

**Army West Point Athletic
Association, Inc.**

Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

June 30, 2019 and 2018

Army West Point Athletic Association, Inc.

Financial Statements and Uniform Guidance Schedules
Together With Independent Auditors' Reports

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Independent Auditors' Report

Board of Directors
Army West Point Athletic Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Army West Point Athletic Association, Inc., which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Army West Point Athletic Association, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Army West Point Athletic Association, Inc. adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Reporting on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 19, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2020 on our consideration of Army West Point Athletic Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Army West Point Athletic Association, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Army West Point Athletic Association, Inc.'s internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Newburgh, New York
February 7, 2020

Army West Point Athletic Association, Inc.

Statements of Financial Position

| | June 30, | |
|---|----------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 12,420,070 | \$ 12,958,457 |
| Federal grant receivable | 297,616 | 968,798 |
| Contributions receivable | 26,864 | 29,152 |
| Sponsorships receivable | 1,080,000 | 1,030,000 |
| Other receivables | 1,187,085 | 255,952 |
| Prepaid expenses | 469,402 | 264,162 |
| Interest in net assets of West Point Association of Graduates | 1,427,240 | 535,013 |
| Property and equipment, net | 967,106 | 331,312 |
| Due from related party, Anderson Athletic Center funding | <u>4,753,574</u> | <u>3,147,318</u> |
| | <u>\$ 22,628,957</u> | <u>\$ 19,520,164</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,801,329 | \$ 1,345,402 |
| Deferred revenue | <u>8,549,392</u> | <u>7,932,608</u> |
| Total Liabilities | <u>10,350,721</u> | <u>9,278,010</u> |
| NET ASSETS | | |
| Without donor restrictions | 9,216,982 | 8,387,919 |
| With donor restrictions | <u>3,061,254</u> | <u>1,854,235</u> |
| Total Net Assets | <u>12,278,236</u> | <u>10,242,154</u> |
| | <u>\$ 22,628,957</u> | <u>\$ 19,520,164</u> |

See notes to financial statements

Army West Point Athletic Association, Inc.

Statement of Activities
Year Ended June 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|----------------------|
| REVENUE AND SUPPORT | | | |
| Sponsorships | \$ 6,546,765 | \$ - | \$ 6,546,765 |
| Ticket sales | 6,561,053 | - | 6,561,053 |
| Contributions | 5,390,266 | 932,726 | 6,322,992 |
| Federal grant revenue | 11,348,406 | - | 11,348,406 |
| Sports camps/clinics | 2,342,077 | - | 2,342,077 |
| NCAA and conference distributions | 559,881 | - | 559,881 |
| Guarantee income | 5,518,016 | - | 5,518,016 |
| Media rights | 3,148,977 | - | 3,148,977 |
| In-kind contributions | 859,010 | - | 859,010 |
| Miscellaneous income | 2,550,703 | - | 2,550,703 |
| Membership fee income | 1,074,782 | - | 1,074,782 |
| Change in interest in net assets of West Point Association of Graduates | 131,609 | 760,618 | 892,227 |
| Net assets released from restrictions | <u>486,325</u> | <u>(486,325)</u> | <u>-</u> |
| Total Revenue and Support | <u>46,517,870</u> | <u>1,207,019</u> | <u>47,724,889</u> |
| EXPENSES | | | |
| Program services | 41,372,971 | - | 41,372,971 |
| Management and general | 3,170,091 | - | 3,170,091 |
| Fundraising | <u>1,145,745</u> | <u>-</u> | <u>1,145,745</u> |
| Total Expenses | <u>45,688,807</u> | <u>-</u> | <u>45,688,807</u> |
| Change in Net Assets | 829,063 | 1,207,019 | 2,036,082 |
| NET ASSETS | | | |
| Beginning of year | <u>8,387,919</u> | <u>1,854,235</u> | <u>10,242,154</u> |
| End of year | <u>\$ 9,216,982</u> | <u>\$ 3,061,254</u> | <u>\$ 12,278,236</u> |

See notes to financial statements

Army West Point Athletic Association, Inc.

