.1 million increase in fringe benefits primarily due to an increase in the employer's share of retirement contributions required in fiscal year 2018. Pension expense increased by $0.1 million and OPEB expense, from GASB Statement No. 75 adoption, was $1.6 million.

  Services and supplies expenses increased by $1.3 million. The Citadel spent approximately $0.3 million more in advertising in 2018, particularly geared toward on-line education. Purchases of equipment under $5,000 decreased by approximately $0.6 million and travel expenditures increased by approximately $0.7 million due to the addition of two new study abroad programs during the year.

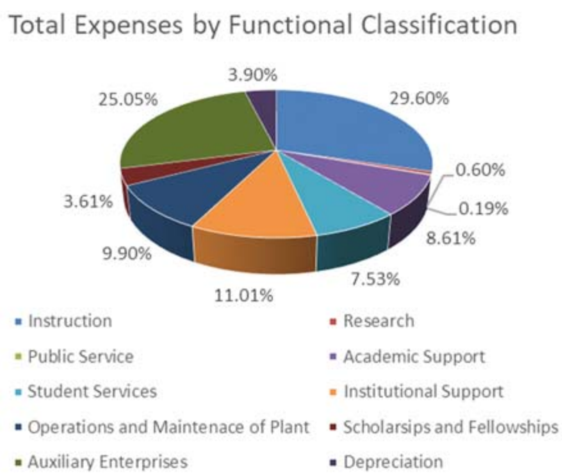
  Utility costs did not change significantly from 2017.

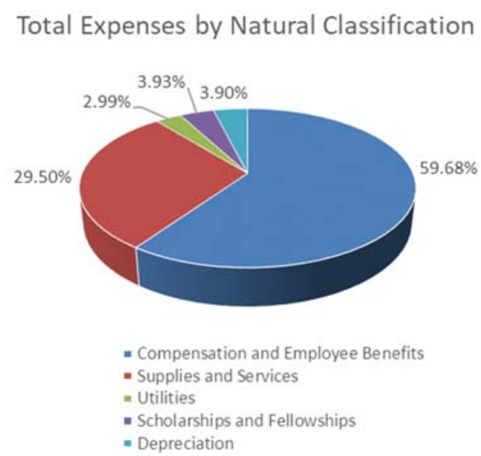
  Depreciation expense decreased by an insignificant amount based on the depreciation schedule.

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

Scholarship expenses increased by $0.5 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 $1.5 million and the scholarship allowance increased by $0.7 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 $0.1 million due to a reduction of $1.9 million in interest expense. As previously noted, the College continues to make regularly scheduled payment on outstanding debt, thereby reducing the principal balance. See Note 8 for additional information.





Capital Contributions, Additions to Permanent Endowments, and Transfers – overall increase of $2.5 million

Citadel capital grants and appropriations and transfers from The Citadel Trust increased by $2.5 million. State one-time capital appropriations remained the same as 2017. Capital grants increased by $2.4 million. The major components of this increase are approximately $0.2 million for the Krause Center renovations, $0.5 million for the nursing simulation lab, $0.2 million Murray Barracks restroom renovation, $1.0 million for the War Memorial, $0.2 million for the Bell Tower inspection, $0.1 million for the LeTellier room 204 and 205 renovation, and $0.1 million electrical service upgrades. Trust transfers decreased by $0.9 million due to decreased Trust funding for salaries, supplies, and scholarships.

Permanent endowment additions increased by approximately $0.1 million.

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 from the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital 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 from 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, 2018 and 2017 were as follows:

Capital Assets (net of accumulated depreciation)

	2018	2017	Increase/ (Decrease)	Percent Change
Capital Assets:				
Land	$ 4,903,347	$ 4,903,347	$ -	-
Construction in progress	2,494,896	2,139,706	355,190	17%
Fine arts	368,801	368,801	-	-
Land improvements	3,004,066	3,295,984	(291,918)	(9)%
Buildings and improvements	106,860,936	107,671,530	(810,594)	(1)%
Equipment	1,853,190	1,811,265	41,925	2%
Vehicles	131,271	92,873	38,398	41%
Intangibles	4,815,480	5,087,563	(272.083)	(5)%
Total	$ 124,431,987	$ 125,371,069	$ (939,082)	(1)%

The following construction projects were completed and capitalized for a total cost of $2.9 million during 2018, including: Deas Hall renovations ($0.5 million), Krause Center renovations ($0.2 million), nursing simulation lab ($0.5 million), Murray Barracks restroom renovation ($0.2 million), The Citadel War Memorial ($1.0 million), Bell Tower inspection ($0.2 million), LeTellier 204 & 205 renovation ($0.2 million), and MCH electrical service upgrades ($0.1 million).

Several projects are in process and comprise the $2.1 million remaining in Citadel construction in progress: Deas Hall renovations ($0.5 million), Krause Center renovations ($0.2 million), nursing simulation lab ($0.5 million), Murray Barracks restroom renovation ($0.2 million), The Citadel War Memorial ($1.0 million), Bell Tower inspection ($0.2 million), LeTellier 204 & 205 renovation ($0.1 million), and MCH electrical service upgrades ($0.1 million). Several projects are in process and comprise the $2.5 million remaining in construction in process: Capers Hall Replacement Study, New Capers Hall Building, Mark Clark Hall Reception Room, Stevens Barracks Restroom, and North Campus Transformer Upgrade, and Barracks Restroom Replacements

There was no change in Trust capital assets.

The Citadel capitalized $0.4 million of new equipment and vehicles net of disposals in 2018 and recognized depreciation expense of approximately $4.8 million.

Capital Assets and Debt Administration, Continued

Net investment in capital assets, increased by $1.2 million due to a small decrease in capital assets, net of depreciation, and a reduction in capital debt. Citadel capital assets, net of depreciation, decreased by $0.9 million, while Trust capital assets remained the same. The College's related long-term debt decreased by $2.1 million. The net effect of the $0.9 million decrease in capital assets and the $2.1 million decrease in long-term liabilities results in an overall $1.2 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 2018, with the City of Charleston and the coastal regions leading that growth. Charleston has recently been dubbed the Silicon Harbor as it is becoming one of the new start-up technology hubs of the country. Charleston has attracted many fortune 500 businesses including Boeing and Volvo to the area and, from a tourism standpoint, Charleston was recently ranked the No. 1 city in the nation by Travel and Leisure magazine.

In September 2018, U.S. News & World Report named The Citadel the No. 1 public institution in the South for the eighth consecutive year. The Citadel was also ranked No. 1 for best colleges for veterans in the South. The Citadel's School of Engineering was also ranked No. 13 for best undergraduate engineering programs in the nation.

All of these factors have resulted in the recent robust enrollment at the College. Additional tuition increases for fiscal year 2018, 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. As the College continues to pay down long-term debt, its financial position should continue to strengthen over the upcoming years. The College has started planning for funding a future Capers Hall and is working diligently to fund on campus maintenance needs. The College is currently addressing the business model within the Athletics Department to reduce the aforementioned losses to make that area a profitable auxiliary again. The College is also beginning the planning efforts for various construction efforts including a new primary academic building, Capers Hall, and in the 2018 timeframe, an occupancy of Bastin Hall, a facility owned by The Citadel Real Estate Foundation. Donor support for at least partial funding of this effort is promising.

The Citadel's Base State appropriation increased by a total of $260,313 from $10,767,927 in 2017 to $11,028,240 in 2018. This includes increases for pay plan, retirement, and the state mandated bonus.

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. The Trust benefited from positive investment results in fiscal year 2018. The Richmond Fund saw a return of 8.06% in fiscal year 2018. The Morgan Stanley portfolio saw a return of 7.72% in fiscal year 2018. 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 22 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, 2018

	The Citadel	The Citadel Trust	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 33,363,435	$ 95,491	$ 33,458,926
Marketable securities (at fair value)	-	1,119,920	1,119,920
Investment in limited partnership (at fair value)	-	1,292,642	1,292,642
Restricted Assets - Current:			
Cash and cash equivalents	8,747,971	1,059,932	9,807,903
Marketable securities (at fair value)	-	6,230,424	6,230,424
Investment in limited partnership (at fair value)	-	6,286,265	6,286,265
Contributions receivable, net	218,655	67,262	285,917
Student loans receivable, net	-	25,701	25,701
Accounts receivable, net	13,097,820	91,369	13,189,189
Due from component units	1,237,345	-	1,237,345
Contributions receivable, net	-	7,838	7,838
Inventories	2,073,968	-	2,073,968
Prepaid expenses	795,205	12,591	807,796
Total current assets	59,534,399	16,289,435	75,823,834
Noncurrent Assets			
Cash and cash equivalents	1,531,648	-	1,531,648
Marketable securities (at fair value)	-	2,806,416	2,806,416
Investment in limited partnership (at fair value)	-	2,105,024	2,105,024
Contributions receivable, net	-	39,867	39,867
Cash surrender value of life insurance	-	12,517	12,517
Restricted Assets - Noncurrent:			
Cash and cash equivalents	4,607,593	186,853	4,794,446
Marketable securities (at fair value)	-	35,765,024	35,765,024
Investment in limited partnership (at fair value)	-	40,599,009	40,599,009
Contributions receivable, net	894,667	44,452	939,119
Student loans receivable, net	484,236	-	484,236
Cash surrender value of life insurance	-	85,356	85,356
Capital assets not being depreciated	5,509,237	2,257,807	7,767,044
Capital assets, net of accumulated depreciation	116,664,943	-	116,664,943
Total noncurrent assets	129,692,324	83,902,325	213,594,649
Total assets	$ 189,226,723	$ 100,191,760	$ 289,418,483
DEFERRED OUTFLOWS OF RESOURCES			
Amounts related to net OPEB liability	$ 2,778,200	$ -	$ 2,778,200
Amounts related to net pension liability	11,876,615	-	11,876,615
Total deferred outflows of resources	$ 14,654,815	$ -	$ 14,654,815

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

THE CITADEL
The Military College of South Carolina

Statement of Net Position
June 30, 2018

	The Citadel	The Citadel Trust	Total
LIABILITIES			
Current Liabilities			
Accounts payable	$ 3,148,554	$ 128,727	$ 3,277,281
Retainages payable	114,788	-	114,788
Accrued payroll and related liabilities	2,475,631	27,910	2,503,541
Accrued compensated absences and related liabilities	1,587,516	-	1,587,516
Accrued interest payable	281,291	-	281,291
Unearned revenues	4,465,495	-	4,465,495
Bonds payable	1,290,000	-	1,290,000
Capital leases payable	7,686	-	7,686
Notes payable	271,838	-	271,838
Deposits	2,494,089	-	2,494,089
Total current liabilities	16,136,888	156,637	16,293,525
Noncurrent Liabilities			
Federal loan funds	305,394	-	305,394
Accrued compensated absences and related liabilities	887,048	2,062	889,110
Deposits	682,477	-	682,477
Unearned revenues	60,000	-	60,000
Bonds payable	18,205,000	-	18,205,000
Net OPEB liability	73,275,746	-	73,275,746
Net pension liability	84,499,091	-	84,499,091
Funds held for others	827,998	4,990,304	5,818,302
Total noncurrent liabilities	178,742,754	4,992,366	183,735,120
Total liabilities	$ 194,879,642	$ 5,149,003	$ 200,028,645
DEFERRED INFLOWS OF RESOURCES			
Amounts related to net OPEB liability	$ 6,927,879	$ -	$ 6,927,879
Amounts related to net pension liability	452,909	-	452,909
Total deferred inflows of resources	$ 7,380,788	$ -	$ 7,380,788
NET POSITION			
Net investment in capital assets	$ 102,399,656	$ 2,257,807	$ 104,657,463
Restricted for nonexpendable:			
Scholarships	-	46,466,579	46,466,579
Other	-	6,230,016	6,230,016
Restricted for expendable:			
Scholarships, research, instruction and other	4,798,735	30,970,264	35,768,999
Loans	228,107	1,372,811	1,600,918
Capital projects	8,728,179	269,482	8,997,661
Debt service	33,173	-	33,173
Unrestricted	(114,566,742)	7,475,798	(107,090,944)
Total net position	$ 1,621,108	$ 95,042,757	$ 96,663,865

