

**VIRGINIA POLYTECHNIC INSTITUTE
AND STATE UNIVERSITY**

**INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2005**



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UNIVERSITY OFFICIALS



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 28, 2005

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
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 6.2.3.1. for the year ended June 30, 2005. 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 Intercollegiate Athletics Department management 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 had planned adequate corrective action for 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 for the year ended June 30, 2005, 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 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.

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.
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 University for its intercollegiate athletics programs that constituted more than ten percent of the contributions so received. 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 properly 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. 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 the reporting period. We found that the University received and recorded revenues consistent with the terms of the contracts and amounts were deposited promptly and intact.
19. 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

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. 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.
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. Intercollegiate Athletics Department management provided us with a listing of payments to coaches by third-parties during the reporting period. We selected and tested the third-party payments from the payroll accounting system and compared them to the contract or other employment agreement document. We found that the payments equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.
25. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period, which we agreed to the amounts reported on the Schedule. We deemed severance payments to be immaterial for detailed testing.
26. We discussed the University's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies.
27. 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.
28. 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, 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 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

WHC/kva

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For The Year Ended June 30, 2005

	Football	Men's Basketball
Operating revenues:		
Ticket sales	\$ 12,039,528	\$ 1,853,102
Student fees	-	-
Guarantees	1,032,566	98,875
Contributions	5,125,598	345,942
Third party support	55,000	-
Direct state or other government support	-	-
Direct institutional support	-	-
NCAA/Conference distributions including all tournament revenues	4,265,293	2,983,214
Broadcast, television, radio, and internet rights	1,303,606	347,628
Program sales, concessions, novelty sales, and parking	746,907	95,639
Royalties, advertisements, and sponsorships	428,329	33,785
Endowment and investment income	303,152	34,395
Other	18,340	-
Total operating revenues	25,318,319	5,792,580
Operating expenses:		
Athletic student aid	1,609,666	275,080
Guarantees	650,000	185,526
Coaching salaries, benefits, and bonuses	3,168,268	864,260
Coaching other compensation and benefits paid by a third party	55,000	-
Support staff/administrative salaries, benefits, and bonuses	811,123	124,322
Severance payments	-	4,958
Recruiting	220,667	187,807
Team travel	960,096	274,672
Equipment, uniforms, and supplies	209,052	47,649
Game expenses	1,081,572	242,682
Fund-raising, marketing, and promotions	378,952	127,817
Direct facilities, maintenance, and rental	3,107,731	62,949
Spirit groups	416,537	11,373
Medical expenses and medical insurance	151,902	41,483
Memberships and dues	33,351	11,441
Other operating expenses	1,158,536	167,285
Total operating expenses	14,012,453	2,629,304
Excess/(deficiency) of revenues over/(under) expenses for the year	\$ 11,305,866	\$ 3,163,276

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

Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
\$ 217,290	\$ -	\$ -	\$ -	\$ 14,109,920
-	-	1,917,110	3,923,848	5,840,958
-	-	-	-	1,131,441
377,015	730,202	1,259,354	2,554,334	10,392,445
-	-	-	-	55,000
-	-	-	4,851	4,851
-	-	-	319,618	319,618
43,560	140,818	91,582	1,293,690	8,818,157
86,907	-	-	-	1,738,141
63,149	-	-	237,127	1,142,822
8,446	-	-	159,458	630,018
102,913	422,877	382,711	203,394	1,449,442
-	-	-	79,332	97,672
899,280	1,293,897	3,650,757	8,775,652	45,730,485
322,665	900,130	1,594,992	168,458	4,870,991
27,033	-	-	-	862,559
536,030	884,153	791,702	-	6,244,413
-	-	-	-	55,000
116,447	12,058	-	5,542,468	6,606,418
-	14,862	13,483	5,635	38,938
102,834	139,318	122,279	-	772,905
281,110	424,584	452,567	-	2,393,029
31,627	186,101	159,081	45,375	678,885
192,558	77,633	72,870	-	1,667,315
75,527	45,861	29,264	1,180,062	1,837,483
86,720	157,715	351,273	3,891,953	7,658,341
7,412	-	-	82,701	518,023
40,127	178,909	174,648	26,286	613,355
2,897	2,247	2,833	23,860	76,629
91,854	88,265	63,926	1,000,979	2,570,845
1,914,841	3,111,836	3,828,918	11,967,777	37,465,129
\$ (1,015,561)	\$ (1,817,939)	\$ (178,161)	\$ (3,192,125)	\$ 8,265,356