Statement of Activities
Year Ended June 30, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|----------------------|
| REVENUE AND SUPPORT | | | |
| Sponsorships | \$ 6,359,928 | \$ - | \$ 6,359,928 |
| Ticket sales | 5,132,733 | - | 5,132,733 |
| Contributions | 6,977,639 | 679,365 | 7,657,004 |
| Federal grant revenue | 11,599,279 | - | 11,599,279 |
| Sports camps/clinics | 2,325,136 | - | 2,325,136 |
| NCAA and conference distributions | 1,235,858 | - | 1,235,858 |
| Guarantee income | 5,827,989 | - | 5,827,989 |
| Media rights | 3,014,900 | - | 3,014,900 |
| In-kind contributions | 1,039,536 | - | 1,039,536 |
| Miscellaneous income | 2,124,912 | - | 2,124,912 |
| Change in interest in net assets of West Point Association of Graduates | 102,306 | 432,707 | 535,013 |
| Net assets released from restrictions | <u>251,706</u> | <u>(251,706)</u> | <u>-</u> |
| Total Revenue and Support | <u>45,991,922</u> | <u>860,366</u> | <u>46,852,288</u> |
| EXPENSES | | | |
| Program services | 37,497,142 | - | 37,497,142 |
| Management and general | 3,063,230 | - | 3,063,230 |
| Fundraising | <u>911,808</u> | <u>-</u> | <u>911,808</u> |
| Total Expenses | <u>41,472,180</u> | <u>-</u> | <u>41,472,180</u> |
| Change in Net Assets | 4,519,742 | 860,366 | 5,380,108 |
| NET ASSETS | | | |
| Beginning of year | <u>3,868,177</u> | <u>993,869</u> | <u>4,862,046</u> |
| End of year | <u>\$ 8,387,919</u> | <u>\$ 1,854,235</u> | <u>\$ 10,242,154</u> |

See notes to financial statements

Army West Point Athletic Association, Inc.

Statement of Functional Expenses
Year Ended June 30, 2019

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|-------------------------------|-----------------------------|-----------------------------------|---------------------|----------------------|
| PERSONNEL | | | | |
| Salaries and wages | \$ 15,153,864 | \$ 521,061 | \$ 528,007 | \$ 16,202,932 |
| Fringe benefits | <u>2,433,081</u> | <u>90,994</u> | <u>69,197</u> | <u>2,593,272</u> |
| Total Personnel Costs | 17,586,945 | 612,055 | 597,204 | 18,796,204 |
| | | | | |
| Cadet-athletes meal expense | 922,594 | - | - | 922,594 |
| Travel | 5,610,392 | 2,261 | 9,945 | 5,622,598 |
| Utilities | 5,678 | - | 198 | 5,876 |
| Insurance | 57,085 | 323,666 | 2,552 | 383,303 |
| Repairs and maintenance | 208,008 | - | - | 208,008 |
| Coaching services | 1,459,989 | - | - | 1,459,989 |
| Telephone | 186,174 | 2,626 | 10,943 | 199,743 |
| Office supplies and postage | 81,045 | 4,207 | 11,169 | 96,421 |
| Athletic supplies | 1,225,281 | 1,236 | 1,180 | 1,227,697 |
| Professional fees | 150,452 | 578,636 | 22,132 | 751,220 |
| AAA support services | - | 1,100,000 | - | 1,100,000 |
| Rental | 89,823 | 411,079 | 848 | 501,750 |
| Furniture and equipment | 793,895 | 3,098 | 3,855 | 800,848 |
| Athletic hosting expense | 219,956 | 6,442 | 424,146 | 650,544 |
| Membership fees | 258,968 | 13,373 | 10,706 | 283,047 |
| Awards, trophies and banquets | 785,214 | 659 | 4,873 | 790,746 |
| Game guarantee expense | 1,009,653 | - | - | 1,009,653 |
| Special event entertainment | 60,818 | 865 | 15 | 61,698 |
| Uniforms | 3,194,761 | - | 257 | 3,195,018 |
| Advertising | 245,304 | 7,691 | - | 252,995 |
| Training | 208,624 | 4,707 | 2,090 | 215,421 |
| Sports officials | 549,147 | - | - | 549,147 |
| Recruiting | 1,714,170 | - | - | 1,714,170 |
| Printing | 330,986 | 100 | 33,242 | 364,328 |
| Depreciation | 134,547 | - | - | 134,547 |
| Miscellaneous | 55,606 | 91,710 | 10,191 | 157,507 |
| Credit card and bank charges | 283,875 | 5,664 | - | 289,539 |
| Commissions | 607,962 | - | - | 607,962 |
| Outside services | 2,364,039 | 16 | 199 | 2,364,254 |
| Ticket system | 208,192 | - | - | 208,192 |
| Tuition fees | <u>763,788</u> | <u>-</u> | <u>-</u> | <u>763,788</u> |
| Total Expenses | <u>\$ 41,372,971</u> | <u>\$ 3,170,091</u> | <u>\$ 1,145,745</u> | <u>\$ 45,688,807</u> |

