

**VIRGINIA MILITARY INSTITUTE**

**INTERCOLLEGIATE ATHLETICS PROGRAMS  
FOR THE YEAR ENDED  
JUNE 30, 2011**



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# Commonwealth of Virginia

## *Auditor of Public Accounts*

Walter J. Kucharski  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

December 2, 2011

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit  
And Review Commission

General J.H. Binford Peay, III  
Superintendent, Virginia Military Institute

### INDEPENDENT AUDITOR'S REPORT ON APPLICATION OF AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the Superintendent of **Virginia Military Institute**, solely to assist the Institute in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the Institute is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.16.1, for the year ended June 30, 2011. The Institute's management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs and the Schedule's compliance with NCAA requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Institute. 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

The procedures that we performed and our findings are as follows:

#### Internal Controls

1. We reviewed documentation of accounting systems and operating procedures. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audits of the Institute's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audits of the Institute's financial statements.

2. Intercollegiate Athletics Department management provided an organizational chart which we reviewed with appropriate personnel. We also made certain inquiries of management regarding control consciousness, competence of personnel, and protection of records and equipment.
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 Intercollegiate Athletics Programs.

#### 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 (Schedule) for the year ended June 30, 2011, as prepared by the Institute 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 accounts in the 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 applied certain analytical review techniques to the revenue and expense amounts reported in the Schedule in order to determine the reasonableness of amounts reported therein. These techniques included trend analyses and review of actual amounts in comparison to budget estimates. We obtained and documented an understanding of significant variations.

#### Revenues

9. Intercollegiate Athletics Department management provided us with a reconciliation of tickets sold during the reporting period along with complimentary tickets and unsold tickets to the revenue recorded in the Schedule and related attendance figures. We reviewed these reconciliations for selected games and found such reconciliations to be accurate and agreed them to the amounts recorded as ticket revenue for those games.

10. We compared cadet activity 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 materially in agreement.
11. 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 Military Institute Keydet Club and the Virginia Military Institute Development Board, affiliated organizations, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs.
12. From the summary of revenues and expenses for or on behalf of the Intercollegiate Athletics Programs by affiliated and outside organizations, we selected individual contribution amounts and agreed each selection to supporting documentation and proper posting in the accounting records. We found all reviewed transactions to be in agreement.
13. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for away games during the reporting period. This amount was deemed to be immaterial for detailed testing.
14. 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. This amount was deemed to be immaterial for detailed testing.
15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, advertisements, and sponsorships. This amount was deemed to be immaterial for detailed testing.
16. Based on receipts as listed in the accounting records, we selected and tested collections by the Intercollegiate Athletics Programs. We compared and agreed the selected operating receipts to adequate supporting documentation. We found all reviewed amounts to be in agreement with supporting documentation, properly recorded in the accounting records, and deposited promptly and intact.

#### Expenses

17. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. We selected individual student-athletes across all sports and agreed amounts from the listing to their award letter. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system.
18. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the Institute during the reporting period. We selected and tested individuals and compared amounts paid for one pay period or a bonus payment 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.

19. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for home games during the reporting period. This amount was deemed to be immaterial for detailed testing.
20. 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 Institute and NCAA policies and noted substantial agreement of those policies.
21. We obtained an understanding of the Institute's methodology for allocating indirect facilities support and ensured that amounts reported on the Schedule agreed to amounts recorded in the accounting records.
22. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the Intercollegiate Athletics Programs. These disbursements were for supplies, equipment, travel, and other general operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.

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 made an audit of any financial statements of the Intercollegiate Athletics Department of Virginia Military Institute in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the Institute. This report relates only to the accounts and items specified above and does not extend to the financial statements of Virginia Military Institute or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the Superintendent and the Institute 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

AWP/clj

## SCHEDULE

VIRGINIA MILITARY INSTITUTE  
SCHEDULE OF REVENUES AND EXPENSES OF  
INTERCOLLEGIATE ATHLETIC PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 2011

