

UNIVERSITY OF VIRGINIA

**INTERCOLLEGIATE ATHLETIC PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2005**



- TABLE OF CONTENTS -

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT ON APPLICATION OF AGREED-UPON PROCEDURES	1-5
SCHEDULE:	
Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	7- 8
Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	9-11
UNIVERSITY OFFICIALS	12



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

January 9, 2006

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
And Review Commission

John T. Casteen III
President, University of Virginia

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

We have performed the procedures enumerated below, which were agreed to by the President of the **University of Virginia**, 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) Bylaw 6.2.3.1, for the year ended June 30, 2005. The University'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 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

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 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. We reviewed an organizational chart provided by Intercollegiate Athletics Department and discussed it with appropriate personnel. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, and protection of records and equipment.
3. The University 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. The Intercollegiate Athletics Department 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. We obtained any additional reports regarding internal control matters identified during the independent audits of affiliated and outside organizations and inquired as to the corrective action taken in response to such comments. We noted that the affiliated organizations had been audited by independent public accountants and had no internal control findings.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. We obtained the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) for the year ended June 30, 2005, as prepared by the University and shown in this report. We recalculated the addition of the amounts on the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts on 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 balances reported on the Schedule in order to determine the reasonableness of amounts reported therein. These techniques included trend analyses and other tests using operating data and review of actual amounts expended in comparison to budgeted amounts.

Revenues

9. We compared each major revenue account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.

10. 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, found such reconciliations to be accurate, and agreed to amounts recorded as ticket revenue for those games.
11. 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 materially in agreement.
12. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports, guarantee agreements for selected games, and verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements. We found that revenue was properly computed and deposited promptly and intact.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods, or services received directly by the Intercollegiate Athletics Department 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. We vouched each individual contribution received directly by the University for its Intercollegiate Athletics Programs that constituted more than ten percent of the contributions so received. Except for contributions received from the Virginia Athletic Foundation (VAF), an affiliated organization, we noted no individual contribution, which constituted more than ten percent of total contributions received for intercollegiate athletics.
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. We inspected the agreements and verified the mathematical accuracy and coding of the distribution amounts. We found that revenue was properly computed and deposited promptly and intact.
15. Intercollegiate Athletics Department management indicated that there were no agreements related to participation in revenues from broadcast, television, radio, and internet rights.
16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, advertisements, and sponsorships. We selected and tested receipts of such revenue and, for those items; we inspected the agreements and verified the mathematical accuracy and coding of the payment amounts. We found that revenue was properly computed and deposited promptly and intact.
17. We reviewed the Intercollegiate Athletics Department's procedures for recording sports camps revenues and found the procedures to be adequate. We deemed these revenues to be immaterial for detailed testing.

18. Based on receipts as listed in the accounting records, we selected and tested collections by the intercollegiate athletics program. We compared and agreed the selected operating receipts to adequate supporting documentation. We found all reviewed amounts to be in agreement with supporting documentation and properly recorded in the accounting records.

Expenses

19. We compared each major expense account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.
20. 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
21. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for home games during the reporting period. We reviewed these settlement reports, guarantee agreements for selected games, and verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.
22. 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 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.
23. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. We reviewed a number of payments that represented a number percentage of all severance payments made during the year. We found that each reviewed severance payment agreed to the related termination letter or employment contract and was properly recorded in the accounting system.
24. We discussed the University's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies.
25. We obtained an understanding of the University's methodology for allocating indirect facilities support and ensured that amounts reported on the Schedule agreed to amounts recorded in the accounting records.

26. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the intercollegiate athletics program. These disbursements were for supplies, equipment, travel, and other general 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 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 University of Virginia 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 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, 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.

A handwritten signature in black ink, appearing to read "Walter J. Kucharski", is written over a horizontal line.

