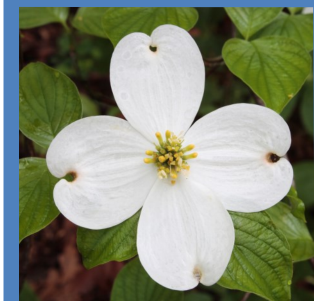


VIRGINIA MILITARY INSTITUTE

INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2019

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

February 10, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING 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 3.2.4.15.1, for the year ended June 30, 2019. Institute management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. 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

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 four 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 Institute's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics, which were not reviewed in connection with our audit of the Institute's financial statements.

2. Intercollegiate Athletics department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, 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 process for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the Institute's Intercollegiate Athletics programs. We tested these procedures as noted below.

Affiliated and Outside Organizations

4. Intercollegiate Athletics department management identified all 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 Institute's 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, 2019, 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 trial balance worksheets, and agreed the amounts in management's trial balance worksheets to the Intercollegiate Athletics department's accounts in the accounting records. We discussed the nature of adjusting journal entries with management and are satisfied that the adjustments are appropriate. One adjustment to the Schedule, as enumerated in item 12 below, was necessary to fully conform to NCAA

reporting guidance. While the agreed-upon procedures specify a deadline of January 15th for the completion of our work, subsequent questions regarding specific items in the Schedule prevented the completion of these procedures by the required deadline.

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. We determined that no revenue and expense accounts resulted in variances greater than ten percent over the prior period.

Revenues

9. We obtained the amount of ticket sales revenue from the Schedule. The amount was deemed immaterial for detailed testing.

10. We obtained documentation of the institution's methodology for allocating cadet fees to intercollegiate athletics programs. We compared cadet 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 with minor differences attributed to the methodology used for projecting cadet fee revenue.

11. Intercollegiate Athletics department management provided us with a listing of settlement reports and game guarantee agreements for away 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.

12. 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 VMI Foundation, VMI Development Board, and VMI Keydet Club, which are affiliated organizations, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the VMI Foundation, VMI Development Board, and VMI Keydet Club, which exceeded ten percent of all contributions and agreed them to supporting documentation. We identified a reconciling difference of $130,584 between the Institute's accounting system and the amount of contributions reported in the affiliated organizations' agreed-upon procedures report. We verified that Institute personnel did make an accurate adjustment to the Schedule and the corresponding affiliated organizations footnote disclosure.

13. We obtained the amount of in-kind revenue from the Schedule. The amount was deemed immaterial for detailed testing.

14. We obtained the amount of revenue from direct institutional support. The amount was deemed immaterial for detailed testing.

15. We obtained the amount of revenue from tournaments, conference distributions, and NCAA distributions from the Schedule. The amount was deemed immaterial for detailed testing.

16. We obtained the amount of program, novelty, parking, and concession sales revenue from the Schedule. The amount was deemed immaterial for detailed testing.

17. We obtained the amount of royalties, licensing, advertisement, and sponsorships. The amount was deemed immaterial for detailed testing.

18. We obtained the amount of other operating revenue from the Schedule. The amount was deemed immaterial for detailed testing.

Expenses

19. Intercollegiate Athletics department management provided us a listing of institutional cadets receiving aid during the reporting period. Since the Institute used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected ten percent of individual athletes across all sports and obtained each cadet's account detail from the Institute's student information system. We agreed each cadet's information to the information reported in the NCAA Membership Financial Reporting System via Compliance Assistant. We also ensured that the total aid amount for each sport agreed to amounts reported as Financial Aid in the student accounting system. We performed a check of selected cadets' information as reported in the NCAA Membership Financial Reporting System to ensure proper calculation of revenue distribution equivalencies.

20. We obtained the amount of game guarantee expense from the Schedule. The amount was deemed immaterial for detailed testing.

21. 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, including football and 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.

22. We obtained the Intercollegiate Athletics Department's written recruiting and team travel policies from 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.

23. We selected a sample of disbursements for team travel. 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.

24. We obtained the amount of other operating expense from the Schedule. The amount was deemed immaterial for detailed testing.

25. We obtained an understanding of the Institute's methodology for charging indirect cost to the athletic department. We evaluated indirect cost charges for reasonableness and noted proper reporting of these charges in the Schedule.

Other Reporting Items

26. We agreed total outstanding institutional debt to supporting debt schedules and the Institute's unaudited financial statements and general ledger, as the audited financial statements were not yet available.

27. We agreed the fair value of athletics dedicated endowments to supporting documentation provided by the Institute's Foundation.

28. We agreed the fair value of institutional endowments to supporting documentation provided by the Institute, including the audited financial statements of the Institute's Foundation.

29. We reviewed a schedule of athletics related capital expenditures made during the period. We determined there was a single capital expenditure during the reporting period. We validated existence and accuracy of recording and recalculated total.

Additional Procedures

30. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the Calculation of Revenue Distribution Equivalencies Report (CRDE) from the NCAA's Compliance Assistant software for the Institute. We noted agreement of the sports reported.

31. We compared current year Grants-in-Aid revenue distribution equivalencies to prior year reported equivalencies per the Membership Financial Report submission and noted no variations exceeding four percent when compared to prior year.

32. We obtained the Institute's Sports Sponsorship and Demographics Forms Report for the reporting year. After Institute personnel entered a single correction for Women's Indoor Track & Field, we validated that the countable sports identified by the Institute met the

minimum requirements for number of contests and minimum number of participants as defined in NCAA Bylaw 20.9.6.3. We ensured that countable sports have been properly identified in the NCAA Membership Financial Reporting System for the purpose of revenue distribution calculations.

