



UNIVERSITY OF VIRGINIA

INTERCOLLEGIATE ATHLETICS PROGRAM

FOR THE YEAR ENDED

JUNE 30, 2016

Auditor of Public Accounts  
Martha S. Mavredes, CPA

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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 17, 2017

The Honorable Terence R. McAuliffe  
Governor of Virginia

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

Teresa A. Sullivan  
President, University of Virginia

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING 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) Constitution 3.2.4.15, for the year ended June 30, 2016. 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 attestation standards established by the American Institute of Certified Public Accountants and 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 process 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, 2016, 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. Certain adjustments to the Schedule were necessary to conform with NCAA

reporting guidance. 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. Variances exceeding one million dollars or ten percent of prior period amounts or budget estimates are explained below:

<b>Line Item</b>	<b>Explanation</b>
Ticket Sales	The University experienced an 18 percent increase in ticket sales during fiscal year 2016, as a result of increased demand due to home games against Notre Dame and Virginia Tech.
Contributions	The University experienced a 14 percent increase in contributions due to increased gifts for grants in aid (scholarships) attributable to the implementation of student athletes receiving aid up to the cost of attendance, in accordance with new NCAA legislation. In addition, gifts supporting the operation of various athletic facilities collectively increased.
Royalties, Licensing, Advertisement and Sponsorships	The University experienced an increase in this line item due to several nonrecurring signing bonuses, and product received in-kind as part of a sponsorship agreement.
Athletic Student Aid	This line item increased 13 percent, or \$2 million due to the implementation of providing up to the full cost of attendance to student athletes as part of their grant in aid.
Direct Overhead and Administrative Expenses	The University experienced a number of non-capitalizable facility updates and renovations in fiscal year 2016, causing this line item to increase by approximately 55 percent.
Total Salaries and Benefits (Budget to Actual)	Total salaries and benefit payments exceeded budgeted salaries and benefits by \$2.7 million or 7.6 percent. The majority of the budget overage is attributed to \$2.0 million in severance payments associated with the termination of head and assistant coach contracts for the football team during fiscal year 2016.

## **Revenues**

9. We performed a walkthrough of the University's process for selling tickets and recording ticket sales revenue. We received a summary report of tickets sold by sport from the University's ticketing system and agreed ticket sales revenue for all tickets sold by comparing the summary report to total revenue recorded in the general ledger and the Schedule. We determined the amounts reported in the Schedule to be substantially in agreement with the amounts reported in the ticketing system.
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. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. This amount was deemed to be immaterial for detailed testing.
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 Virginia Athletic 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, which exceeded ten percent of all contributions and agreed them to supporting documentation. An adjustment was made to the Schedule to exclude capital contributions of \$170 thousand for the University's Baseball Stadium. Per NCAA reporting guidance, capital projects are not to be included in the Schedule, as the Schedule is intended to reflect operating activities of the Intercollegiate Athletics program.
13. We obtained the amount of in-kind contribution revenue reported in the Schedule 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 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.

15. 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.
16. We compared the amount of revenue and a selection of transactions related to program sales, concessions, novelty sales, and parking to the institution's 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 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.
18. We obtained an understanding of the University's methodology for recording revenues from sport camps. This amount was deemed to be immaterial for detailed testing.
19. We gained an understanding of the University's process for using endowment and investment income in accordance with the related endowment agreement. We compared endowment and investment income reported in the general ledger to the amount reported in the Schedule. We found these amounts to be substantially in agreement.
20. We compared the amount of revenue related to other revenue to the amount reported in the Schedule. We reviewed classification of a sample of transactions and agreed those transactions to supporting documentation.

### **Expenses**

21. 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 10 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.
22. 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.

23. 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.
24. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. We reviewed selected severance payments and found that each selected payment agreed to the related termination letter or employment contract and was properly recorded in the accounting system.
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 recruiting, team travel, sports equipment, uniforms, and supplies, game expenses, fundraising, marketing, and promotion, direct overhead and administration, medical expenses and insurance, student-athlete meals, 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 all facility payments included in the Schedule and agreed them to supporting documentation.
28. We obtained an understanding of the University'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.



### **Additional Procedures**

29. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the squad lists of the institution. We noted agreement of the sports reported.
30. We obtained the institution's Sports Sponsorship and Demographics Forms Report for the reporting year. We validated that the countable sports identified by the institution 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.

