



VIRGINIA COMMONWEALTH UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS

FOR THE YEAR ENDED

JUNE 30, 2016

Auditor of Public Accounts

Martha S. Mavredes, CPA

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Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 17, 2017

The Honorable Terence R. McAuliffe
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, for the year ended June 30, 2016. 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 attestation standards established by the American Institute of Certified Public Accountants and 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 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, 2016, 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. Certain adjustments to the Schedule were necessary to conform with the NCAA

reporting guidance. 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. Variances exceeding one million dollars or ten percent of prior period amounts or budget estimates are explained below:

Line Item	Explanation
Contributions	The University reported a decrease in contributions during fiscal year 2016, as Athletics did not need to draw as many funds from the VCU Foundation in order to balance its budget as it did in the prior year.
Athletic Student Aid	The University experienced an increase of 16.9 percent in athletic student aid during fiscal year 2016. The University added additional lacrosse funding during the fiscal year as the sport began its first year of intercollegiate competition, tuition increases charged by the University required additional funds allocated to the University's athletes, new NCAA legislation allowed the University to increase the maximum aid awarded to students up to the full cost of attendance, and the University increased scholarship funds for women's soccer.
Direct Overhead and Administrative Expenses	The University experienced a decrease in direct overhead and administrative expenses during fiscal year 2016, as the University had significant expenses in 2015 that did not recur in 2016. These expenses included the buyout of the men's basketball coach's previous contract, the construction of concourse suites in the Siegel Center, and renovations to the Ackell apartments housing student-athletes.

Revenues

9. We reviewed a sample of ticket sales reconciliations performed by the University 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 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.
11. We compared amounts reported in the Schedule for direct institutional support to institutional budget transfer documentation and/or other corroborative supporting documentation, and noted them to be substantially in agreement.
12. We compared amounts reported in the Schedule for indirect institutional support to expense payments, cost allocation detail and other corroborative supporting documentation and noted them to be substantially in agreement.
13. 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 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. We obtained the amount of in-kind contributions during the reporting period from the Schedule. This amount was deemed to be immaterial for detailed testing.
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 obtained the amount of program sales, concessions, novelty sales, and parking revenue recognized during the period from the Schedule. This amount was deemed to be immaterial for detailed testing.
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 reviewed amounts reported in the Schedule for endowment and investment income. 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. We reviewed classification of a sample of transactions and agreed those transactions to supporting documentation.

Expenses

22. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the University uses 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. Differences between the listing generated by the NCAA Compliance Assistant software and the Schedule were determined to be reasonable.
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 all games and agreed 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 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 recruiting, team travel, sports equipment, uniforms, and supplies, game expenses, direct overhead and administration, medical expenses and medical insurance, student-athlete meals (non-travel), 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.
27. We obtained a listing of debt service payments, lease payments, and rental fees for athletics facilities for the reporting year. We agreed all significant facility payments included in the Schedule, including the two highest payments, 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.

Additional Procedures

29. 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.
30. 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.

We were not engaged to, and did not conduct an examination, 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, 2016