33. We compared the current number of sports sponsored to the prior year total reported in the Institute's Membership Financial Report submission and noted no variations when compared to prior year

34. We obtained a listing of student-athletes receiving Pell grant awards from the Institute's student information system and agreed the total value of these Pell grants to the amount reported in the NCAA Membership Financial Reporting System. We noted agreement of the amounts reported.

35. We compared the total number of Pell grant awards in the current year to the number reported in the prior year NCAA Membership Financial Report submission. We noted no variations greater than 20 grants when compared with the prior year.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, the objective of which would be the expression of 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 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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

JRQ/clj

VIRGINIA MILITARY INSTITUTE
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2019

	Football	Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:					
Ticket sales	$ 233,064	$ 53,483	$ 1,860	$ -	$ 288,407
Cadet activity fees	-	-	-	6,235,108	6,235,108
Guarantees	695,000	277,500	12,000	-	984,500
Contributions (Note 2)	2,215,247	571,219	2,015,862	1,226,232	6,028,560
In Kind	-	-	-	2,590	2,590
Direct institutional support	23,697	27,720	77,991	190,155	319,564
NCAA distributions	84,025	68,739	36,807	398,810	588,381
Conference distributions (non media or bowl)	-	-	-	50,000	50,000
Concessions & program income	2,661	1,031	-	-	3,692
Royalties, advertising and licensing	-	-	-	66,987	66,987
Other	-	-	50,964	4,630	55,594
Total operating revenues	3,253,695	999,691	2,195,485	8,174,512	14,623,383
Operating expenses:					
Athletic student aid	2,293,982	638,698	1,855,044	41,580	4,829,304
Guarantees	40,000	35,000	-	-	75,000
Coaching salaries, benefits and bonuses paid by: Institute	916,620	467,386	1,195,754	-	2,579,760
Related entities	-	-	2,700	-	2,700
Support staff salaries, benefits and bonuses paid by: Institute	62,246	95,427	-	1,673,747	1,831,420
Related entities	-	-	-	445,949	445,949
Recruiting expenses	79,207	43,904	59,474	-	182,585
Team travel	147,341	134,724	504,962	-	787,027
Team equipment, uniforms and supplies	90,928	39,288	185,730	37,345	353,292
Game day expenses	53,780	67,916	131,645	10,572	263,913
Marketing and promotion	-	-	117	37,302	37,419
Direct facilities maintenance	-	-	253	276,888	277,141
Medical expenses and insurance	-	-	-	51,937	51,937
Memberships and dues	144	610	17,929	41,847	60,530
Other operating expense	37,206	24,833	35,296	379,758	477,092
Indirect Cost	-	-	-	1,672,085	1,672,085
Total operating expenses	3,721,452	1,547,786	3,988,904	4,669,010	13,927,152
Excess (deficiency) of revenues over (under) expenses	$ (467,757)	$ (548,095)	$ (1,793,419)	$ 3,505,502	$ 696,231

Other Reporting Items:	
Total institutional debt	$ 23,271,917
Value of athletics-dedicated endowments	$ 290,459
Value of institutional endowments	$ 505,687,618
Total athletics-related capital expenditures	$ 19,780

The accompanying Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics 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, 2019

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletic Programs has been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of current revenues and expenses related to the Institute's Intercollegiate Athletic Programs for the year ended June 30, 2019. The Schedule includes those intercollegiate athletics revenues and expenses made on behalf of the Institute's athletic programs by outside organizations not under the accounting control of the Institute. Because the Schedule presents only a selected portion of the Institute's activities, it is not intended to and does not present the financial position, changes in financial position or changes in cash flow for the year then ended. Revenues and expenses directly identifiable with each category of sport presented 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 $5,284,960 to the Institute during fiscal year 2019. These contributions include $4,542,825 for intercollegiate athletic programs student financial assistance, $14,200 in unrestricted funds and $727,935 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 $395,584 in restricted support, $280,000 in unrestricted funds, and $16,090 in student financial assistance to the Institute in support of intercollegiate athletics during fiscal year 2019.

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 2019 fiscal year, the VMI Foundation provided restricted funds of $45,688 for athletic student financial aid.

3. CAPITAL ASSETS

The Institute's policies and procedures for acquiring, approving, depreciating, and disposing of athletic-related capital assets are the same for all of the Institute's 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 50 years for buildings, ten to 30 years for infrastructure and land improvements, and five to 25 years for equipment.

A summary of capital asset balances for intercollegiate athletics at 30 June 2019 follows:

Athletic Capital Asset Footnote

Depreciable capital assets:	
Buildings	$32,503,642
Improvements other than buildings	4,443,118
Equipment	565,998
Total depreciable capital assets at cost	37,512,758
Less accumulated depreciation:	
Buildings	(8,735,053)
Improvements other than buildings	(3,396,808)
Equipment	(449,488)
Total accumulated depreciation	(12,581,349)
Total depreciable capital assets, net of accumulated depreciation	24,931,409
Non-depreciable capital assets:	
Construction-in-progress	-
Total capital assets for intercollegiate athletics, net of accumulated depreciation	$24,931,409

4. ADMINISTRATIVE COST RECOVERIES

The Institute recovers from auxiliary enterprises an amount to reimburse for the cost of institutional support and the operation and maintenance of plant. For the 2019 fiscal year, the Institute recovered from the intercollegiate athletics program $760,805 of institutional support costs and $911,280 for operation and maintenance of plant costs, both are reflected as a non-program, indirect cost expense.

VIRGINIA MILITARY INSTITUTE
As of June 30, 2019

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INSTITUTE OFFICIALS

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