We were not engaged to and did not conduct an examination, 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 the 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 The University of Virginia 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

EMS/clj

**UNIVERSITY OF VIRGINIA**  
**SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
For the year ended June 30, 2016

	Football	Men's Basketball	Women's Basketball	Baseball	Track & Field	Other Sports	Non-Program Specific	Total
<b>Operating revenues:</b>								
Ticket sales	\$ 9,959,864	\$ 3,741,818	\$ 148,132	\$ 465,063	\$ -	\$ 242,465	\$ 55,645	\$ 14,612,987
Student fees	-	-	-	-	-	-	13,730,496	13,730,496
Guarantees	300,000	200,000	-	3,700	-	12,000	-	515,700
Contributions	4,273,198	2,423,946	671,718	1,462,627	1,595,583	10,553,095	10,253,714	31,233,880
In-Kind	-	190,796	-	-	-	124,912	7,317	323,025
Media rights	12,771,841	3,192,960	-	-	-	-	-	15,964,802
NCAA distributions	-	120,805	8,449	116,025	93,858	177,004	1,926,524	2,442,665
Conference distributions (non-media or bowl)	168,746	210,432	170,420	116,893	129,114	298,100	4,679,452	5,773,158
Program, novelty, parking, and concession sales	457,826	245,524	35,410	250,296	-	62,394	24,801	1,076,249
Royalties, licensing, advertisement and sponsorships	-	-	-	253,000	-	134,300	13,982,630	14,369,930
Sports camp revenues	-	-	-	-	-	-	172,562	172,562
Athletics restricted endowment and investments income	-	-	-	-	-	-	2,287,964	2,287,964
Other operating revenue	-	-	-	-	-	-	768,902	768,902
Total operating revenues	27,931,475	10,326,281	1,034,129	2,667,603	1,818,554	11,604,270	47,890,006	103,272,319
<b>Operating expenses:</b>								
Athletic student aid	4,273,198	775,462	671,718	645,575	1,527,122	8,862,489	456,488	17,212,051
Guarantees	525,000	330,000	95,500	17,200	1,000	22,500	-	991,200
Coaching salaries, benefits, and bonuses paid by the University and related entities	6,604,313	4,165,894	1,699,082	1,858,446	573,337	5,211,104	-	20,112,175
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	1,092,630	816,512	360,927	90,552	27,635	272,842	12,709,758	15,370,856
Severance payments	2,373,967	-	-	-	-	-	262,951	2,636,918
Recruiting	522,431	221,200	147,457	58,926	74,297	512,557	-	1,536,868
Team travel	1,212,255	1,176,314	546,387	698,375	515,249	2,015,088	2,019	6,165,687
Sports equipment, uniforms, and supplies	734,171	96,967	75,125	126,038	159,466	790,749	15,167	1,997,684
Game expenses	1,677,843	791,706	484,601	553,669	145,294	652,962	111,212	4,417,287
Fundraising, marketing and promotion	209,238	63,323	62,533	37,862	4,423	40,261	234,293	651,934
Sports camp expenses	-	-	-	-	-	-	71,593	71,593
Spirit groups	24,938	1,876	-	-	-	-	238,744	265,558
Athletic facility leases and rental fees	-	-	-	-	-	-	667,515	667,515
Athletic facility debt service	-	-	-	-	-	-	10,963,097	10,963,097
Direct overhead and administrative expenses	77,424	18,568	12,890	45,104	16,920	171,310	5,919,454	6,261,671
Indirect cost paid to the institution by athletics	-	-	-	-	-	-	3,004,000	3,004,000
Medical expenses and insurance	77,606	21,047	5,291	27,103	52,901	186,344	940,207	1,310,499
Memberships and dues	1,516	10	-	320	921	8,976	57,610	69,353
Student-Athlete Meals (non-travel)	173,817	12,423	3,216	6,644	2,096	47,079	541,476	786,750
Other operating expenses	863,219	259,780	112,562	270,070	22,339	252,780	3,528,292	5,309,043
Total operating expenses	20,443,565	8,751,081	4,277,291	4,435,884	3,123,001	19,047,041	39,723,876	99,801,739
Excess (deficiency) of revenues over (under) expenses	\$ 7,487,910	\$ 1,575,200	\$ (3,243,162)	\$ (1,768,281)	\$ (1,304,447)	\$ (7,442,771)	\$ 8,166,130	\$ 3,470,579
<b>Other Reporting Items:</b>								
Total athletics-related debt								\$ 67,673,083
Total institutional debt								\$ 1,511,935,250
Value of athletics-dedicated endowments								\$ 47,210,904
Value of institutional endowments								\$ 4,117,446,389
Total Athletics-related Capital Expenditures								\$ 4,188,799