See notes to financial statements

Army West Point Athletic Association, Inc.

Statement of Functional Expenses
Year Ended June 30, 2018

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|-------------------------------|-----------------------------|-----------------------------------|--------------------|----------------------|
| PERSONNEL | | | | |
| Salaries and wages | \$ 13,684,400 | \$ 204,023 | \$ 435,870 | \$ 14,324,293 |
| Fringe benefits | <u>2,254,083</u> | <u>54,426</u> | <u>36,709</u> | <u>2,345,218</u> |
| Total Personnel Costs | 15,938,483 | 258,449 | 472,579 | 16,669,511 |
| | | | | |
| Cadet-athletes meal expense | 844,431 | - | - | 844,431 |
| Travel | 5,256,807 | 7,089 | 15,506 | 5,279,402 |
| Utilities | 107,105 | 84 | 210 | 107,399 |
| Insurance | 152,111 | 327,941 | 3,787 | 483,839 |
| Repairs and maintenance | 349,275 | - | - | 349,275 |
| Coaching Services | 1,455,068 | - | - | 1,455,068 |
| Telephone | 281,225 | 528 | 20,165 | 301,918 |
| Office supplies and postage | 57,118 | 4,068 | 1,885 | 63,071 |
| Athletic supplies | 1,174,783 | - | 583 | 1,175,366 |
| Professional fees | 3,750 | 492,410 | 1,250 | 497,410 |
| AAA Support Services | - | 1,099,998 | - | 1,099,998 |
| Rental | 98,355 | 830,368 | 789 | 929,512 |
| Furniture and equipment | 410,745 | 7,829 | 1,550 | 420,124 |
| Athletic hosting expense | 219,088 | 216 | 315,676 | 534,980 |
| Membership fees | 181,188 | 18,914 | 4,373 | 204,475 |
| Awards, trophies and banquets | 522,209 | - | 9,601 | 531,810 |
| Game guarantee expense | 1,038,256 | - | - | 1,038,256 |
| Special event entertainment | 229,229 | 914 | 4,869 | 235,012 |
| Uniforms | 2,947,585 | - | - | 2,947,585 |
| Advertising | 310,503 | 2,606 | - | 313,109 |
| Training | 168,610 | 363 | 196 | 169,169 |
| Sports officials | 667,996 | - | - | 667,996 |
| Recruiting | 1,466,476 | - | 24 | 1,466,500 |
| Printing | 169,880 | 50 | 47,153 | 217,083 |
| Depreciation | 27,427 | - | - | 27,427 |
| Miscellaneous | 62,292 | 6,354 | 11,612 | 80,258 |
| Credit card and bank charges | 314,845 | 4,429 | - | 319,274 |
| Commissions | 710,657 | - | - | 710,657 |
| Outside services | 1,897,141 | 620 | - | 1,897,761 |
| Ticket system | 222,973 | - | - | 222,973 |
| Tuition fees | <u>211,531</u> | <u>-</u> | <u>-</u> | <u>211,531</u> |
| Total Expenses | <u>\$ 37,497,142</u> | <u>\$ 3,063,230</u> | <u>\$ 911,808</u> | <u>\$ 41,472,180</u> |

