



VIRGINIA COMMONWEALTH UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS

FOR THE YEAR ENDED

JUNE 30, 2019

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, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
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** (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 3.2.4.15.1, for the year ended June 30, 2019. University 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 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 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 University'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 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 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 University'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 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 trial balance worksheets, and agreed the amounts in management's trial balance worksheets to the Intercollegiate Athletics department's accounts in the accounting records. Certain adjustments to the Schedule were necessary to conform to NCAA reporting guidance. The University adjusted sports equipment, uniform and

supplies and other operating expenses by \$7,639 and \$64,765, respectively, to exclude capital expenditures. We discussed the nature of adjusting journal entries 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 ten percent of prior period amounts or budget estimates are explained below:

<u>Line Item</u>	<u>Explanation</u>
Coaching salaries, benefits, and bonuses paid by the University and related entities	The University experienced performance bonus increases of \$206,700. In addition, the University gave merit increases to coaches totaling \$136,400. The University also compensated certain coaches based on planned increases in their contracts totaling \$193,800.
Direct overhead and administrative expenses	The University had two large transfers in the prior year that did not recur in the current year: a \$500,000 payment on a chiller and a \$385,000 payment on the Basketball Development Center.

Revenues

9. We reviewed a sample of ticket sales reconciliations performed for accuracy and proper review and approval. We performed a recalculation of ticket sales revenue for Men's Basketball by comparing the number of tickets sold, attendance, and sale price to total revenue recorded in the Schedule. We determined the reconciliations reviewed to be accurate and the amounts reported in the Schedule to be substantially in agreement with our recalculation.
10. We obtained documentation 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 with minor differences attributed to the methodology used for projecting student fee revenue.
11. We obtained the amount of direct institutional support revenue from the Schedule. The amount was deemed to be immaterial for detailed testing.
12. We obtained the amount of indirect institutional support revenue from the Schedule. The amount was deemed to be immaterial for detailed testing.

13. We obtained the amount of game guarantee revenue from the Schedule. The amount was deemed to be 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 Virginia Commonwealth University Foundation, which exceeded ten percent of all contributions and agreed them to supporting documentation.
15. We obtained the amount of media rights revenue from the Schedule. The amount was deemed to be 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 tournaments, conference distributions, and NCAA distributions. We inspected the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation. After a reclassification of \$122,144 from conference to NCAA distributions, and a \$400 reclassification of conference distributions to media rights, amounts are properly recorded in the Schedule.
17. We obtained the amount of program, novelty, parking, and concession sales revenue from the Schedule. The amount was deemed to be immaterial for detailed testing.
18. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, licensing, advertisement, and sponsorships. We inspected the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
19. We obtained the amount of athletics-restricted endowment and investments income revenue from the Schedule. The amount was deemed to be immaterial for detailed testing.
20. We obtained the amount of other operating revenue from the Schedule. The amount was deemed to be immaterial for detailed testing.

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 ten percent of individual student-athletes across all sports and obtained the students' account detail from the institution's student information system. We agreed each student'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 students information as reported in the NCAA's Compliance Assistant software to ensure proper calculation of revenue distribution equivalencies. We found one student-athlete with a non-athletic grant totaling \$3,500 incorrectly counting towards the team equivalencies based on an entry error in Compliance Assistant. Following communication of the error, University staff submitted a correction to the NCAA's system. Additionally, the University reviewed all other student-athletes with the same grant and determined those grants to be properly reported in the calculation of grant-in-aid equivalencies.
22. We obtained the amount of game guarantee expense from the Schedule. The amount was deemed to be immaterial for detailed testing.
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 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. 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 University and NCAA policies and noted substantial agreement of those policies.
25. We selected a sample of disbursements for team travel and direct overhead and administrative 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.
26. 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

included in the Schedule, including the two highest facility payments, and agreed them to supporting documentation.

27. 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.

