



VIRGINIA POLYTECHNIC INSTITUTE  
AND  
STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS  
FOR THE YEAR ENDED  
JUNE 30, 2015

Auditor of Public Accounts  
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## **–TABLE OF CONTENTS–**

	<b><u>Pages</u></b>
INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES	1-7
SCHEDULE	
Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	8
Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	9-11
UNIVERSITY OFFICIALS	12



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

January 14, 2016

The Honorable Terence R. McAuliffe  
Governor of Virginia

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

Dr. Timothy D. Sands  
President, Virginia Polytechnic Institute and State 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 Polytechnic Institute and State 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, for the year ended June 30, 2015. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. This agreed-upon procedures engagement was conducted in accordance with generally accepted government auditing standards. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

Procedures described below were limited to material items. For the purpose of this report, and as defined in the agreed-upon procedures, items are considered material if they exceed one-half of one percent of total revenues or total expenses, as applicable. The procedures that we performed and our findings are as follows:

### **Internal Controls**

1. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audit of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audit of the University's financial statements.
2. Intercollegiate Athletics Department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, protection of records and equipment, and controls regarding information systems with the information technology department.
3. Intercollegiate Athletics Department management provided us with their procedures 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, 2015, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts in management's worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. We noted no differences between the amounts in the Intercollegiate

Athletics Department's 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 compared each major revenue and expense account over ten percent of total revenues or total expenses, respectively, to prior period amounts and budget estimates. Variations exceeding one million dollars or ten percent are explained below:

<b>Line Item</b>	<b>Explanation</b>
Ticket Sales	The University hosted an additional home football game and also experienced an increase in basketball season ticket sales.
Media Rights	This is a new line item for fiscal year 2015 due to changes in NCAA reporting guidance. Previously, the University recorded media rights revenue in other line items, including NCAA/conference distributions, resulting in a 100 percent increase in this line item for the current year.
Conference Distributions	This is a new line item for fiscal year 2015 due to changes in NCAA reporting guidance. Previously, the University recorded conference distributions in another line item resulting in a 100 percent increase in this line item for the current year.
Coaching salaries, benefits, and bonuses paid by the University and related entities	The University hired a new coaching staff for the Men's Basketball team, which accounted for an increase of \$2,656,871.
Support Staff/Administrative Salaries, benefits, and bonuses paid by the University and related entities.	The University hired a new Athletic Director during the fiscal year resulting in an increase of \$642,009 for salary, benefits, and a signing bonus.

### **Revenues**

9. Intercollegiate Athletics Department management provided us with tickets sold during the reporting period along with a list of complimentary tickets and unsold tickets. We compared tickets sold by day to the revenue reported in the accounting system and related attendance figures, and noted them to be substantially in agreement.

10. We obtained an understanding of the institution's methodology for allocating student fees to intercollegiate athletics programs. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be substantially in agreement.
11. We reviewed amounts reported in the Schedule for direct institutional support. This amount was deemed immaterial for detailed testing.
12. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. This amount was deemed 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 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 Tech Foundation, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the Foundation and agreed them to supporting documentation.
14. Intercollegiate Athletics Department management provided a list of in-kind contributions during the reporting period. This amount was deemed to be immaterial for detailed testing.
15. We obtained a summary of compensation and benefits provided by third-parties as of the end of the reporting period. This amount was deemed to be immaterial for detailed testwork.
16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from broadcast, television, radio, internet, and e-commerce rights. We gained an understanding of the relevant terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
17. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.

18. We compared the amount of revenue and a selection of transactions related to program sales, concessions, novelty sales, and parking to the institution's accounting records and supporting documentation.
19. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, licensing, advertisements, and sponsorships. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
20. We obtained and inspected endowment agreements to gain an understanding of the relevant terms and conditions of the agreement. The Virginia Tech Foundation manages athletics-related endowment funds on behalf of the University. The University has access to request endowment income from the Foundation in accordance with certain budgetary restrictions. We confirmed the amount of athletics restricted endowment and investments income used for operations during the fiscal year with Foundation management and agreed it to the amount reported in the Schedule.
21. We compared the amount of revenue related to other revenue to the amount reported in the Schedule. We found the other revenue line item to be less than one percent of total revenues and, therefore, we did not perform detailed testwork.

### **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 agreed amounts from the listing to their award letter. We agreed each student's information to ensure accurate reporting in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system.
23. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for home games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and agreed selected amounts to proper posting in the accounting records and supporting documentation.
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 football and men's and women's basketball coaches, and compared amounts paid

during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.

25. We reviewed amounts reported in the Schedule for Coaching salaries, benefits and bonuses paid by a third party as well as Support staff/administrative compensation, benefits and bonuses paid by a third party. The amount for Coaching salaries, benefits and bonuses paid by a third party was deemed immaterial for detailed testing. There was no amount for the Support staff/administrative compensation, benefits and bonuses paid by a third party.
26. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. We reviewed selected severance payments and found that each selected payment agreed to the related termination letter or employment contract and was properly recorded in the accounting system.
27. 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.
28. We selected a sample of disbursements for equipment, uniforms, and supplies, game expenses, fundraising, marketing, and promotion, sports camps, spirit groups, direct overhead and administration, medical expenses and medical insurance, memberships and dues, and other operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, reasonable to intercollegiate athletics, and properly recorded in the accounting records.
29. 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, including the two highest facility payments, and agreed them to supporting documentation.