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

THE CITADEL
The Military College of South Carolina

Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2018

	The Citadel	The Citadel Trust	Total
REVENUES:			
Operating Revenues			
Student tuition and fees (net of scholarship allowance of $12,714,083)	$ 46,086,646	$ -	$ 46,086,646
Federal grants and contracts	1,574,194	-	1,574,194
State grants and contracts	4,767,446	-	4,767,446
Nongovernmental grants and contracts	973,964	-	973,964
Sales and services of educational and other activities	585,481	-	585,481
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowance of $5,453,964)	29,901,991	-	29,901,991
Sales and services of auxiliary enterprises - not pledged	2,989,544	-	2,989,544
Other fees	6,777,306	-	6,777,306
Investment income (net of investment expenses of $611,280)	-	5,852,132	5,852,132
Endowment income	-	1,112,749	1,112,749
Other operating revenues	1,476,403	-	1,476,403
Total operating revenues	95,132,975	6,964,881	102,097,856
EXPENSES:			
Operating Expenses			
Compensation and employee benefits	73,597,010	96,694	73,693,704
Services and supplies	36,323,902	97,264	36,421,166
Utilities	3,692,770	-	3,692,770
Depreciation	4,820,274	-	4,820,274
Scholarships and fellowships	4,850,815	-	4,850,815
Total operating expenses	123,284,771	193,958	123,478,729
Operating income (loss)	(28,151,796)	6,770,923	(21,380,873)
NONOPERATING REVENUES (EXPENSES):			
State appropriations	11,028,240	-	11,028,240
Federal grants and contracts	3,183,773	-	3,183,773
State grants and contracts	154,490	-	154,490
Nongovernmental grants	7,922,963	254,494	8,177,457
Gifts	1,518,498	2,691,409	4,209,907
Investment income	183,034	-	183,034
Interest on capital asset-related debt	(870,320)	-	(870,320)
Gain on disposal of capital assets	18,310	-	18,310
Other nonoperating revenues	19,572	352,884	372,456
Net nonoperating revenues	23,158,560	3,298,787	26,457,347
Income (loss) before other revenues, expenses, gains or losses	(4,993,236)	10,069,710	5,076,474
State capital appropriations	150,243	-	150,243
Capital grants and gifts, net of adjustments	4,768,288	2,700	4,770,988
Additions to permanent endowments	-	752,379	752,379
Transfers to/from component unit	6,710,673	(6,710,673)	-
Total other revenues and transfers	11,629,204	(5,955,594)	5,673,610
Increase in net position	6,635,968	4,114,116	10,750,084
NET POSITION			
Net position-beginning of year	70,800,131	90,928,641	161,728,772
Effect of GASB 75 implementation	(75,814,991)	-	(75,814,991)
Net position-beginning of year, as restated	(5,014,860)	90,928,641	85,913,781
Net position-end of year	$ 1,621,108	$ 95,042,757	$ 96,663,865

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

THE CITADEL
The Military College of South Carolina

Statement of Cash Flows
For the year ended June 30, 2018

	The Citadel	The Citadel Trust	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	$ 52,896,935	$ -	$ 52,896,935
Grants and contracts	6,963,236	-	6,963,236
Sales and services of educational and other activities	(4,661,096)	-	(4,661,096)
Sales and services of auxiliary enterprises	33,161,283	-	33,161,283
Other operating receipts	1,292,230	-	1,292,230
Payments to employees for salaries and benefits	(68,163,897)	(96,694)	(68,260,591)
Payments to suppliers	(36,109,540)	(97,264)	(36,206,804)
Payments for utilities	(3,685,110)	-	(3,685,110)
Payments to students for scholarships and fellowships	(4,850,815)	-	(4,850,815)
Loans issued to students	(51,209)	-	(51,209)
Collection of loans to students	81,513	-	81,513
Funds held for others	(1,245,517)	-	(1,245,517)
Student direct lending receipts	26,794,330	-	26,794,330
Student direct lending disbursements	(26,779,900)	-	(26,779,900)
Net cash from operating activities	(24,357,557)	(193,958)	(24,551,515)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	11,089,766	-	11,089,766
Gifts and grants for other than capital purposes	11,834,591	3,955,289	15,789,880
Other non-operating revenues/expenses	19,572	401,183	420,755
Transfers from (to) component unit	6,710,673	(6,710,673)	-
Net cash from noncapital financing activities	29,654,602	(2,354,201)	27,300,401
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
State capital appropriations	152,638	-	152,638
Capital grants and gifts received	4,595,248	2,700	4,597,948
Proceeds from sale of capital assets	18,310	-	18,310
Purchases of capital assets	(4,280,188)	-	(4,280,188)
Principal paid on capital debt and leases, net of discount	(2,135,114)	-	(2,135,114)
Interest paid on capital related debt	(903,700)	-	(903,700)
Net cash from capital and related financing activities	(2,552,806)	2,700	(2,550,106)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	19,735,369	19,735,369
Interest and dividends on investments	120,456	1,278,366	1,398,822
Purchase of investments	-	(19,089,961)	(19,089,961)
Net cash from investing activities	120,456	1,923,774	2,044,230
Net change in cash and cash equivalents	2,864,695	(621,685)	2,243,010
Cash and cash equivalents - beginning of year	45,385,952	1,963,961	47,349,913
Cash and cash equivalents - end of year	$ 48,250,647	$ 1,342,276	$ 49,592,923

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

THE CITADEL
The Military College of South Carolina

Statement of Cash Flows
For the year ended June 30, 2018

	The Citadel	The Citadel Trust	Total
RECONCILIATION OF NET OPERATING REVENUES (EXPENSE) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss)	$ (28,151,796)	$ 6,770,923	$ (21,380,873)
Adjustments to reconcile operating income (loss) to net cash from operating activities			
Depreciation expense	4,820,274	-	4,820,274
Pension expense	4,086,891	-	4,086,891
OPEB expense	1,610,434	-	1,610,434
Interest and dividends on investments	-	(785,172)	(785,172)
Realized and unrealized gains and losses on investments	-	(6,179,709)	(6,179,709)
Funds held for others	(1,231,087)	-	(1,231,087)
Changes in assets and liabilities			
Accounts receivable, net	(5,193,367)	-	(5,193,367)
Inventories	49,312	-	49,312
Student loans receivable, net	30,304	-	30,304
Prepaid expenses	20,229	-	20,229
Accounts payable	344,025	-	344,025
Accrued payroll and related liabilities	127,033	-	127,033
Accrued compensated absences and related liabilities	(582,789)	-	(582,789)
Federal loan funds	(184,173)	-	(184,173)
Unearned revenue	(137,922)	-	(137,922)
Deposits	35,075	-	35,075
Net cash from operating activities	$ (24,357,557)	$ (193,958)	$ (24,551,515)
NON-CASH TRANSACTIONS			
Increase (decrease) in fair value of investments	$ 314,535	$ 2,482,230	$ 2,796,765
RECONCILIATION OF CASH AND CASH EQUIVALENT BALANCES			
Current assets			
Cash and cash equivalents	$ 33,363,435	$ 95,491	$ 33,458,926
Restricted cash and cash equivalents	8,747,971	1,059,932	9,807,903
Noncurrent assets			
Unrestricted cash and cash equivalents	1,531,648	-	1,531,648
Restricted cash and cash equivalents	4,607,593	186,853	4,794,446
Total cash and cash equivalents	$ 48,250,647	$ 1,342,276	$ 49,592,923

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

THE CITADEL
The Military College of South Carolina

Non-Governmental Discretely Presented Component Units
Statements of Financial Position

	The Citadel Foundation December 31, 2017	The Citadel Brigadier Foundation December 31, 2017	The Citadel Real Estate Foundation December 31, 2017
ASSETS			
Cash and cash equivalents	$ 14,729,709	$ 55,562	$ 802,045
Restricted cash held at The Citadel	-	-	1,024,664
Unconditional promises to give receivable, net	17,810,503	1,644,604	-
Prepaid expenses	223,130	-	-
Long-term investments (at fair value)	183,680,508	17,435,021	-
Investments related to split-interest agreements (at fair value)	14,456,573	-	-
Other investments	60,570	-	-
Due from related parties	356,189	1,284,170	-
Note receivable	-	20,000	-
Other receivables	771	-	-
Cash value of life insurance policies	1,006,266	429,425	-
Deferred financing costs, net	-	-	303,655
Property and equipment, net	105,827	1,861	900,336
Income producing property	7,802,364	-	-
Property held for sale	212,900	-	-
Land, improvements and other assets held for investment	1,772,240	-	-
Total assets	$ 242,217,550	$ 20,870,643	$ 3,030,700
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	$ 2,913,943	$ 99,331	$ 4,989
Net grants payable to The Citadel	3,885,108	-	-
Due to related parties	1,283,597	5,173	325,189
Bonds payable	-	-	50,000
Notes payable	231,846	-	-
Annuities and life income funds payable	10,034,794	-	-
Charitable gift annuities	1,005,154	45,125	-
Total liabilities	19,354,442	149,629	380,178
Net Assets			
Unrestricted	85,657,584	545,857	871,803
Temporarily restricted	70,055,716	3,707,083	1,778,719
Permanently restricted	67,149,808	16,468,074	-
Total net assets	222,863,108	20,721,014	2,650,522
Total liabilities and net assets	$ 242,217,550	$ 20,870,643	$ 3,030,700