See notes to financial statements

Army West Point Athletic Association, Inc.

Statements of Cash Flows

| | Year Ended June 30, | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 2,036,082 | \$ 5,380,108 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 134,547 | 27,427 |
| Undistributed portion of change in interest in net assets of West Point Association of Graduates | (795,727) | (535,013) |
| Net changes in operating assets and liabilities | | |
| Federal grant receivable | 671,183 | (968,798) |
| Contributions receivable | 2,288 | 53,505 |
| Sponsorships receivable | (50,000) | 78,270 |
| Other receivables | (931,133) | (240,480) |
| Prepaid expenses | (205,240) | (96,941) |
| Accounts payable and accrued expenses | 455,927 | 514,295 |
| Deferred revenue | 616,784 | 1,680,019 |
| Net Cash from Operating Activities | 1,934,711 | 5,892,392 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (770,341) | (358,739) |
| Annual distribution from endowment held by West Point Association of Graduates | (96,500) | - |
| Advances to related party | (1,606,256) | (3,147,318) |
| Net Cash from Investing Activities | (2,473,097) | (3,506,057) |
| Net Change in Cash and Cash Equivalents | (538,386) | 2,386,335 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 12,958,456 | 10,572,122 |
| End of year | \$ 12,420,070 | \$ 12,958,457 |

See notes to financial statements

Army West Point Athletic Association, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

1. Organization and Taxation

The Army West Point Athletic Association, Inc. (the "Association") is a New York not-for-profit corporation organized on October 14, 2015 to provide an extraordinary Division I athletic experience at the United States Military Academy ("USMA"). This intercollegiate athletic program supports the USMA mission to build leaders of character committed to the values of Duty, Honor, Country. The experiences obtained by participation in USMA's intercollegiate athletic program prepare and motivate Cadets for a lifetime of public service through physical education, fitness training and testing and Division I athletic competition.

Under a cooperative agreement (see Note 12), the Association provides services and resources to achieve Division I athletic excellence. The Association and USMA will be substantially involved in facilitating the intercollegiate athletic program's goals and objectives.

The Internal Revenue Service has determined that the Association is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes has been recognized in the accompanying financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

Net assets, revenue, and gains and losses are classified based on the presence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as net assets without donor restrictions and net assets with donor restrictions.

Without donor restrictions – consist of resources available for the general support of the Association's operations. Net assets without donor restrictions may be used at the discretion of the Associations management and Board of Directors ("the Board").

With donor restrictions – some donor imposed restrictions represent amounts restricted by donors for specific activities of the Association or to be used at some future date. The Association records contributions as with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor

Army West Point Athletic Association, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Financial Statement Presentation (continued)

restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The Association does not have any net assets to be maintained in perpetuity.

Recently Adopted Accounting Pronouncements

The Financial Accounting Standards Board issued Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Association has adjusted the presentation of these financial assets accordingly.

Revenue Recognition

Direct public support and donations are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions are recorded as net assets with donor restrictions and revenue and support if they are received with donor imposed stipulations that limit their use. Donor restrictions expire by either the passage of stipulated time or the accomplishment of the stated purpose.

Sponsorship revenue is recognized in the period to which the sponsorship relates. Sponsorships are given for certain sports as a form of advertisement for the sponsor.

Ticket sales revenue relates to the various athletic sports events held throughout the year. Ticket sales revenue is recognized at the time the athletic sporting event takes place.