	Football	Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:					
Ticket sales	\$ 162,223	\$ 43,339	\$ 13,731	\$ -	\$ 219,293
Cadet activity fees	-	-	-	2,769,337	2,769,337
Guarantees	515,000	205,000	22,000	-	742,000
Contributions (Note 2)	2,012,490	428,933	1,590,375	2,016,964	6,048,762
Direct institutional support	20,175	13,293	32,461	248,446	314,375
NCAA conference proceeds	28,571	-	36,363	357,709	422,644
Concessions and program income	2,238	798	-	-	3,036
Royalties, advertising and licensing	-	-	-	156,172	156,172
Other	4,445	477	1,637	31,632	38,191
Total operating revenues	<u>2,745,142</u>	<u>691,840</u>	<u>1,696,567</u>	<u>5,580,260</u>	<u>10,713,810</u>
Operating expenses:					
Athletic student aid	1,938,084	413,833	1,045,472	8,118	3,405,507
Guarantees	30,000	10,000	-	-	40,000
Coaching salaries, benefits and bonuses paid by the Institute and related entities	762,749	388,497	1,041,258	-	2,192,505
Support staff salaries, benefits and bonuses paid by the Institute and related entities	59,770	58,153	-	1,791,516	1,909,440
Recruiting expenses	76,224	17,792	48,516	-	142,531
Team travel	167,669	79,237	308,887	1,149	556,941
Team equipment, uniforms and supplies	76,276	22,989	194,036	52,463	345,765
Game day expenses	48,673	45,607	74,891	23,670	192,840
Marketing and promotion	700	-	7,853	53,317	61,870
Direct facilities maintenance	192	-	9,778	614,947	624,917
Medical expenses and insurance	1,495	-	100	169,539	171,134
Memberships and dues	380	-	2,456	35,060	37,896
Other operating expense	47,630	17,684	25,820	941,105	1,032,238
Total expenses	<u>3,209,840</u>	<u>1,053,792</u>	<u>2,759,066</u>	<u>3,690,885</u>	<u>10,713,583</u>
Net increase/(decrease) for the year	<u>\$ (464,698)</u>	<u>\$ (361,952)</u>	<u>\$ (1,062,499)</u>	<u>\$ 1,889,375</u>	<u>\$ 226</u>

The accompanying notes to the Schedule of Revenues and Expenses of Intercollegiate Athletic Programs are an integral part of this schedule



VIRGINIA MILITARY INSTITUTE  
NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF  
INTERCOLLEGIATE ATHLETICS PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 2011

1. BASIS OF PRESENTATION

The accompanying schedule of revenues and expenses of intercollegiate athletics programs has been prepared on the accrual basis of accounting. The purpose of this schedule is to present a summary of operating revenues and expenses of the intercollegiate athletic programs of the Institute for the year ended June 30, 2011. The Schedule includes those intercollegiate athletics revenues and expenses made on behalf of the Institute's athletics programs by outside organizations not under the accounting control of the Institute. This schedule includes a selected portion of the Institute's activities and is not intended to and does not present either the financial position or changes in net assets 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. AFFILIATED ORGANIZATIONS

The Virginia Military Institute Keydet Club was established in 1948 for the purpose of raising contributions for scholarships to be awarded to athletes of the Institute. The Keydet Club contributed \$3,520,993 to the Institute during fiscal year 2011. These contributions include \$2,563,400 for intercollegiate athletic programs student financial assistance and \$957,593 in non-cash support provided by the Keydet Club.

The Virginia Military Institute Development Board was established in 1978 by the Virginia Military Institute Alumni Association to implement a comprehensive development program and to coordinate the Institute's various fund-raising activities. The Board provides support to VMI from cash donations and income from its endowment. The Board contributed \$730,707 in unrestricted support, \$938,079 in restricted support and \$804,988 in student financial assistance to the Institute in support of intercollegiate athletics during fiscal year 2011. In addition, the Board contributed \$24,995 in non-cash support to the intercollegiate athletic program.

The VMI Foundation, Incorporated was established for the purpose of soliciting and accepting various funds and to disburse such funds, or income earned from those funds, for the advancement of VMI and the VMI Alumni Association. During the 2011 fiscal year, the VMI Foundation provided restricted funds of \$29,000 for athletic scholarships.

3. CAPITAL ASSETS

Capital assets consisting of buildings, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress (CIP) is capitalized at

actual cost as expenses are incurred. All gifts of capital assets are recorded at fair market value as of the date of donation.

Equipment is capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Renovation costs are capitalized when expenses total more than \$100,000, the asset value significantly increases, and the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation is computed using the straight-line method over the useful life of the assets. The useful life is 30 to 50 years for buildings, ten to 20 years for infrastructure and land improvements, and five to ten years for equipment.

A summary of capital asset balances for intercollegiate athletics at June 30, 2011 follows:

Depreciable capital assets	
Buildings	\$21,264,942
Equipment	495,457
Improvements other than buildings	<u>4,443,118</u>
Total depreciable capital assets at cost	<u>26,203,517</u>
Less accumulated depreciation:	
Buildings	(4,148,934)
Equipment	(372,309)
Improvements other than buildings	<u>(1,421,591)</u>
Total accumulated depreciation	<u>(5,942,834)</u>
Total capital assets for intercollegiate athletics, net of accumulated depreciation	<u>\$20,260,683</u>

#### 4. ADMINISTRATIVE COST RECOVERIES

The Institute recovers from each auxiliary enterprise an amount to reimburse for the cost of institutional support and the operation and maintenance of plant. For the 2011 fiscal year, the Institute recovered from the intercollegiate athletics program \$381,656 of institutional support costs, which is reflected as a non-program, other operating cost expense and \$472,607 for operation and maintenance of plant costs which is reflected as non-program, direct facilities maintenance expense.

VIRGINIA MILITARY INSTITUTE

Lexington, Virginia

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