



VIRGINIA COMMONWEALTH UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS

FOR THE YEAR ENDED

JUNE 30, 2017

Auditor of Public Accounts
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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 16, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
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**, 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, 2017. 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 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, 2017, 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. 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> |
|--|--|
| Contributions | The University experienced an increase in contributions during fiscal year 2017 primarily due to revised contribution requirements for season ticket holders and a revamped stadium seating methodology to encourage larger contributions. |
| Athletic student aid | Financial aid provided to student-athletes increased during fiscal year 2017 primarily due to an increase in scholarship budgets for various women's sports. |
| Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities | The University reported an increase in compensation and benefits paid to support and administrative staff in fiscal year 2017. The increase was largely driven by the inclusion in this reporting category of salaries for certain employees responsible for fundraising activities that had previously been reported in fundraising, marketing, and promotion expenses. Much of the additional increase was caused by the creation of new positions within Athletics. |
| Direct overhead and administrative expenses | The University experienced an increase in overhead expenses during fiscal year 2017 primarily due to increased non-capital renovation project activity. Additionally, the University paid a one-time buyout of \$350,000 to satisfy the terms of its men's basketball coach's contract at a previous institution and recorded the buyout as administrative expense. |

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 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 with minor differences attributed to the methodology used for projecting student fee revenue.
11. We obtained the amount of direct institutional support revenue received by Athletics from the Schedule. This amount was deemed immaterial for detailed testing.
12. We obtained the amount of indirect institutional support revenue received by Athletics from the Schedule. This amount was deemed to be immaterial for detailed testing.
13. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. Game guarantee revenue 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. Intercollegiate Athletics Department management provided a list of in-kind contributions during the reporting period. We determined that these amounts did not constitute in-kind contributions in accordance with the classification definitions provided by the NCAA and the University reclassified them to the appropriate reporting category: Royalties, licensing, advertisement and sponsorships.
16. We obtained the amount of broadcast, television, radio, internet, and e-commerce rights revenue for the reporting year from the Schedule. This amount was deemed to be immaterial for detailed testing.
17. We obtained the amount of revenue related to participation in tournaments, conference distributions, and NCAA distributions during the reporting year from the Schedule. These amounts were deemed to be immaterial for detailed testing.

18. We obtained the amount of program sales, concessions, novelty sales, and parking revenue from the Schedule. This amount was deemed to be immaterial for detailed testing.
19. Intercollegiate Athletics Department management provided us with a listing of all and copies of significant 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.
20. We obtained the amount of athletics restricted endowment and investment income from the Schedule. This amount was deemed to be immaterial for detailed testing.
21. We compared the amount of revenue related to other revenue to the amount reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

Expenses

22. 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. We also ensured that the total aid amount for each sport agreed to amounts reported as Financial Aid in the student accounting system.
23. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for home games during the reporting period. This amount was deemed to be immaterial for detailed testing.
24. 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.
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 team travel; sports equipment, uniforms, and supplies; 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 and reasonable to intercollegiate athletics, however one was found to have been improperly recorded in the accounting records. That amount was deemed insignificant and did not warrant a revision to the Schedule.
- 27. 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.
- 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.

Other Reporting Items

- 29. We obtained repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We recalculated annual maturities reporting in the notes to the Schedule and agreed total annual maturities and total outstanding athletic related debt to supporting documentation.
- 30. We agreed total outstanding institutional debt to supporting debt schedules and the University's audited financial statements.
- 31. Athletics dedicated endowments were deemed to be immaterial for detailed testing.
- 32. We agreed the fair value of institutional endowments to supporting documentation, including the audited financial statements of the University's Foundation.
- 33. We obtained a schedule of athletics related capital expenditures made during the period. This amount was deemed to be immaterial for detailed testing.

Additional Procedures

- 34. 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.
- 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 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 noted agreement of the amounts reported.

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.