Sports camp/clinic revenue is derived from various sports camps and clinics offered to the community. Sports camps take place throughout the summer months. Clinics are offered throughout the year. Sports camp/clinic revenue is recognized in the period in which the camp and/or clinic takes place.

Guarantee income represents payments received from other universities in exchange for athletic competition. Revenue is recognized and payment is received only after the athletic competition is completed.

Media rights revenue is recognized in the period to which the rights relate. Rights are sold for the sole right to broadcast the season's home football games and the annual Army/Navy football game.

Army West Point Athletic Association, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

National Collegiate Athletic Association ("NCAA") distributions are recognized as revenue in the period received.

Federal grant revenue represents funding received from the Department of Defense, in connection with a cooperative agreement between the Association and the United States Army. (See Note 12). Federal grant revenue is recognized as it is expensed.

Membership fees were implemented in 2019. The per seat membership fee (associated with renewing Army West Point football season tickets) is amortized over the duration of the football season. In the event season ticket holders renew their tickets in advance of the season, the advanced ticket sales and membership fees are recorded as deferred revenue and then released as income after the games are played.

Deferred Revenue

Deferred revenue is comprised mainly of advance ticket sales for football, advance payments for summer camps, and other prepayments for events that have not yet taken place.

In-Kind Contributions

Donated goods and services that require specialized skills that would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

In-kind contributions consists of donated sponsorships, legal services and office space from USMA to the Association for the administrative building where the Association operates.

Interest in the Net Assets of the West Point Association of Graduates

U.S. GAAP includes guidance for transactions in which one entity raises, holds and invests assets for a specified beneficiary or for a group of affiliates of which the specified beneficiary is a member and is financially interrelated to the not-for-profit organization it supports. The West Point Association of Graduates ("WPAOG") is a related party under the USMA tasked with raising money and distributing the amounts to the Association and other related USMA organizations. In February 2017, a memorandum of agreement was entered into by the Association and WPAOG to create an environment of cooperation and support to enhance fundraising in support of USMA athletics. The determination of when the distributions are used by the Association is made by its Board and management. On an annual basis, WPAOG makes an unconditional promise to grant funds to the Association based upon each endowment's spending policies and other governing documents. However, if the Association does not have a current need

Army West Point Athletic Association, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

for these funds, they choose to leave the funds invested with WPAOG's endowments. The Association has an ongoing economic interest in the net assets of WPAOG through the annual distributions granted to the Association from WPAOG's endowment funds. The Association recognizes periodic changes in such interest in the statements of activities as appropriate. The value of the interest in the net assets of WPAOG is included in net assets with donor restrictions.

Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less, at the time of purchase to be cash equivalents.

Federal Grant, Contributions, Sponsorships and Other Receivables

Federal grant, contributions, sponsorships and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction in accounts receivable. As of June 30, 2019 and 2018, no allowance for doubtful accounts has been deemed necessary.

Other receivables include amounts related to payments from the NCAA, miscellaneous administrative payments from the USMA, summer camp receivables and receivables from employee contract buyouts.

Property and Equipment

Property and equipment is stated at cost when purchased and at fair value when donated. Depreciation is provided on the straight-line method over the estimated useful lives of the assets which range from four to seven years. The Association capitalizes property and equipment with a cost in excess of \$4,000 and a useful life longer than one year.

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programmatic and supporting services benefited. The expenses are allocated based on the basis of time and effort, purpose and function and square footage. Such allocations are determined by management.

Advertising

Advertising costs are expensed as incurred and approximated \$253,000 and \$313,000 for the years ended June 30, 2019 and 2018.

Army West Point Athletic Association, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies *(continued)*

Accounting for Uncertainty in Income Taxes

The Association recognizes the effects of income tax positions only when they are more likely than not to be sustained. Management has determined that the Association had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Association is subject to examination by applicable taxing jurisdictions for all periods.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation. These reclassifications have had no effect on net assets.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is February 7, 2020.

