



REPORT ON COMPLIANCE
NCAA SUBSIDY PERCENTAGE REQUIREMENTS

FOR THE YEAR ENDED
JUNE 30, 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350





Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 3, 2019

The Honorable Ralph S. Northam
Governor of Virginia

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

Please find enclosed a summary of compliance by Virginia's institutions of higher education with the provisions of § 23.1-1309 of the Code of Virginia. We have prepared this summary by reviewing a Schedule of Revenues and Expenses for Intercollegiate Athletics Programs at each institution for the fiscal year ended June 30, 2018. We have performed calculations in accordance with the provisions of § 23.1-1309, which have been included in Appendix A below. Should you have any questions, please contact Eric Sandridge, Higher Education Programs Audit Director, or me.

Sincerely,

Martha S. Mavredes
Auditor of Public Accounts

EMS/vks

Subsidy Percentage Compliance Results

Per the requirements of Subsection C of § 23.1-1309 of the Code of Virginia, the subsidy percentage shall not exceed certain thresholds. Table 1 summarizes each institution's compliance with the applicable subsidy percentage.

Table 1

	Applicable Subsidy Percentage ¹	Meets Subsidy Percentage Requirement
Division I		
<u><i>I-A Power 5 (Football Bowl Subdivision):</i></u>	20%	
University of Virginia		✓
Virginia Polytechnic Institute and State University		✓
<u><i>I-A G5 (Football Bowl Subdivision):</i></u>	55%	
Old Dominion University		✓
<u><i>I-AA (Football Championship Subdivision):</i></u>	70%	
College of William and Mary in Virginia		✓
James Madison University		✓
Norfolk State University		☒ ²
Virginia Military Institute		✓
<u><i>I-AAA (Non-Football institutions):</i></u>	78%	
George Mason University		✓
Longwood University		✓
Radford University		✓
Virginia Commonwealth University		✓
Division II		
<u><i>Football Institutions:</i></u>	81%	
University of Virginia's College at Wise		✓
Virginia State University		✓
Division III		
<u><i>Football Institution:</i></u>	89%	
Christopher Newport University		✓
<u><i>Non-Football Institution:</i></u>	92%	
University of Mary Washington		✓

1 Subsidy Percentage defined by Code of Virginia § 23.1-1309 as shown in Appendix A

2 Norfolk State University does not comply with the 70 percent subsidy percentage requirement for Division I-AA institutions. Please see the calculation in table 2 below.

The following calculation supplements Table 1 by showing the detailed calculation used to determine compliance with the provisions of Subsection C of § 23.1-1309 of the Code of Virginia. We obtained all amounts for the purposes of this calculation from Norfolk State University's fiscal year 2018 Schedule of Revenues and Expenses of Intercollegiate Athletics Programs found at <http://www.apa.virginia.gov/reports/NorfolkStateUniversityNCAA2018.pdf>.

Table 2

Norfolk State University	Fiscal Year 2018
Direct Institutional Support	\$ 4,576,032
Indirect Institutional Support	287,004
School funds¹	\$ 4,863,036
School Funds	\$ 4,863,036
Student Fees	6,476,344
Subsidy²	\$11,339,380
Allowable Exclusions:	
(Less) Spirit Group Expense	-
(Less) Indirect Cost Policy Requirements Expense	\$ 1,015,488
(Less) Previously Approved Debt Service Expense	287,004
Adjusted Subsidy³	\$10,036,888
Adjusted Subsidy	\$10,036,888
Athletics Revenue	\$13,777,938
Subsidy Percentage⁴	72.85%
Required Percentage	70.00%
% Overage	2.85%

1 School funds defined by Subsection A of Code of Virginia § 23.1-1309 as shown in Appendix A

2 Subsidy defined by Subsection A of Code of Virginia § 23.1-1309 as shown in Appendix A

3 Subsidy exclusions defined by Subsection A of Code of Virginia § 23.1-1309 as shown in Appendix A

4 Subsidy percentage defined by Subsection A of Code of Virginia § 23.1-1309 as shown in Appendix A

As outlined in Subsection E of § 23.1-1309 of the Code of Virginia, “when necessary, each institution shall submit to the Governor and the General Assembly for approval a plan that reduces the subsidy in accordance with targets outlined in the plan over a five-year period until the subsidy percentage complies with the requirements of subsection C.” Norfolk State University will prepare a plan for submission to the Governor and General Assembly for reducing its subsidy percentage below the required threshold.