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

THE CITADEL
The Military College of South Carolina

Non-Governmental Discretely Presented Component Units
Statements of Activities

	The Citadel Foundation For the Year Ended December 31, 2017	The Citadel Brigadier Foundation For the Year Ended December 31, 2017	The Citadel Real Estate Foundation For the Year Ended December 31, 2017
REVENUES, GAINS AND OTHER SUPPORT			
Unrestricted			
Contributions	$ 1,104,875	$ 1,820,107	$ -
Special events	-	136,449	-
Donated services	-	-	24,403
Other income	-	2,984	7
Gain on other investments, net	28,463	-	-
Net unrealized and realized losses on investments	(23,493)	-	-
Loss on sale of property and equipment	(4,462)	-	-
Equity gain of The Richmond Fund, LP	11,578,799	-	-
Rental income	372,691	-	-
Changes in value of split interest agreements	(31,621)	-	-
Net assets released from restrictions	12,300,160	1,578,759	727,745
Change in donor restricted funding deficiency	20,702	10,388	-
Transfers of net assets	2,245	(37,490)	-
Total unrestricted	25,348,359	3,511,197	752,155
Temporarily restricted			
Contributions	19,745,123	1,214,233	-
Net unrealized and realized gains on investments	-	1,458,978	-
Investment income	-	350,680	-
Equity gain of The Richmond Fund, LP	9,957,554	-	-
Changes in allowance on promises to give	(468,490)	(42,500)	-
Changes in value of split interest agreements	109,925	(3,274)	-
Net assets released from restrictions	(12,300,160)	(1,578,759)	(727,745)
Change in donor restricted funding deficiency	(20,702)	(10,388)	-
Transfers of net assets	(192,352)	32,845	-
Total temporarily restricted	16,830,898	1,421,815	(727,745)
Permanently restricted			
Contributions	9,912,892	1,004,663	-
Changes in allowance on promises to give	113,571	-	-
Transfers of net assets	190,107	4,645	-
Total permanently restricted	10,216,570	1,009,308	-
Total revenue, gains and other support	52,395,827	5,942,320	24,410
EXPENSES			
Unrestricted			
Foundation grants for The Citadel	10,493,039	-	-
Other gift grants to The Citadel	3,861,706	-	-
Program	464,199	2,034,144	225,629
General and administrative	1,825,814	269,926	120,864
Fundraising	4,502,432	723,949	-
Income tax expense	15,474	-	-
Total unrestricted	21,162,664	3,028,019	346,493
Total expenses	21,162,664	3,028,019	346,493
CHANGE IN NET ASSETS			
Unrestricted	4,185,695	483,178	405,662
Temporarily restricted	16,830,898	1,421,815	(727,745)
Permanently restricted	10,216,570	1,009,308	-
Total change in net assets	31,233,163	2,914,301	(322,083)
Net assets at beginning of the period:			
Unrestricted	81,471,889	62,679	466,141
Temporarily restricted	53,224,818	2,285,268	2,506,464
Permanently restricted	56,933,238	15,458,766	-
Total net assets at beginning of period	191,629,945	17,806,713	2,972,605
Net assets at end of the period:			
Unrestricted	85,657,584	545,857	871,803
Temporarily restricted	70,055,716	3,707,083	1,778,719
Permanently restricted	67,149,808	16,468,074	-
Total net assets at end of period	$ 222,863,108	$ 20,721,014	$ 2,650,522

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

Notes to the Financial Statements
June 30, 2018

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* and further amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus,* consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of the College, as the primary government, and the accounts of the following entities as component units:

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

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

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

The Citadel Brigadier Foundation ("TCBF") is a separately chartered corporation organized exclusively to receive and manage private funds for support of athletic programs at The Citadel. A board elected by members of TCBF governs the organization. The Citadel Athletic Director is an ex-officio member of the TCBF Board of Directors. Funds raised by TCBF are used to provide scholarships for varsity athletes at The Citadel. Although the College does not control the timing or amount of receipts from TCBF, the majority of resources, or income thereon, that TCBF holds and invests, is restricted to the activities of The Citadel by the donors. Because these restricted resources held by TCBF can only be used by, or for the benefit of, the College, TCBF is considered a discretely presented component unit of the College. TCBF reports its financial results on a calendar-year basis. Copies of TCBF's separately issued financial statements can be obtained by sending a request to the following address: The Citadel Brigadier Foundation, 171 Moultrie St., Charleston, SC 29409.

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

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

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

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

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

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

Investments and Related Income: The Citadel Trust's investments in marketable securities at the date of the Statement of Net Position are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 72, *Fair Value Measurement and Application*. Marketable securities are reported based on the quoted market value as reported on the last business day of the year on securities exchanges throughout the world. Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each fund's beginning fair value to the total. Investments contributed to The Trust are recorded at the fair value on the date of the gift. Purchases and sales are accounted for on the settlement date. The increase and decrease in the fair value of investments is recorded on a monthly basis. Earnings are recorded monthly.

The investment in the limited partnership is reported based on the financial statements and other information received from the general partner. The Trust believes that the stated value of the investment in the limited partnership is a reasonable estimate of its fair value as of June 30, 2018; 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 Statement of Activities. TCBF carries its investments in real estate at fair market value as of the date the real estate was donated to TCBF.

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

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

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

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

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

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

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

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 and other postemployment benefits (“OPEB”) liability not included in pension expense and OPEB expense, respectively, are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability and OPEB liability are reported as deferred outflows of resources.

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 and OPEB liabilities. 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 respective 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, TCBF, and TCREF 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, TCBF, and TCREF are classified by the Internal Revenue Service as other than private foundations and base their tax-exempt status on their support of the College.

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

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

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

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

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

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

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

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

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

The Citadel is not aware of any rebatable arbitrage liabilities as of June 30, 2018.

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

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

Recently Issued Accounting Pronouncements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of GASB Statement No. 75 is to revise and establish new financial reporting requirements for most governments that provide their employees with OPEB. The new standards will improve the way State and local governments report their OPEB liabilities and expenses. Net OPEB 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.

Effective for the fiscal year ended June 30, 2018, the College adopted GASB Statement No. 75, which 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 this implementation, the College will now report its proportionate share of the State of South Carolina's net unfunded OPEB 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 is shown as restatement to beginning net position as of July 1, 2017. The effect of this implementation is discussed in Notes 11 and 12.

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

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

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. Effective for periods beginning after June 15, 2018, was issued to improve the information that is disclosed in the notes to financial statements related to debt, including direct borrowings and direct placements. Statement No. 88 also clarifies which liabilities should be included when disclosing information related to debt. The impact to The Citadel and The Trust upon adoption on this Statement is currently being evaluated by management.

GASB Statement No. 89*, Accounting for Interest Cost Incurred before the End of a Construction period.* Effective for periods beginning after December 15, 2019, while early adoption is permitted. Statement No. 89 was issued to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period by requiring interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred. The Citadel and The Trust chose to early adopt Statement No. 89, which did not have a material impact on the financial statements, and accordingly no interest incurred before the end of a construction period was capitalized during the year ended June 30, 2018.

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

Income Taxes: In December Congress passed, and the President signed into law, the Tax Cuts and Jobs Act (“TCJA”) of 2017. This legislation featured several changes that could ultimately impact both public and private higher education institutions, their benefactors and employees. As of June 30, 2018, the Internal Revenue Service had not provided guidance in the form of proposed regulations and/or notices, or amended tax forms regarding the implementation of the TCJA by exempt organizations. Consequently, The Citadel has not accrued a liability for any changes referenced in the TCJA. Management believes that these changes will not have a material effect on The Citadel’s financial statements.

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

Most deposits and investments of The Citadel are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Deposits and investments in marketable securities of The Trust, The Citadel’s blended component unit, are not under the State Treasurer's control and are deposited or invested by financial institutions, brokers, and others specified by trust agreements. The Trust’s investment in a limited partnership is managed by the partnership’s general partner.

The following schedule reconciles deposits and investments within the footnotes to the Statement of Net Position amounts:

Statement of Net Position:	**The Citadel**	**The Citadel Trust**	**Total**
Current assets			
Cash and cash equivalents	$ 33,363,435	$ 95,491	$ 33,458,926
Marketable securities (at fair value)	-	1,119,920	1,119,920
Investment in limited partnership (at fair value)	-	1,292,642	1,292,642
Restricted assets			
Cash and cash equivalents	8,747,971	1,059,932	9,807,903
Marketable securities (at fair value)	-	6,230,424	6,230,424
Investment in limited partnership (at fair value)	-	6,286,265	6,286,265
Noncurrent assets			
Cash and cash equivalents	1,531,648	-	1,531,648
Marketable securities (at fair value)	-	2,806,416	2,806,416
Investment in limited partnership (at fair value)	-	2,105,024	2,105,024
Restricted assets			
Cash and cash equivalents	4,607,593	186,853	4,794,446
Marketable securities (at fair value)	-	35,765,024	35,765,024
Investment in limited partnership (at fair value)	-	40,599,009	40,599,009
Total Statement of Net Position	$ 48,250,647	$ 97,547,000	$ 145,797,647
Notes: Deposits and Investments			
Cash on hand	$ 22,625	$ -	$ 22,625
Deposits held by State Treasurer	48,178,757	280,893	48,459,650
Other deposits	49,265	1,061,383	1,110,648
Marketable securities (at fair value)	-	45,921,784	45,921,784
Investment in limited partnership (at fair value)	-	50,282,940	50,282,940
Total Notes	$ 48,250,647	$ 97,547,000	$ 145,797,647

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

Deposits

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

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

With respect to The Citadel's and The Trust's other deposits at year-end, all of these deposits are either insured or collateralized with securities held by the entity or by its agent in the entity's name, or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. The Trust has a formal investment policy that requires all cash deposits held at banks to be held in a bank trust department in a collateralized form.

Investment Pool

All investments are held by The Trust, a component unit of The Citadel. See disclosure below regarding investments held on behalf of the Citadel Alumni Association. Marketable securities are stated at fair value based on quoted market prices. Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each fund's beginning fair value to the total.

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

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

Marketable Securities

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

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

Marketable Securities, continued

As of June 30, 2018, The Trust had marketable securities and maturities as shown below:

		MATURITIES IN YEARS			
Investment Type	**Fair Value**	**Less Than 1 Year**	**1-5 Years**	**6-10 Years**	**More Than 10 Years**
Money Market Funds	$ 85,949	$ 85,949	$ -	$ -	$ -
U.S. Treasury Bonds	3,337,764	19,780	2,028,204	1,289,780	-
U.S. Agency Bonds	1,290,916	24,846	210,482	74,621	980,967
Corporate Bonds	7,364,058	342,458	6,008,220	1,013,380	-
Mutual Bond Funds	58,552	58,552	-	-	-
Total fixed income investments	$12,137,239	$ 531,585	$ 8,246,906	$ 2,377,781	$ 980,967
Common Stocks	$ 9,170,452				
Fixed Income	12,137,239				
Mutual Equity Funds	20,698,249				
REIT	3,915,844				
Total marketable securities	$45,921,784				

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

Custodial Credit Risk*:* Custodial credit risk is risk that the investor will not be able to recover the value of its investments that are in the possession of its safekeeping custodian. All of The Trust's marketable securities are either insured or collateralized with securities held by the entity or by its agent in the entity's name, or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. The Trust has a formal investment policy that requires all investments held at banks to be held in a bank trust department in a collateralized form.

Interest Rate Risk*:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Trust investment policy states, "The Trust Board of Directors is aware of interest rate risk to bond principal valuation. Long dated bonds, which have the most principal risk in a rising interest rate environment, may be used by investment managers whose style utilizes strategies which include long dated bonds."