3. Concentrations of Credit Risk

Financial instruments that potentially subject the Association to significant concentrations of credit risk consist principally of cash and cash equivalents and receivables. At times cash balances held at financial institutions may be in excess of federally insured limits. At June 30, 2019 and 2018, the Association had deposits exceeding federally insured limits approximating \$12,415,000 and \$12,685,000. The Association has not experienced any losses on its cash deposits. The Association believes that no significant concentration of credit risk exists with respect to its cash and cash equivalents or receivables. All receivables are expected to be collected in the normal course of business.

4. Availability of Financial Assets and Liquidity

Financial assets available for general expenditures within one year as of June 30 are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Total assets | \$ 22,628,957 | \$ 19,520,164 |
| Less: | | |
| Net assets with donor restrictions* | 3,061,254 | 1,854,235 |
| Prepaid expenses and other current assets | 469,402 | 264,162 |
| Property and equipment, net | 967,106 | 331,312 |
| Due from related party, Anderson Athletic Center funding | <u>4,753,574</u> | <u>3,147,318</u> |
| | <u>\$ 13,377,621</u> | <u>\$ 13,923,137</u> |

* Note this includes interest in net assets of WPAOG which amounted to \$1,427,240 and \$535,013 at June 30, 2019 and 2018.

Army West Point Athletic Association, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

4. Availability of Financial Assets and Liquidity *(continued)*

The Association's working capital and cash flows have seasonal variations during the year attributable to cash receipts related to football, including; ticket sales, media rights, sponsorships and game guarantee payments. The Association's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$6 million). As part of its liquidity plan, excess cash is invested in short term investments. The Association can draw down its interest in the net assets of WPAOG that have not yet been distributed. Lastly, to help manage liquidity needs, during 2019 the Association maintains a line of credit with a bank of \$5,000,000 that is drawn upon as needed to manage cash flow. As of June 30, 2019, there have been no drawdowns from this line of credit and the entire amount is available.

5. Property and Equipment

Property and equipment consists of the following at June 30:

| | 2019 | 2018 |
|-----------------------------------|-------------------|-------------------|
| Furniture, fixtures and equipment | \$ 858,965 | \$ 233,798 |
| Facility improvements | <u>270,115</u> | <u>124,941</u> |
| | 1,129,080 | 358,739 |
| Accumulated depreciation | <u>(161,974)</u> | <u>(27,427)</u> |
| | <u>\$ 967,106</u> | <u>\$ 331,312</u> |

6. Due from Related Party, Anderson Athletic Center Funding

On September 19, 2017, the Association entered into a funding commitment (the "Commitment") with WPAOG. The Commitment will provide capital for renovation and construction of an athletic building, the Anderson Athletic Center. As of June 30, 2019 and 2018, total advances made under this Commitment amounted to \$4,753,574 and \$3,147,318. The funding is considered an interest free commitment, and is expected to be repaid in full by WPAOG as contributions for this athletic building are secured.

7. Borrowings Under Line of Credit

In May 2019, the Association obtained a line of credit providing for borrowings of up to \$5,000,000. Interest is calculated at the banks' prime rate (5.50% at June 30, 2019). The line of credit agreement contains various affirmative and negative covenants including a covenant to maintain a minimum operating cash flow to fixed charge ratio of 1.10 to 1.00 to be tested quarterly for the preceding twelve month period. There was no outstanding balance as of June 30, 2019.

