



VIRGINIA COMMONWEALTH UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS

FOR THE YEAR ENDED

JUNE 30, 2015

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



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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 15, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Michael Rao
President, Virginia Commonwealth 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 Commonwealth University**, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15, for the year ended June 30, 2015. 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 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 procedures 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, 2015, 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. We noted no differences between the amounts in the Intercollegiate Athletics

Department's accounting records and the amounts on the worksheets. 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. Variations exceeding one million dollars or ten percent are explained below:

<u>Line Item</u>	<u>Explanation</u>
Contributions	The University experienced large increases in annual giving, income from club seating payments, and basketball practice facility gifts.
Athletic Facilities Debt Service	This expense category did not exist under NCAA guidance in the prior year resulting in a 100 percent increase for the current year.
Direct Overhead and Administrative Expenses	This expense category did not exist under NCAA guidance in the prior year resulting in a 100 percent increase for the current year

Revenues

9. Intercollegiate Athletics Department management provided us with tickets sold during the reporting period along with a list of complimentary tickets and unsold tickets. We compared tickets sold by Men's Basketball to the revenue reported in the schedule and related attendance figures, and noted them to be substantially in agreement.
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. We found these amounts to be substantially in agreement.
11. We compared amounts reported in the Schedule for direct institutional support to institutional budget transfer documentation and/or other corroborative supporting documentation, and noted them to be substantially in agreement.

12. We compared amounts reported in the Schedule for indirect institutional support to expense payments, cost allocation detail and other corroborative supporting documentation and noted them to be substantially in agreement.
13. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. We determined revenue from guarantee agreements was immaterial for detailed testing.
14. 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 Commonwealth 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 Foundation and agreed them to supporting documentation.
15. Intercollegiate Athletics Department management provided a list of in-kind contributions during the reporting period. We determined revenue from in-kind contributions was immaterial for detailed testing.
16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from broadcast, television, radio, internet, and e-commerce rights. We gained an understanding of the relevant terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
17. 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.
18. We determined program sales, concessions, novelty sales, and parking to be immaterial for detailed testing.
19. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, licensing, advertisements, and sponsorships. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.

20. We reviewed amounts reported in the Schedule for endowments. This amount was deemed immaterial for detailed testing.
21. We compared the amount of revenue related to other revenue to the amount reported in the Schedule. We found the other revenue line item to be less than four percent of total revenues and, therefore, we did not perform detailed testwork.

Expenses

22. 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.
23. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for home 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.
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 these policies to existing University and NCAA policies and noted substantial agreement of those policies.
26. We selected a sample of disbursements for equipment, uniforms, and supplies, game expenses, fundraising, marketing, and promotion, 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, lease payments, and rental fees for athletics facilities for the reporting year. We selected a sample of facility payments, including the two highest facility payments, and agreed them to supporting documentation.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression on 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 Commonwealth 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 Commonwealth 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

ZLB/alh

VIRGINIA COMMONWEALTH UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2015

	Men's Basketball	Men's Baseball	Women's Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:						
Ticket sales	\$ 2,050,482	\$ 25,420	\$ 13,513	\$ 15,591	\$ 353,689	\$ 2,458,695
Student fees	-	-	-	-	19,062,703	19,062,703
Direct institutional support	-	-	-	-	238,735	238,735
Indirect institutional support	-	-	-	-	424,169	424,169
Guarantees	-	8,000	20,000	9,500	-	37,500
Contributions	2,183,064	22,023	137	75,577	2,537,171	4,817,972
In-Kind	138,051	3,500	-	1,000	-	142,551
Media rights	-	-	-	-	170,924	170,924
NCAA distributions	-	-	-	-	844,431	844,431
Conference distributions (Non Media or Bowl)	-	-	-	-	52,623	52,623
Program, novelty, parking, and concession sales	-	-	-	-	8,125	8,125
Royalties, licensing, advertisement and sponsorships	1,114,408	-	-	-	720,567	1,834,975
Athletics restricted endowment and investments income	14,526	-	-	28,668	22,180	65,374
Other operating revenue	-	89	-	4,000	1,217,139	1,221,228
Total operating revenues	<u>5,500,531</u>	<u>59,032</u>	<u>33,650</u>	<u>134,336</u>	<u>25,652,456</u>	<u>31,380,005</u>
Operating expenses:						
Athletic student aid	587,505	388,853	640,630	2,634,334	118,290	4,369,612
Guarantees	443,000	-	15,000	10,000	-	468,000
Coaching salaries, benefits, and bonuses paid by the University and related entities	2,197,295	255,910	704,671	1,631,606	-	4,789,482
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	364,748	-	117,120	11,312	3,399,394	3,892,574
Recruiting	196,892	24,289	88,856	91,980	437	402,454
Team travel	728,857	171,851	205,699	618,153	347,352	2,071,912
Sports equipment, uniforms, and supplies	236,175	66,549	96,573	380,522	573,421	1,353,240
Game expenses	130,755	36,693	69,500	57,609	-	294,557
Fundraising, marketing and promotion	-	-	-	-	1,164,761	1,164,761
Spirit groups	-	-	-	-	151,680	151,680
Athletic facility leases and rental fees	-	-	-	-	14,762	14,762
Athletic facility debt service	-	-	-	-	3,475,921	3,475,921
Direct overhead and administrative expenses	155,304	1,469	14,658	55,488	4,483,041	4,709,960
Indirect institutional support	-	-	-	-	424,169	424,169
Medical expenses and insurance	3,440	-	334	49,264	308,526	361,564
Memberships and dues	2,285	123	2,510	6,834	315,810	327,562
Other operating expenses	440,095	28,378	104,903	217,696	1,620,110	2,411,182
Total operating expenses	<u>5,486,351</u>	<u>974,115</u>	<u>2,060,454</u>	<u>5,764,798</u>	<u>16,397,674</u>	<u>30,683,392</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 14,180</u>	<u>\$ (915,083)</u>	<u>\$ (2,026,804)</u>	<u>\$ (5,630,462)</u>	<u>\$ 9,254,782</u>	<u>\$ 696,613</u>
Other Reporting Items:						
Total athletics-related debt						\$ 21,307,684
Total institutional debt						\$ 558,876,630
Value of athletics-dedicated endowments						\$ 92,775
Value of institutional endowments						\$ 41,457,428

