



NORFOLK STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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January 17, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
And Review Commission

Eddie N. Moore, Jr.
President and Chief Executive Officer
Norfolk State University

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of **Norfolk State University**, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15, for the year ended June 30, 2016. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

Procedures described below were limited to material items. For the purpose of this report, and as defined in the agreed-upon procedures, items are considered material if they exceed one-half of one percent of total revenues or total expenses, as applicable. The procedures that we performed and our findings are as follows:

Internal Controls

1. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audit of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audit of the University's financial statements.
2. Intercollegiate Athletics Department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, protection of records and equipment, and controls regarding information systems with the information technology department.
3. Intercollegiate Athletics Department management provided us with their process for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the University's Intercollegiate Athletics Programs. We tested these procedures as noted below.

Affiliated and Outside Organizations

4. Intercollegiate Athletics Department management identified all intercollegiate athletics-related affiliated and outside organizations and provided us with copies of audited financial statements for each such organization for the reporting period.
5. Intercollegiate Athletics Department management prepared and provided to us a summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations included in the Schedule.
6. Intercollegiate Athletics Department management provided to us any additional reports regarding internal control matters identified during the audits of affiliated and outside organizations performed by independent public accountants. We were not made aware of any internal control findings.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. Intercollegiate Athletics Department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2016, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts in management's worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. Certain adjustments to the Schedule were necessary to conform with the

NCAA reporting guidance. We discussed the nature of work sheet adjustments with management and are satisfied the adjustments are appropriate.

8. We compared each major revenue and expense account over ten percent of total revenues or total expenses, respectively, to prior period amounts and budget estimates. Variances exceeding one million dollars or ten percent of prior period amounts or budget estimates are explained below:

<u>Line Item</u>	<u>Explanation</u>
Student fees	Student fee revenue declined as a result of a decrease in enrollment at the University from fiscal year 2015 to fiscal year 2016. Average enrollment for the 2014-15 academic year was 4,625; however, average enrollment for the 2015-16 academic year dropped to 3,934, a difference of 691 students or 14.93 percent. In addition, the student athletic fee decreased five percent from the prior year for a total decrease in year over year student fee revenue of 20 percent.
Direct institutional support	This line item decreased by \$2.6 million from the prior year, which was due to the University's extinguishment of the remaining \$2.6 million in debt for the Dick Price Stadium during the fiscal year 2015.
Athletics Financial Aid	Expenses reported for this item fell by 10.67 percent from the prior year. This decrease was due to declining enrollment during fiscal year 2016. During testwork we found a corresponding decrease in budget amounts related to financial aid.
Athletic Facilities Debt Service, Leases and Rental Fees	This item fell \$2.6 million from the prior year, which was also a result of the prior year extinguishment of debt for the Dick Price Stadium.

Revenues

9. We reviewed a sample of ticket sales reconciliations performed for accuracy and proper review and approval. We performed a recalculation of ticket sales revenue for Football and Men's Basketball by comparing the number of tickets sold and sale price to total revenue recorded in the Schedule. We determined the reconciliations reviewed to be accurate and the amounts reported in the Schedule to be substantially in agreement with our recalculation.

10. We obtained an understanding of the institution's methodology for allocating student fees to intercollegiate athletics programs. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be substantially in agreement.
11. We compared amounts reported in the Schedule for direct institutional support to institutional budget transfer documentation and/or other corroborative supporting documentation, and noted them to be substantially in agreement.
12. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and agreed all amounts to proper posting in the accounting records and supporting documentation.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Programs from any affiliated or outside organization, agency or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. Except for contributions received from the Athletic Foundation of Norfolk State University, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the Athletic Foundation of Norfolk State University, which exceeded ten percent of all contributions and agreed them to supporting documentation.
14. Intercollegiate Athletics Department management provided a list of in-kind contributions during the reporting period. We agreed in-kind contributions to a Schedule of in-kind donations or other supporting documentation to ensure reasonable valuation of the in-kind contribution in the Schedule. \$106,300 reported as in-kind contributions for use of dealer-provided vehicles was reduced to \$29,788 due to a mathematical error and reclassified to royalties, licensing, advertisement and sponsorships revenue in accordance with the NCAA Agreed Upon Procedures.
15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from broadcast, television, radio, internet, and e-commerce rights. This amount was deemed to be immaterial for detailed testing.
16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We gained an understanding of the

terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.