Army West Point Athletic Association, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

8. Deferred Revenue

Deferred revenue is comprised of the following at June 30:

| | <u>2019</u> | <u>2018</u> |
|-----------------------|---------------------|---------------------|
| Football ticket sales | \$ 5,615,692 | \$ 5,657,984 |
| Summer camp | 2,070,568 | 1,728,217 |
| Media rights | 812,754 | 546,363 |
| Other | <u>50,378</u> | <u>44</u> |
| | <u>\$ 8,549,392</u> | <u>\$ 7,932,608</u> |

9. Interest in the Net Assets of the West Point Association of Graduates

The Association has endowments held by the WPAOG to be used as a source of contributions to the Association. Distributions can be made in accordance with the WPAOG's policy and at the Association's request. The investments managed by WPAOG are valued as Level 3 fair value, because the investments are not observable. The following is a reconciliation of the activity in the endowment for the years ended June 30:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|-------------------|
| Beginning of year | \$ 535,013 | \$ - |
| Increase in interest in net assets of WPAOG | 988,727 | 535,013 |
| Funds distributed as contributions | <u>(96,500)</u> | <u>-</u> |
| End of year | <u>\$ 1,427,240</u> | <u>\$ 535,013</u> |

Army West Point Athletic Association, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30:

| | <u>2019</u> | <u>2018</u> |
|---------------------------|---------------------|---------------------|
| Baseball | \$ 58,719 | \$ 24,557 |
| Men's Basketball | 46,833 | 82,304 |
| Women's Basketball | 75,303 | 34,657 |
| Rifle | 19,529 | 8,278 |
| Football | 55,600 | 18,436 |
| Golf | 91,683 | 40,680 |
| Gymnastics | 213,877 | 106,090 |
| Hockey | 276,196 | 196,423 |
| Men's Lacrosse | 193,005 | 109,689 |
| Women's Lacrosse | 103,423 | 46,587 |
| Men's Soccer | 144,229 | 123,962 |
| Women's Soccer | 136,035 | 49,379 |
| Softball | 1,093 | - |
| Sprint Football | 255,077 | 118,767 |
| Swim/Dive | 337,955 | 191,048 |
| Men's Tennis | 77,825 | 35,707 |
| Women's Tennis | 88,642 | 29,564 |
| Track/Cross Country | 380,786 | 254,964 |
| Volleyball | 20,146 | 92,152 |
| Wrestling | 194,555 | 98,404 |
| Men's Rugby | 183,501 | 162,913 |
| Women's Rugby | 4,559 | - |
| Strength and Conditioning | 1,696 | - |
| ODIA awards | 1,880 | - |
| Rabble Rousers | 9,768 | - |
| Blaik memorial | 83,573 | 27,759 |
| Team Captain plaques | <u>5,769</u> | <u>1,915</u> |
| | <u>\$ 3,061,254</u> | <u>\$ 1,854,235</u> |

Army West Point Athletic Association, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

11. Net Assets Released from Restrictions

Net assets were released from donor restrictions for the following purposes during the years ended June 30:

| | 2019 | 2018 |
|---------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> |
| Baseball | \$ 11,734 | \$ 46,778 |
| Men's Basketball | 67,346 | - |
| Rifle | 1,031 | 2,937 |
| Football | - | 71,941 |
| Gymnastics | 37,000 | - |
| Hockey | 46,734 | 32,063 |
| Women's Lacrosse | - | 2,106 |
| Men's Lacrosse | 12,573 | - |
| Men's Soccer | 99,503 | 67 |
| Women's Soccer | 12,937 | - |
| Sprint Football | 14,716 | 7,242 |
| Swim/Dive | 9,200 | 20,162 |
| Men's Tennis | 3,593 | 5,548 |
| Track/Cross Country | - | 3,260 |
| Volleyball | 83,054 | 41,547 |
| Wrestling | 37,831 | - |
| Men's Rugby | 49,073 | 9,063 |
| Women's Rugby | - | 7,381 |
| Rabble Rousers | - | 1,611 |
| | <u> </u> | <u> </u> |
| | <u>\$ 486,325</u> | <u>\$ 251,706</u> |

12. Cooperative Agreement

On November 25, 2015, the President of the United States of America signed into law The National Defense Authorization Act for Fiscal Year 2016 (“NDAA 2016”). Under Section 557, Support for Athletic Programs of the USMA, NDAA 2016 authorized the Secretary of the Army to enter into contracts and cooperative agreements with the Association for the purpose of supporting intercollegiate athletics at the USMA.