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

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

Marketable Securities, continued

At June 30, 2018, The Trust had fixed income securities and quality ratings as shown below:

		Quality Rating				
Investment Type	**Fair Value**	**Aaa/Aa**	**A**	**Baa/Ba**	**Below Ba**	**Unrated**
Money Market Funds	$ 85,949	$ -	$ -	$ -	$ -	$ 85,949
U.S. Treasury Bonds	3,337,764	3,337,764	-	-	-	-
U.S. Agency Bonds	1,290,916	1,290,916	-	-	-	-
Corporate Bonds	7,364,058	1,115,417	2,173,145	4,075,496	-	-
Mutual Bond Funds	58,552	-	-	-	-	58,552
Totals	$12,137,239	$ 5,744,097	$2,173,145	$ 4,075,496	$ -	$ 144,501

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, 2018. The Trust's Board of Directors reviews substantial equity positions for the entire investment pool on a quarterly basis.

Foreign Currency Risk*:* Foreign currency risk is the risk of loss arising from changes in exchange rates for investments denominated in foreign currencies. The Trust's international investment allocation is invested in U.S. dollar denominated mutual funds – the American Funds EuroPacific Growth Fund, First Eagle Global Fund, and Virtus Emerging Markets Opportunities Fund. These funds invest in companies based chiefly in Europe, the Pacific Basin, Asia, and Latin America. The market value of these holdings at June 30, 2018 was $8,414,899. The Trust foreign currency risk policy states: "The Trust Board of Directors is aware of the risk from fluctuating currency values in that portion of the fund which is invested in international securities. Investment managers who invest in international securities may purchase and sell currencies to facilitate currency exchange rates. Such currency transactions are at the discretion of the international investment manager(s) and it is recognized by the Board of Directors of The Citadel Trust that while entering into forward currency transactions could minimize the risk of loss due to decline in the value of the hedged currency, such transactions could also limit any potential gain that may result from an increase in the value of the currency."

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

Investment in Limited Partnership

In December 2009, The Trust's Board of Directors approved a motion to pursue a co-investment relationship with an affiliate, TCF, in The Richmond Fund, LP, a Virginia limited partnership ("Fund") managed by Spider Management Company, LLC ("Spider"), a Virginia limited liability company and wholly owned subsidiary of the University of Richmond (the "University"). On January 1, 2010, this transaction was consummated and $25,000,000 of holdings at Smith Barney, a division of Citigroup Global Markets, Inc., were liquidated and invested in the Fund. Investment in the Fund is only available to tax-exempt organizations described in section 501(c) of the Internal Revenue Code to which contributions may be made that are deductible under Code Section 170 and are "accredited investors" within the meaning set forth in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended.

The Fund's investment objective is to provide steady gains during market upswings through a diverse array of public/private and domestic / international investments, while preserving capital during down market downswings. The Fund is invested as if it is part of the endowment of the University, and the time-weighted returns for the Fund and the University are 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, 2018, the fair value of the investment in the Fund was $50,282,940 or 52.27% of total Trust investments. The Fund is audited on a semi-annual basis on June 30th and December 31st. In addition, the Trust hired an independent advisor to act as an agent of management to perform due diligence and ongoing monitoring of this limited partnership interest. The independent advisor monitors the management, governance, strategy, structure, transparency, reporting, and internal controls of the investment manager. The independent advisor performs valuation services consistent with AICPA and other available guidance. The independent advisor reports findings back to management and the Directors of The Trust on a quarterly basis.

Investments – The Citadel Alumni Association

In August 2013, The Trust's Board of Directors 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, 2018 is $4,990,304. 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 ("TCBF")
Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each fund's beginning fair value to the total.

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

Investments – Non-Governmental Discretely Presented Component Units*, Continued*
At December 31, 2017, TCBF's investments are as follows:

Investments carried at fair value	Cost	Fair Value
Mutual funds	$ 12,566,673	$ 13,630,917
Common stock - equities	2,620,319	3,127,247
Real estate investment trusts	13,160	18,153
Partnerships	436,343	457,248
Money market fund	201,456	201,456
Total investments	$ 15,837,951	$ 17,435,021

The Citadel Foundation ("TCF")
In February 2008, TCF initiated a co-investment relationship with Spider. TCF acquired limited partnership interests in the Fund, which is managed by Spider, 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.

At December 31, 2017, TCF investments were composed of the following:

Investments carried at fair value	Cost	Fair Value
Investment in The Richmond Fund, LP	$ 152,439,157	$ 183,680,508
Mutual funds – various equities and fixed income	6,028,762	7,128,738
Equities	10,814	10,814
Cash and money market funds	7,377,592	7,377,591
Total investments	$ 165,856,325	$ 198,197,651

NOTE 3—FAIR VALUE MEASUREMENTS

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

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

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

NOTE 3—FAIR VALUE MEASUREMENTS, *Continued*

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

Debt securities, equity securities, and mutual funds classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. There are no assets classified as Level 3 for the year ended June 30, 2018.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at June 30, 2018:

	Fair Value Measurements Using			
Investments by Fair Value Level	**June 30, 2018**	**Level 1**	**Level 2**	**Level 3**
Debt Securities				
U.S. Treasury	$ 3,337,764	$ -	$ 3,337,764	$ -
U.S. Agency	1,290,916	-	1,290,916	-
Corporate Bonds	7,364,058	-	7,364,058	-
Total Debt Securities	11,992,738	-	11,992,738	-
Equity Securities				
Equity – Common Stock	9,170,452	9,170,452	-	-
Total Equity Securities	9,170,452	9,170,452	-	-
Mutual Funds				
Equities	17,529,385	17,529,385	-	-
Fixed Income	58,552	58,552	-	-
Alternative	3,168,864	3,168,864	-	-
Total Mutual Funds	20,756,801	20,756,801	-	-
Total Investments by Fair Value Level	$41,919,991	$ 29,927,253	$11,992,738	$ -

Investments Measured at the Net Asset Value (NAV)	
Investment in Richmond Fund, LP	$ 50,282,940
Investment in AEW Core Property Trust (U.S.) Inc.	3,915,844
Total Investments Measured at NAV	54,198,784
Total Investments	$ 96,118,775

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

Investments	**June 30, 2018**	**Redemption**	**Frequency**
Investment in Richmond Fund, LP (1)	$ 50,282,940	(a)	(a)
Investment in AEW Core Property Trust (U.S.) Inc. (2)	3,915,844	Quarterly	45 Days
Total Investments Measured at NAV	$ 54,198,784		

There were no unfunded commitments at June 30, 2018.

NOTE 3—FAIR VALUE MEASUREMENTS, *Continued*

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

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

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

NOTE 4—ACCOUNTS RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2018 are summarized as follows:

	The Citadel	The Citadel Trust	Total
Receivables:			
Student fees	$ 1,704,663	$ -	$ 1,704,663
Grants and contracts	541,191	-	541,191
Accrued interest	-	91,369	91,369
Capital Reserve Fund	10,184	-	10,184
Customers-Auxiliaries	11,367,539	-	11,367,539
Gross receivables	13,623,577	91,369	13,714,946
Less allowance for uncollectible:			
Student fees	525,757	-	525,757
Accounts receivable, net	$ 13,097,820	$ 91,369	$ 13,189,189

NOTE 4—ACCOUNTS RECEIVABLES, *Continued*

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

Contributions Receivable
Contributions receivable are comprised of pledges for gifts to support the College. Contributions receivable are accounted for at their estimated net realizable value or the present value of long-term pledges. Discount to present value was calculated using a 1% interest rate for 2018.

The composition of contributions receivable at June 30, 2018 is summarized as follows:

	The Citadel	The Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	$ 1,190,553	$ 247,164	$ 1,437,717
Total gift pledges outstanding	1,190,553	247,164	1,437,717
Less:			
Unamortized discount to present value	(62,379)	(9,022)	(71,401)
Allowance for doubtful accounts	(14,852)	(78,723)	(93,575)
Total contributions receivable, net	$ 1,113,322	$ 159,419	$ 1,272,741

Payments on contributions receivable as of June 30, 2018 are expected to be received in the following years ending June 30:

	The Citadel	The Citadel Trust	Total
2019	$ 218,655	$ 75,100	$ 293,755
2020	241,094	36,383	277,477
2021	236,304	26,354	262,658
2022	229,931	15,882	245,813
2023	104,909	5,700	110,609
Due after 2023	82,429	-	82,429
	$ 1,113,322	$ 159,419	$ 1,272,741

Pledges for permanent endowments do not meet the eligibility requirements, as defined by GASB Statement No. 33, until the related gift is received. Accordingly, permanent endowment pledges to the Trust totaling $211,923 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

NOTE 4—ACCOUNTS RECEIVABLES, *Continued*

Student Loans Receivable

Loans receivable consists of loans made through The Trust's loan program and loans made through the Federal Perkins Loan Program. The 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 U.S. 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 U.S. Department of Education. The Trust has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off.

Student loans receivable at June 30, 2018 are summarized as follows:

	The Citadel	The Citadel Trust	Total
Loans receivable	$ 484,236	$ 57,941	$ 542,177
Less allowance for uncollectible loans	-	(32,240)	(32,240)
Net loans receivable	$ 484,236	$ 25,701	$ 509,937

THE CITADEL
The Military College of South Carolina

Notes to the Financial Statements
June 30, 2018

NOTE 5—RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2018 are as follows:

Asset /Restricted for	The Citadel	The Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	$ 1,141,802	$ 521,503
Debt service	54,396	-
College administered loan program	-	340,964
Capital projects	7,551,773	197,465
Total cash and cash equivalents	$ 8,747,971	$ 1,059,932
Investments (at fair value):		
Donor/sponsor specified	$ -	$ 6,230,424
Investment in limited partnership (at fair value):		
Donor/sponsor specified	$ -	$ 6,286,265
Contributions Receivable:		
Donor/sponsor specified	$ 218,655	$ 67,262
Student Loans Receivable:		
College administered loan program	$ -	$ 25,701
Noncurrent:		
Cash and cash equivalents:		
Endowment	$ 508,148	$ 180,727
Federal Perkins Loan Program	49,265	-
Capital projects	1,263,670	-
Cash held for other parties	2,786,510	6,126
Total cash and cash equivalents	$ 4,607,593	$ 186,853
Investments (at fair value):		
Endowment	$ -	$ 34,758,692
College administered loan program	-	1,006,332
Total investments (at fair value)	$ -	$ 35,765,024
Investment in limited partnership (at fair value):		
Endowment	$ -	$ 37,403,867
College administered loan program	-	535,907
Investments held for other parties	-	2,659,235
Total investments in limited partnership (at fair value)	$ -	$ 40,599,009
Contributions Receivable:		
Donor/sponsor specified	$ 894,667	$ 44,452
Student Loans Receivable:		
Federal Perkins Loan Program	$ 484,236	$ -
Cash Surrender Value of Life Insurance:		
Endowments	$ -	$ 85,356

NOTE 6—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, is summarized as follows:

	July 1, 2017	Increases	Decreases	June 30, 2018
Capital assets not being depreciated:				
Land and improvements	$ 4,903,347	$ -	$ -	$ 4,903,347
Construction-in-progress	2,139,706	3,487,230	3,132,040	2,494,896
Fine arts	368,801	-	-	368,801
Total capital assets not being depreciated	7,411,854	3,487,230	3,132,040	7,767,044
Other capital assets:				
Land improvements	13,889,396	-	-	13,889,396
Buildings and improvements	186,595,253	2,870,163	-	189,465,416
Machinery, equipment, and other	7,821,220	566,270	128,973	8,258,517
Vehicles	611,198	89,569	81,385	619,382
Intangibles	6,903,404	-	-	6,903,404
Total other capital assets at historical cost	215,820,471	3,526,002	210,358	219,136,115
Less accumulated depreciation for:				
Land improvements	10,593,412	291,918	-	10,885,330
Buildings and improvements	78,923,723	3,680,757	-	82,604,480
Machinery, equipment, and other	6,009,955	524,345	128,973	6,405,327
Vehicles	518,325	51,171	81,385	488,111
Intangibles	1,815,841	272,083	-	2,087,924
Total accumulated depreciation	97,861,256	4,820,274	210,358	102,471,172
Other capital assets, net	117,959,215	(1,294,272)	-	116,664,943
Capital assets, net of accumulated depreciation	$ 125,371,069	$ 2,192,958	$ 3,132,040	$ 124,431,987

NOTE 7—UNEARNED REVENUES

The composition of unearned revenues at June 30, 2018 is summarized as follows:

	The Citadel	The Citadel Trust
Advance collection of student fees	$ 3,600,987	$ -
Advance payment for box and club suites	457,474	-
Deposits for event rentals	48,300	-
Advance fall football tickets sales	298,734	-
Barnes & Noble contractual revenue (see below)	120,000	-
Total unearned revenue	$ 4,525,495	$ -

The Citadel entered into a five-year contract with Barnes & Noble in fiscal year 2016. The contract required Barnes Noble to pay The Citadel $300,000 at the beginning of the contract period. This payment is being amortized over the life of the contract. $60,000 of this contractual payment was recognized as revenue in fiscal years 2018, 2017, and 2016. $60,000 of the remaining Barnes & Noble contractual revenue is recorded as current unearned revenue, and $60,000 is recorded as noncurrent unearned revenue.

NOTE 8—BONDS AND NOTES PAYABLE

Bonds Payable

At June 30, 2018, bonds payable consisted of the following:

	Interest Rate	Maturity Dates	Balance June 30, 2018	Debt Retired in Fiscal Year 2018
Revenue Bonds				
Series 2015	Fixed at 3.49%	04/01/2029	$ 9,135,000	$ 670,000
			9,135,000	670,000
Athletic Facilities Revenue Bonds				
Series 2014	Fixed at 1.74%	02/15/2018	-	266,004
Series 2015	Fixed at 4.67%	02/01/2031	10,360,000	570,000
			10,360,000	836,004
Total Bonds Payable			$ 19,495,000	$ 1,506,004

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

As of June 30, 2018, management believes it is in compliance with all related bond covenants of its issued debt.

All bonds are payable in semiannual installments plus interest. The scheduled maturities of bonds payable by type are as follows:

	Principal	Interest	Payments
Revenue Bonds			
2019	$ 1,290,000	$ 802,624	$ 2,092,624
2020	1,345,000	750,582	2,095,582
2021	1,390,000	696,266	2,086,266
2022	1,450,000	640,144	2,090,144
2023	1,510,000	581,515	2,091,515
2024 – 2028	8,540,000	1,938,368	10,478,368
2029 – 2031	3,970,000	317,905	4,287,905
	$ 19,495,000	$ 5,727,404	$ 25,222,404

For the year ended June 30, 2018, The Citadel paid principal and interest on the bonds as follows:

Bond Type	Principal	Interest
Revenue Bonds	$ 670,000	$ 342,195
Athletic Facilities Revenue Bonds	836,004	515,059
	$ 1,506,004	$ 857,254

NOTE 8—BONDS AND NOTES PAYABLE, *Continued*

Notes Payable
At June 30, 2018, notes payable consisted of the following:

Note payable secured by energy management system dated November 2009. Interest only for the first year, thereafter payable in monthly principal and interest payments of $55,071, matures November 2018, fixed interest rate of 5.1584%.	$ 271,838

The scheduled maturities of the notes payable are as follows:

Notes Payable	Principal	Interest	Payments
2019	$ 271,838	$ 3,517	$ 275,355
	$ 271,838	$ 3,517	$ 275,355

Total principal paid on notes payable was $629,110 for the year ended June 30, 2018. Total interest paid on notes payable was $31,739.

NOTE 9—LEASE OBLIGATIONS

The Citadel's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2018 were as follows:

Year Ending June 30,	Capital Leases/Equipment
2019	$ 8,582
Total minimum lease payments	8,582
Less: Interest	(303)
Executory and other costs	(593)
Present value of minimum lease payments	$ 7,686

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 2018 were $16,909, of which $1,271 represented interest and $931 represented executory costs. Total principal paid on capital leases was $14,707 for the year ended June 30, 2018. The following is a summary of the carrying values of assets held under capital lease at June 30, 2018.

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

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

NOTE 10—PENSION PLANS

The South Carolina Public Employee Benefit Authority ("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 State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission ("RSIC") as co-trustees of the Retirement Trust Funds.

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

PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 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 ("State ORP") is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired State, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

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

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

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

NOTE 10—PENSION PLANS, *Continued*

Membership: (Continued)

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

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 the 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-year earned service requirement, respectively. 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.

NOTE 10—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 $500 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 percentage rate in 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 total employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; this increase is not limited to one-half of one percent per year.

If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the board, effective on the following July 1, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 and 5 percent differentials between the SCRS and PORS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July1, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

The Retirement System Funding and Administration Act increased employer contribution rates to 13.56 percent for SCRS and 16.24 percent for PORS, effective July 1, 2017. It also removes the 2.9 percent and 5 percent differential and increases and establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation’s ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization schedule. The recent pension reform legislation also changes the long-term funded ratio requirement from ninety to eighty-five.

NOTE 10—PENSION PLANS, *Continued*

Contributions (continued):

Required employee contribution rates[1] are as follows:

	Fiscal Year 2018	Fiscal Year 2017
SCRS:		
Employee Class Two	9.00%	8.66%
Employee Class Three	9.00%	8.66%
State ORP:		
Employee	9.00%	8.66%
PORS:		
Employee Class Two	9.75%	9.24%
Employee Class Three	9.75%	9.24%

Required employer contribution rates[1] are as follows:

	Fiscal Year 2018	Fiscal Year 2017
SCRS:		
Employer Class Two	13.41%	11.41%
Employer Class Three	13.41%	11.41%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP:		
Employer Contribution[2]	13.41%	11.41%
Employer Incidental Death Benefit	0.15%	0.15%
PORS:		
Employer Class Two	15.84%	13.84%
Employer Class Three	15.84%	13.84%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

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

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

As described above, total required employer contributions to the SCRS, State ORP, and PORS pension plans from the College were $3,362,502, $1,571,409, and $100,803 for the year ended June 30, 2018, 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 ended effective June 30, 2018 and a member's participation may not continue after this date.

NOTE 10—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 regarding the net pension liability 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. An experience report on the Systems was most recently issued as of July 1, 2015.

The June 30, 2017 SCRS and PORS data are based on an actuarial valuation performed as of July 1, 2016. The pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, an adjustment to the calculation of the roll-forward pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used to calculate the SCRS and PORS valuations as of June 30, 2017.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return[1]	7.25%	7.25%
Projected salary increases	3.0% to 12.5% (varies by service)[1]	3.5% to 9.5% (varies by service)[1]
Benefit adjustments	Lesser of 1% or $500 annually	Lesser of 1% or $500 annually
[1] *Includes inflation at 2.25%*		

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table, was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Assumptions used in the determination of the June 30, 2017 SCRS and PORS valuations are as follows.

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

NOTE 10—PENSION PLANS, *Continued*

Long-term expected rate of return:
The long-term expected rate of return on pension plan investments is based upon 30-year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	**45.0%**		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	**8.0%**		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.06%
Opportunistic	**17.0%**		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	**18.0%**		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	**12.0%**		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.01%
Total Expected Real Return	100.0%		5.31%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

NOTE 10—PENSION PLANS, *Continued*

Discount rate:
The discount rate used to measure the pension liability was 7.25 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 Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the 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 pension liability.

Sensitivity analysis:
The following table presents the College's proportionate share of the net pension liability of the respective plan calculated using the discount rate of 7.25 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	$107,054,034	$83,060,931	$68,502,635
PORS	$1,941,790	$1,438,160	$1,041,458

Net pension liability:
At June 30, 2018, the College reported liabilities of $83,060,931 and $1,438,160 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. The net pension liabilities were measured as of June 30, 2017, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of July 1, 2016 projected forward to June 30, 2017. 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, 2017, the College's proportionate shares of the SCRS and PORS plans were .36897% and .05250%, respectively, which was the same as its proportionate shares of the net pension liabilities measured as of June 30, 2017.

Pension expense:
For the year ended June 30, 2018, the College recognized pension expense for the SCRS and PORS plans of $8,635,263 and $126,374, respectively.

NOTE 10—PENSION PLANS, *Continued*

Deferred inflows of resources and deferred outflows of resources:
At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the combined plans:

	SCRS & PORS	
	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$ 2,369,916	$ -
Assumption changes	4,998,817	-
Contributions subsequent to the measurement date	3,463,305	-
Changes in proportion and differences between the College's contributions and proportionate share of contributions	661,468	406,871
Difference in expected and actual experience in liability measurement	383,109	46,038
Total	$ 11,876,615	$ 452,909

The $3,463,305 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date for the SCRS and PORS plans during the year ended June 30, 2018 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2019.

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

Year ended June 30:	SCRS
2018	$ (2,487,661)
2019	(3,574,078)
2020	(2,493,185)
2021	631,161
Total	$ (7,923,763)

Year ended June 30:	PORS
2018	$ (7,691)
2019	(32,119)
2020	(13,863)
2021	17,035
Total	$ (36,638)

NOTE 10—PENSION PLANS, *Continued*

Additional financial and actuarial information:
Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2017, which includes the accounting and financial reporting actuarial valuation as of June 30, 2017 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2017.

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides postemployment health and dental and long-term disability benefits through the South Carolina Retiree Health Insurance Trust Fund ("SCRHITF") and the South Carolina Long-Term Disability Insurance Trust Fund ("SCLTDITF"), collectively referred to as the OPEB Trust Funds ("OPEB Trusts"), to retired State and school district employees and their covered dependents.

Plan description:
The OPEB Trusts were established by the State of South Carolina as Act 195, which became effective on May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan. In accordance with Act 195, the OPEB Trusts are administered by the PEBA (see Note 10), Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee. The OPEB Trusts are cost-sharing, multiple-employer, defined benefit plans. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plans, including its benefits and contributions, as necessary to insure the fiscal stability of the plans.

Benefits:
The SCRHITF provides health and dental insurance benefits to eligible retirees. 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 15-24 years of service for 50% employer funding.

The SCLTDITF is a long-term disability plan that covers employees of the State of South Carolina, including all agencies and public school districts and all participating local governmental entities. The SCLTDITF provides disability payments to eligible employees that have been approved for disability.

Contributions and 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 to be funded through annual appropriations by the General Assembly for active employees to the PEBA, Insurance Benefits and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the PEBA, Insurance Benefits. For active employees who are not funded by State General Fund appropriations, participating employers are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office. The covered payroll surcharge for the year ended June 30, 2017 was 5.33 percent.

