



UNIVERSITY OF VIRGINIA

**INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2013**

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Commonwealth of Virginia

Auditor of Public Accounts

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January 15, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
And Review Commission

Teresa A. Sullivan
President, University of Virginia

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

We have performed the procedures enumerated below, which were agreed to by the President of the **University of Virginia**, 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 3.2.4.16, for the year ended June 30, 2013. 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 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 an organizational chart which we reviewed 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. 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 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. 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 (Schedule) for the year ended June 30, 2013, 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 immaterial differences between the amounts in the Intercollegiate Athletics Department's accounts in the accounting records and the amounts on the worksheets. We discussed the nature of work sheet adjustments with management and determined the net impact of the adjustments to be immaterial for detailed testing.
8. We applied certain analytical review techniques to the revenue and expense amounts reported in the Schedule in order to determine the reasonableness of amounts reported therein. These techniques included trend analyses and review of actual amounts in comparison to budget estimates. We obtained and documented an understanding of significant variations.

Revenues

9. 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 them to the amounts recorded as ticket revenue for those games.
10. 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.

11. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for away games during the reporting period. This amount was deemed to be immaterial for detailed testing.
12. 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 Athletic Foundation, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs.
13. From the summary of revenues and expenses for or on behalf of the Intercollegiate Athletics Programs by affiliated and outside organizations, we selected individual contribution amounts and agreed each selection to supporting documentation and proper posting in the accounting records. We found all reviewed transactions to be in agreement.
14. 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.
15. 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 gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
16. We obtained an understanding of the University's methodology for recording revenues from sport camps. This amount was deemed to be immaterial for detailed testing.
17. We gained an understanding of the nature of athletic endowment agreements and deemed income from these agreements to be immaterial for detailed testing.

Expenses

18. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. We selected individual student-athletes across all sports and agreed amounts from the listing to their award letter. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system.
19. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for home games during the reporting period. We determined game guarantee payments were immaterial for detailed testing.
20. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals 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.

21. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. This amount was deemed to be immaterial for detailed testing.
22. 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.
23. 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.
24. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the Intercollegiate Athletics Programs. These disbursements were for the various activities listed within the Schedule. 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 conducted an audit of any financial statements of the Intercollegiate Athletics Department of the University of Virginia 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 the University of Virginia 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

UNIVERSITY OF VIRGINIA
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2013

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:						
Ticket sales	\$ 8,858,509	\$ 3,033,384	\$ 164,506	\$ 560,632	\$ 455,404	\$ 13,072,435
Student fees	-	-	-	-	13,119,353	13,119,353
Guarantees	250,000	-	-	11,000	-	261,000
Contributions	2,340,044	970,000	-	5,045,765	22,902,863	31,258,672
NCAA conference distributions including all tournament revenues	9,550,426	3,477,762	41,080	341,802	3,960,364	17,371,434
Program sales, concessions, novelty sales, and parking	513,682	174,924	32,188	720	206,676	928,190
Royalties, advertisements and sponsorships	-	-	-	549,806	5,092,388	5,642,194
Sports camp revenues	8,516	3,086	2,772	52,819	71,768	138,961
Endowment and investment income	-	-	-	-	567,069	567,069
Other	-	-	-	-	2,043,404	2,043,404
Total operating revenues	<u>21,521,177</u>	<u>7,659,156</u>	<u>240,546</u>	<u>6,562,544</u>	<u>48,419,289</u>	<u>84,402,712</u>
Operating expenses:						
Athletic student aid	3,210,531	629,757	701,903	8,718,074	259,883	13,520,148
Guarantees	1,300,000	455,000	48,000	50,880	-	1,853,880
Coaching salaries, benefits, and bonuses paid by the University and related entities	5,661,302	2,724,067	1,455,966	6,564,789	-	16,406,124
Support staff/administrative salaries, benefits, and bonuses paid by the University and related entities	1,524,811	636,198	377,911	600,676	11,144,245	14,283,841
Severance payments	459,989	-	-	128,194	31,069	619,252
Recruiting	299,730	172,430	138,104	574,049	-	1,184,313
Team travel	1,117,325	620,065	554,544	2,696,427	463,068	5,451,429
Equipment, uniforms, and supplies	623,913	5,407	6,698	424,652	147,827	1,208,497
Game expenses	1,428,130	1,045,981	459,535	1,147,446	123,964	4,205,056
Fundraising, marketing and promotions	97,076	23,941	3,940	6,876	695,532	827,365
Direct facilities, maintenance and rental	4,992,475	2,085	5,032	4,483,385	6,808,831	16,291,808
Spirit groups	4,498	1,266	2,177	-	155,898	163,839
Medical expenses and medical insurance	156,594	59,674	40,391	274,971	1,223,188	1,754,818
Memberships and dues	4,310	3,575	10,153	23,657	55,966	97,661
Other	<u>574,533</u>	<u>175,634</u>	<u>175,429</u>	<u>718,571</u>	<u>4,689,593</u>	<u>6,333,760</u>
Total operating expenses	<u>21,455,217</u>	<u>6,555,080</u>	<u>3,979,783</u>	<u>26,412,647</u>	<u>25,799,064</u>	<u>84,201,791</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 65,960</u>	<u>\$ 1,104,076</u>	<u>\$ (3,739,237)</u>	<u>\$ (19,850,103)</u>	<u>\$ 22,620,225</u>	<u>\$ 200,921</u>

