

VIRGINIA MILITARY INSTITUTE

**INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2007**



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Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 18, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

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

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

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

We have performed the procedures enumerated below, which were agreed to by the Superintendent of the **Virginia Military Institute**, solely to assist the Institute in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the Institute is in compliance with National Collegiate Athletic Association (NCAA) Bylaw 6.2.3, for the year ended June 30, 2007. The Institute'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 Institute. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

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 Institute'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 Institute'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, competence of personnel, and protection of records and equipment.
3. The Institute 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.

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. 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 obtained 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.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. We obtained the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) for the year ended June 30, 2007, as prepared by the Institute 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 work sheet 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.

Revenues

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. We reviewed these settlement reports and guarantee agreements for selected games and verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements. We found that revenue was properly computed and deposited promptly and intact.
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 Institute for its intercollegiate athletics programs that constituted more than ten percent of the contributions so received. Except for contributions received from the VMI Development Board, an affiliated organization, and the VMI Keydet Club, a booster organization, we noted no individual contribution which constituted more than ten percent of total contributions received for intercollegiate athletics.
14. Based on analytical review of the amount reported in the Schedule, we deemed revenues from tournaments, conference distributions, and NCAA distributions to be reasonable. We deemed these revenues to be immaterial for detailed testing.
15. Based on analytical review of the amount reported in the Schedule, we consider the revenue from royalties, advertisements, and sponsorships to be reasonable. We deemed these revenues to be immaterial for detailed testing.
16. Based on receipts as listed in the accounting records, we selected and tested collections by the intercollegiate athletics program. We compared and agreed the selected operating receipts to adequate supporting documentation. We found all reviewed amounts to be in agreement with supporting documentation and properly recorded in the accounting records

Expenses

17. We compared each major expense account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.
18. 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.
19. 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 immaterial for detailed testing.
20. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the Institute during the reporting period. We selected and tested individuals and compared amounts paid for two pay periods 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.
21. We reviewed the single contract making up the Severance Payments line item on the Schedule to ensure that the payment was properly supported. We found that the severance payment was accurate and reasonable.
22. We discussed the Institute's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies.
23. We obtained an understanding of the Institute's methodology for allocating indirect facilities support and ensured that amounts reported on the Schedule agreed to amounts recorded in the accounting records.
24. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the intercollegiate athletics program. 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 Military Institute in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the Institute. This report

relates only to the accounts and items specified above and does not extend to the financial statements of Virginia Military Institute or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the Superintendent and the Institute and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

JRQ/wdh

SCHEDULE

VIRGINIA MILITARY INSTITUTE
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the Year Ended June 30, 2007

	Football	Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:					
Ticket sales	\$ 166,399	\$ 30,215	\$ 15,079	\$ -	\$ 211,693
Cadet activity fees	-	-	-	1,972,415	1,972,415
Guarantees	135,000	120,000	-	-	255,000
Contributions (Note 2)	1,121,928	291,144	1,277,031	3,007,243	5,697,346
Direct governmental support-work study	-	-	-	408	408
Direct institutional support	-	-	-	183,000	183,000
Bowl/conference proceeds	-	-	-	145,222	145,222
Concessions and program income	4,116	812	-	-	4,928
Royalties, advertising and licensing	1,460	278	-	144,163	145,901
Other	15,515	3,775	1,238	92,871	113,399
Total operating revenues	1,444,418	446,224	1,293,348	5,545,322	8,729,312
Operating expenses:					
Athletic student aid	1,024,688	276,805	942,088	2,000	2,245,581
Guarantees	20,000	11,750	2,306	-	34,056
Coaching salaries, benefits and bonuses paid by the Institute and related entities	591,401	286,605	963,771	-	1,841,777
Support staff salaries, benefits and bonuses paid by the Institute and related entities	38,567	62,266	-	1,865,730	1,966,563
Severance payments	107,650	-	-	-	107,650
Recruiting expenses	91,764	35,864	53,178	3,402	184,208
Team travel	117,129	57,994	263,468	12,979	451,570
Team equipment, uniforms and supplies	100,715	20,577	138,789	21,346	281,427
Game day expenses	47,253	32,749	45,931	46,493	172,426
Marketing and promotion	405	1,952	15,836	47,804	65,997
Direct facilities maintenance	346	62	16,746	482,291	499,445
Medical expenses and insurance	-	-	107	80,815	80,922
Memberships and dues	8,666	4,545	22,711	4,944	40,866
Other	67,970	14,537	57,277	783,242	923,026
Total expenses	2,216,554	805,706	2,522,208	3,351,046	8,895,514
Net increase/(decrease) for the year	\$ (772,136)	\$ (359,482)	\$ (1,228,860)	\$ 2,194,276	\$ (166,202)