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, *Continued*

Contributions and funding policies (continued):
The SCRS collects the monthly surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. Employer contributions also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs.

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 was $3.22 for the fiscal year ended June 30, 2017. The SCLTDITF premium is billed monthly by PEBA, Insurance Benefits and transferred monthly to the SCLTDITF. It is also funded through investment income.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

Total required employer contributions to the SCRHITF and SCLTDITF from the College were $2,626,429 and $23,094 for the year ended June 30, 2018, respectively.

Actuarial assumptions and methods:
Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued

Actuarial assumptions and methods (continued):
Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2016
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	4.00%, net of OPEB Plan investment expenses; including inflation
Single Discount Rate:	3.56% as of June 30, 2017
Demographic Assumptions:	Based on the experience study performed for the SCRS for the 5-year period ending June 30, 2015.
Mortality:	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type.
Health Care Trend Rate:	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years
Aging Factors:	Based on plan specific experience.
Retiree Participation:	79% for retirees who are eligible for funded premiums
Notes:	There were no benefit changes during the year; the discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017.

Additional information as of the latest actuarial valuation for SCLTDITF:

Valuation Date:	June 30, 2016
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	4.00%, net of Plan investment expense; including inflation
Single Discount Rate:	3.87% as of June 30, 2017
Salary, Termination, and Retirement Rates:	Based on the experience study performed for the SCRS for the 5-year period ending June 30, 2015.
Disability Incidence:	The rates used in the valuation are based on the rates developed for the SCRS pension plans.
Disability Recovery:	For participants in payment, 1987 CGDT Group Disability; for active employees, 60% were assumed to recover after the first year and 92% were assumed to recover after the first two years.
Offsets:	40% are assumed to be eligible for Social Security benefits; assumed percentage who will be eligible for a pension plan offset varies based on employee group.
Notes:	There were no benefit changes during the year. The discount rate changed from 3.74% as of June 30, 2016 to 3.87% as of June 30, 2017.

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued

Net OPEB liability:
At June 30, 2018, the College reported liabilities of $73,269,979 and $5,767 for its proportionate share of the SCRHITF and SCLTDITF net OPEB liabilities, respectively. The net OPEB liabilities were measured as of June 30, 2016, with update procedures being performed to roll forward the OPEB liabilities to June 30, 2017. The College's proportionate shares of the collective net OPEB liabilities and collective OPEB expense was determined using the College's payroll-related contributions over the measurement period. At June 30, 2017, the College's proportionate shares of the SCRHITF and SCLTDITF were .540944% and .318105%, which was the same as its proportionate shares of the net OPEB liabilities as of June 30, 2017, respectively.

OPEB expense:
For the year ended June 30, 2018, the College recognized OPEB expense for the SCRHITF and SCLTDITF plans of $4,459,493 and $25,745, respectively.

Single discount rate:
The Single Discount Rate of 3.56% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

A Single Discount Rate of 3.87% was used to measure the total OPEB liability for the SCLTDITF. This Single Discount Rate was based on an expected rate of return on plan investments of 4.00% and a municipal bond rate of 3.56%. The projection of cash flows to determine this Single Discount Rate assumed that employer contributions will remain $38.64 per year for each covered active employee. Based on these assumptions, the plan's Fiduciary Net Position and future contributions were sufficient to finance the benefit payments through the year 2037. As a result, the long-term expected rate of return on plan investments was applied to project benefit payments through the year 2037, and the municipal bond rate was applied to all benefit payments after that date.

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, *Continued*

Long-term expected rate of return:
The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. This information is summarized in the following table:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Allocation-Weighted Long-Term Expected Real Rate of Return
U.S. Domestic Fixed Income	80.00%	2.09%	1.67%
Cash	20.00%	0.84%	0.17%
Total	100.00%		1.84%
Expected Inflation			2.25%
Total Return			4.09%
Investment Return Assumption			**4.00%**

Sensitivity analysis:
The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.56%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

Plan	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
SCRHITF	$86,291,325	$73,269,979	$62,771,586

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

Plan	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
SCRHITF	$60,084,419	$73,269,979	$90,342,110

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, *Continued*

Sensitivity analysis (continued):
The following table presents the SCLTDITF's net OPEB liability calculated using a Single Discount Rate of 3.87%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

Plan	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
SCLTDITF net OPEB liability	$10,260	$5,767	$1,357

Deferred outflows and inflows of resources:
At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources for the combined plans:

	SCRHITF and SCLTDITF	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment experience	$ 128,677	$ -
Net difference between projected and actual experience in liability measurement	-	31,800
Assumption changes	-	6,894,887
Changes in proportion and differences between the College's contributions and proportionate share of contributions	-	1,192
Contributions subsequent to the measurement date	2,649,523	-
Total	$ 2,778,200	$ 6,927,879

Difference between expected and actual experience:
The $2,778,200 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date for the SCRHITF and SCLTDITF plans, respectively, during the year ended June 30, 2018, will be recognized as a reduction of the net OPEB liabilities in the year ending June 30, 2019.

NOTE 11—POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, *Continued*

Difference between expected and actual experience (continued):
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 SCRHITF and SCLTDITF plans:

	SCRHITF and SCLTDITF
Years ended June 30:	
2018	$ 1,076,785
2019	1,076,785
2020	1,076,785
2021	1,076,785
2022	1,108,954
Thereafter	1,383,108
	$ 6,799,202

Additional Financial and Actuarial Information:
PEBA - Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Funds. This information is publicly available through the Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to PEBA - Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the State of South Carolina and therefore, OPEB Trust Funds financial information is also included in the comprehensive annual financial report of the State.

NOTE 12—RESTATEMENT FOR IMPLEMENTATION OF AN ACCOUNTING PRONOUNCEMENT

The Citadel implemented GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other than Pensions,* in the fiscal year ended June 30, 2018. 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, 2017). As a result, beginning unrestricted net position for The Citadel as of July 1, 2017 decreased by $75,814,991. This decrease resulted in the restatement of unrestricted net position to a deficit balance of $115,193,045 as of July 1, 2017 and the restatement of total net position to a deficit balance of $5,014,860 as of July 1, 2017.

NOTE 13—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2018, was as follows:

	July 1, 2017	Additions	Reductions	June 30, 2018	Due Within One Year
Bonds and Notes Payable and Capital Lease Obligations:					
Revenue Bonds	$ 9,805,000	$ -	$ 670,000	$ 9,135,000	$ 695,000
Athletic Facilities Revenue Bonds	11,196,004	-	836,004	10,360,000	595,000
Total Bonds Payable	21,001,004	-	1,506,004	19,495,000	1,290,000
Notes Payable	900,948	-	629,110	271,838	271,838
Capital Lease Obligations	22,393	-	14,707	7,686	7,686
Total Bonds, Notes and Capital Leases	21,924,345	-	2,149,821	19,774,524	1,569,524
Other Liabilities					
Federal loan funds	489,567	3,061	187,234	305,394	-
Accrued compensated absences	3,062,538	931,427	1,517,339	2,476,626	1,587,516
Deposits	3,141,491	548,288	513,213	3,176,566	2,494,089
Unearned revenues	4,663,417	338,354	476,276	4,525,495	4,465,495
Annuities payable	18,057	-	18,057	-	-
Funds held for others	6,683,079	1,194,308	2,059,085	5,818,302	-
Net pension liability	79,681,367	4,817,724	-	84,499,091	-
Net OPEB liability	78,269,399	-	4,993,653	73,275,746	-
Total Other Liabilities	176,008,915	7,833,162	9,764,857	174,077,220	8,547,100
Total Long-Term Liabilities	$ 197,933,260	$ 7,833,162	$ 11,914,678	$ 193,851,744	$ 10,116,624

Additional information regarding Bonds and Notes Payable is included in Note 8. Additional information regarding Capital Lease Obligations is included in Note 9. Additional information regarding Unearned Revenues is included in Note 7. Additional information regarding Net Pension Liabilities is included in Note 10. Additional information regarding OPEB Liabilities is included in Note 11.

NOTE 14—DEFERRED INFLOWS OF RESOURCES

The composition of deferred inflows of revenues at June 30, 2018 is summarized as follows:

	The Citadel	The Citadel Trust	Total
Amounts related to net OPEB liabilities	$ 6,927,879	$ -	$ 6,927,879
Amounts related to net pension liabilities	452,909	-	452,909
Total deferred inflows of resources	$ 7,380,788	$ -	$ 7,380,788

See Note 10 for a description of the deferred inflows of resources related to the pension liabilities. See Note 11 for a description of the deferred inflows of resources related to the OPEB liabilities.

NOTE 15—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 $7,157,967. Of the total estimated cost, approximately $4,663,071 was unexpended at June 30, 2018. Of the unexpended balance at June 30, 2018, The Citadel had remaining commitment balances of approximately $697,771 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. During the current year, The Citadel capitalized substantially complete and in-use projects in the amount of $3,058,174.

Major capital projects at June 30, 2018, which constitute construction in progress that will be capitalized when completed, are listed below.

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

Project Title	Estimated Cost	Amount Expended
Boat Center Redevelopment	$ 3,955,000	$ 1,507,098
New Capers Hall	767,129	249,723
Capers Hall Replacement Study	100,000	54,275
Stevens Barracks Restroom	550,000	501,481
Bond Hall Classrooms	338,748	11,060
Grimsley Hall Cooling Tower Replacement	120,000	4,180
North Campus Transformer Upgrade	120,000	4,180
Career Center Exterior Renovation	352,090	13,838
MCH Reception Room Renovation	505,000	9,939
Murray Barracks Restroom Renovation	350,000	139,122
	$ 7,157,967	$ 2,494,896

Non-Capitalized:
At June 30, 2018, The Citadel had in progress other capital projects which are not to be capitalized when complete. These projects are for replacements, repairs, and/or renovations to existing facilities. Estimated costs on these non-capitalized projects total $5,585,176. This amount includes costs incurred to date of $2,301,004 and estimated costs to complete of $3,284,172.

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, 2018, The Citadel had $349,469 of authorized nonrecurring State capital appropriation remaining. There were no authorized capital reserve funds, authorized research infrastructure bonds, or lottery capital appropriations remaining.

NOTE 16—DONOR RESTRICTED ENDOWMENTS

The Trust manages most donor-restricted endowments. If a donor has not provided specific instructions, State law generally permits The Trust's 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 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's 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, 2018, net appreciation of $3,414,908 is available to be spent, of which $3,375,509 is restricted to specific purposes.

NOTE 17—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 Trust 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 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 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 Trust for general institutional purposes. This annuity fund is held and separately managed by The 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, 2018, the present value of the annuity payable was $-0-.

NOTE 18—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 TCF, TCBF, and TCREF. 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, 2018.

NOTE 18—DISCRETELY PRESENTED COMPONENT UNITS, *Continued*

The Citadel Foundation

For the fiscal year ended June 30, 2018, TCF received current year contributions of $5,220,956 on behalf of The Citadel and The Trust, $4,202,176 of this total was recorded as gifts, $752,379 was recorded as additions to permanent endowments, and $266,401 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of $402,863 for its fundraising services.