	Men's Basketball	Men's Baseball	Women's Basketball	Other Sports	Non-Program Specific	Total
<u>Operating revenues:</u>						
Ticket sales	\$ 2,335,730	\$ 26,120	\$ 10,894	\$ 18,883	\$ 403,930	\$ 2,795,557
Student fees	-	-	-	-	19,841,544	19,841,544
Direct institutional support	-	-	-	-	237,595	237,595
Indirect institutional support	-	-	-	-	382,935	382,935
Guarantees	43,743	3,000	6,000	12,500	-	65,243
Contributions	3,305,787	2,078	600	160,377	641,139	4,109,981
In-Kind	17,756	24,870	-	11,000	101,017	154,643
Media rights	-	-	-	-	179,495	179,495
NCAA distributions	-	-	-	-	1,001,270	1,001,270
Conference distributions (non-media or bowl)	-	-	-	-	233,730	233,730
Program, novelty, parking, and concession sales	-	-	-	-	123,821	123,821
Royalties, licensing, advertisement and sponsorships	1,708,660	10,870	-	-	602,909	2,322,439
Athletics restricted Endowment and investments income	10,268	3,050	-	30,760	44,817	88,895
Other operating revenue	225	-	965	3,456	820,425	825,071
Total operating revenues	<u>7,422,169</u>	<u>69,988</u>	<u>18,459</u>	<u>236,976</u>	<u>24,614,627</u>	<u>32,362,219</u>
<u>Operating expenses:</u>						
Athletic student aid	719,465	486,049	728,498	3,044,694	130,577	5,109,283
Guarantees	433,215	3,467	6,500	6,000	-	449,182
Coaching salaries, benefits, and bonuses paid by the University and related entities	2,455,241	280,265	763,259	1,694,988	-	5,193,753
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	291,941	10,555	155,696	11,410	3,533,608	4,003,210
Recruiting	223,885	25,652	90,402	138,242	-	478,181
Team travel	1,144,965	175,888	365,907	937,807	-	2,624,567
Sports equipment, uniforms, and supplies	215,906	83,941	129,186	548,921	644,995	1,622,949
Game expenses	114,475	26,600	73,873	67,150	-	282,098
Fundraising, marketing and promotion	-	-	-	-	1,572,046	1,572,046
Spirit groups	-	-	-	-	172,848	172,848
Athletic facility leases and rental fees	-	-	-	-	17,124	17,124
Athletic facility debt service	-	-	-	-	2,613,337	2,613,337
Direct overhead and administrative expenses	183,229	2,853	28,628	46,857	3,994,158	4,255,725
Indirect cost paid to the institution by athletics	179,735	21,759	57,955	124,676	325,127	709,252
Indirect institutional support	-	-	-	-	382,935	382,935
Medical expenses and insurance	9,770	-	1,675	62,447	302,287	376,179
Memberships and dues	1,214	-	1,425	5,884	10,618	19,141
Student-athlete meals (non-travel)	153,543	9,870	50,199	2,427	-	216,039
Other operating expenses	94,317	47,276	11,321	92,226	1,331,420	1,576,560
Total operating expenses	<u>6,220,901</u>	<u>1,174,175</u>	<u>2,464,524</u>	<u>6,783,729</u>	<u>15,031,080</u>	<u>31,674,409</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 1,201,268</u>	<u>\$ (1,104,187)</u>	<u>\$ (2,446,065)</u>	<u>\$ (6,546,753)</u>	<u>\$ 9,583,547</u>	<u>\$ 687,810</u>
<u>Other Reporting Items:</u>						
Total athletics-related debt						\$ 19,390,353
Total institutional debt						\$ 504,722,569
Value of athletics-dedicated endowments						\$ 85,689
Value of institutional endowments						\$ 44,288,294
Total athletics-related capital expenditures						\$ 19,864,224

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, 2016

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, 2016. 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 \$85,689 at June 30, 2016. 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 endowments totaled \$44,288,294 at June 30, 2016.

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, 2016 were as follows:

Land Improvements	\$ 3,662,691
Buildings	64,697,625
Equipment	<u>1,908,100</u>
Total Cost	70,268,416
Less: Accumulated Depreciation	
Land Improvements	3,282,941
Buildings	20,358,485
Equipment	<u>1,196,597</u>
Total Accumulated Depreciation	<u>24,838,023</u>
Net Property and Equipment	<u>\$ 45,430,393</u>

Total athletics related capital expenditures for the fiscal year ending June 30, 2016, were \$19,864,224.

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>
2017	184,414	41,981
2018	201,266	33,102
2019	209,458	24,112
2020	218,820	15,023
2021	<u>212,935</u>	<u>5,324</u>
Total	<u>\$ 1,026,893</u>	<u>\$ 119,542</u>

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>
2017	609,615	198,198
2018	621,154	185,523
2019	634,615	173,214
2020	648,077	160,331
2021	661,538	147,175
2022-2026	3,551,538	528,971
2027-2030	<u>3,076,923</u>	<u>157,715</u>
Total	<u>\$ 9,763,460</u>	<u>\$ 1,551,427</u>

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, 2016.

Total University debt totaled \$504,722,569 as of June 30, 2016.

5. CONTRIBUTIONS

During the fiscal year ended June 30, 2016, the University received Athletics-related contributions from the Virginia Commonwealth University Foundation totaling \$3,459,196, which constituted ten percent or more of total contributions.

VIRGINIA COMMONWEALTH UNIVERSITY

As of June 30, 2016

BOARD OF VISITORS

John A. Luke, Jr., Rector

Jacquelyn E. Stone, Vice Rector

Alexander McMurtrie, Jr., Secretary

Teresa H. Carlson	Ronald McFarlane
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UNIVERSITY OFFICIALS

Michael Rao, President

Edward K. McLaughlin, Director of Intercollegiate Athletics Programs