VIRGINIA COMMONWEALTH UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS

FOR THE YEAR ENDED

JUNE 30, 2006

APA
Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

-T A B L E O F C O N T E N T S-

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

December 11, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

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

Eugene P. Trani
President, Virginia Commonwealth University

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

We have performed the procedures enumerated below, which were agreed to by the President of the **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) Bylaw 6.2.3, for the year ended June 30, 2006. The University's management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs and the Schedule's compliance with NCAA requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

The procedures that we performed and our findings are as follows:

Internal Controls

1. We reviewed documentation of accounting systems and operating procedures. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audits of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audit of the University's financial statements.

2. We reviewed an organizational chart provided by the Intercollegiate Athletics Department and discussed it with appropriate personnel. We also made certain inquiries of management regarding control consciousness, use of internal audit in the department, competence of personnel, and protection of records and equipment.

3. The University provided us with their procedures for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the intercollegiate athletics programs.

<u>Affiliated and Outside Organizations</u>

4. Intercollegiate Athletics Department management identified all intercollegiate athletics-related affiliated and outside organizations and provided us with copies of audited financial statements for each such organization for the reporting period.

5. The Intercollegiate Athletics Department prepared and provided to us a summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations included in the Schedule.

6. We requested any additional reports regarding internal control matters identified during the independent audits of affiliated and outside organizations and inquired as to the corrective action taken in response to such comments. We noted that the affiliated organizations had been audited by independent public accountants and we were not made aware of any internal control findings.

<u>Schedule of Revenues and Expenses of Intercollegiate Athletics Programs</u>

7. We obtained the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) for the year ended June 30, 2006, as prepared by the University and shown in this report. We recalculated the addition of the amounts on the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts on management's worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. We noted no differences between the amounts in the Intercollegiate Athletics Department's accounts in the accounting records and the amounts on the worksheets. We discussed the nature of worksheet adjustments with management and are satisfied that the adjustments are appropriate.

8. We applied certain analytical review techniques to the balances reported on the Schedule in order to determine the reasonableness of amounts reported therein. These techniques included trend analyses and other tests using operating data and review of actual amounts expended in comparison to budgeted amounts.

<u>Revenues</u>

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

10. Intercollegiate Athletics Department management provided us with a reconciliation of tickets sold during the reporting period, along with complimentary tickets and unsold tickets to the revenue recorded in the Schedule and related attendance figures. We reviewed these reconciliations for selected games and found such reconciliations to be accurate and agreed to amounts recorded as ticket revenue for those games.

11. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be materially in agreement.

12. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for away games during the reporting period, which we agreed to the accounting system. Based on analytical review of the amounts reported in the Schedule, we consider the amount reported to be reasonable. We deemed these revenues to be immaterial for detailed testing.

13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods, or services received directly by the Intercollegiate Athletics Department from any affiliated or outside organization, agency, or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. We vouched each individual contribution received directly by the University for its intercollegiate athletics programs that constituted more than ten percent of the contributions so received. Except for contributions received from the Rams Club, a booster organization, we noted no individual contribution which constituted more than ten percent of total contributions received for intercollegiate athletics.

14. From the summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations, we selected and tested receipts of such revenue and agreed each selection to supporting documentation and proper posting in the accounting records. We found all reviewed transactions to be in agreement.

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 inspected the agreements and agreed significant amounts to supporting documentation.

16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from broadcast, television, radio, and Internet rights. We inspected the agreements and agreed significant amounts to supporting documentation.

17. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, advertisements, and sponsorships. We inspected the agreements and agreed significant amounts to supporting documentation.

18. We obtained an understanding of the University's methodology for recording revenues from sport camps and inspected any sports-camp contracts between the University and persons conducting sport-camps or clinics during reporting period. We found that the University received and recorded revenues consistent with the terms of the contracts.

19. Based on receipts as listed in the accounting records, we selected and tested collections by the intercollegiate athletics programs. We found all reviewed amounts to be in agreement with supporting documentation, deposited promptly and intact, and properly recorded in the accounting records.

Expenses

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

21. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. We selected individual student athletes across all sports and agreed amounts from the listing to their award letter. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system.

22. Based on analytical review of the amounts reported in the Schedule, we deemed game guarantee expenses for home games to be reasonable. We deemed these expenses 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 and compared amounts paid for one pay period or a bonus payment from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.

24. We discussed the University's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies.

25. We obtained an understanding of the University's methodology for allocating indirect facilities support and ensured that amounts reported on the Schedule agreed to amounts recorded in the accounting records.

26. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the intercollegiate athletics programs. These disbursements were for supplies, equipment, travel, and other general expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.