AUDITOR OF PUBLIC ACCOUNTS

EMS/alh

VIRGINIA COMMONWEALTH UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2017

| | Men's Basketball | Women's Basketball | Baseball | Other Sports | Non-Program Specific | Total |
|--|---------------------|-----------------------|----------------|----------------|-------------------------|----------------|
| <u>Operating revenues:</u> | | | | | | |
| Ticket sales | \$ 2,382,312 | \$ 13,959 | \$ 31,055 | \$ 12,020 | \$ 116,597 | \$ 2,555,943 |
| Student fees | - | - | - | - | 19,949,166 | 19,949,166 |
| Direct institutional support | - | - | - | - | 266,568 | 266,568 |
| Indirect institutional support | - | - | - | - | 393,541 | 393,541 |
| Guarantees | 150,000 | 18,000 | 8,000 | - | - | 176,000 |
| Contributions | 4,246,814 | 25,000 | 15,286 | 50,703 | 801,783 | 5,139,586 |
| Media rights | - | - | - | - | 179,473 | 179,473 |
| NCAA distributions | - | - | - | - | 920,278 | 920,278 |
| Conference distributions (non-media or bowl) | - | - | - | - | 747,933 | 747,933 |
| Program, novelty, parking, and concession sales | - | - | - | - | 105,339 | 105,339 |
| Royalties, licensing, advertisement and sponsorships | 1,653,976 | - | 5,000 | 6,500 | 822,751 | 2,488,227 |
| Athletics restricted endowment and investments income | 10,190 | 400 | 3,614 | 31,146 | 40,782 | 86,132 |
| Other operating revenue | 60,000 | - | 150 | 2,120 | 1,227,288 | 1,289,558 |
| Total operating revenues | 8,503,292 | 57,359 | 63,105 | 102,489 | 25,571,499 | 34,297,744 |
| <u>Operating expenses:</u> | | | | | | |
| Athletic student aid | 724,597 | 753,945 | 513,949 | 3,625,729 | 142,147 | 5,760,367 |
| Guarantees | 450,000 | 23,000 | 9,958 | 24,741 | - | 507,699 |
| Coaching salaries, benefits, and bonuses paid by the University and related entities | 2,466,545 | 766,799 | 344,133 | 1,717,699 | - | 5,295,176 |
| Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities | 503,267 | 179,751 | 6,625 | 7,064 | 4,647,038 | 5,343,745 |
| Recruiting | 300,123 | 95,669 | 21,164 | 130,976 | - | 547,932 |
| Team travel | 867,449 | 378,664 | 171,956 | 703,587 | 13,561 | 2,135,217 |
| Sports equipment, uniforms, and supplies | 269,129 | 122,031 | 70,627 | 731,393 | 463,671 | 1,656,851 |
| Game expenses | 141,699 | 81,305 | 34,875 | 86,817 | - | 344,696 |
| Fundraising, marketing and promotion | - | - | - | - | 685,220 | 685,220 |
| Spirit groups | - | - | - | - | 142,762 | 142,762 |
| Athletic facility leases and rental fees | - | - | 116,000 | 370,720 | 26,987 | 513,707 |
| Athletic facility debt service | - | - | - | - | 1,155,608 | 1,155,608 |
| Direct overhead and administrative expenses | 169,252 | 53,937 | 18,197 | 67,005 | 6,116,522 | 6,424,913 |
| Indirect cost paid to the institution by athletics | 192,808 | 64,547 | 24,365 | 128,238 | 352,670 | 762,628 |
| Indirect institutional support | - | - | - | - | 393,541 | 393,541 |
| Medical expenses and insurance | 7,990 | 958 | - | 20,238 | 274,124 | 303,310 |
| Memberships and dues | 1,005 | 3,985 | 45 | 5,305 | 13,979 | 24,319 |
| Student-Athlete Meals (non-travel) | 157,124 | 79,810 | 1,877 | 32,813 | 3,708 | 275,332 |
| Other operating expenses | 49,079 | 6,133 | 9,955 | 54,001 | 1,203,664 | 1,322,832 |
| Total operating expenses | 6,300,067 | 2,610,534 | 1,343,726 | 7,706,326 | 15,635,202 | 33,595,855 |
| Excess (deficiency) of revenues over (under) expenses | \$ 2,203,225 | \$ (2,553,175) | \$ (1,280,621) | \$ (7,603,837) | \$ 9,936,297 | \$ 701,889 |
| <u>Other Reporting Items:</u> | | | | | | |
| Total athletics-related debt | | | | | | \$ 18,596,324 |
| Total institutional debt | | | | | | \$ 484,829,344 |
| Value of athletics-dedicated endowments | | | | | | \$ 87,311 |
| Value of institutional endowments | | | | | | \$ 301,764,724 |
| Total athletics-related capital expenditures | | | | | | \$ 523,583 |