The Citadel and The Trust recorded non-governmental grants of $6,526,229 from TCF for the fiscal year ended June 30, 2018. These funds were used to support scholarships, salaries, and various academic programs and at the College. In addition, TCF provided a grant of $600,000 to support stadium debt service.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled $174,235 for the year ended June 30, 2018.

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, 2017, shows a grant payable to The Citadel of $3,885,108. At June 30, 2018, the net amount due to The Citadel from TCF was $179,855.

The Citadel Real Estate Foundation

The Citadel Real Estate Foundation is a supporting organization of TCF. As of June 30, 2018, The Citadel is holding net unexpended agency fund capital contributions from TCREF in the amount of $425,000. These funds are restricted for pre-construction costs for the future Bastin Hall School of Business on The Citadel's campus, and are included in funds held for others.

The Citadel Brigadier Foundation

The Citadel and The Trust recorded non-governmental grants of $1,655,000 from TCBF in the fiscal year ended June 30, 2018 and $1,055,000 was due to The Citadel at June 30, 2018. 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 $185,809 for the year ended June 30, 2018. TCBF did not have an outstanding payable to The Citadel at June 30, 2018.

NOTE 19—RELATED PARTIES

Citadel Alumni Association

Citadel Alumni Association is a separately chartered corporation organized exclusively to promote alumni activities at The Citadel. CAA's activities are governed by its Board of Directors.

As described in Note 2, CAA has an investment in The Trust's unitized investment pool. As of June 30, 2018, CAA's portion of this investment is $4,990,304, and is included in funds held for others.

The activities of CAA are not included in The Citadel's financial statements. However, The Citadel's statements include transactions between the College and the CAA. Following is a summary of the significant transactions between The Citadel and CAA for the year ended June 30, 2018.

NOTE 19—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 The 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, 2018, The Citadel's share of John Monroe Holliday Alumni operating profits was $-0-.

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled $290,227 for the year ended June 30, 2018, of which $259,917 was for activity for the year ending June 30, 2018 and $30,310 which was payable as of June 30, 2017.

NOTE 20—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. 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, 2018:

State Appropriations	
Original appropriation	$ 10,621,834
Agency additions	128,610
Appropriation allocations from the State Commission on Higher Education	
For Academic Endowment Match	12,543
For Technology Grant Program	265,253
Total State Appropriation Revenues	$ 11,028,240

The following is a reconciliation of State capital appropriations and research infrastructure bond proceeds received during the fiscal year ended June 30, 2018:

	Capital Reserve Fund Appropriations	Other Nonrecurring State Capital Appropriations	Total
Proceeds drawn during current fiscal year	$ 2,396	$ 150,243	$ 152,639
Less: Revenue recognized in prior fiscal year but drawn during current fiscal year	(2,396)	-	(2,396)
Total	$ -	$ 150,243	$ 150,243

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

NOTE 20—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, 2018:

Other amounts received from State agencies	Operating Revenue	Nonoperating Revenue
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	$ 3,578,937	$ -
Palmetto Fellows Scholarships	367,950	-
Need-Based Grants	312,370	-
Hope Scholarships	326,200	-
SC National Guard	158,625	-
Received from various other State agencies	23,364	154,490
	$ 4,767,446	$ 154,490

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

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

The Citadel had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, insurance coverage, office supplies, and interagency mail. Significant payments were also made for unemployment and workers′ compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2018 expenditures applicable to related transactions with State entities are not readily available.

NOTE 21—RISK MANAGEMENT

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

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

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

NOTE 21—RISK MANAGEMENT, *Continued*

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

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

1. Theft, damage to, or destruction of assets
2. Real property, its contents, and other equipment
3. Motor vehicles and watercraft
4. Torts
5. Natural disasters
6. Medical malpractice claims against the Infirmary

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

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

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

NOTE 22—CONTINGENCIES AND LITIGATION

The Citadel currently has ten lawsuits pending, eight of which involve The Citadel's former summer camp (collectively, "summer camp cases"). In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these cases is not likely. Therefore, an estimated liability has not been recorded. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for the remaining three, state court cases, is not likely.

Summer Camp Cases

Background:

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

In 2001, a camper accused Counselor 1 of sexually assaulting him during the camp. Those accusations ultimately led to Counselor 1's court-martial. Five former campers subsequently filed suit alleging Counselor 1 had assaulted them while at the camp. The Citadel and its general liability insurer, the South Carolina Insurance Reserve Fund ("SCIRF"), settled those claims in 2006 for $3,850,000. The SCIRF paid approximately $3,300,000 to settle those cases; The Citadel contributed $500,000 to settle the cases. In 2011, a sixth former camper filed suit against The Citadel. In 2013, a seventh former camper, the older brother of the sixth former camper, also filed suit. In June 2014, the SCIRF, The Citadel's insurer, settled those cases.

NOTE 22—CONTINGENCIES AND LITIGATION, *Continued*

In 2007, a camper from 2002 reported that Counselor 2 had allegedly engaged in sexual misconduct with him during 2002. The former camper alleged Counselor 2 had engaged in similar conduct with other campers during 2001. The Citadel, through its General Counsel, investigated the allegations but found no corroboration. The Citadel did not report the allegations to law enforcement.

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

Litigation:

Counselor 1: As noted above, seven former campers filed a total of eight 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 SCIRF in June 2006. Campers six and seven settled their claims in June 2014.

Counselor 2: Twelve plaintiffs filed a total of twenty-two cases against The Citadel and four of its employees in connection with Counselor 2's actions. All twelve filed cases in State court against The Citadel alleging gross negligence against the school. The Citadel settled two of the cases during the spring of 2017. The trial court granted The Citadel summary judgment in two additional cases, and both of those plaintiffs appealed. The South Carolina Court of Appeals affirmed the trial court, and both plaintiffs moved for reconsideration. The Court of Appeals denied those motions, and the plaintiffs petitioned the South Carolina Supreme Court ("Supreme Court") for a writ of certiorari. The Supreme Court denied those petitions, therefore those two cases are fully and finally ended.

In the meantime, the trial court informally stayed any further proceedings in the remaining cases, pending a final decision by the Supreme Court. The Citadel strongly believes the Court of Appeals' decisions mandates dismissal of the remaining cases, and is working with plaintiffs' counsel to obtain voluntary dismissals in them. If the attorneys refuse, the school will move for summary judgment, and expects the same trial judge that previously granted summary judgment to the school to do so again.

Six of these plaintiffs also filed suit in federal court against the President of The Citadel (the "President"), the General Counsel of The Citadel, the former director of the summer camp, and the former executive assistant to the President. The plaintiffs brought claims pursuant to Section 1983, alleging the defendants either (1) conspired to violate their civil rights by failing to report Counselor 2 in 2007 or (2) violated their civil rights by failing to report Counselor 2 in 2007. However, in 2014, the District Court granted the President summary judgment in two nearly identical cases. The Fourth Circuit Court of Appeals subsequently affirmed the District Court's decision, and in January 2016, the United States Supreme Court denied those plaintiffs' petitions for a writ of certiorari. As a direct result of the United States Supreme Court's action, the District Court immediately granted summary judgment in two additional cases, and the plaintiffs in those cases immediately appealed. The District Court stayed the remaining four cases pending the decision of the Fourth Circuit in the two cases currently before it. In November 2016, the Fourth Circuit affirmed the trial court's grant of summary judgment to The Citadel. The plaintiffs did not petition for reconsideration or petition the United States Supreme Court for a writ of certiorari, therefore those cases have ended. The remaining four cases pending in District Court have also ended, as the Court's stay became a final order of dismissal upon the Fourth Circuit's affirmance in November.

The SCIRF has defended The Citadel pursuant to a $1 million insurance policy in all of these cases. Under the Tort Claims Act, The Citadel's liability is capped at $300,000 per plaintiff, and $600,000 per occurrence.

NOTE 22—CONTINGENCIES AND LITIGATION, *Continued*

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. Included among these matters are two lawsuits by former cadets who allege the school violated their civil rights in the course of disciplining them. One of those cadets returned to The Citadel, graduated, and now works for the school. The other former cadet withdrew and never returned. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for all of these matters 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.

Other Possible Contingencies

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

NOTE 23—OPERATING EXPENSES BY FUNCTION

For the year ended June 30, 2018, operating expenses by functional classification are summarized as follows:

	Compensation and Employee Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 33,030,995	$ 3,456,507	$ -	$ 56,768	$ -	$ 36,544,270
Research	363,623	353,348	-	22,316	-	739,287
Public Service	109,448	121,452	-	-	-	230,900
Academic Support	7,084,164	3,165,861	-	384,003	-	10,634,028
Student Services	7,414,415	1,857,471	-	23,140	-	9,295,026
Institutional Support	9,743,991	3,767,349	-	89,379	-	13,600,719
Operations and Maintenance of Plant	6,246,627	3,450,842	2,522,502	-	-	12,219,971
Scholarships and Fellowships	8,547	200,792	-	4,249,928	-	4,459,267
Auxiliary Enterprises	9,691,894	20,047,544	1,170,268	25,281	-	30,934,987
Depreciation	-	-	-	-	4,820,274	4,820,274
Total Operating Expenses	$ 73,693,704	$ 36,421,166	$ 3,692,770	$ 4,850,815	$ 4,820,274	$ 123,478,729

NOTE 24—UNFUNDED ATHLETIC GRANT-IN-AID

The College's athletic grant-in-aid is athletic scholarships funded by private donations through TCBF to The Citadel. The Citadel annually awards athletic scholarships in excess of the support from TCBF, thus additional budgeted supplements are required from The 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 2018, The Citadel's Athletic Department was unable to cover the remaining unfunded scholarship balance due to several factors:

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

NOTE 24—UNFUNDED ATHLETIC GRANT-IN-AID, *Continued*

The College is currently working on numerous remediation strategies to position the business model within the Citadel's Athletic Department for long-term success. The College is working with the Citadel's Athletic Department to allow the Athletic Department to cover their prior and current year unfunded balances over time. The College, however, anticipates the possibility of additional unfunded athletic grant-in-aid in future years. These projected unfunded balances are not anticipated to affect the College's ability to pay its upcoming debt service. The College's bondholder of the Series 2015 Athletic Facilities Revenue bond requires a bond coverage ratio of 100%. As of June 30, 2018, management believes the College reported an above adequate bond coverage ratio for the Series 2015 Athletic Facility Bond.

