



VIRGINIA STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

(804) 225-3350



–TABLE OF CONTENTS–

	<u>Pages</u>
INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES	1-6
SCHEDULE	
Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	7
Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	8-11
UNIVERSITY OFFICIALS	12



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 17, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Dr. Makola M. Adbullah
President, Virginia 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 Virginia 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 6.2.3.1.1, 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 NCAA reporting guidance. We discussed the nature of work sheet adjustments with management and are satisfied that 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. No variances exceeded one million dollars or ten percent of prior period amounts or budget estimates.

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 selected Football, Men's Basketball, and Women's Basketball games 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. Following inquiry, the University made an adjustment of \$116,922 to increase Student Fee revenue to account for revenues improperly excluded from the Schedule.
11. We compared amounts reported in the Schedule for direct institutional support to institutional budget transfer documentation and/or other corroborative supporting documentation. Following inquiry, the University made an adjustment of \$310,413 to properly report auxiliary reserve funds used to eliminate the Athletic Department deficit as direct institutional support.
12. We compared amounts reported in the Schedule for transfers back to the institution to supporting documentation showing permanent transfers from the Intercollegiate Athletics Department to institutional resources and noted them to be substantially in agreement.
13. Following review of the Schedule and inquiry of management, the University made an adjustment to record \$137,713 in indirect institutional support to reflect the Athletic Department's use of the University's Multi-Purpose Center. We compared amounts reported in the Schedule for indirect institutional support to expense payments, cost allocation detail and other corroborative supporting documentation.
14. We ensured the Schedule properly includes revenue related to debt service, leases, and rental fees paid by the institution for or on behalf of athletics.
15. 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 selected amounts to proper posting in the accounting records and supporting documentation.

16. 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 Virginia State University 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 Virginia State University Foundation, which exceeded ten percent of all contributions and agreed them to supporting documentation. Following inquiry, the University made an adjustment to the Schedule to recategorize \$61,796 from In-Kind revenue to Contributions revenue.
17. Intercollegiate Athletics Department management provided a list of in-kind contributions during the reporting period. Following inquiry, the University made an adjustment to recategorize \$61,796 from In-Kind revenue to Contributions revenue. The remaining amount of In-Kind revenue reported in the Schedule 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 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.
19. Following inquiry, an adjustment was made to remove \$43,486 in program sales, concessions, novelty sales, and parking revenue from the Schedule to potential double-counting of revenue in the Schedule. The remaining amount of program sales, concessions, novelty sales, and parking revenue was deemed to be immaterial for detailed testing.
20. We obtained the amount of royalties, licensing, advertisement and sponsorships revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
21. We obtained an understanding of the University's methodology for recording revenues from sport camps. This amount was deemed to be immaterial for detailed testing.
22. We obtained the amount of other operating revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

Expenses

23. 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 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.

24. 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.
25. 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 recruiting policies to NCAA policies and noted substantial agreement of those policies. While the Athletic Department does not have separate written policies for team travel, the Athletic Department follows the NCAA Division II manual and is subject to the Commonwealth Accounting Policies and Procedures Manual and University procedures for travel. These policies do not conflict with the NCAA Division II manual. Recruiting expenses are deemed to be immaterial for detailed testing.
26. We reviewed the classification of expenses in the Schedule for reasonableness. Following auditor inquiry, the University reclassified \$61,544 from other operating expenses to sports equipment, uniforms and supplies, \$26,022 from other operating expenses to direct overhead and administrative expenses, and \$2,871 from other operating expenses to student-athlete meals (non-travel). Additionally, we selected a sample of disbursements for team travel, sports equipment, uniforms, and supplies, spirit groups, direct overhead and administration, medical expenses and medical insurance, memberships and dues, 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.
27. We obtained a listing of debt service payments for athletics facilities for the reporting year. We selected facility payments included in the Schedule, including the two highest facility payments, and agreed them to supporting documentation.
28. 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

29. 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.
30. 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 20.10.3.3. 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 Virginia 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 Virginia 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