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

UNIVERSITY OF VIRGINIA
NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013. The Schedule includes those intercollegiate athletics revenues and expenses made on 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 presented. 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 \$22,012,279 in operating contributions from the Virginia Athletics Foundation (VAF). This amount includes approximately \$14,410,668 for scholarships for student-athletes, and \$7,582,074 for operating expenses. It also includes approximately \$19,536 paid directly by VAF for the benefit of University Athletics, for fundraising and operating expenses, as well as for improvements and equipment. In addition, the University received \$5,020,518 from VAF, which the University is currently using to fund debt service for the John Paul Jones Arena. These amounts are included in the accompanying schedule in Contributions revenue.

In addition to operating contributions included in the accompanying schedule, the University received approximately \$9,246,393 from VAF used to fund capital expenses.

3. CAPITAL ASSETS

Capital assets are stated at cost at date of acquisition, or fair market value at date of donation in the case of gifts. The University capitalizes construction costs that have a value or cost in excess of \$250,000 at the date of acquisition. Renovations in excess of \$250,000 are capitalized if they significantly extend the useful life of the existing asset. The Academic Division (which includes Athletics) capitalizes moveable equipment at a value or cost of \$5,000 and an expected useful life of two or more years. Maintenance or renovation expenses of \$250,000 or more are capitalized only to the extent that such expenses prolong the life of the asset or otherwise enhance its capacity to render service.

Depreciation of buildings, improvements other than buildings, and infrastructure is provided on a straight-line basis over the estimated useful lives ranging from ten to 50 years. Depreciation of equipment and capitalized software is provided on a straight-line basis over estimated useful lives ranging from one to twenty years.

Capital assets related to construction are capitalized as expenses are incurred. Projects that have not been completed as of the date of the statement of net assets are classified as Construction in Process.

Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the capital asset. Capital assets, such as roads, parking lots, sidewalks, and other non-building structures and improvements are capitalized as infrastructure and depreciated accordingly.

A summary of the various capital asset categories relating to Athletics for the year ending June 30, 2013 is presented below. The summary presents total amounts for capital assets that are used some or all of the time for intercollegiate athletic activities, including the John Paul Jones Arena. While all basketball games will be played in the Arena, it hosts many non-Athletic events.

	<u>Ending Balance</u>
Non-depreciable capital assets:	
Construction in progress	\$ <u> -</u>
Depreciable capital assets:	
Buildings	226,871,453
Infrastructure	11,654,309
Equipment	4,311,747
Improvements other than building	<u>107,841,801</u>
Total depreciable capital assets	<u>350,679,310</u>
Less accumulated depreciation for:	
Buildings	58,683,711
Infrastructure	2,749,338
Equipment	2,619,496
Improvements other than building	<u>65,530,371</u>
Total accumulated depreciation	<u>129,582,916</u>
Depreciable capital assets, net	<u>221,096,394</u>
Total capital assets, net	<u>\$ 221,096,394</u>

4. LONG-TERM DEBT

Long-term debt relating to Athletics includes debt for Scott Stadium, the John Paul Jones Arena and Fieldhouse Indoor Practice Facility:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance at June 30, 2013</u>
Revenue Bonds:			
Scott Stadium	4.75%	2024	\$ 35,010,567
John Paul Jones Arena	4.75%	2025	49,490,135
Fieldhouse Indoor Practice Facility	4.75%	2017	<u>6,596,001</u>
Total long-term debt			<u>\$ 91,096,703</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2014	\$ 5,364,726	\$ 3,857,436
2015	5,622,850	3,583,766
2016	5,893,394	3,296,921
2017	14,150,177	3,027,703
2018	6,861,246	2,681,138
2019-2023	39,590,458	8,121,461
2024-2025	<u>13,613,852</u>	<u>559,392</u>
Total	<u>\$ 91,096,703</u>	<u>\$ 25,127,817</u>

5. ALLOCATION OF ATHLETIC OVERHEAD COSTS

The University recovers overhead from all auxiliary enterprises, including Athletics, by applying an indirect cost rate to the auxiliary enterprise's expense base. This rate is calculated every two years. The rate in effect for the year ended June 30, 2013, was 5.0 percent and generated \$1,924,000 in overhead recoveries from Athletics.

UNIVERSITY OF VIRGINIA
Charlottesville, Virginia

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