Increases in the Subsidy – Preliminary Analysis

Per the requirements of Subsection D of § 23.1-1309 of the Code of Virginia, “any percentage increase in the subsidy at an institution that complies with Subsection C shall be matched by a like percentage increase in generated revenue, except that each institution shall utilize a rolling average of the change in generated revenue and student fees over the immediately preceding five years for the purposes of such calculation.” Fiscal year 2018 is the second reporting year following the effective date of the regulation, and as such, five years of data is not available to develop a rolling average. Table 3 utilizes fiscal year 2017 and 2018 data to develop an average. Table 3 is informational only and should not be used to determine compliance with Subsection D, as the data is incomplete. Complete data will be available for the fiscal year 2021 report. However, institutions should use this information to self-monitor to ensure by 2021 they have met the requirements of the Code.

The change in student fee revenue in Table 3 represents the year over year change in student fee revenue reported in each institution’s Schedule of Revenues and Expenses for Intercollegiate Athletics Programs for fiscal years 2017 and 2018. Subsection D of § 23.1-1309 of the Code of Virginia requires the use of the student fee revenue line in calculating compliance with subsection D. However, increases in student fee revenue may result from several factors, including changes in the per student allocation of an institution’s mandatory non-educational and general (E&G) fee and fluctuations in an institution’s enrollment. For several institutions, such as George Mason University and Virginia Tech, significant increases in enrollment resulted in large increases to student fee revenue allocated to the institution’s respective Athletics Department without substantial increases in fees assessed to students.

For example, as noted in the 2017-2018 Tuition and Fees Report published by the State Council of Higher Education in Virginia, George Mason University decreased the allocation that its Athletics Department received from its mandatory non-E&G fee from fiscal year 2017 to fiscal year 2018 by \$10 per student. However, due to an increase in enrollment of over 1,000 full-time equivalent students, the institution’s student fee revenue reported in the Schedule of Revenues and Expenses for Intercollegiate Athletics Programs increased by three percent from the prior year. Similarly, while Virginia Tech increased its per student allocation to athletics by \$15 in fiscal year 2018 when compared to fiscal year 2017, the increase represents just five percent of the nine percent increase in student fee revenue reported in Table 3. These institutions allocate the lowest portion of their mandatory non-E&G fee, in both dollars and on a percentage basis, to their respective Athletics Departments when compared to public four-year institutions in Virginia. In summary, institutions with large student populations and significant year over year increases in enrollment can have large fluctuations in student fee revenue allocated to Athletics; however, the user of this information should not presume that the increase in revenue is solely due to increases in the allocation of fees paid by students.

Table 3
For Informational Purposes Only as of June 30, 2018

Institution	Subsidy Increased over Prior Year ¹	Two Year Average Change in Student Fees ²	Two Year Average Change in Generated Revenue ³	Generated Revenue Increased More than Student Fees
University of Virginia	Yes	2%	14%	Yes
Virginia Polytechnic Institute and State University	Yes	9%	13%	Yes
Old Dominion University	No	N/A	N/A	N/A
College of William and Mary in Virginia	Yes	1%	5%	Yes
James Madison University	Yes	5%	10%	Yes
Norfolk State University	N/A ⁴	N/A ⁴	N/A ⁴	N/A ⁴
Virginia Military Institute	Yes	5%	11%	Yes
George Mason University	Yes	3%	-15%	No
Longwood University	Yes	4%	-24%	No
Radford University	No	N/A	N/A	N/A
Virginia Commonwealth University	Yes	4%	6%	Yes
University of Virginia's College at Wise	Yes	0%	2%	Yes
Virginia State University	Yes	2%	-22%	No
Christopher Newport University	Yes	4%	11%	Yes
University of Mary Washington	Yes	-1%	-5%	No