VIRGINIA 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
<u>Operating revenues:</u>						
Ticket sales	\$ 114,440	\$ 44,357	\$ 24,420	\$ 1,400	\$ 103	\$ 184,720
Student fees	-	-	-	-	4,226,886	4,226,886
Direct institutional support	-	-	-	-	311,173	311,173
Less: Transfers to institution	-	-	-	-	(131,572)	(131,572)
Indirect institutional support	-	-	-	-	137,793	137,793
Indirect institutional support - athletic facilities debt service, lease and rental fees	-	-	-	-	658,196	658,196
Guarantees	7,500	108,000	-	-	-	115,500
Contributions	-	1,880	-	24,318	148,143	174,341
In-Kind	7,500	3,700	4,370	4,000	5,000	24,570
NCAA distributions	-	7,000	-	3,950	8,765	19,715
Conference distributions (non-media or bowl)	970	4,000	9,000	1,500	131,572	147,042
Program, novelty, parking, and concession sales	2,582	-	-	-	-	2,582
Royalties, licensing, advertisement and sponsorships	-	-	-	-	20,900	20,900
Sports camp revenues	-	8,175	1,675	4,580	-	14,430
Other operating revenue	-	-	-	-	2,365	2,365
Total operating revenues	<u>132,992</u>	<u>177,112</u>	<u>39,465</u>	<u>39,748</u>	<u>5,519,324</u>	<u>5,908,641</u>
<u>Operating expenses:</u>						
Athletic student aid	437,198	167,350	174,500	563,936	-	1,342,984
Coaching salaries, benefits, and bonuses paid by the University and related entities	489,597	195,344	223,987	313,204	-	1,222,132
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	-	-	-	-	717,434	717,434
Recruiting	2,134	1,471	25	734	-	4,364
Team travel	50,634	63,996	43,628	145,341	-	303,599
Sports equipment, uniforms, and supplies	67,779	8,477	14,398	43,974	-	134,628
Sports camp expenses	-	1,993	625	-	-	2,618
Spirit groups	-	-	-	-	46,783	46,783
Athletic facility leases and rental fees	-	500	200	4,000	-	4,700
Athletic facility debt service	-	-	-	-	658,196	658,196
Direct overhead and administrative expenses	14,705	10,379	4,663	3,678	221,872	255,297
Indirect cost paid to the institution by athletics	122,645	53,830	55,106	100,826	239,785	572,192
Indirect institutional support	-	-	-	-	137,793	137,793
Medical expenses and insurance	7,500	3,000	3,000	12	113,344	126,856
Memberships and dues	-	390	260	1,475	43,800	45,925
Student-athlete meals (non-travel)	2,871	-	-	-	-	2,871
Other operating expenses	11,032	34,865	1,677	44,914	237,781	330,269
Total operating expenses	<u>1,206,095</u>	<u>541,595</u>	<u>522,069</u>	<u>1,222,094</u>	<u>2,416,788</u>	<u>5,908,641</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (1,073,103)</u>	<u>\$ (364,483)</u>	<u>\$ (482,604)</u>	<u>\$ (1,182,346)</u>	<u>\$ 3,102,536</u>	<u>\$ -</u>
<u>Other Reporting Items:</u>						
Total athletics-related debt						\$ 4,674,836
Total institutional debt						\$ 103,306,047
Value of athletics-dedicated endowments						\$ 238,823
Value of institutional endowments						\$ 33,110,157

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

VIRGINIA 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 for the University's Athletic Department has been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of receipts and disbursements of the Intercollegiate Athletics Programs of the University for the year ended June 30, 2016. The Schedule includes both those receipts and disbursements for Athletics 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 the financial position, changes in financial position or cash flows for the year then ended. Receipts and disbursements directly identifiable with each category of sport presented are reported accordingly. Receipts and disbursements not directly identifiable to a specific sport are reported under the category "non-program specific."

2. CONTRIBUTIONS

The Schedule includes contributions of the Virginia State University Foundation (The Foundation) made on behalf of the athletics programs. This foundation was organized for fund-raising activities that support the welfare, efficiency and general objectives of the University. The Foundation's support of Virginia State University athletics totaled \$174,341.