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF

INTERCOLLEGIATE ATHLETICS PROGRAMS

AS OF JUNE 30, 2005

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 expenditures of the intercollegiate athletics programs of the University for the year ended June 30, 2005. The Schedule includes those intercollegiate athletics revenues and expenditures 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 financial position, 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 \$11,195,433 from the Virginia Tech Foundation, Inc. Approximately \$4,619,757 of these funds was for grant-in-aid scholarships for student athletes. The amounts received are included in the accompanying schedule as follows: \$10,100,679 is included in Contributions revenue and \$1,094,754 is included in Endowment and Investment Income.

3. OBLIGATIONS

The Intercollegiate Athletics Department withdrew from membership in the Big East Conference effective June 30, 2004. In accordance with the payment schedule approved by the conference, the Intercollegiate Athletics Department had an outstanding entry fee balance of \$1.7 million, which was to be paid over the following six fiscal years. The Department negotiated a reduced one-time payment of \$1.3 million to be paid in July 2005 in lieu of the payment schedule.

4. BONDS PAYABLE

In October 1996, a revenue bond of \$6,250,000 was issued for the Intercollegiate Athletics Department 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 \$4,150,000 and will be repaid with general operating revenues through 2016. The non-refinanced portion of the original issue has a balance remaining of \$300,000 to be repaid in 2006 with general operating revenues.

In October 2001, a \$26,285,000 revenue bond was issued for the Intercollegiate Athletics Department for the South End Zone addition to Lane Stadium. This bond has an outstanding balance of \$22,285,000 and will be repaid with private fund raising and operating revenues through 2027.

In May 2004, a \$52,715,000 revenue bond was issued for the Intercollegiate Athletics Department for the West Side Expansion to Lane Stadium, which is still under construction. This bond has an outstanding balance of \$52,715,000 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, 2005, is presented as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,115,000	\$ 3,599,056	\$ 6,714,056
2007	6,075,000	3,489,856	9,564,856
2008	4,715,000	3,300,731	8,015,731
2009	4,810,000	3,101,531	7,911,531
2010	2,270,000	2,906,319	5,176,319
2011-2015	12,900,000	12,951,409	25,851,409
2016-2020	14,010,000	9,692,350	23,702,350
2021-2025	17,240,000	5,910,850	23,150,850
2025-2029	<u>14,315,000</u>	<u>1,536,925</u>	<u>15,851,925</u>
Total	<u>\$79,450,000</u>	<u>\$46,489,027</u>	<u>\$125,939,027</u>

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 on-going West Side Expansion to Lane Stadium. All gifts of capital assets are recorded at fair market value as of the date of donation.

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 moveable equipment.

A summary of changes in capital assets follows for the year ended June 30, 2005.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings	\$61,350	\$ 760	\$ 7	\$62,103
Moveable equipment	5,080	432	824	4,688
Infrastructure	11,608	175	-	11,783
Fixed equipment	<u>4,555</u>	<u>-</u>	<u>11</u>	<u>4,544</u>
Total depreciable capital assets	<u>82,593</u>	<u>1,367</u>	<u>842</u>	<u>83,118</u>
Less accumulated depreciation:				
Buildings	11,719	1,391	1	13,109
Moveable equipment	3,385	400	821	2,964
Infrastructure	4,920	987	-	5,907
Fixed equipment	<u>3,260</u>	<u>105</u>	<u>2</u>	<u>3,363</u>
Total accumulated depreciation	<u>23,284</u>	<u>2,883</u>	<u>824</u>	<u>25,343</u>
Total depreciable capital assets, net	<u>59,309</u>	<u>(1,516)</u>	<u>18</u>	<u>57,775</u>
Non-depreciable capital asset:				
Construction-in-progress	<u>2,962</u>	<u>25,873</u>	<u>437</u>	<u>28,398</u>
Total capital assets, net	<u>\$62,271</u>	<u>\$24,357</u>	<u>\$455</u>	<u>\$86,173</u>

* in thousands

6. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Intercollegiate Athletics Department an administrative fee. During the fiscal year, the Department paid \$1,382,583 to the University. This amount is included in direct facilities, maintenance, and rental expenses in the Non-Program Specific category.

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

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