ASSESSMENT OF
INTERCOLLEGIATE ATHLETICS FINANCIAL REPORTING
Prepared for the Knight Commission on Intercollegiate Athletics
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[Note: This report was completed with support from the Knight Commission on Intercollegiate Athletics to conduct nonpartisan analysis, study and research and prepare an educational document on the subject of the reporting obligations applicable to college sports financing. The suggestions for improvement are views of the authors. the Knight Commission does not take any position on those views.]

Collegiate Financial Partners (cfp), LLC was engaged to conduct nonpartisan analysis, study and research and prepare an educational document on the subject of the reporting obligations applicable to college sports financing. The research included a review of existing federal reporting obligations, including whether such obligations are consistent with the Knight Commission on Intercollegiate Athletics (KCIA) stated objectives of transparency, accountability, simplicity, and uniformity. The report offers suggestions for improvements at the federal level based on the research findings. It is our understanding that the report will be disseminated by the Knight Commission on Intercollegiate Athletics as a tool to inform the public, stakeholders in collegiate athletics, policymakers, and regulators about the strengths and weaknesses of the existing structure and options for improvement. It is neither the intent nor the responsibility of cfp, LLC, to engage in any lobbying or attempts to influence legislations as defined in Section 4945(d) (2) of the Internal Revenue Code.

BACKGROUND

Colleges and Universities participating in intercollegiate athletics have numerous athletic financial reporting requirements including two well-established federal government requirements, namely, the Equity in Athletics Disclosure Act (EADA) and Internal Revenue Service (IRS) 990 forms. Athletic governing bodies require some financial reporting from their members. The major ones include the National Collegiate Athletic Association (NCAA) with 1085 members, the National Association Intercollegiate Athletics (NAIA) with 235 members, and the National Junior College Athletic Association (NJCAA) with 463 members. Finally, there are a few independent athletic programs and associations that may also collect financial data but are excluded from this analysis. Examples of these organizations include the California Community College Athletic Association (CCCAA) with 106 members, National Christian College Athletic Association (NCCAA) with 35 members, Northwest Athletic Conference (NWAC) with 31 members, United States Collegiate Athletic Association (USCAA) with 51 members, and Independents/Others with 73 members. For the sake of consistency, these aforementioned membership counts were derived from the most recently filed EADA reports.

This paper primarily focuses on the federal reporting requirements for institutions and the reports required by the two national governing bodies for baccalaureate granting institutions, namely the NCAA and NAIA. Other entities involved in the financing of intercollegiate athletics include athletic conferences, football bowls and other collegiate athletic event organizers.

CURRENT REPORTING REQUIREMENTS

Equity in Athletics Disclosure Act (EADA)

The federal government through the U.S. Department of Education mandates that all co-educational postsecondary education institutions participating in Title IV and offering an intercollegiate athletic program must prepare an annual report. [P.L. 110-315 (HEAOA) enacted on August 14, 2008. This law reauthorizes and extends the Higher Education Act of 1965, as amended]. This report includes information related to student athlete participation, staffing, revenues and expenses categorized by men and women's teams.

The following quote from the EADA Users Guide articulates the primary purpose of the EADA report and survey.

> "The *Equity in Athletics Disclosure Act (EADA)* was designed to make prospective students and prospective student-athletes aware of an institution of higher education's commitment to providing equitable athletic opportunities for its men and women students. The *EADA* requires the disclosure of information about varsity teams and the financial resources and personnel that the school dedicates to those teams."

The EADA requires institutions to prepare two documents, one for publication (the report) and the second (the survey), which is filed with the U.S. Department of Education. These documents must meet two specific but different deadlines. The first is a report that must be filed by the institution no later than October 15th of each year. This report is an institutional publication for students, prospective students and the public. The survey that is filed with U.S. Department of Education must be filed within 15 days of the report publication. The report and survey data have some differences, but the federal survey data is the most logical to use for the purposes of this analysis.

Every data collection method is fraught with its own unique challenges and inconsistencies especially if the purpose for which the data is collected differs from the information the user expects to acquire. EADA is no different…it provides gender specific participation and financial data but isn't designed to clearly articulate the sources and uses of an athletic department's revenues and expenditures. This doesn't suggest a failed system but rather it is recognition that users must be aware of its designed purpose.

Evaluation of the current EADA survey elements would reveal the following strengths and weaknesses in context of the desired purposes of transparency, accountability, simplicity and uniformity.

EADA survey	
Strengths:	**Weaknesses:**
Includes all institutions receiving Title IV	Narrow and focused purpose
Public availability	Limited financial categories and detail
Substantial federal financial penalties for non-compliance	Absence of institutional subsidy data
Uniform data definitions	Timeliness of data definition changes
Timelier than IRS 990 and NCAA data	Exclusion of third-party revenues and expenses
Focus on gender specific participant data	Lacks required internal institutional reviews
Longevity of reporting	Lacks independent verification

Internal Revenue Service Form 990

The federal government through the IRS 990 submission gathers financial information from tax-exempt organizations. This filing requirement would provide additional information for governing bodies, conferences, and in some cases athletic event operators (e.g. bowls, tournaments). Below is information from the IRS 990 form instructions, which helps articulate the purpose of the federal filing.