17. We obtained the amount of revenue related to program sales, concessions, novelty sales, and parking reported on the schedule. This amount was deemed to be immaterial for detailed testing.
18. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, licensing, advertisements, and sponsorships. We gained an understanding of the terms of the agreements and agreed all amounts to proper posting in the accounting records and supporting documentation. The University adjusted the line item by \$29,788 to reflect a sponsorship agreement for dealer-provided automobiles, which was previously classified as in-kind contributions.
19. We compared the amount of revenue related to other revenue to the amount reported in the Schedule. We reviewed classification of selected transactions and agreed those transactions to supporting documentation.

Expenses

20. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the University uses the NCAA Compliance Assistant software to prepare athletic aid detail, we selected ten percent of individual student-athletes across all sports and agreed amounts from the listing to their award letter. We agreed each student's information to ensure accurate reporting in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system. Differences between the listing generated by the NCAA Compliance Assistant software and the Schedule were determined to be reasonable.
21. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for home games during the reporting period. This amount was deemed to be immaterial for detailed testing.
22. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals, including football and men's and women's basketball coaches, and compared amounts paid during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation. The University made an adjustment to decrease this line by

\$17,297 to properly reflect business use of dealer-provided automobiles in the correct line item.

23. We discussed the Intercollegiate Athletics Department's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies.
24. We selected a sample of disbursements for sports equipment, uniforms, and supplies, game expenses, recruiting, team travel, fundraising, marketing, and promotion, direct overhead and administration, medical expenses and medical insurance, and other operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, reasonable to intercollegiate athletics, and properly recorded in the accounting records.
25. We obtained total debt service payments, lease payments, and rental fees for athletics facilities for the reporting year. This amount was deemed to be immaterial for detailed testing, as the University's extinguished its athletics related debt service during the prior year.
26. We obtained an understanding of the University's methodology for charging indirect cost to the athletic department. We evaluated indirect cost charges for reasonableness and noted proper reporting of these charges in the Schedule.

Additional Procedures

27. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the squad lists of the institution. We noted agreement of the sports reported.
28. We obtained the institution's Sports Sponsorship and Demographics Forms Report for the reporting year. We validated that the countable sports identified by the institution met the minimum requirements for number of contests and minimum number of participants as defined in NCAA Bylaw 20.9.6.3. We ensured that countable sports have been properly identified in the NCAA Membership Financial Reporting System for the purpose of revenue distribution calculations.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of any financial statements of the Intercollegiate Athletics Department of Norfolk State University in

accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report relates only to the accounts and items specified above and does not extend to the financial statements of Norfolk State University or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the President and the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