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

VIRGINIA COMMONWEALTH UNIVERSITY
NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2015

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs have been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletics programs of the University for the year ended June 30, 2015. The Schedule includes those intercollegiate athletics revenues and expenses made on behalf of the University's intercollegiate athletics programs by outside organizations not under the accounting control of the University. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in financial position or cash flows for the year then ended. Revenues and expenses are directly identifiable with each category presented and are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

2. ENDOWMENT

The Intercollegiate Athletics Department has one restricted endowment established for the benefit of the Department. The recorded value of the endowment totaled \$92,775 at June 30, 2015. The University has entrusted most, including Athletics, endowment funds to the VCU Foundation, an affiliated foundation, for investment in the Foundation's investment pool. Funds transferred to the VCU Foundation are subject to the investment policies of the VCU Foundation. University-held endowments totaled \$41,457,428 at June 30, 2015.

The Foundation offers no guarantees relating to loss of investment value or rate of return on investments. Further, amounts transferred to the Foundation must remain with the Foundation unless the University Board of Visitors approves the use of these invested funds for specific University purposes.

3. CAPITAL ASSETS

The Intercollegiate Athletics Department follows the same policies and procedures as the University for acquiring capital assets. Capital assets are stated at cost or, if donated, at fair market value on the date of acquisition. Equipment costing \$5,000 or more with a useful life of two or more years is capitalized. Infrastructure assets are included in the financial statements and are depreciated. The University records depreciation on property, plant and equipment, including capital leases and excluding land and construction in progress, computed over the estimated useful lives of the assets based on the straight-line method.

The general range of estimated useful lives is ten to 40 years for buildings and fixtures and five to 20 years for equipment. The general range of estimated useful lives is ten to 25 years for land improvements and infrastructure. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. Capital assets at the time of disposal revert to the Commonwealth of Virginia for disposition.

Athletics-related capital assets as of June 30, 2015, were as follows:

Land Improvements	\$ 3,282,691
Buildings	45,596,613
Equipment	<u>1,764,759</u>
Total Cost	50,644,063
Less: Accumulated Depreciation	
Land Improvements	3,261,441
Buildings	18,546,217
Equipment	<u>1,279,319</u>
Total Accumulated Depreciation	<u>23,086,977</u>
Net Property and Equipment	<u>\$ 27,557,086</u>

4. DEBT REPAYMENT SCHEDULE

The Virginia College Building Authority (VCBA) issues Educational Facilities Revenue Bonds (Public Higher Education Financing Program). As a participating institution in this program, the University issued a note payable to the VCBA. This note, along with the notes of other institutions, is held by the VCBA as security for the Educational Facilities Revenue Bonds. For accounting purposes, the financing arrangement is considered to represent a note payable. The Sports Medicine Facility was financed through the VCBA. The notes have interest rates of 2.0 percent to 6.0 percent.

The debt maturity schedule and summary of future interest requirements is as follows:

<u>Fiscal Year</u>	<u>Debt</u>	<u>Interest</u>
2016	\$ 172,070	\$ 49,178
2017	184,414	41,981
2018	201,266	33,102
2019	209,458	24,112
2020	218,820	15,023
2021-2025	<u>212,934</u>	<u>5,323</u>
Total	<u>\$ 1,198,962</u>	<u>\$ 168,720</u>

The Commonwealth issues the General Revenue Pledge Bonds (9d) for agencies and institutions of the Commonwealth. For accounting purposes, the financing arrangement is considered to represent a bond payable. The Recreation Center facility was financed through the Commonwealth bond issues. The bonds have interest rates of 1.5 percent to 5.0 percent. This debt matures in fiscal year 2016 with principal and interest payments \$1,124,107 and \$56,206, respectively.

General Revenue Pledge Bonds were issued to fund the capital construction of a basketball training facility in June totaling \$10,000,000. The bonds carry an interest rate of 2.03 percent and are due May 1, 2030.

The debt maturity schedule and summary of future interest requirements is as follows:

<u>Fiscal Year</u>	<u>Debt</u>	<u>Interest</u>
2016	\$ 621,154	\$ 187,385
2017	609,615	198,198
2018	621,154	185,523
2019	634,615	173,214
2020	648,077	160,331
2021-2025	3,442,308	598,850
2026-2030	<u>3,807,692</u>	<u>235,012</u>
Total	<u>\$ 10,384,615</u>	<u>\$ 1,738,812</u>

Additionally, \$8,600,000 in draws from a line of credit was received during the fiscal year. The balance as of this short term debt remained \$8,600,000 as of June 30, 2015.

Total University debt totaled \$558,876,630 as of June 30, 2015.

5. CONTRIBUTIONS

During the fiscal year ended June 30, 2015, the University received Athletics-related contributions from the Virginia Commonwealth University Foundation totaling \$3,771,992, which constituted ten percent or more of total contributions.

VIRGINIA COMMONWEALTH UNIVERSITY

Richmond, Virginia

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