> Forms 990 and 990-EZ are used by tax-exempt organizations, nonexempt charitable trusts, and section 527 political organizations to provide the IRS with the information required by section 6033. Form 990 is an annual information return required to be filed with the IRS by most organizations exempt from income tax under section 501(a), and certain political organizations and nonexempt charitable trusts. Some members of the public rely on Form 990 or Form 990-EZ as their primary or sole source of information about a particular organization.

This report contains a description of activities and governance issues as well as limited categories of revenues and expenses along with net assets and fund balances. It also has compensation information for officers, directors, key employees and highest compensated employees.

The filing date for the IRS 990 is dependent upon the fiscal year date for the reporting entity. The 990 due date is on the 15th day of the 5th month following the end of the reporting entity's fiscal year. For example, if the fiscal year ended June 30th the initial return due date is November 15th.

IRS Form 990	
Strengths:	**Weaknesses:**
Public availability	Variable-reporting deadlines
Information about not-for-profit athletic entities	Limited financial detail
Subject to audit	Complicated and multifaceted form
Often prepared by third parties	Uses business/industry financial terminology not sport classifications
	Lacks information on for-profit athletic entities

National Collegiate Athletic Association (NCAA)

The NCAA Financial Reporting System requires members to submit annually detailed revenue and expenses related to their intercollegiate athletic programs. These reports include both operating and capital data. The submissions are subject to a review based upon a set of agreed upon procedures (Attachment A). An independent accountant conducts an annual review of submissions by Division I but reviews for Division II are done every three (3) years. Division III reviews are voluntary. The NCAA data report must be signed by the institutional chief executive officer prior to its submission.

NCAA institutions across all three (3) NCAA divisions reported spending over $18 billion in 2018. Of this amount NCAA Division I autonomy conferences (ACC, Big 10, Big 12, PAC 12, and SEC) accounted for 42% of spending across the NCAA and 73% of generated revenues (e.g. ticket sales, sponsorships, etc.). NCAA Division I schools accounted for 83% of spending across the NCAA and 97% of generated revenues.

The NCAA report captures 19 different operating revenue categories (Attachment A, pages 17-21) while operating expenses (Attachment A, pages 22-26) are detailed in 22 expenditure categories. From these institutional reports, it is possible to calculate the institutional subsidy provided to the athletics department.

The filing period for the NCAA financial data submission is January 15th covering the fiscal year ending during the prior calendar. The collected data populates the NCAA proprietary database that allows member institutions to compare their financial information to other member institutions only in aggregate form. The NCAA policy is not to release individual member data to the public. If institutional data is released, it is a decision made by the institution.

NCAA Financial Reporting System	
Strengths:	**Weaknesses:**
Data collection system in place	Individual institutional athletic data inaccessible to the public
Robust categories and detailed financial information	Primarily limited to financial data
Independent third-party review	Lag in publishing aggregate data
Regular reviews and updates to uniform definitions	Institutional access limited to a few administrators
Identifies institutional subsidies	
Substantial NCAA penalties for non-compliance	
Includes third party revenues and expenses	
Designed specifically to collect intercollegiate financial data	

National Association of Intercollegiate Athletics (NAIA)

The NAIA requires several annual forms be filed by its members as set forth below from the NAIA Handbook:

1. Certification of Compliance with Frequency of Play and Scheduling Report;
2. NAIA Substance Abuse Certification of Compliance Report;
3. Institutional Financial Aid Report;
4. Varsity Roster for Institutional Teams; and
5. An accounting of national championship expenses.

There is no requirement for NAIA membership to file comprehensive financial reports or even at a minimum to submit information on revenue and operating expenses for their athletic departments, however the NAIA does collect financial information from the EADA report. The focus of the NAIA financial reporting is specifically on student financial aid and national championship expenses. The national championship expense report applies to a very small number of institutions. Thus, currently the NAIA reporting practices do little to inform others about the overall financial position of an institution's athletic department.

SUGGESTIONS FOR IMPROVEMENTS TO CURRENT FEDERAL REPORTING:

The first step in the review is to determine if the current federal level reporting on athletic finances addresses the perceived needs of transparency, accountability, simplicity and uniformity. In considering whether the existing federal reporting obligations meet the needs as perceived, it is our conclusion they do not. The strengths and weaknesses identified above for the two federal level reports and several governing organizations demonstrate the complexity of athletic financial reporting in its current state. If the overall objective is to better understand the financing of intercollegiate athletics by the public, stakeholders in athletics, policymakers and regulators while invoking the principles of need as previously expressed, then our summary suggestion is that strong consideration be given to using the NCAA athletic financial definitions (Attachment A) as the basic reporting platform. The NCAA report contains key elements of athletic revenues and expenses including student fees, institutional subsidies, compensation expenses, and limited capital information.