| | | | | | | |
|--|--|--|--|--|--|----------------|
| <u>Other Reporting Items:</u> | | | | | | |
| Total athletics-related debt | | | | | | \$ 18,596,324 |
| Total institutional debt | | | | | | \$ 484,829,344 |
| Value of athletics-dedicated endowments | | | | | | \$ 87,311 |
| Value of institutional endowments | | | | | | \$ 301,764,724 |
| Total athletics-related capital expenditures | | | | | | \$ 523,583 |

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, 2017

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, 2017. 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 \$87,311 at June 30, 2017. 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 held endowment totaled \$301,764,724 at June 30, 2017.

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, 2017 were as follows:

| | |
|--------------------------------|----------------------------|
| Land Improvements | \$ 3,662,691 |
| Buildings | 65,205,911 |
| Equipment | <u>1,904,253</u> |
| Total Cost | 70,772,855 |
| Less Accumulated Depreciation | |
| Land Improvements | 3,323,441 |
| Buildings | 22,498,452 |
| Equipment | <u>1,274,317</u> |
| Total Accumulated Depreciation | 27,096,210 |
| Net Property and Equipment | <u><u>\$43,676,645</u></u> |

Total athletics related capital expenditures for the fiscal year ending June 30, 2017, were \$523,583. Due to NCAA reporting requirements, \$389,910 in capital expenditures, paid from operating accounts, are not recorded in the schedule as they were capitalized under the University's capitalization policy.

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>Debt</u> | <u>Interest</u> |
|--------------------|----------------|-----------------|
| 2018 | \$ 201,266 | \$ 33,102 |
| 2019 | 209,458 | 24,112 |
| 2020 | 218,820 | 15,023 |
| 2021 | <u>212,934</u> | <u>5,323</u> |
| Total | \$ 842,478 | \$ 77,560 |

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.

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

| <u>Fiscal Year</u> | <u>Debt</u> | <u>Interest</u> |
|--------------------|------------------|-----------------|
| 2018 | \$ 621,154 | \$ 185,823 |
| 2019 | 634,615 | 173,214 |
| 2020 | 648,078 | 160,331 |
| 2021 | 661,538 | 147,175 |
| 2022 | 675,000 | 133,746 |
| 2023-2027 | 3,582,692 | 457,687 |
| 2028-2030 | <u>2,330,769</u> | <u>95,254</u> |
| Total | \$ 9,153,846 | \$ 1,353,230 |

Additionally, \$8,600,000 in draws from of a line of credit was outstanding from the prior fiscal year. The balance of this short term debt remained \$8,600,000 as of June 30, 2017.

Total University debt totaled \$484,829,344 as of June 30, 2017.

5. CONTRIBUTIONS

During the fiscal year ended June 30, 2017, the University received Athletics-related contributions from the Virginia Commonwealth University Foundation, totaling \$4,819,434 which constituted ten percent or more of total contributions.

VIRGINIA COMMONWEALTH UNIVERSITY

As of June 30, 2017

BOARD OF VISITORS

John A. Luke, Jr., Rector

Phoebe P. Hall, Vice Rector

Carol S. Shapiro, Secretary

| | |
|-----------------------------|-------------------------|
| H. Benson Dendy, III | Tyrone E. Nelson |
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| Robert D. Holsworth | John W. Snow |
| Colette W. McEachin | Jacquelyn E. Stone |
| Ron McFarlane | Shantaram Talegaonkar |
| Alexander B. McMurtrie, Jr. | G. Richard Wagoner, Jr. |
| Steve L. Worley | |

UNIVERSITY OFFICIALS

Michael Rao, President

Edward K. McLaughlin, Director of Intercollegiate Athletics Programs