



NORFOLK STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2019

Auditor of Public Accounts
Martha S. Mavredes, CPA

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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

February 21, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

Dr. Javaune Adams-Gaston
President, 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 3.2.4.15.1, for the year ended June 30, 2019. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. 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 four 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, 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 related affiliated and outside organizations. The audit of the financial statements of the Norfolk State University Athletic Foundation was not complete at the time of this engagement and as such, we were unable to review the results of the audit.
5. Intercollegiate Athletics department management prepared and provided to us a summary of revenues and expenses for or on behalf of the University's Intercollegiate Athletics programs by affiliated and outside organizations included in the Schedule.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

6. Intercollegiate Athletics department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2019, 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 trial balance worksheets, and agreed the amounts in management's trial balance worksheets to the Intercollegiate Athletics department's accounts in the accounting records. Certain adjustments to the Schedule were necessary to conform to NCAA reporting guidance. We discussed the nature of adjusting journal entries with management and are satisfied that the adjustments are appropriate. While the agreed-upon procedures specify a deadline of January 15th for the completion of our work, delays in receiving the Schedule and associated supporting documentation, as well as

subsequent questions regarding specific items presented in the Schedule, prevented the completion of these procedures by the required deadline.

7. 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 ten percent of prior period amounts or budget estimates are explained below:

<u>Line Item</u>	<u>Explanation</u>
Student fees	The University experienced a 10.72 percent increase in student fees. This change is mainly attributable to increases in student enrollment, as well as an increase in the annual student athletic fee.
Direct institutional support	The University provided funds to support the operations of intercollegiate athletics, primarily auxiliary reserve funds. However, the decrease in direct institutional support is mainly attributable to increases in other outside revenue sources during the fiscal year resulting in a decrease in auxiliary reserve funds needed to supplement the athletic budget.
Football – Non-Personnel Service Expenditure Pool (Budget)	Intercollegiate Athletics exceeded the non-personnel service expense budget by approximately \$300,000. This variance is mostly attributable to a charter flight for the football team that was not part of the original budget, an increase in scholarship expenses related to tuition increases, and a budget revision that reduced the football budget during the year.

Revenues

8. We obtained the amount of ticket sales revenue from the Schedule. This amount was deemed to be immaterial for detailed testing.
9. We obtained documentation of the University’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 with minor differences attributed to the methodology used for projecting student fee revenue.

10. 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.
11. We obtained the amount of debt service paid by the institution on behalf of Athletics from the Schedule. This amount was deemed to be immaterial for detailed testing.
12. We obtained the amount of game guarantee revenue from the Schedule. This amount was deemed to be immaterial for detailed testing.
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 Norfolk State University Athletic Foundation, 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 Norfolk State University Athletic Foundation, which exceeded ten percent of all contributions and agreed them to supporting documentation. The University made adjustments of \$8,592 and \$23,000 to properly record athletics-related payments made by the Norfolk State University Athletic Foundation directly to the University. Following the adjustments, the amount reported as contributions revenue agrees to supporting documentation provided by the University and Athletic Foundation.
14. We obtained the amount of in-kind revenue from the Schedule. This amount was deemed immaterial for detailed testing.
15. 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 inspected the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
16. We obtained the amount of program, novelty, parking, and concession sales revenue from the Schedule. This amount was deemed immaterial for detailed testing.
17. We obtained the amount of royalties, licensing, advertisement, and sponsorships revenue from the Schedule. This amount was deemed immaterial for detailed testing.
18. We obtained the amount of other operating revenue from the Schedule. This amount was deemed to be immaterial for detailed testing.

Expenses

19. Intercollegiate Athletics department management provided us a listing of institutional student aid recipients during the reporting period. Since the University used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected ten percent of individual student-athletes across all sports and obtained the students' account detail from the University's student information system. We agreed each student's information to the information reported in the NCAA Membership Financial Reporting System via Compliance Assistant. We performed a check of selected students information as reported in the NCAA Membership Financial Reporting System to ensure proper calculation of revenue distribution equivalencies. The Athletics department reallocated \$155,539 in student aid expenses from the Non-Program Specific category to each sport to properly classify summer and fifth-year expenses for active athletes. Following this adjustment, we ensured that the total aid amount for each sport agreed to amounts reported as financial aid in the student accounting system.
20. We obtained the amount of game guarantee expense from the Schedule. This amount was deemed to be immaterial for detailed testing.
21. 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.
22. We obtained the Intercollegiate Athletics Department's written recruiting and team travel policies from 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.
23. We selected a sample of disbursements for team travel; sports equipment, uniforms, and supplies; direct overhead and administrative expenses; indirect costs paid to the institution by athletics; 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.
24. We obtained the amount of debt service payments, lease payments, and rental fees for athletics facilities from the Schedule. This amount was deemed to be immaterial for detailed testing.