AUDITOR OF PUBLIC ACCOUNTS

JHS:sks
sks:51

SCHEDULE

UNIVERSITY OF VIRGINIA
SCHEDULE OF REVENUES AND EXPENSES
OF INTERCOLLEGIATE ATHLETICS PROGRAMS
For the Year Ended June 30, 2005

	Football	Men's Basketball
Operating revenues:		
Ticket sales	\$ 9,097,643	\$ 1,797,221
Student fees	-	-
Away game sales and guarantees	965,575	333,239
Contributions	4,986,693	5,648,206
NCAA and conference distributions and post-season revenue	950,000	73,625
Program sales, concessions, novelty, and parking	494,768	83,059
Royalties, advertisements, and sponsorships	20,000	-
Sports camps	20,071	9,761
Endowment and investment income	79,595	65,267
Other	690,105	-
Total operating revenues	17,304,450	8,010,378
Operating expenses:		
Athletic student aid	2,116,308	361,066
Guarantees	1,450,000	577,147
Coaching salaries and benefits	2,495,520	1,141,418
Staff and administrative salaries and benefits	802,883	131,987
Severance payments	127,022	2,719,759
Recruiting	257,319	166,957
Team travel	1,481,725	452,351
Equipment, uniforms, and supplies	333,128	72,629
Game expenses	745,155	415,513
Fund raising, marketing, and promotion	202,279	60,037
Direct facilities, maintenance, and rental	5,721,755	2,777,083
Spirit groups	19,962	1,291
Medical expenses and medical insurance	188,269	68,426
Memberships and dues	1,135	105
Other expenses	870,140	97,715
Total operating expenses	16,812,600	9,043,484
Excess/(deficiency) of revenues over/(under) expenditures for the year	\$ 491,850	\$ (1,033,106)

Women's Basketball	Other Sports	Non-Program Specific	Total
\$ 96,578	\$ 225,745	\$ 116,908	\$ 11,334,095
-	-	7,973,032	7,973,032
4,500	17,000	-	1,320,314
5,649,631	1,153,756	10,411,106	27,849,392
98,618	290,799	8,771,657	10,184,699
27,145	-	140,815	745,787
35,000	45,000	1,790,353	1,890,353
10,775	63,826	24,758	129,191
578	2,066	366,993	514,499
410	13,260	415,401	1,119,176
5,923,235	1,811,452	30,011,023	63,060,538
426,613	4,993,224	257,344	8,154,555
41,000	38,851	-	2,106,998
820,937	2,842,989	-	7,300,864
170,517	245,177	8,256,684	9,607,248
-	-	-	2,846,781
85,424	347,449	1,354	858,503
397,044	1,685,625	12,321	4,029,066
4,804	340,928	87,207	838,696
117,628	338,240	56,016	1,672,552
45,312	98,859	1,191,636	1,598,123
2,776,794	188,077	3,989,965	15,453,674
180	-	196,779	218,212
8,338	206,831	397,604	869,468
1,380	9,208	29,129	40,957
86,712	361,355	2,813,776	4,229,698
4,982,683	11,696,813	17,289,815	59,825,395
\$ 940,552	\$ (9,885,361)	\$ 12,721,208	\$ 3,235,143

UNIVERSITY OF VIRGINIA
NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2005

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 the Schedule is to present a summary of revenues and expenditures of the intercollegiate athletics programs of the University for the year ended June 30, 2005. The Schedule includes those intercollegiate athletics revenues and expenditures made on behalf of the University's 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 presented. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenditures not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

2. AFFILIATED ORGANIZATIONS

The University received \$21,913,722 in cash contributions from the Virginia Athletics Foundation (VAF). Approximately \$8,154,555 of these funds was for scholarships for student-athletes. VAF also contributed approximately \$895,000 of non-cash support in the form of fund raising and operating expenses paid by VAF. These amounts are all of the contributions exceeding ten percent of total contributions and are included in the accompanying Schedule in Contributions revenue.

3. CAPITAL ASSETS

Capital assets are stated at cost at date of acquisition, or fair market value at date of donation in the case of gifts. The University capitalizes construction costs that have a value or cost in excess of \$250,000 at the date of acquisition. Renovations in excess of \$250,000 are capitalized if they significantly extend the useful life of the existing asset. The Academic Division (which includes Athletics) capitalizes moveable equipment at a value or cost of \$5,000 and an expected useful life of one or more years. Maintenance or renovation expenditures of \$250,000 or more are capitalized only to the extent that such expenditures prolong the life of the asset or otherwise enhance its capacity to render service.

