



VIRGINIA MILITARY INSTITUTE

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts
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Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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January 12, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

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

General J.H. Binford Peay, III
Superintendent, Virginia Military Institute

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the Superintendent of **Virginia Military Institute**, solely to assist the Institute in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the Institute is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15, for the year ended June 30, 2015. Institute 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 generally accepted government auditing standards. The sufficiency of the procedures is solely the responsibility of the Institute. 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 Institute'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 Institute's financial statements.
2. Intercollegiate Athletics Department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, 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 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 (Schedule) for the year ended June 30, 2015, as prepared by the Institute 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 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 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:

| Line Item | Explanation |
|--|--|
| Cadet fees | The Institute's athletic fee allocation increased from \$1,576 per cadet in fiscal year 2014 to \$1,702 per cadet in fiscal year 2015, an increase of approximately eight percent. The Institute also allocated an additional 13 percent in activity fees for athletic facilities from the prior year. These increases account for the increase in Cadet Fees in the Schedule of 10.5 percent. |
| Direct institutional support | The Institute allocated additional funding from auxiliary reserves during fiscal year 2015 to fund athletic operations and reimburse the Institute's Education and General (E&G) funds for the athletic departments share of overhead expenses as required by the Commonwealth. The Institute's allocation of auxiliary reserves and an overall increase in indirect costs charged to athletics contributed to the 125 percent increase in direct institutional support. |
| Indirect cost paid to the institution by athletics | This is a new line item for fiscal year 2015 due to changes in NCAA reporting guidance. Previously, the Institute recorded indirect cost charges in other line items resulting in a 100 percent increase in this line item for the current year. Actual indirect cost charges increased from the prior year by 89 percent. |

9. Intercollegiate Athletics Department management provided us with 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 compared tickets sold by event 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 cadet fees to intercollegiate athletics programs. We compared cadet 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. Intercollegiate Athletics Department management provided us with a listing of 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 agreed selected amounts to proper posting in the accounting records and supporting documentation.
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 Keydet Club, 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 Keydet Club and agreed them to supporting documentation.
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. We obtained the amount of revenue related to program sales, concessions, novelty sales, and parking. 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 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.
17. We compared the amount of revenue related to other revenue to the amount reported in the Schedule. The amount was deemed 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. Since the Institute 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 also ensured that the total aid amount for each sport

materially agreed to amounts reported as Financial Aid in the student accounting system. With the exception of five athletes, we agreed each student's information to ensure accurate reporting in the NCAA Membership Financial Reporting System. The Revenue Distribution Equivalent Award was improperly calculated in the NCAA Membership Financial Reporting System for five athletes due to the inclusion of amounts for books as other countable aid rather than as part of the athletic grant amount. While this error understated the total revenue distribution equivalencies reported to the NCAA, the Institute remained under NCAA limits for countable players. These exceptions did not impact the amounts reported as payments for athletic aid in the Schedule. Institute personnel will include books as part of the athletic grant award and not as other countable aid for future submissions.

19. 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.
20. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the Institute during the reporting period. We selected and tested individuals, including football and men'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.
21. 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 Institute and NCAA policies and noted substantial agreement of those policies.
22. We selected a sample of disbursements for equipment, uniforms, and supplies, game expenses, fundraising, marketing, and promotion, 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.

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 Military Institute in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the Institute. This report relates only to the accounts and items specified above and does not extend to the financial statements of Virginia Military Institute or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the Superintendent and the Institute 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/clj

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

| | Football | Basketball | Other Sports | Non-Program Specific | Total |
|---|---------------------|---------------------|-----------------------|-----------------------------|---------------------|
| <u>Operating revenues:</u> | | | | | |
| Ticket sales | \$ 194,720 | \$ 33,442 | \$ 705 | \$ 7,731 | \$ 236,598 |
| Cadet fees | - | - | - | 3,643,210 | 3,643,210 |
| Direct institutional support | 27,097 | 13,259 | 51,644 | 1,458,128 | 1,550,128 |
| Guarantees | 605,000 | 325,000 | 10,500 | - | 940,500 |
| Contributions (Note 2) | 2,344,155 | 535,442 | 1,332,274 | 1,595,554 | 5,807,425 |
| NCAA distributions | 35,000 | - | - | 434,493 | 469,493 |
| Conference distributions (non media or bowl) | - | - | - | 16,063 | 16,063 |
| Program, novelty, parking, and concession sales | 2,089 | 813 | - | - | 2,902 |
| Royalties, licensing, advertisement and sponsorships | 4,200 | - | - | 106,982 | 111,182 |
| Other Operating Revenue | - | - | - | 510 | 510 |
| Total operating revenues | <u>3,212,261</u> | <u>907,956</u> | <u>1,395,123</u> | <u>7,262,671</u> | <u>12,778,011</u> |
| <u>Operating Expenses:</u> | | | | | |
| Athletic student aid | 2,312,194 | 534,344 | 1,224,017 | 11,010 | 4,081,565 |
| Guarantees | 50,000 | 5,000 | - | - | 55,000 |
| Coaching salaries, benefits, and bonuses paid by the Institute and related entities | 978,543 | 378,106 | 1,013,632 | - | 2,370,281 |
| Support staff/administrative compensation, benefits, and bonuses paid by the Institute and related entities | 64,557 | 65,684 | - | 2,097,126 | 2,227,367 |
| Recruiting | 30,648 | 26,780 | 41,258 | - | 98,686 |
| Team travel | 123,006 | 107,186 | 391,060 | - | 621,252 |
| Sports equipment, uniforms, and supplies | 91,794 | 27,600 | 189,345 | 24,983 | 333,722 |
| Game expenses | 72,312 | 56,939 | 80,341 | 13,245 | 222,837 |
| Fundraising, marketing and promotion | - | - | 125 | 19,368 | 19,493 |
| Direct overhead and administrative expenses | 15,185 | - | 837 | 231,843 | 247,865 |
| Indirect cost paid to the institution by athletics | - | - | - | 1,980,572 | 1,980,572 |
| Medical expenses and insurance | 175 | - | - | 97,953 | 98,128 |
| Memberships and dues | - | 3,198 | 15,643 | 95,596 | 114,437 |
| Other operating expenses | 56,760 | 16,199 | 31,283 | 446,570 | 550,812 |
| Total operating expenses | <u>3,795,174</u> | <u>1,221,036</u> | <u>2,987,541</u> | <u>5,018,266</u> | <u>13,022,017</u> |
| Excess (deficiency) of revenues over (under) expenses | <u>\$ (582,913)</u> | <u>\$ (313,080)</u> | <u>\$ (1,592,418)</u> | <u>\$ 2,244,405</u> | <u>\$ (244,006)</u> |
| <u>Other Reporting Items:</u> | | | | | |
| Conference realignment expenses | | | | | \$ 66,400 |
| Total institutional debt | | | | | \$ 21,205,541 |
| Value of institutional endowments | | | | | \$ 11,829,671 |