25. 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.

Other Reporting Items

26. We obtained repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We recalculated annual maturities reported in the notes to the Schedule and agreed total annual maturities and total outstanding athletic related debt to supporting documentation.
27. We agreed total outstanding institutional debt to supporting debt schedules and the University's unaudited financial statements and general ledger, as the audited financial statements were not yet available.
28. We agreed the fair value of athletics dedicated endowments to supporting documentation provided by the University.
29. We agreed the fair value of institutional endowments to supporting documentation, the University's general ledger, and the audited financial statements of the University's Foundation, as applicable.
30. We obtained a schedule of athletics-related capital expenditures made during the period. We selected a sample of transactions to validate existence and accuracy of recording and recalculated totals.

Additional Procedures

31. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the Calculation of Revenue Distribution Equivalencies Report (CRDE) from the NCAA's Compliance Assistant software for the University. We noted agreement of the sports reported.
32. We compared current year Grants-in-Aid revenue distribution equivalencies to prior year reported equivalencies per the NCAA Membership Financial Report submission and noted variations exceeding four percent when compared to prior year. An increase in tuition and fees caused the variations greater than four percent.
33. We obtained the University's Sports Sponsorship and Demographics Forms Report for the reporting year. We validated that the countable sports identified by the University 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.

34. We compared the current number of sports sponsored to the prior year total reported in the University's NCAA Membership Financial Report submission and noted no variations when compared to prior year.
35. We obtained a listing of student-athletes receiving Pell grant awards from the University's student information system and agreed the total value of these Pell grants to the amount reported in the NCAA Membership Financial Reporting System. We noted agreement of the amounts reported.
36. We compared the total number of Pell grant awards in the current year to the number reported in the prior year Membership Financial Report submission. We noted variations greater than 20 grants when compared with the prior year. A decrease in financial need for student-athletes in the 2018-2019 academic year caused the overall variance in the number of grants when compared to the prior year.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, 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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

EMS/clj

NORFOLK STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2019

	<u>Football</u>	<u>Men's Basketball</u>	<u>Women's Basketball</u>	<u>Other Sports</u>	<u>Non-Program Specific</u>	<u>Total</u>
Operating revenues:						
Ticket sales	\$ 331,432	\$ 93,556	\$ 15,676	\$ -	\$ -	\$ 440,664
Student fees	-	-	-	-	7,170,443	7,170,443
Direct institutional support	796	-	3,722	-	3,585,827	3,590,345
Indirect institutional support - athletic facilities debt service, lease and rental fees	-	-	-	-	286,348	286,348
Guarantees	300,000	180,000	23,000	1,500	-	504,500
Contributions	2,665	3,780	630	24,517	174,935	206,527
In-Kind	113,916	62,157	34,093	27,291	16,997	254,454
NCAA distributions	-	-	-	-	747,186	747,186
Program, novelty, parking, and concession sales	10,271	4,833	-	-	40,231	55,335
Royalties, licensing, advertisement and sponsorships	138,417	60,833	60,833	61,833	161,500	483,416
Other operating revenue	15	460	-	-	11,606	12,081
Total operating revenues	<u>897,512</u>	<u>405,619</u>	<u>137,954</u>	<u>115,141</u>	<u>12,195,073</u>	<u>13,751,299</u>
Operating expenses:						
Athletic student aid	1,413,688	396,927	374,416	1,711,163	57	3,896,251
Guarantees	50,000	7,500	4,000	-	-	61,500
Coaching salaries, benefits, and bonuses paid by the University and related entities	820,996	440,000	338,123	748,112	-	2,347,231
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	69,024	-	3,722	-	1,909,132	1,981,878
Recruiting	16,454	52,887	18,568	9,414	3,980	101,303
Team travel	221,777	257,946	135,759	396,601	43,295	1,055,378
Sports equipment, uniforms, and supplies	116,543	55,964	36,416	151,647	296,158	656,728
Game expenses	119,238	72,918	74,043	55,385	-	321,584
Fundraising, marketing and promotion	161,702	49,566	49,416	61,833	100,100	422,617
Athletic facility debt service	-	-	-	-	286,348	286,348
Direct overhead and administrative expenses	7,793	2,686	3,759	1,933	549,583	565,754
Indirect cost paid to the institution by athletics	246,874	149,580	107,974	239,991	308,435	1,052,854
Medical expenses and insurance	-	-	-	-	267,311	267,311
Memberships and dues	-	-	200	700	54,852	55,752
Student-Athlete Meals (non-travel)	-	-	-	-	11,500	11,500
Other operating expenses	56,245	28,589	11,991	14,039	556,446	667,310
Total operating expenses	<u>3,300,334</u>	<u>1,514,563</u>	<u>1,158,387</u>	<u>3,390,818</u>	<u>4,387,197</u>	<u>13,751,299</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (2,402,822)</u>	<u>\$ (1,108,944)</u>	<u>\$ (1,020,433)</u>	<u>\$ (3,275,677)</u>	<u>\$ 7,807,876</u>	<u>\$ -</u>
Other Reporting Items:						
Total athletics-related debt						\$ 971,569
Total institutional debt						\$ 98,825,667
Value of athletics-dedicated endowments						\$ 50,000
Value of institutional endowments						\$ 24,484,727
Total athletics-related capital expenditures						\$ 1,632,998