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

**UNIVERSITY OF VIRGINIA**  
**NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**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 expenses of the intercollegiate athletics programs of the University for the year ended June 30, 2016. The Schedule includes those intercollegiate athletics revenues and expenses 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 expenses not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

**2. AFFILIATED ORGANIZATIONS**

The University received \$31,497,905 in operating contributions from the Virginia Athletics Foundation (VAF). This amount includes approximately \$16,905,394 for scholarships for student-athletes, \$6,367,231 for operating expenses and \$478,212 which is used to fund capital expenses. Due to NCAA reporting requirements, \$170,221 of these capital expenses, and the corresponding contributions, are not recorded in the Schedule as they will be capitalized under the University's capitalization policy. The remaining capital expenses are not subject to capitalization and are included in the Schedule.

The Schedule also includes approximately \$323,025 paid directly by VAF for the benefit of University Athletics, for fundraising and operating expenses, as well as for improvements and equipment. In addition, the University received \$7,594,264 from VAF, which the University is currently using to fund debt service for Scott Stadium, the John Paul Jones Arena, and the George Welsh Indoor Practice Facility. These amounts 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 two or more years. Maintenance or renovation expenses of \$250,000 or more are capitalized only to the extent that such expenses 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 50 years. Depreciation of equipment and capitalized software is provided on a straight-line basis over estimated useful lives ranging from one to twenty years.

Capital assets related to construction are capitalized as expenses are incurred. Projects that have not been completed as of the date of the Statement of Net Position are classified as Construction in Process. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the capital 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 Athletics for the year ending June 30, 2016 is presented below. The summary presents total amounts for capital assets that are used some or all of the time for intercollegiate athletic activities, including the John Paul Jones Arena. While all basketball games will be played in the Arena, it hosts many non-Athletic events.

	Balance at June 30, 2016
Depreciable Capital Assets:	
Buildings	\$ 229,344,226
Infrastructure	12,712,719
Equipment	3,337,901
Improvements other than buildings	<u>107,864,571</u>
Total depreciable capital assets	<u>353,259,417</u>
Less Accumulated Depreciation for:	
Buildings	78,760,555
Infrastructure	3,985,333
Equipment	2,503,626
Improvements other than buildings	<u>80,746,369</u>
Total accumulated depreciation	<u>165,995,883</u>
Total Depreciable Capital Assets, Net	<u>\$ 187,263,534</u>

#### 4. LONG-TERM DEBT

Long-term debt relating to Athletics:

Description	Interest Rates	Maturity	Balance at June 30, 2016
Revenue Bonds:			
Scott Stadium	4.75%	2024	\$27,585,736
John Paul Jones Arena	4.68%	2025	<u>40,087,347</u>
Total Long-term debt			<u>\$67,673,083</u>
Long-term debt maturities:			
	Fiscal Year	Principal	Interest
	2017	\$ 5,194,205	\$ 2,380,445
	2018	5,149,889	2,184,234
	2019	5,149,889	1,988,024
	2020	5,149,889	1,791,813
	2021	5,149,889	1,595,602
	2022-2026	<u>41,879,320</u>	<u>4,423,039</u>
	Total	<u>\$67,673,081</u>	<u>\$14,363,157</u>

#### 5. ALLOCATION OF ATHLETIC OVERHEAD COSTS

The University recovers overhead from all auxiliary enterprises, including Athletics, by applying an indirect cost rate to the auxiliary enterprise's expense base. This rate is calculated every two years. The rate in effect for the year ended June 30, 2016 was 5.27 percent and generated \$3,004,000 in overhead recoveries from Athletics.

#### 6. CAPITAL EXPENDITURES

Due to NCAA reporting requirements, \$4,188,799 in capital expenditures, paid from operating accounts, are not recorded in the Schedule as they were capitalized under the University's capitalization policy.

## UNIVERSITY OF VIRGINIA

As of June 30, 2016

### BOARD OF VISITORS

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