

**VIRGINIA POLYTECHNIC INSTITUTE
AND STATE UNIVERSITY**

**INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2009**



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Walter J. Kucharski, Auditor

Commonwealth of Virginia

**Auditor of Public Accounts
P.O. Box 1295
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November 5, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Dr. Charles W. Steger
President, Virginia Polytechnic Institute and
State 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 **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) Bylaw 6.2.3, for the year ended June 30, 2009. University 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, the 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.

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 there were no 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, 2009, 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 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 confirmed payments made on behalf of intercollegiate athletic programs with the Virginia Tech Foundation and ensured those payments were properly reported Schedule. Except for contributions received from the Virginia Tech Foundation, Incorporated, an affiliated 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 verified the mathematical accuracy and coding of the distribution amounts. We found that revenue was computed and deposited promptly and intact.

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 verified the mathematical accuracy and coding of the revenue amounts. We found that revenue was properly computed and deposited promptly and intact.
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 selected and tested receipts of such revenue and, for those items; we inspected the agreements and verified the mathematical accuracy and coding of the payment amounts. We found that revenue was properly computed and deposited promptly and intact.
18. 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

19. We compared each major expense account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.
20. 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
21. Intercollegiate Athletics Department management provided us with 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 verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.
22. 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.

23. Intercollegiate Athletics Department management provided us with a listing of coaches paid by third-parties 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. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. We reviewed these amounts for reasonableness; however, since these payments in total were immaterial, we did not complete any detailed testing.
25. We discussed the University's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies.
26. Based on disbursements 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 Polytechnic Institute 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 Institute 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 University management 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

JHS/clj

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2009

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
Operating revenues:							
Ticket sales	\$ 14,356,722	\$ 2,475,373	\$ 141,805	\$ -	\$ -	\$ -	\$ 16,973,900
Student fees	-	-	-	-	2,102,228	4,307,958	6,410,186
Guarantees	300,000	20,000	-	5,000	13,000	-	338,000
Contributions	9,176,374	617,767	514,971	2,149,796	2,183,712	673,285	15,315,905
Third party support	185,000	-	-	-	-	-	185,000
Direct institutional support	-	-	-	-	-	349,444	349,444
NCAA/conference distributions including tournament revenues	6,942,350	4,417,131	26,004	124,251	132,854	1,244,651	12,887,241
Broadcast, television, radio, and internet rights	1,915,222	510,726	127,681	-	-	-	2,553,629
Program, concession, and novelty sales, and parking	1,025,707	3,585	720	-	-	390,475	1,420,487
Royalties, advertisements and sponsorships	504,868	227,257	90,439	96,999	92,000	463,546	1,475,109
Endowment and investment income	860,180	150,483	122,311	476,370	722,786	430,496	2,762,626
Other	10,755	-	-	53,383	53,383	106,827	224,348
Total operating revenues	<u>35,277,178</u>	<u>8,422,322</u>	<u>1,023,931</u>	<u>2,905,799</u>	<u>5,299,963</u>	<u>7,966,682</u>	<u>60,895,875</u>
Operating expenses:							
Athletic student aid	2,457,305	451,381	426,190	1,736,431	2,367,809	391,270	7,830,386
Guarantees	2,026,502	675,000	79,044	1,500	-	-	2,782,046
Coaching salaries, benefits, and bonuses	4,948,358	1,357,863	660,288	1,394,339	1,351,666	-	9,712,514
Coaching compensation and benefits paid by a third party	185,000	-	-	-	-	-	185,000
Support staff/adminstrative salaries, benefits and bonuses	1,082,389	178,931	106,811	56,582	44,192	6,454,782	7,923,687
Severance payments	749	19,322	377	8,496	12,405	22,108	63,457
Recruiting	178,177	146,407	105,924	174,343	148,820	47,233	800,904
Team travel	1,951,137	474,420	252,372	745,569	706,903	-	4,130,401
Equipment, uniforms and supplies	446,671	95,283	98,870	262,010	245,860	31,750	1,180,444
Game expenses	1,328,603	316,481	157,243	146,649	142,643	249,665	2,341,284
Fund raising, marketing and promotions	378,627	305,821	116,471	91,550	85,114	440,370	1,417,953
Direct facilities, maintenance, and rental	9,087,268	159,218	158,637	175,417	296,297	6,112,129	15,988,966
Spirit groups	622,760	38,896	12,894	-	-	150,451	825,001
Medical expenses and medical insurance	141,325	28,477	31,898	154,260	153,456	383,020	892,436
Memberships and dues	1,500	725	773	3,970	4,634	22,499	34,101
Other	1,100,133	247,075	86,037	208,661	216,970	953,198	2,812,074
Total operating expenses	<u>25,936,504</u>	<u>4,495,300</u>	<u>2,293,829</u>	<u>5,159,777</u>	<u>5,776,769</u>	<u>15,258,475</u>	<u>58,920,654</u>
Excess (deficiency) of revenues/ over (under) expenses	<u>\$ 9,340,674</u>	<u>\$ 3,927,022</u>	<u>\$ (1,269,898)</u>	<u>\$ (2,253,978)</u>	<u>\$ (476,806)</u>	<u>\$ (7,291,793)</u>	<u>\$ 1,975,221</u>