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 conducted an audit of any financial statements of the Intercollegiate Athletics Department of Virginia Polytechnic and State 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 Polytechnic and State 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

ZLB/clj

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY  
SCHEDULE OF REVENUES AND EXPENSES OF  
INTERCOLLEGIATE ATHLETICS PROGRAMS  
For the year ended June 30, 2015

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
<b>Operating revenues:</b>							
Ticket sales	\$14,637,959	\$2,210,901	\$130,453	\$46,468	\$ -	\$ -	\$17,025,780
Student fees	-	-	-	-	2,188,949	5,933,234	8,122,183
Direct institutional support	-	-	-	-	-	5,117	5,117
Guarantees	350,000	-	-	6,000	7,400	-	363,400
Contributions	7,888,242	901,558	509,048	2,247,821	3,050,864	1,770,079	16,367,612
In-Kind	125,500	99,650	30,950	11,100	26,300	87,783	381,283
Compensation and benefits provided by a third party	185,000	-	-	25,000	-	-	210,000
Media rights	15,546,587	3,927,365	257,873	-	-	105,000	19,836,825
NCAA distributions	-	1,100,488	-	39,256	52,992	1,778,161	2,970,897
Conference distributions (Non Media or Bowl)	7,579,695	526,175	49,542	133,659	95,437	-	8,384,508
Program, novelty, parking, and concession sales	1,295,575	140,231	25,861	45,906	35,982	48,977	1,592,533
Royalties, licensing, advertisement and sponsorships	1,115,117	171,143	87,844	171,500	188,500	466,124	2,200,228
Athletics restricted Endowment and investments income	641,698	77,307	111,956	572,728	825,799	39,547	2,269,035
Other Operating Revenue	7,025	-	-	51,603	51,603	390,463	500,694
Total operating revenues	<u>49,372,398</u>	<u>9,154,818</u>	<u>1,203,527</u>	<u>3,351,041</u>	<u>6,523,826</u>	<u>10,624,485</u>	<u>80,230,095</u>
<b>Operating expenses:</b>							
Athletic student aid	3,500,593	612,931	540,979	2,474,847	3,652,296	1,022,891	11,804,538
Guarantees	1,108,985	693,580	103,496	15,323	13,623	-	1,935,007
Coaching salaries, benefits, and bonuses paid by the University and related entities	7,355,480	3,347,574	924,159	1,956,006	1,974,434	-	15,557,653
Coaching salaries, benefits and bonuses paid by a third party	185,000	-	-	25,000	-	-	210,000
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	1,708,377	652,018	199,845	95,996	96,734	9,686,104	12,439,075
Severance payments	35,328	786,467	47,906	12,835	19,418	706,586	1,608,539
Recruiting	478,270	497,598	150,192	226,986	253,540	38,846	1,645,431
Team travel	947,492	571,756	509,263	1,033,541	1,097,216	92,570	4,251,837
Sports equipment, uniforms, and supplies	211,794	121,255	81,945	410,850	378,963	108,706	1,313,511
Game expenses	1,993,023	414,864	244,267	275,773	250,374	296,820	3,475,121
Fundraising, marketing and promotion	319,613	339,638	93,850	64,529	50,440	506,629	1,374,701
Spirit groups	158,837	35,305	15,536	-	-	174,726	384,405
Athletic facility leases and rental fees	-	1,000	-	147,661	136,473	-	285,134
Athletic facility debt service	4,107,343	340,719	340,719	-	-	529,000	5,317,780
Direct overhead and administrative expenses	2,605,921	460,399	125,252	159,311	133,208	4,268,915	7,753,006
Indirect cost paid to the institution by athletics	96,436	-	-	-	-	4,067,416	4,163,852
Medical expenses and insurance	212,119	21,042	26,487	108,351	109,034	477,438	954,471
Memberships and dues	3,820	1,527	967	3,867	4,996	31,184	46,361
Other operating expenses	<u>1,125,011</u>	<u>341,198</u>	<u>97,095</u>	<u>325,823</u>	<u>201,930</u>	<u>1,068,233</u>	<u>3,159,290</u>
Total operating expenses	<u>26,153,442</u>	<u>9,238,871</u>	<u>3,501,958</u>	<u>7,336,699</u>	<u>8,372,679</u>	<u>23,076,064</u>	<u>77,679,712</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 23,218,956</u>	<u>\$ (84,053)</u>	<u>\$ (2,298,431)</u>	<u>\$ (3,985,658)</u>	<u>\$ (1,848,853)</u>	<u>\$ (12,451,579)</u>	<u>\$ 2,550,383</u>
<b>Other Reporting Items:</b>							
Total athletics-related debt							\$ 49,740,000
Total institutional debt							\$ 491,497,000
Value of athletics-dedicated endowments							\$ 58,636,107
Value of institutional endowments							\$ 817,759,471

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

**VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY**  
**NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**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, 2015. The Schedule includes those intercollegiate athletics revenues and expenses made in behalf of the University's athletics programs by outside organizations not under the accounting control of the University. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in fund balances, or cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

**2. AFFILIATED ORGANIZATIONS**

The University received \$18,575,166 from the Virginia Tech Foundation, Inc. Approximately \$11,555,428 of these funds were used for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$9,347,875 is included in the Contributions line item and \$2,207,553 is included in the Endowment and Investment Income line item.