Given, the summary suggestion above, there are multiple issues to be considered in order to implement this concept for improving federal level reporting. In some cases, optional ideas will be presented for consideration.

1. Should the NCAA financial definitions be incorporated into the current EADA report? Our suggestion is that the EADA is not the proper location for this new federal reporting requirement if time is a consideration. The EADA (Attachment B) was created for a very

special purpose and its focus is not specifically on the overall financial state of intercollegiate athletics. While having one federal report that addresses multiple aspects of need is appealing, it would take significant time to revise the EADA to incorporate the NCAA data elements and, at the same time, protect the purpose and integrity of the current EADA report.

2. How can the federal government incorporate the components of the NCAA financial definitions into a federal level reporting requirement?

Our suggestions:

a) Require the NCAA to continue its collection of financial data in accordance with its agreed upon procedures and all related processes and further require institutions to directly submit their NCAA financial report to the US Department of Education at the time it is filed with the NCAA. The US Department of Education would be responsible for providing public access to the reports. There will likely be strong resistance on the part of private institutions to making such information public. Therefore, we further recommend linking any reporting requirement to an enforceable institutional financial penalty. The EADA report is already linked to Title IV funding so tying this new NCAA financial submission requirement to a federal funding penalty will incentivize institutional compliance.

b) Further require either the institutions or the NCAA, in concurrence with the institution, to timely file with the US Department of Education any changes due to errors or omissions resulting from NCAA review.

c) Direct the US Department of Education to make a calculation, which shows the institutional contribution to its athletic programs. The Knight Commission does a similar calculation in its database, which is referenced as the institutional subsidy. For a few institutions, this may be a negative number, which shows the athletic programs are transferring funds to support the institution.

Other Options considered but not recommended:

a) Mandate the NCAA to release the information that it collects from both public and private institutions. If this option is chosen, it would likely cause a chasm between the NCAA, its membership, and other athletic related organizations. Thus, we do not suggest this as a preferred approach.

b) Identify the most important data elements of athletic revenues and expenditures and state the definitions in a newly created reporting mechanism. This would require additional time to develop and would defeat one of the goals of simplification by adding another different reporting requirement for institutions (duplication of reporting effort and additional costs). If this approach is to be considered, an independent third-party such as the Knight Commission on Intercollegiate Athletics report could be considered as a host for the platform.

3. What institutions should be required to file any new federal athletic financial report? Our suggestion is to initially limit reporting to NCAA Division I institutions. As stated earlier in this paper, Division I accounted for 83% of expenditures across all NCAA institutions in 2018 and 97% of generated revenues for the same year. Later, if warranted, consideration could be given to including NCAA Division II, NCAA Division III, and NAIA institutions. However, given the relative size and breath of these programs and the extra costs associated with reporting and compliance, the cost/benefit of collecting the additional data isn't justified.

4. What caveats should be considered along with any proposed federal reporting requirements?

   a) First, based upon our experience, the deeper the drill for financial data the more inconsistent it becomes - resist the temptation to get into the minutia. The NCAA data and the Knight Commission data remain at a reasonably high level and appropriate for policy consideration.

   b) Second, any federal reporting requirement must include a regular process to adjust data elements and definitions that reflect changing market conditions and times. For instance, over the past decade compensation plans for high profile coaches have become more reliant on third party sources. The NCAA definitions have been changed to capture this information. Another example, the NCAA data has added categories in recent years to collect football bowl information.

   c) Finally, it is critically important that athletic and collegiate business professionals be involved in the planning, design, implementation and timely update processes for athletic financial data collection. This will result in far more successful and useful outcomes.

5. What would be the value added to developing a new federal report for conferences, bowls, other athletic tournaments and events? Our suggestions depend upon the purpose for gathering such information.

   a) If the purpose is to collect information on total revenues and total operating expenses for conferences, bowls, other athletic tournaments and events by a not-for-profit entity including its distributions to institutions; the existing IRS 990 filings provide this information. The limitation is that some entities have moved from not-for-profit status to for-profit status.

b) If the purpose is to focus on an institution's participation in conferences, bowls, other athletic tournaments and events and the revenue received and expenses related to such participation, then the NCAA report already includes this information. This would capture revenues and expenses related to sponsoring entities regardless of their tax status.

In absence of the clearly stated purpose for additional filings from conferences, bowls, other athletic tournaments and events, our suggestion is to rely upon existing institutional information found in the NCAA reports. If the objective is to provide greater public access to financial information about the organizing entities, then it is our suggestion that a new reporting system and compliance procedure must be designed specifically aimed at capturing both for-profit and not-for-profit entities.

The development of these suggestions for changes to federal level reporting have been designed to fulfill the principles of transparency, accountability, simplicity and uniformity. It was important for our suggestions to consider the additional burden placed upon the institutions and the U.S. Department of Education both in terms of time and cost in order to respond to any new federal mandate.

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