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 THE SCHEDULE OF REVENUES AND EXPENSES OF

INTERCOLLEGIATE ATHLETICS PROGRAMS

AS OF JUNE 30, 2009

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, 2009. The Schedule includes those intercollegiate athletics revenues and expenditures made in behalf of the University's athletic 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 \$17,146,832 from the Virginia Tech Foundation, Inc.. Approximately \$7,850,178 of these funds were for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$15,315,905 is included in the Contributions line item and \$1,830,927 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 \$3,070,000 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. This note has an outstanding balance of \$14,335,000 and will be repaid with private fund raising and operating revenues through 2027. Part of this debt was refinanced in January 2008 with a \$2,860,000 note that will be repaid through 2020 and has an outstanding balance of \$2,855,000.

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. This bond has an outstanding balance of \$40,555,000 and will be repaid with private fund raising and operating revenues through 2029.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2009 is presented as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,280,000	\$ 2,888,456	\$ 5,168,456
2011	2,375,000	2,793,456	5,168,456
2012	2,465,000	2,692,919	5,157,919
2013	2,580,000	2,581,612	5,161,612
2014	2,700,000	2,458,797	5,158,797
2015-2019	13,895,000	9,443,988	23,338,988
2020-2024	16,415,000	6,308,544	22,723,544
2025-2029	<u>18,105,000</u>	<u>2,376,138</u>	<u>20,481,138</u>
Total	<u>\$60,815,000</u>	<u>\$31,543,910</u>	<u>\$92,358,910</u>

4. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the intercollegiate athletics programs an administrative fee. During the fiscal year, the Department paid \$2,392,230 to the University. This amount is included in Direct Facilities, Maintenance, and Rental, and includes \$62,130 in Football, and \$2,330,100 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. The major activity in CIP relates to the construction of the new Basketball Practice Facility. 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. 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, 10 to 50 years for infrastructure and land improvements, and 3 to 30 years for fixed and movable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2009 (all dollars in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings	\$120,067	\$ 1,081	\$ -	\$121,148
Moveable equipment	4,067	411	177	4,301
Fixed equipment	6,785	15	-	6,800
Infrastructure	<u>15,130</u>	<u>715</u>	<u>-</u>	<u>15,845</u>
Total depreciable capital assets, at cost	<u>146,049</u>	<u>2,222</u>	<u>177</u>	<u>148,094</u>
Less accumulated depreciation:				
Buildings	20,859	2,660	-	23,519
Moveable equipment	2,740	315	149	2,906
Fixed equipment	3,922	212	-	4,134
Infrastructure	<u>9,696</u>	<u>1,091</u>	<u>-</u>	<u>10,787</u>
Total accumulated depreciation	<u>37,217</u>	<u>4,278</u>	<u>149</u>	<u>41,346</u>
Total depreciable capital assets, net of accumulated depreciation	<u>108,832</u>	<u>(2,056)</u>	<u>28</u>	<u>106,748</u>
Non-depreciable capital assets:				
Construction in progress	<u>2,911</u>	<u>16,905</u>	<u>1,957</u>	<u>17,859</u>
Total capital assets, net of accumulated depreciation	<u>\$111,743</u>	<u>\$14,849</u>	<u>\$1,985</u>	<u>\$124,607</u>

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Blacksburg, Virginia

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