**3. LONG-TERM DEBT**

In October 1996, a revenue bond of \$6,250,000 was issued for the Athletic Department. This bond was issued for athletic facility improvements. The majority of this debt was refinanced in May 2004 with a \$4,155,000 revenue bond. This bond has an outstanding balance of \$500,000 and will be repaid with general operating revenues through 2016.

In October 2001, a \$26,285,000 note was issued for the Athletic Department. This note was issued for the South End Zone addition to Lane Stadium. Part of the original debt was refinanced in January 2008 with a \$2,860,000 note that will be repaid through 2020 and has an outstanding balance of \$2,795,000. The remaining original debt issuance was refinanced in February 2011 with an \$11,540,000 note that will be repaid through 2027 and has an outstanding balance of \$9,285,000.

In May 2004, a \$52,715,000 revenue bond was issued for the Athletic Department. This bond was issued for the West Side Expansion to Lane Stadium which was substantially completed in 2006. The majority of this debt was refinanced in November 2012 with a \$32,365,000 note. This note has an outstanding balance of \$29,900,000 and will be repaid with private fund raising and operating revenues through 2029. The remaining original debt issuance was repaid with private fund raising and operating revenues during 2014.

In November 2009, a \$8,705,000 note was issued for the Athletic Department. This note was issued for the Hahn Hurst Basketball Practice Center which was substantially complete in 2009. This note has an outstanding balance of \$7,260,000 and will be repaid with private fund raising and operating revenues through 2030.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2015, is presented as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$3,195,000	\$2,108,850	\$5,303,850
2017	2,825,000	1,945,925	4,770,925
2018	2,955,000	1,804,781	4,759,781
2019	3,095,000	1,659,162	4,754,162
2020	3,250,000	1,507,675	4,757,675
2021-2025	18,505,000	4,973,144	23,478,144
2026-2030	<u>15,915,000</u>	<u>1,156,619</u>	<u>17,071,619</u>
<b>Total</b>	<b><u>\$49,740,000</u></b>	<b><u>\$15,156,156</u></b>	<b><u>\$64,896,156</u></b>

#### 4. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Athletic Department an administrative fee. During the fiscal year, the Department paid \$4,163,852 to the University. This amount is included on line 36, Indirect Institutional Support, and includes \$96,436 in Football, and \$4,067,416 in the Non-Program Specific category.

#### 5. 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. All gifts of capital assets are recorded at fair market value as of the donation date.

Equipment is capitalized when the unit acquisition cost is \$2,000 or greater and the estimated useful life is one year or more. Software is capitalized when the acquisition and/or the development costs exceed \$50,000. Renovation costs are capitalized when expenses total

more than \$100,000, the asset value significantly increases, or 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 40 to 60 years for buildings, ten to 50 years for infrastructure and land improvements, and three to 30 years for fixed and movable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2015, (all dollars in thousands):

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>Ending Balance</u></b>
<b>Depreciable capital assets</b>				
Building	\$145,560	\$570	\$ -	\$146,130
Moveable equipment	6,768	174	70	6,872
Software	313	-	-	313
Fixed equipment	11,553	1,293	-	12,826
Infrastructure	<u>19,584</u>	<u>80</u>	<u>-</u>	<u>19,664</u>
Total depreciable capital assets, at cost	<u>183,758</u>	<u>2,117</u>	<u>70</u>	<u>185,805</u>
<b>Less accumulated depreciation</b>				
Building	39,188	3,308	-	42,496
Moveable equipment	4,042	557	43	4,556
Software	130	75	-	205
Fixed equipment	4,931	505	-	5,436
Infrastructure	<u>15,165</u>	<u>841</u>	<u>-</u>	<u>16,006</u>
Total accumulated depreciation	<u>63,456</u>	<u>5,286</u>	<u>43</u>	<u>68,699</u>
Total depreciable capital assets, Net of accumulated depreciation	<u>120,302</u>	<u>(3,169)</u>	<u>27</u>	<u>117,106</u>
<b>Non-depreciable capital assets</b>				
Construction in progress	<u>1,399</u>	<u>21,462</u>	<u>-</u>	<u>22,861</u>
Total non-depreciable capital assets	<u>1,399</u>	<u>21,462</u>	<u>-</u>	<u>22,861</u>
Total capital assets, net of accumulated depreciation	<u>\$121,701</u>	<u>\$18,293</u>	<u>\$27</u>	<u>\$139,967</u>

## **VIRGINIA POLYTECHNIC AND STATE UNIVERSITY**

Blacksburg, Virginia

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