1 Subsidy defined by Code of Virginia § 23.1-1309 as shown in Appendix A

2 Student Fees defined by Code of Virginia § 23.1-1309 as shown in Appendix A

3 Generated Revenue defined by Code of Virginia § 23.1-1309 as shown in Appendix A

4 Subsection D of Code of Virginia § 23.1-1309 as shown in Appendix A requires this calculation for institutions in compliance with the subsidy percentage requirements of Subsection C. As Norfolk State University is not compliant with Subsection C, these calculations are not applicable under Subsection D.

Code of Virginia § 23.1-1309. Boards of visitors; baccalaureate public institutions of higher education; intercollegiate athletics programs.

A. As used in this section:

"Athletics revenue" means the total revenue received by an institution that is generated by any of the institution's intercollegiate athletics programs. "Athletics revenue" includes contributions; game guarantees; income received from endowments and investments; income received from the sale of food, game programs, novelties, and other concessions at an intercollegiate athletics contest; income received from intercollegiate athletics conferences for participation in bowl games, tournaments, and other intercollegiate athletics contests; income received from the provision of parking at intercollegiate athletics contests or other events associated with intercollegiate athletics; rights and licensing; school funds; student fees; support from third parties guaranteed by the institution, such as income received from athletics camps, income received from television, and housing allowances; and all other income from any other source generated by the institution's intercollegiate athletics programs.

"Contributions" means any income received directly from individuals, corporations, associations, foundations, clubs, or other donors for the operation of an institution's intercollegiate athletics programs. "Contributions" includes amounts paid in excess of the face value of an admissions ticket to an intercollegiate athletics contest or any other event associated with intercollegiate athletics; cash; marketable securities; income generated from preferential seating arrangements at intercollegiate athletics contests or other events associated with intercollegiate athletics; and in-kind contributions such as cars provided to an intercollegiate athletics program by car dealers at no cost and apparel and sports drink products provided to intercollegiate athletes and coaches at no cost.

"Generated revenue" means all athletics revenue with the exception of the subsidy.

"Institution" means a baccalaureate public institution of higher education.

"Intercollegiate athletics program" means any athletics program for a particular sport that is operated by an institution and governed by the National Collegiate Athletic Association (NCAA).

"Rights and licensing" includes income from radio and television broadcasts; Internet and e-commerce rights resulting from institution-negotiated contracts; revenue-sharing agreements with the NCAA or an intercollegiate athletics conference; licensing; the sale of advertisements, trademarks, or royalties; corporate sponsorships; and the value of in-kind contributions of products and services provided to an intercollegiate athletics program at no cost as part of such corporate sponsorship, such as equipment, apparel, isotonic sports drinks, other sports drink products, or water.

"School funds" means the direct and indirect financial support provided by the institution to any of its intercollegiate athletics programs. "School funds" includes state funds, tuition, tuition waivers, federal work awards for student athletes, administrative costs, facilities and grounds maintenance, security, risk management, utilities, and depreciation and debt services.

"Student fees" means any fees assessed by an institution against a student that are used to support any of the institution's intercollegiate athletics programs.

"Subsidy" means the sum of school funds and student fees.

"Subsidy percentage" means the subsidy divided by the athletics revenue, provided that revenues allocated to (i) support spirit groups associated with any intercollegiate athletics program, (ii) meet any indirect cost policy requirements, or (iii) debt service for previously approved intercollegiate athletics capital outlay projects may be excluded from the subsidy for the purposes of such calculation.