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, 2019

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, 2019, 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 \$206,527 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 \$67,875 in in-kind contributions from the Middle Eastern Athletic Conference and \$186,579 in other in-kind contributions recorded as in-kind revenue, and \$483,416 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 \$3,590,345 during the fiscal year ending June 30, 2019. This amount includes \$27,452 from Federal Work-Study and \$3,562,893 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 acquisition value at the acquisition date.

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, 2019, not reflected on the Schedule are as follows:

	<u>Ending Balance</u>
Depreciable capital assets:	
Buildings	37,782,235
Equipment	5,280,664
Infrastructure	-
Other Improvements	-
Total depreciable capital assets	<u>43,062,899</u>
Less accumulated depreciation for:	
Buildings	27,083,046
Equipment	2,024,957
Infrastructure	-
Other Improvements	-
Total accumulation depreciation	<u>29,108,003</u>
Depreciable capital assets, Net	<u>13,954,896</u>
Total capital assets, Net	<u><u>13,954,896</u></u>

5. LONG-TERM DEBT

At June 30, 2019, the Intercollegiate Athletic Program has future obligations under an installment purchase consisting of the current and long-term portions of obligations resulting from a contract used to finance the acquisition of equipment. The length of the purchase agreement is for five years and the interest rate charged is 1.565 percent.

	<u>Interest Rates</u> (%)	<u>Maturity</u> <u>Fiscal Year End</u>	<u>Balance at June</u> <u>30, 2019</u>
Installments payable:			
Master equipment lease program	1.565	2020 - 2023	<u>971,569</u>
Net installments payable			<u>971,569</u>
Total			<u>\$ 971,569</u>

Long-term debt matures as follows:

<u>Year ending:</u>	<u>Principal</u>	<u>Interest</u>
2020	272,203	14,145
2021	276,480	9,868
2022	280,824	5,524
2023	142,062	1,112
Total	<u>\$ 971,569</u>	<u>\$ 30,650</u>

6. 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, 2019, the University recovered \$1,052,854 of auxiliary support costs from the intercollegiate athletics department as reflected in the Schedule.

NORFOLK STATE UNIVERSITY

As of June 30, 2019

Joan G. Wilmer, Rector

Deborah M. DiCroce, Vice Rector

Devon M. Henry, Secretary

Ann A. Adams

Dwayne B. Blake

Kenneth W. Crowder

Jean W. Cunningham

James W. Dyke, Jr.

B. K. Fulton

Larry A. Griffith

Michael J. Helpinstill

Tamara A. Jones

OFFICIALS

Melvin T. Stith, Sr., Interim President (*through June 23, 2019*)

Javaune Adams-Gaston, President (*effective June 24, 2019*)

Gerald E. Hunter, Vice President for Finance and Administration

Marty L. Miller, Athletics Director