Depreciation of buildings, improvements other than buildings, and infrastructure is provided on a straight-line basis over the estimated useful lives ranging from ten to fifty years. Depreciation of equipment and capitalized software is provided on a straight-line basis over estimated useful lives ranging from one to twenty years.

Fixed assets related to construction are capitalized as expenditures are incurred. Projects that have not been completed as of the date of the statement of net assets are classified as construction-in-progress. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed asset. Capital assets, such as roads, parking lots, sidewalks, and other non-building structures and improvements are capitalized as infrastructure and depreciated accordingly.

A summary of the various capital asset categories relating to Intercollegiate Athletics Programs for the year ending June 30, 2005 is presented below. The summary presents total amounts for capital assets that are used at least some or all of the time for intercollegiate athletic activities. Construction in progress includes approximately \$78 million for the John Paul Jones Arena, which is scheduled to be completed and in use by fall 2006. While all basketball games will be played in the Arena, it will also host many non-Athletic events.

	<u>Balance at June 30, 2005</u>
Nondepreciable capital assets:	
Construction-in-progress	<u>\$ 83,088,792</u>
Depreciable capital assets:	
Buildings	50,622,278
Equipment	3,374,383
Improvements other than buildings	<u>105,147,770</u>
Total depreciable capital assets	<u>159,144,431</u>
Less accumulated depreciation:	
Buildings	14,634,416
Equipment	1,838,888
Improvements other than buildings	<u>26,968,359</u>
Total accumulated depreciation	<u>43,441,663</u>
Depreciable capital assets, net	<u>115,702,768</u>
Total capital assets, net	<u>\$198,791,560</u>

4. LONG-TERM DEBT

Long-term debt relating to Athletics:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance at June 30, 2005</u>
Revenue bonds:			
University of Virginia Series 1998A 9(d)	4.0% - 5.1%	2024	\$51,145,000
University of Virginia Series 2003B 9(d)	4.0% - 5.0%	2033	<u>35,289,000</u>
Total long-term debt			<u>\$86,434,000</u>

Long-term debt matures as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 2,265,000	\$ 4,307,700
2007	2,435,000	4,200,350
2008	2,560,000	4,078,600
2009	2,672,000	3,967,100
2010	2,805,000	3,831,088
2011-2015	16,310,000	16,863,819
2016-2020	20,845,000	12,329,331
2021-2025	21,648,000	6,624,350
2026-2030	8,339,000	2,982,350
2031-2033	<u>6,555,000</u>	<u>666,150</u>
Total	<u>\$86,434,000</u>	<u>\$59,850,838</u>

5. ALLOCATION OF ATHLETIC OVERHEAD COSTS

The University recovers administrative overhead costs from all auxiliary enterprises, including Intercollegiate Athletics Programs, by applying an indirect cost rate to the auxiliary enterprise's expenditure base. The University calculates this rate every two years and the rate in effect for the year ended June 30, 2005 was 7.3 percent. Accordingly, \$1,671,900 in overhead recoveries from Intercollegiate Athletics Programs is included as other expenses in the Schedule.

UNIVERSITY OF VIRGINIA

BOARD OF VISITORS

Gordon F. Rainey Jr., Rector

A. Macdonald Caputo	Mark J. Kington
Alan A. Diamonstein	Vincent J. Mastracco, Jr.
Susan Y. Dorsey	Lewis F. Payne
Thomas F. Farrell, II	Don R. Pippin
Georgia Willis Fauber	Warren M. Thompson
G. Slaughter Fitz-Hugh Jr.	Edwin Darracott Vaughan, Jr.
W. Heywood Fralin	John O. Wynne
Glynn D. Key	Catherine S. Neale, Student Member

Alexander G. Gilliam, Jr.,
Secretary to the Board of Visitors

UNIVERSITY OFFICIALS

John T. Casteen, III
President

Leonard W. Sandridge, Jr.
Executive Vice President and Chief Operating Officer

Craig K. Littlepage
Director of University Athletic Programs

Keith D. Vanderbeek
Associate Athletic Director for Business Operations