THE CITADEL
The Military College of South Carolina

Schedule of The Citadel's Proportionate Share of the Net Pension Liability
For the Years Ended June 30, 2017 Through June 30, 2018

Fiscal Year	The Citadel's Proportion of the Net Pension Liability	The Citadel's Proportionate Share of the Net Pension Liability	The Citadel's Total Covered Payroll During the Measurement Period	The Citadel's Proportionate Share of the Net Pension Liability as a Percentage of Total Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
South Carolina Retirement System (SCRS)					
2018	0.368970%	$ 83,060,931	$ 47,067,006	176.47%	53.30%
2017	0.365879%	78,151,289	43,430,316	179.95%	52.90%
2016	0.368400%	69,867,963	42,226,239	165.46%	56.99%
2015	0.364117%	62,688,876	40,281,067	155.63%	59.90%
2014	0.364117%	65,309,600	39,597,063	164.94%	56.39%
Police Officers' Retirement System (PORS)					
2018	0.052500%	$ 1,438,160	$ 686,248	209.57%	60.90%
2017	0.060320%	1,530,078	769,034	198.96%	64.60%
2016	0.061650%	1,343,594	763,719	175.93%	64.57%
2015	0.063290%	1,211,641	761,174	159.18%	67.55%
2014	0.063290%	1,311,934	760,247	172.57%	62.98%

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

THE CITADEL
The Military College of South Carolina

Schedule of The Citadel's Pension Contributions
For the Years Ended June 30, 2017 Through June 30, 2018

Fiscal Year	Actuarial Rrequired Pension Contribution	Actual Pension Contributions	Contribution Deficiency (Excess)	The Citadel's Total Covered Payroll	Contributions as a Percentage of Total Covered Payroll
South Carolina Retirement System (SCRS)					
2018	$ 3,362,502	$ 3,362,502	$ -	$ 47,067,006	7.14%
2017	4,234,165	4,234,165	-	44,909,987	9.43%
2016	3,919,630	3,919,630	-	43,430,316	9.03%
2015	3,765,017	3,765,017	-	42,226,239	8.92%
2014	3,545,182	3,545,182	-	40,281,067	8.80%
2013	3,458,611	3,458,611	-	39,597,063	8.73%
2012	2,864,624	2,864,624	-	37,171,451	7.71%
2011	2,595,501	2,595,501	-	35,317,858	7.35%
Police Officers' Retirement System (PORS)					
2018	$ 100,803	$ 100,803	$ -	$ 686,248	14.69%
2017	97,840	97,840	-	706,945	13.84%
2016	105,665	105,665	-	769,034	13.74%
2015	102,415	102,415	-	763,719	13.41%
2014	97,735	97,735	-	761,174	12.84%
2013	93,510	93,510	-	760,247	12.30%
2012	85,649	85,649	-	728,123	11.76%
2011	72,551	72,551	-	681,226	10.65%

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

THE CITADEL
The Military College of South Carolina

Schedule of The Citadel's Proportionate Share of the Net OPEB Liability
For the Years Ended June 30, 2017 Through June 30, 2018

Fiscal Year	The Citadel's Proportion of the Net OPEB Liability	The Citadel's Proportionate Share of the Net OPEB Liability	The Citadel's Total Covered Payroll During the Measurement Period	The Citadel's Proportionate Share of the Net OPEB Liability as a Percentage of Total Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
South Carolina Retiree Health Insurance Trust Fund (SCRHITF)					
2018	0.540944%	$ 73,269,979	$ 47,753,254	153.43%	7.60%
2017	0.540944%	78,267,191	44,199,350	177.08%	Not Available
South Carolina Long-term Disability Insurance Trust Fund (SCLTDITF)					
2018	0.318105%	$ 5,767	(1)	(1)	95.29%
2017	0.318105%	2,208	(1)	(1)	Not Available

(1) Contributions to the SCLTDITF are based upon a fixed fee per covered employee. Therefore covered payroll is not applicable to the SCLTDITF.

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

THE CITADEL
The Military College of South Carolina

Schedule of The Citadel's OPEB Contributions
For the Years Ended June 30, 2017 Through June 30, 2018

Fiscal Year	Actuarial Required OPEB Contribution	Actual OPEB Contributions	Contribution Deficiency (Excess)	The Citadel's Total Covered Payroll	Contributions as a Percentage of Total Covered Payroll
South Carolina Retiree Health Insurance Trust Fund (SCRHITF)					
2018	$ 2,626,429	$ 2,626,429	$ -	$ 47,753,254	5.50%
2017	2,431,382	2,431,382	-	$ 44,199,350	5.50%
South Carolina Long-term Disability Insurance Trust Fund (SCLTDITF)					
2018	$ 23,094	$ 23,094	$ -	(1)	(1)
2017	23,026	23,026	-	(1)	(1)

(1) Contributions to the SCLTDITF are based upon a fixed fee per covered employee. Therefore covered payroll is not applicable to the SCLTDITF.

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

Cherry Bekaert LLP
CPAs & Advisors

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

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

We have audited the financial statements of the business-type activities and the non-governmental 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, 2018, and the related notes to the financial statements, which collectively comprise of The Citadel's basic financial statements, and have issued our report thereon dated September 30, 2018. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of The Citadel Foundation, The Citadel Brigadier Foundation, and The Citadel Real Estate Foundation (non-governmental discretely presented component units of The Citadel) were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with The Citadel Foundation, The Citadel Brigadier Foundation, and The Citadel Real Estate Foundation.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Cherry Bekaert LLP

Greenville, South Carolina
September 30, 2018

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

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

Report on Compliance for Each Major Federal Program

We have audited The Citadel, The Military College of South Carolina ("The Citadel")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on The Citadel's major federal programs for the year ended June 30, 2018. The Citadel's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Citadel complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

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

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

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

Cherry Bekaert LLP

Greenville, South Carolina
September 30, 2018

THE CITADEL
The Military College of South Carolina

Schedule of Findings and Questioned Costs
June 30, 2018

Section I—Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major federal programs:

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

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

Section II—Financial Statement Findings

None noted

Section III—Federal Award Findings and Questioned Costs

None noted

THE CITADEL
The Military College of South Carolina

Summary Schedule of Prior Year Audit Findings
June 30, 2018

Section I—Prior Year Audit Findings

Finding No. 2017-01

Information on the Federal Program:

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

Condition:

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

Current Status:

There were no findings associated with over-awarded federal aid in excess of need. This finding is considered closed.

THE CITADEL
The Military College of South Carolina

Schedule of Expenditures of Federal Awards
June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant / Award Number	Passed Through to Subrecipients	Total Federal Expenditures
Reseach and Development Cluster:				
US Department of Navy				
Pondberry Mapping and Monitoring at Marine Corps Air Station Beaufort SC		N62470-16-2-9010		$ 14,151
Total US Department of Navy				14,151
National Aeronautics and Space Administration	43.001			
Passed through College of Charleston				
SC Space Grant Consortium - Director		NNX15AL49H/521179-CD-CT		1,000
DOD Information Assurance Scholarship		H98230-17-1-0384		66,981
GenCyber Camp		H98230-18-1-0142		32,657
Passed through Space Telescope Science Institute				
Hot Stars		HST-GO-13346.02-A		4,370
Total National Aeronautics and Space Administration				105,008
SC Sea Grant Consortium	11.417			
Clemson Subaward 1904-223-2021808		N468(R/ER-46)/1904-223-2021808		27,561
Building Community Resilience to Water-Related Hazards In Charleston, SC		NA16NOS4730012/R/CRN-1c		32,340
Total SC Sea Grant Consortium				59,901
Department of Transporation	20.205			
Passed through Clemson University				
Clemson Subaward -19212112021810 C2M2		SPR No. 719/1803-223-2010701		11,616
Clemson Subaward - 19752232012246		69A3551747117/1921-211-2021810		113
STRIDE		1935:SPR 734/1975-223-2012246/69A3551747104		8,811
Total Department of Transportation				20,540
Department of Defence	12.63			
NGA - Grant to The Citadel		HMO4761610002/159431/155536	$ 76,898	126,010
Total Department of Defense				126,010
Uniformed Services of the Health Science	12.75			
Passed thru Henry M Jackson Foundation		HU-14-1-0047/3120		
Test and Evaluation of Physiologic Neuro-Assessment Devices				174,481
Total Uniformed Services of the Health Science				174,481
Army Medical Research Acquisition Activity				
CAP: Multi-Couple Intervention for PTSD		W81XWH30065		7,146
Total Army Medical Research Acquisition Activity				7,146
National Science Foundation				
Recuit, Educate, Certify and Obtain New Teachers (RECON)	47.076	DUE-1339901		52,083
Passed thru Morehouse College	47.076			
Broading Participation Research Project: Exploring Computing Careers through a Virtual Career Fair using Embodied Conversational Agents		1533627		18,799
Passed thru Georgia State University				
Confidence Judgements and Metacognition in Comparative & Developmental Perspective	47.075	1552405		7,908
DCL: Eager Maker		1723661		89,261
Intergrating Computing in STEM		1742332		123,823
Total National Science Foundation				291,874
Total Research and Development Cluster				799,111

THE CITADEL
The Military College of South Carolina

Schedule of Expenditures of Federal Awards
June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant / Award Number	Passed Through to Subrecipients	Total Federal Expenditures
Student Financial Aid Cluster:				
Department of Education				
Federal Supplemental Education Opportunity Grants	84.007	P007A143769		84,491
Federal Work Study Program	84.033	P033A173769		114,062
Federal Perkins Loan Program	84.038	P038A093769		565,749
Federal Pell Grant Program	84.063	P063P170375		3,183,773
William D. Ford Direct Loan Program	84.268	P268K180375		26,779,900
Total Student Financial Aid Cluster				30,727,975
Other Programs:				
Department of Education				
Improving Teacher Quality FY17	84.367	1702259		102,136
Passed through Hampton One School District				
TEAMS: Hampton One 2015-16	84.366	H630110008213		2,269
Passed through Charleston County School District				
Minnie Hughes Summer Camp				25,608
Passed through Commison of Higher Ed				
Gear Up		P334S110019		11,364
Total Department of Education				141,377
Depart of Homeland Security				
Passed through Institute of International Education	12.357			
Project Go 2016-2017		H98210-13-2-0001/2603-Citadel-19-GO-051-P03		24,839
Project Go 2017 Annual Meeting		H98210-13-2-0001/2603-Citadel-19-GO-051-P04		5,261
Project G0 2017-2018		H98210-13-2-0001/2603-Citadel-19-GO-051-P05		341,677
Total Department of Homeland Security				371,777
National Endowment for Humanities				
Aqui-Estamos - Documenting the Latino Heritage of the SC Low Country	45.149	PY-253019-17		7,473
Los Ecos Del		1717791		4,290
Total National Endowment for Humanities				11,763
Department of Veterans Affairs				
VA San Diego Health Care Systems - Macdonald				8,411
Total Department of Veterans Affairs				8,411
Total Other Programs				533,328
Total Expenditures of Federal Awards				**$ 32,060,414**

THE CITADEL
The Military College of South Carolina

Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

NOTE 1—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of The Citadel, The Military College of South Carolina ("The Citadel") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of The Citadel, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Citadel.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3—INDIRECT COST RATE

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

NOTE 4—LOANS OUTSTANDING

The Federal Perkins Loan Program (CFDA Number 84.038) is administered directly by The Citadel and balances and transactions relating to the program are included in the loan fund of The Citadel's financial statements. Federal expenditures reported on the face of the schedule include loans outstanding at the beginning of the year and loans made during the year. The loan balance outstanding and funds advanced by The Citadel during the year ended June 30, 2018 under the Federal Perkins Loan program can be summarized as follows:

Federal Perkins Loan receivable, June 30, 2017	$ 514,540
Funds advanced to students	51,209
Less:	
Collections	(76,928)
Cancellations	(4,585)
Federal Perkins Loan receivable, June 30, 2018	$ 484,236

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