On February 3, 2017, The Department of the Army and the Association entered into a cooperative agreement (“CA”) that allows the Association to provide supplies and services to support the intercollegiate athletics program at USMA. The result of the agreement will be a more agile athletics program that fully supports the mission of the U.S. Military Academy and ensure the Association remains compliant with auditing and accountability requirements, NCAA rules and regulations and, most importantly academy standards and mission. The revenue derived from the CA is recorded as federal grant revenue in the statements of activities.

Army West Point Athletic Association, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

13. Employee Benefit Plan

The Association maintains a voluntary tax deferred annuity plan to provide full-time employees the option to defer a portion of their salary. The Association matches up to 5% of the employee's deferral. Employer contributions amounted to \$424,126 and \$430,188 during the years ended June 30, 2019 and 2018.

14. Related Party Transactions not Disclosed Elsewhere

Army Athletic Association ("AAA"), a non-appropriated fund instrumentally operated by the United States Army Installation Command, supports the United States Military Academy's intercollegiate athletic program. USMA's Superintendent and AAA's Military Deputy Athletic Director will maintain institutional control over objectives of the CA through the Athletic department's management team and USMA's administrative grants office.

A member of the Association's Board of Directors provided in-kind legal services totaling \$336,000 and \$210,000 for the years ended June 30, 2019 and 2018.

15. Commitments and Contingencies

From time to time, various claims and suits generally incident to the conduct of normal business are pending or may arise against the Association. In the opinion of management of the Association, after taking into account insurance coverage, losses, if any, from the resolution of pending litigation should not have a material effect on the Association's financial position or results of operations.

16. Subsequent Events

On September 6, 2019 the Association entered into two separate equipment financing agreements with Key Equipment Finance. The first agreement is for \$4,083,072 at a fixed interest rate of 3.880% repayable over 96 months with a monthly payment amount of \$42,561. The second agreement was for \$1,460,847 at a fixed rate of 3.77% repayable over 60 months with a monthly payment of \$24,362.

* * * * *

Army West Point Athletic Association, Inc.

Uniform Guidance Reports and Schedules

June 30, 2019

Army West Point Athletic Association, Inc.

Schedule of Expenditures of Federal Awards and
Accompanying Notes
Year Ended June 30, 2019

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass - Through Entity Identifying Number | Provided to Subrecipients | Total Federal Expenditures |
|--|---------------------------|--|------------------------------|----------------------------------|
| Department of Defense Army Athletic Association - Passed through from Army Athletic Association U.S. Military Academy Athletic Programs at West Point | 12.432 | W911NF-17-2-0010 | \$ - | \$ 11,348,406 |
| Total Expenditures of Federal Awards | | | | <u>\$ 11,348,406</u> |

1. Basis of Presentation

The schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Army West Point Athletic Association, Inc. (the "Association") under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Army West Point Athletic Association, Inc. it is not intended to and does not present the financial position, changes in net assets or cash flows of Army West Point Athletic Association, Inc.

2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Association has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditors' Report

Board of Directors

Army West Point Athletic Association, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Army West Point Athletic Association, Inc. (the "Association"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 7, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Newburgh, New York
February 7, 2020

Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditors' Report

Board of Directors
Army West Point Athletic Association, Inc.

Report on Compliance for Each Major Federal Program

We have audited Army West Point Athletic Association, Inc.'s (the "Association") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Association's major federal programs for the year ended June 30, 2019. The Association's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal Program

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Newburgh, New York
February 7, 2020

Army West Point Athletic Association, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major federal programs:

CFDA Number

Name of Federal Program or Cluster

12.432

U.S. Military Academy Athletic Programs at West Point

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2019.

Section III - Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV - Prior Year's Audit Findings

There were no prior year audit findings.