The accompanying notes to the Schedule of Revenues and Expenses of Intercollegiate Athletic Programs are an integral part of this schedule.

**VIRGINIA MILITARY INSTITUTE
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 athletic programs has been prepared on the accrual basis of accounting. The purpose of this Schedule is to present a summary of operating revenues and expenses of the intercollegiate athletic programs of the Institute for the year ended 30 June 2015. The Schedule includes those intercollegiate athletic expenses made on behalf of the Institute's athletics programs by outside organizations not under the accounting control of the Institute. This Schedule includes a selected portion of the Institute's activities and is not intended to and does not present either the financial position or changes in net assets 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. AFFILIATED ORGANIZATIONS

The Virginia Military Institute Keydet Club was established in 1948 for the purpose of raising contributions for scholarships to be awarded to athletes of the Institute. The Keydet Club contributed \$4,444,521 to the Institute during fiscal year 2015. These contributions include \$3,453,073 for intercollegiate athletic programs student financial assistance, and \$991,448 in expenses made in support by the Keydet Club.

The Virginia Military Institute Development Board was established in 1978 by the Virginia Military Institute Alumni Association to implement a comprehensive development program and to coordinate the Institute's various fund-raising activities. The Board provides support to VMI from cash donations and income from its endowment. The Board contributed \$376,763 in restricted support and \$555,690 in student financial assistance to the Institute in support of intercollegiate athletics during fiscal year 2015.

The VMI Foundation, Incorporated was established for the purpose of soliciting and accepting various funds and to disburse such funds, or income earned from those funds, for the advancement of VMI and the VMI Alumni Association. During the 2015 fiscal year, the VMI Foundation provided restricted funds of \$25,450 for athletic student financial aid.

Of the \$5.8 million reflected in the gifts and contributions line on the Schedule of Revenues and Expenses, affiliated organizations account for \$5.4 million or 93 percent.

3. CAPITAL ASSETS

The Institute's policies and procedures for acquiring, approving, depreciating, and disposing of athletic-related capital assets is the same for all of the Institute's 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 date of donation.

Equipment is capitalized when the unit acquisition cost is \$5,000 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, and 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 50 years for buildings, ten to 30 years for infrastructure and land improvements, and five to 25 years for equipment.

A summary of capital asset balances for intercollegiate athletics at 30 June 2014 follows:

| Athletic Capital Asset Footnote | |
|---|----------------------|
| | |
| | |
| Depreciable capital assets | |
| Buildings | \$ 32,548,806 |
| Improvements other than buildings | 4,443,118 |
| Equipment | 596,628 |
| Total depreciable capital assets at cost | 37,588,552 |
| | |
| Less accumulated depreciation: | |
| Buildings | (4,528,836) |
| Improvements other than buildings | (2,433,696) |
| Equipment | (440,496) |
| Total accumulated depreciation | (7,403,028) |
| | |
| Total depreciable capital assets, net of accumulated depreciation | 30,185,524 |
| | |
| Non-depreciable capital assets | |
| Construction-in-progress | - |
| | |
| Total capital assets for intercollegiate athletics, net of accumulated depreciation | <u>\$ 30,185,524</u> |
| | |

4. ADMINISTRATIVE COST RECOVERIES

The Institute recovers from auxiliary enterprises an amount to reimburse for the cost of institutional support and the operation and maintenance of plant. For the 2015 fiscal year, the Institute recovered from the intercollegiate athletics program \$881,840 of institutional support costs and \$1,098,732 for operation and maintenance of plant costs, both are reflected as a non-program, indirect cost expense.

VIRGINIA MILITARY INSTITUTE

Lexington, Virginia

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