Other Reporting Items

28. We obtained repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We recalculated annual maturities reported in the notes to the Schedule and agreed total annual maturities and total outstanding athletic related debt to supporting documentation. After the addition of an installment purchase not previously reported in the Schedule to total athletics related debt, amounts are properly recorded in the Schedule.
29. We agreed total outstanding institutional debt to supporting debt schedules and the University's audited financial statements.
30. We agreed the fair value of athletics-dedicated endowments to supporting documentation provided by the University.
31. We agreed the fair value of institutional endowments to supporting documentation, including the audited financial statements of the University.
32. We obtained a schedule of athletics related capital expenditures made during the period. We selected transactions to validate existence and accuracy of recording and recalculated totals.

Additional Procedures

33. 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 institution. We noted agreement of the sports reported.
34. 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 the prior year.
35. 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.

36. We compared the current number of sports sponsored to the prior year total reported in the University's Membership Financial Report submission and noted no variations when compared to the prior year.
37. We obtained a listing of student-athletes receiving Pell grant awards from the institution'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 found the University excluded summer Pell grants in Compliance Assistant totaling \$11,504, which should be included in Compliance Assistant based on current NCAA reporting guidance. The University submitted a request to revise the amount reported and following revision, we noted agreement of the amounts reported to the listing of student-athletes receiving Pell grant awards.
38. 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 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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

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

	Men's Basketball	Women's Basketball	Men's Baseball	Other Sports	Non-Program Specific	Total
<u>Operating revenues:</u>						
Ticket sales	\$ 2,496,261	\$ 13,832	\$ 27,850	\$ 14,244	\$ 82,230	\$ 2,634,417
Student fees	-	-	-	-	21,292,665	21,292,665
Direct institutional support	-	-	-	-	221,895	221,895
Indirect institutional support	-	-	-	-	385,173	385,173
Guarantees	-	19,016	7,000	6,000	-	32,016
Contributions	4,249,698	-	20,043	111,060	315,353	4,696,154
Media rights	-	-	-	-	195,910	195,910
NCAA distributions	44,793	-	-	1,500	429,033	475,326
Conference distributions (non-media or bowl)	-	-	-	-	1,445,418	1,445,418
Program, novelty, parking, and concession sales	-	-	-	-	409,651	409,651
Royalties, licensing, advertisement and sponsorships	2,227,587	-	-	-	804,597	3,032,184
Athletics restricted endowment and investments income	9,500	1,000	3,300	26,900	19,300	60,000
Other operating revenue	-	-	-	600	871,237	871,837
Total operating revenues	9,027,839	33,848	58,193	160,304	26,472,462	35,752,646
<u>Operating expenses:</u>						
Athletic student aid	824,392	799,931	544,535	4,319,197	136,815	6,624,870
Guarantees	532,500	30,000	9,626	15,222	-	587,348
Coaching salaries, benefits, and bonuses paid by the University and related entities	2,539,033	929,334	414,725	2,218,021	-	6,101,113
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	581,788	223,149	14,089	19,351	5,241,969	6,080,346
Recruiting	286,664	84,170	25,168	219,914	-	615,916
Team travel	793,886	415,611	177,459	1,083,523	-	2,470,479
Sports equipment, uniforms, and supplies	194,921	88,651	55,161	681,177	302,294	1,322,204
Game expenses	157,403	72,111	40,400	89,494	-	359,408
Fundraising, marketing and promotion	50	-	-	-	858,703	858,753
Spirit groups	-	-	-	-	148,563	148,563
Athletic facility leases and rental fees	-	-	122,000	142,414	143,152	407,566
Athletic facility debt service	-	-	-	-	1,946,288	1,946,288
Direct overhead and administrative expenses	110,634	58,083	9,047	66,436	4,734,695	4,978,895
Indirect cost paid to the institution by athletics	-	-	-	-	1,035,276	1,035,276
Indirect institutional support	-	-	-	-	385,173	385,173
Medical expenses and insurance	20,306	19,445	2,026	54,288	405,103	501,168
Memberships and dues	1,435	1,070	165	5,863	13,985	22,518
Student-Athlete Meals (non-travel)	185,136	76,529	24,018	138,604	-	424,287
Other operating expenses	132,108	35,300	39,069	148,243	529,699	884,419
Total operating expenses	6,360,256	2,833,384	1,477,488	9,201,747	15,881,715	35,754,590
Excess (deficiency) of revenues over (under) expenses	\$ 2,667,583	\$ (2,799,536)	\$ (1,419,295)	\$ (9,041,443)	\$ 10,590,747	\$ (1,944)
<u>Other Reporting Items:</u>						
Total athletics-related debt						\$ 16,121,888
Total institutional debt						\$ 489,243,628
Value of athletics-dedicated endowments						\$ 83,858
Value of institutional endowments						\$ 352,145,549
Total athletics-related capital expenditures						\$ 72,402

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, 2019

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, 2019. 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 \$83,858 at June 30, 2019. 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 and component unit endowments totaled \$352,145,549 at June 30, 2019.