EMS/clj

NORFOLK STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2016

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:						
Ticket sales	\$ 230,892	\$ 58,522	\$ 9,405	\$ -	\$ -	\$ 298,819
Student fees	-	-	-	-	6,095,399	6,095,399
Direct institutional support	776	6,072	5,440	-	3,202,812	3,215,100
Guarantees	635,000	312,500	43,000	1,000	-	991,500
Contributions	46,701	24,897	2,951	84,829	53,709	213,087
In-Kind	68,580	13,193	13,193	54,101	14,852	163,919
Media rights	-	-	-	-	4,776	4,776
NCAA distributions	-	-	-	-	979,160	979,160
Program, novelty, parking, and concession sales	17,914	6,336	-	-	30,614	54,864
Royalties, licensing, advertisement and sponsorships	8,750	7,859	5,609	-	193,870	216,088
Other operating revenue	(130)	414	196	-	72,121	72,601
Total operating revenues	1,008,483	429,793	79,794	139,930	10,647,313	12,305,313
Operating expenses:						
Athletic student aid	1,166,984	358,297	414,762	1,527,538	257,629	3,725,210
Guarantees	-	7,000	-	-	-	7,000
Coaching salaries, benefits, and bonuses paid by the University and related entities	778,756	406,385	353,120	728,641	8,636	2,275,538
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	54,281	5,541	5,792	1,282	1,610,158	1,677,054
Recruiting	25,776	45,737	19,306	7,382	-	98,201
Team travel	182,820	195,938	101,258	325,511	(112)	805,415
Sports equipment, uniforms, and supplies	184,830	45,994	27,369	135,421	14,947	408,561
Game expenses	59,414	48,292	49,792	49,245	85,978	292,721
Fundraising, marketing and promotion	-	-	-	-	96,178	96,178
Athletic facility leases and rental fees	350	308	-	610	-	1,268
Direct overhead and administrative expenses	2,228	34,275	-	2,337	979,782	1,018,622
Indirect cost paid to the institution by athletics	221,551	127,435	94,057	203,442	343,825	990,310
Medical expenses and insurance	318	-	-	-	304,271	304,589
Memberships and dues	-	-	160	1,980	43,999	46,139
Other operating expenses	66,122	11,296	9,433	27,016	444,640	558,507
Total operating expenses	2,743,430	1,286,498	1,075,049	3,010,405	4,189,931	12,305,313
Excess (deficiency) of revenues over (under) expenses	\$ (1,734,947)	\$ (856,705)	\$ (995,255)	\$ (2,870,475)	\$ 6,457,382	\$ -
Other Reporting Items:						
Total institutional debt						\$ 38,864,378
Value of athletics-dedicated endowments						\$ 50,000
Value of institutional endowments						\$ 21,653,541

The accompanying Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs are an integral part of this Schedule.

NORFOLK STATE UNIVERSITY
NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2016

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs have been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletics programs of the University for the year ended June 30, 2016, using the accounting methods used by the University to monitor intercollegiate athletics program activities. The Schedule includes both those revenues and expenses for athletic programs under the direct accounting control of the University and those on behalf of the University's athletics programs by outside organizations not under the University's accounting control. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in financial position or changes in cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-program specific."

2. CONTRIBUTIONS

The University received \$213,087 in on-behalf payments from the Athletics Foundation of Norfolk State University which was used for academic enhancement. The amounts received are included in the accompanying Schedule as contribution revenue. The University Athletics Program received \$163,919 in in-kind contributions from the Middle Eastern Athletic Conference recorded as in-kind revenue, and \$43,288 from sponsorships and vehicle contracts recorded as royalties, licensing, advertisement and sponsorships revenue.

3. DIRECT INSTITUTIONAL SUPPORT

The University provided direct funds to support the operations of intercollegiate athletics totaling \$3,215,100 during the fiscal year ending June 30, 2016. This amount includes \$48,694 from Federal Work-Study and \$3,166,406 from auxiliary reserves to supplement the athletic program from excess revenues collected in prior years.

4. CAPITAL ASSETS

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as parking lots, sidewalks, campus lighting, and computer

network cabling systems. The University generally defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost and donated capital assets are recorded at the estimated fair market value at the date of contribution. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	30 years
Other improvements and infrastructure	8-25 years
Equipment	2-20 years

A summary of capital asset balances for the year ending June 30, 2016 not reflected on the Schedule are as follows:

Depreciable capital assets:	
Buildings	\$35,035,331
Equipment	<u>1,381,151</u>
Total depreciable capital assets	<u>36,416,482</u>
Less accumulated depreciation for:	
Buildings	23,674,771
Equipment	<u>561,115</u>
Total accumulated depreciation	<u>24,235,886</u>
Total capital assets, net	<u>\$12,180,596</u>

5. ADMINISTRATIVE COST RECOVERIES

The University recovers from each auxiliary enterprise an amount to reimburse for the cost of administrative support. For the year ended June 30, 2016, the University recovered \$990,310 of auxiliary support costs from the intercollegiate athletics department as reflected in the Schedule.

NORFOLK STATE UNIVERSITY

As of June 30, 2016

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