3. ENDOWMENT FUNDS

A. Quasi- Endowment

During fiscal year 1998, the University established a quasi-endowment fund for athletic scholarships and certain other expenses to support the athletic program. The University has made deposits into the quasi-endowment fund using a portion of guarantees received for participation in specific sporting events. As of June 30, 2016, earnings on the \$109,000 corpus since its inception total of \$94,539.

B. True-Endowment

As of June 30, 2016, earnings on the \$24,775 corpus since its inception total \$6,021.

4. CAPITAL ASSETS

Capital assets consisting of land, buildings, equipment, infrastructure assets, improvements other than buildings, inexhaustible works of art, and construction-in-progress are stated at appraised historical cost or actual cost, where determinable. Purchased or constructed capital assets are reported at actual cost or estimated historical cost. Donated capital assets are reported at fair value on the date of acquisition. Library materials are valued using purchase price for library acquisitions. Equipment is capitalized when the acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. Expenses for construction-in-progress are capitalized as incurred. Intangible assets are capitalized when the acquisition cost is \$100,000 or greater. Interest expenses relating to construction are capitalized, net of interest income earned on resources set aside for this purpose. For the University year ended June 30, 2016, no interest associated with construction was capitalized. For Athletics, no interest was capitalized in FY16. Infrastructure assets are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful life as follows:

Buildings	30-60 years
Infrastructure assets	15-20 years
Equipment	2-10 years
Intangible assets-computer software	5-10 years
Library books	5 years
Other improvements	20 years

A summary of athletic related capital assets for the year ending June 30, 2016 is presented as follows:

Depreciable capital assets:		
Building and building improvements	\$15,306,245	
Infrastructure	3,490,230	
Equipment	<u>244,530</u>	
Total depreciable capital assets		19,041,005
Less accumulated depreciation:		
Building and building improvements	6,089,753	
Infrastructure	2,274,863	
Equipment	<u>181,490</u>	
Total accumulated capital assets		<u>8,546,106</u>
Total capital assets, net		<u><u>\$10,494,899</u></u>

5. LONG-TERM DEBT

For debt related to the Intercollegiate Athletic Department, the University has issued Section 9(d) bonds pursuant to Article X of the Constitution of Virginia. These bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia, legally, morally, or otherwise. Pledged General Fund revenues include General Fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. The outstanding balance for the notes payable as of June 30, 2016 directly related to Roger Stadium is \$4,674,836.

Description	Maturity	Balance at June 30, 2016
VSU Pooled Bonds - 2002A Rogers Stadium Ref Portion, Series 2007B	2019	\$ 1,485,000
VSU 2002A Rogers Stadium Ref Portion, Series 2010B	2022	1,320,000
VSU Roger's Stadium Proj. - 2005 A Ref Portion, Series 2012A	2024	1,215,000
VSU Pooled Bonds - Roger's Stadium, Series 2005A	2025	310,000
Add unamortized premium (net of discount)		<u>344,836</u>
Total notes payable		<u>\$ 4,674,836</u>

Long-term debt matures as follows:

Maturity	Principal	Interest	Total
2017	\$ 470,000	\$ 189,388	\$ 659,388
2018	490,000	168,050	658,050
2019	510,000	145,350	655,350
2020	535,000	122,150	657,150
2021	565,000	96,625	661,625
2022- 2026	1,760,000	135,850	1,895,850
Add unamortized premium:	<u>344,836</u>		<u>344,836</u>
Total	<u>\$ 4,674,836</u>	<u>\$ 857,413</u>	<u>\$ 5,532,249</u>

6. OTHER EXPENSES

The Commonwealth's Appropriation Act requires that educational and general programs in institutions of higher education recover the full indirect cost of auxiliary enterprise programs. Therefore, the University assesses each auxiliary unit an "agency service charge" to recover institutional educational and general administrative costs. In fiscal year 2016, this charge to the Athletics Department amounted to \$574,711, however a new expense line "Indirect cost paid to the institution by athletics" has been added to the report which caused a dramatic decrease to other expenses. Plant fund expenses are not reflected in the accompanying schedules.

VIRGINIA STATE UNIVERSITY

As of June 30, 2016

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UNIVERSITY OFFICIALS

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