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, 2019 were as follows:

Land Improvements	\$ 3,662,691
Buildings	65,251,643
Equipment	<u>2,076,849</u>
Total Cost	<u>70,991,183</u>
Less: Accumulated Depreciation	
Land Improvements	3,404,441
Buildings	26,494,527
Equipment	<u>1,479,050</u>
Total Accumulated Depreciation	<u>31,378,018</u>
Net Property & Equipment	<u>\$39,613,165</u>

Total athletics related capital expenditures for the fiscal year ending June 30, 2019 were \$72,402.

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>Principal</u>	<u>Interest</u>
2020	218,820	15,023
2021	<u>212,934</u>	<u>5,323</u>
Total	<u>\$431,754</u>	<u>\$20,346</u>

General Revenue Pledge Bonds were issued to fund the capital construction of a basketball training facility in June 2015, totaling \$10,000,000. The bonds carry an interest rate of 2.03 percent and are due May 1, 2030. In November 2018, additional general revenue pledge bonds were issued in the amount of \$6,695,000 also for the basketball training facility. These carry an interest rate of 4 percent and are due May 2048. This bond issuance paid off the previously held short term debt whose balance was \$6,645,504 at the start of the fiscal year.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 648,078	\$ 428,131
2021	661,538	414,975
2022	675,000	401,546
2023	688,462	387,843
2024	701,923	373,868
2025-2029	3,730,769	1,649,746
2030-2034	792,307	1,355,084
2035-2039	-	1,339,000
2040-2044	-	1,339,000
2045-2049	<u>6,695,000</u>	<u>1,071,200</u>
Total	<u>\$14,593,077</u>	<u>\$8,760,393</u>

An installment purchase contract was entered into to acquire capital equipment. The debt maturity schedule and summary of future interest requirements is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 184,699	\$20,217
2021	188,420	16,496
2022	192,216	12,700
2023	196,089	8,827
2024	200,039	4,877
2025-2029	<u>135,594</u>	<u>1,017</u>
Total	<u>\$1,097,057</u>	<u>\$64,134</u>

Total University debt totaled \$489,243,628 as of June 30, 2019.

5. CONTRIBUTIONS

During the fiscal year ended June 30, 2019, the University received \$4,769,125 of Athletics-related contributions from the Virginia Commonwealth University Foundation to support operations. This constituted ten percent or more of total contributions. The majority of these contributions are included in revenue as “contributions” and additional amounts are included in various revenue and expense lines. Contributions received by the University from the Foundation for Athletics related capital projects are not included in this schedule.

6. OPERATING DEFICIT

Auxiliary Enterprise Programs are essentially run as businesses and expenses must remain within revenues and accumulated fund balances. The Commonwealth has established guidelines requiring units to set aside an amount from current year operations as a reserve to be used to fund revenue shortfalls and special needs (primarily equipment replacement), facility repairs and renovations. Budget administration policies for Auxiliary Enterprise Programs address the annual operating budget and the use of fund balances for both State and University Auxiliary funds. Within the scope of these policies, the operating deficit in fiscal year ending, June 30, 2019 was covered by these reserves.

VIRGINIA COMMONWEALTH UNIVERSITY

As of June 30, 2019

BOARD OF VISITORS

Keith T. Parker, Rector

H. Benson Dendy III, Vice Rector

Colette W. McEachin, Secretary

Pamela El	Edward L. McCoy
Carolina Espinal	Tyrone E. Nelson
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John A. Luke, Jr.	Shantaram Talegaonkar
G. Richard Wagoner, Jr.	

UNIVERSITY OFFICIALS

Michael Rao, President

Edward K. McLaughlin, Director of Intercollegiate Athletics Programs