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

VIRGINIA MILITARY INSTITUTE
NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2007

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 this Schedule is to present a summary of operating revenues and expenses of the intercollegiate athletic programs of the Institute for the year ended June 30, 2007. The Schedule includes those intercollegiate athletics revenues and expenses made on behalf of the Institute's athletics programs by outside organizations not under the accounting control of the Institute. This schedule includes a selected portion of the Institute's activities and is not intended to and does not present either the financial position or changes in net assets 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. AFFILIATED ORGANIZATIONS

The Virginia Military Institute Keydet Club was established in 1948 for the purpose of raising contributions for scholarships to be awarded to athletes of the Institute. The Keydet Club contributed \$2,967,055 to the Institute during fiscal year 2007. These contributions include \$2,161,961 for intercollegiate athletic programs student financial assistance and \$805,094 in non-cash support provided by the Keydet Club.

The Virginia Military Institute Development Board was established in 1978 by the Virginia Military Institute Alumni Association to implement a comprehensive development program and to coordinate the Institute's various fund-raising activities. The Board provides support to VMI from cash donations and income from its endowment. The Board contributed \$1,995,500 in unrestricted support and \$564,445 in restricted support to the Institute during fiscal year 2007. In addition, the Board contributed \$48,989 in non-cash support to the Institute.

The VMI Foundation, Incorporated was established for the purpose of soliciting and accepting various funds and to disburse such funds, or income earned from those funds, for the advancement of VMI and the VMI Alumni Association. During the 2007 fiscal year, the VMI Foundation provided restricted funds of \$44,550 for athletic scholarships.

3. CAPITAL ASSETS

Capital assets consisting of buildings, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress (CIP) is capitalized at actual cost as expenses are incurred. The major activity in CIP relates to the on-going renovations to

the P. Wesley Foster, Jr. Stadium at Alumni Memorial Field and the Gray-Minor Stadium at Patchin Field. All gifts of capital assets are recorded at fair market value as of the date of donation.

Equipment is capitalized when the acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Renovation costs are capitalized when expenses total more than \$10,000, the asset value significantly increases, and the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation is computed using the straight-line method over the useful life of the assets. The useful life is 30 to 50 years for buildings, 10 to 20 years for infrastructure and land improvements, and 5 to 10 years for equipment.

A summary of capital asset balances for intercollegiate athletics at June 30, 2007 follows:

Depreciable capital assets	
Buildings	\$19,965,329
Equipment	535,970
Improvements other than buildings	<u>4,205,075</u>
Total depreciable capital assets at cost	<u>24,706,374</u>
Less accumulated depreciation:	
Buildings	(2,419,445)
Equipment	(314,894)
Improvements other than buildings	<u>(954,425)</u>
Total accumulated depreciation	<u>(3,688,764)</u>
Total depreciable capital assets, net of accumulated depreciation	<u>\$21,017,610</u>

4. ADMINISTRATIVE COST RECOVERIES

The Institute recovers from each auxiliary enterprise an amount to reimburse for the cost of institutional support and the operation and maintenance of plant. For the 2007 fiscal year, the Institute recovered from the intercollegiate athletics program \$281,923 of institutional support costs, which is reflected as a non-program, other operating cost expenditure and \$377,746 for operation and maintenance of plant costs which is reflected as non-program, direct facilities maintenance expenditure.

VIRGINIA MILITARY INSTITUTE

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