We were not engaged to and did not conduct an examination; the objective of which would be the expression on an opinion on the Schedule 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 made 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 the 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

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SCHEDULE

VIRGINIA COMMONWEALTH UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the Year Ended June 30, 2006

	Men's Basketball	Women's Basketball
Operating revenue:		
University fee allocation	$ -	$ -
Conference and NCAA revenue sharing	-	-
Ticket sales	343,230	4,413
Game guarantees	-	-
Program sales	-	-
Contributions	-	-
Advertising	-	-
Radio and television rights	-	-
Indirect institutional support	-	-
Other	-	-
Total operating revenue	343,230	4,413
Operating expenses:		
Coaches and faculty salaries and fringe benefits	651,223	311,446
Other salaries and wages	74,911	6,412
Medical expenses and insurance	2,462	694
Game guarantees	72,685	3,000
Spirit groups	-	-
Financial aid	350,556	274,540
Memberships and dues	795	145
Travel - administrative and team	148,740	74,421
Direct facilities maintenance	18,491	9,119
Supplies, materials and equipment	7,302	14,489
Recruiting expenses	44,046	26,459
Fundraising	-	-
Game expenses	25	-
Indirect institutional support	-	-
Other	106,750	41,991
Total operating expenses	1,477,986	762,716
Excess/(deficiency) of revenues over/(under) operating expenditures before transfers	$ (1,134,756)	$ (758,303)

*Other sports include cross country, field hockey, golf, lacrosse, soccer, softball, and tennis

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

Men's Baseball	Other Sports*	Non-Program Specific	Total
$ -	$ -	$ 8,870,824	$ 8,870,824
-	-	362,322	362,322
12,143	12,425	-	372,211
-	400	-	400
-	-	130	130
17,274	39,103	541,728	598,105
-	-	809,827	809,827
-	-	27,300	27,300
-	-	171,382	171,382
-	1,090	328,179	329,269
29,417	53,018	11,111,692	11,541,770
169,841	813,774	1,458,072	3,404,356
24,667	41,594	734,117	881,701
37	16,644	149,261	169,098
5,500	1,500	2,000	84,685
-	-	39,530	39,530
176,835	1,475,636	52,480	2,330,047
-	3,190	58,467	62,597
67,962	306,740	183,164	781,027
4,438	12,353	2,237,761	2,282,162
28,572	95,898	107,525	253,786
13,669	28,220	-	112,394
-	-	194,035	194,035
-	1,810	283,247	285,082
-	-	171,382	171,382
47,934	129,220	769,006	1,094,901
539,455	2,926,579	6,440,047	12,146,783
$ (510,038)	$ (2,873,561)	$ 4,671,645	$ (605,013)

VIRGINIA COMMONWEALTH UNIVERSITY

NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF

INTERCOLLEGIATE ATHLETICS PROGRAMS

FOR THE YEAR ENDED JUNE 30, 2006

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, 2006. The Schedule includes those intercollegiate athletics revenues and expenditures 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 expenditures are directly identifiable with each category presented and are reported accordingly. Revenues and expenditures not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

2. ENDOWMENT

The Athletics Department has two quasi-endowments established for the benefit of the Department. The recorded value of one of the endowments totaled $80,293 at June 30, 2006 and $76,412 at June 30, 2005. The second endowment was established as a result of the settlement when the University ended its affiliation with the Metro Conference. The recorded value of this endowment totaled $48,877 at June 30, 2006, and $46,691 at June 30, 2005. The University has entrusted all endowment funds to the VCU Fund, an affiliated foundation, for investment in the Fund's investment pool. Funds transferred to the VCU Fund are subject to the investment policies of the VCU Fund. The Fund offers no guarantees relating to loss of investment value or rate of return on investments. Further, amounts transferred to the Fund must remain with the Fund unless the University Board of Visitors approves the use of these invested funds for specific University purposes.

3. CAPITAL ASSETS

The 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 10 to 40 years for buildings and fixtures and 5 to 20 years for equipment. The general range of estimated useful lives is 10 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.

Intercollegiate Athletics Programs related capital assets as of June 30, 2006 were as follows.

Land improvements	$ 1,549,131
Buildings	23,362,217
Equipment	4,527,795
Total cost	29,439,143
Less: Accumulated depreciation	
Land improvements	1,115,541
Buildings	3,540,518
Equipment	1,596,757
Total accumulated depreciation	6,252,816
Total Intercollegiate Athletics Programs related capital assets, net	$23,186,327

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 3% to 5.75%. The debt matures as follows:

Fiscal Year	Amount
2007	$ 181,892
2008	191,892
2009	201,892
2010	211,892
2011	221,892
2012-2016	1,313,378
2017-2021	1,697,703
Total	$4,020,541

A summary of future interest requirements is as follows:

Fiscal Year	Amount
2007	$ 202,325
2008	192,094
2009	181,312
2010	169,980
2011	158,079
2012-2016	594,969
2017-2021	20,905
Total	$1,719,664

The Commonwealth issues the General Revenue Pledge Bonds (9D) for agencies and institutions of the Commonwealth. For accounting purposes, the financing arrangement is considered to represent a bond payable. The Recreation Center facility was financed through the Commonwealth bond issues. The bonds have interest rates of 1.5% to 5.75%. Based on the square footage usage of the Recreation Center Facility the Intercollegiate Athletics Department is responsible for 55.5% of the debt. The debt matures as follows:

Fiscal Year	Amount
2007	$ 798,392
2008	813,662
2009	828,931
2010	844,201
2011	866,015
2012-2016	4,367,159
Total	$8,518,360

A summary of future interest requirements is as follows:

Fiscal Year	Amount
2007	$ 275,974
2008	260,006
2009	243,733
2010	227,154
2011	206,049
2012-2016	577,830
Total	$1,790,745

5. CONTRIBUTIONS

During the fiscal year ended June 30, 2006, the University received contributions from the Virginia Commonwealth University Foundation, totaling $529,148, which constituted ten percent or more of total contributions.

ADMINISTRATIVE OFFICERS

Eugene P. Trani
President

Norwood Teague
Athletic Director and Assistant to the President

Jeffrey E. Cupps
Senior Associate Athletic Director for Business Affairs