"Ticket sales" means the sale of the right to gain admission to an intercollegiate athletics contest or any other event associated with intercollegiate athletics. "Ticket sales" includes sums received from any associated shipping and handling charges and includes sales to the public, faculty, and students. "Ticket sales" does not include (i) amounts paid in excess of the face value of an admissions ticket to an intercollegiate athletics contest or any other event associated with intercollegiate athletics such as preferential seating arrangements or (ii) pass-through sales transactions such as sales for admission tickets to bowl games and conference and national tournaments.

- B. The Auditor of Public Accounts, in collaboration with the Council, State Comptroller, Department of Planning and Budget, and each institution, shall develop and implement a standardized reporting format for each institution to annually report its intercollegiate athletics revenue and expenses to the Auditor of Public Accounts that shall include treatment of student fees and classification of specific intercollegiate athletics programs and shall require expenses for spirit groups, indirect cost policy requirements, and debt service for previously approved intercollegiate athletics capital outlay projects and other intercollegiate athletics capital outlay projects to be reported on separate lines.
- C. The subsidy percentage shall not exceed:
 - 1. 20 percent for NCAA Division I-A institutions affiliated with the Atlantic Coast Conference, Big Ten Conference, Big 12 Conference, Pac-12 Conference, or Southeastern Conference;
 - 2. 55 percent for NCAA Division I-A institutions affiliated with conferences other than the Atlantic Coast Conference, Big Ten Conference, Big 12 Conference, Pac-12 Conference, or Southeastern Conference;
 - 3. 70 percent for NCAA Division I-AA institutions;
 - 4. 78 percent for NCAA Division I-AAA institutions;
 - 5. 81 percent for NCAA Division II institutions that operate intercollegiate football programs;
 - 6. 85 percent for NCAA Division II institutions that do not operate intercollegiate football programs;

7. 89 percent for NCAA Division III institutions that operate intercollegiate football programs;
and
 8. 92 percent for NCAA Division III institutions that do not operate intercollegiate football programs.
- D. Each fiscal year, any percentage increase in the subsidy at an institution that complies with subsection C shall be matched by a like percentage increase in generated revenue, except that each such institution shall utilize a rolling average of the change in generated revenue and student fees over the immediately preceding five years for the purposes of such calculation.
 - E. When necessary, each institution shall submit to the Governor and the General Assembly for approval a plan that reduces the subsidy in accordance with targets outlined in the plan over a five-year period until the subsidy percentage complies with the requirements of subsection C.
 - F. The Auditor of Public Accounts shall annually review each institution's progress towards meeting the requirements of each plan approved pursuant to subsection E as part of his annual audit pursuant to § [30-133](#).
 - G. Failure to meet the progress requirements of each plan approved pursuant to subsection E for one year, as determined by the Auditor of Public Accounts, shall result in such reduction of the financial and administrative operations authority granted to the institution pursuant to the Restructured Higher Education Financial and Administrative Operations Act (§ [23.1-1000](#) et seq.) as the Governor or General Assembly determines.
 - H. Failure to meet the progress requirements of each plan approved pursuant to subsection E for two consecutive years, as determined by the Auditor of Public Accounts, shall result in revocation of all financial and administrative operations authority granted to the institution pursuant to the Restructured Higher Education Financial and Administrative Operations Act (§ [23.1-1000](#) et seq.).
 - I. The board of visitors of any institution that seeks to add a major intercollegiate athletics program such as football or basketball or change the division level of any of its existing intercollegiate athletics programs shall first submit to the Intercollegiate Athletics Review Commission (Commission) established pursuant to Chapter 57 (§ [30-359](#) et seq.) of Title 30 a plan and recommendations for financing the addition or change. The institution shall not in any way undertake any such addition or agree or commit to any such change until it has received the findings and recommendations of the Commission pursuant to § [30-360](#). Any such addition or change is subject to the approval of the General Assembly expressed in the general appropriation act. The board of visitors of any institution that adds a non-major intercollegiate athletics program shall report such decision within 15 days of the board's action.