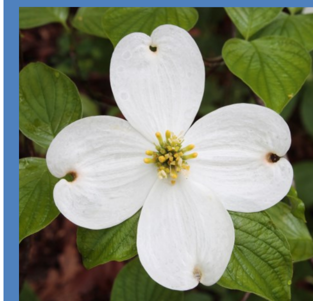


UNIVERSITY OF VIRGINIA

INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA
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–TABLE OF CONTENTS–

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 14, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

James E. Ryan
President, University of Virginia

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING 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 3.2.4.15.1, for the year ended June 30, 2018. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. 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.

<u>Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs</u>

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 four 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, 2018, 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 trial balance worksheets, and agreed the amounts in management's trial balance worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. Certain adjustments to the Schedule were necessary to conform to

NCAA reporting guidance. We discussed the nature of adjusting journal entries 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 ten percent of prior period amounts or budget estimates are explained below:

Line Item	**Explanation**
Ticket Sales	The University experienced a 13 percent increase in ticket sales during fiscal year 2018 as a result of an increase in men's basketball season ticket sales and the home football game with Virginia Tech in Fall 2017.
Media Rights	The University experienced a 15.5 percent increase in media rights revenue during fiscal year 2018 due to the increase in the media rights portion of the ACC distribution.
Administrative and Support Expenses (Budget item)	The University incurred expenses in the administrative and support expense category of 11.5 percent over budget during fiscal year 2018, due to their participation in a bowl game in 2017 and an unexpected increase in athletics security. Potential bowl game expenses are not budgeted as part of the Athletics department's base budget.

Revenues

9. We performed a walkthrough of the University's process for selling tickets and recording ticket sales revenue. We received a summary report of tickets sold by sport from the University's ticketing system and agreed ticket sales revenue for all tickets sold by comparing the summary report to total revenue recorded in the general ledger and the Schedule. We compared numbers of tickets sold to total announced attendance for each sport. We determined the amounts reported in the Schedule to be substantially in agreement with the amounts reported in the ticketing system.

10. We obtained documentation 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 with minor differences attributed to the methodology used for projecting student fee revenue.

11. We obtained the amount of direct institutional support revenue from the Schedule. This amount was deemed to be immaterial for detailed testing.

12. We obtained the amount of game guarantee revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

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 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. We reviewed contributions from the Virginia Athletic Foundation, which exceeded ten percent of all contributions and agreed them to supporting documentation.

14. We obtained the amount of in-kind revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from media 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.

16. 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 terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation. We noted a classification error and requested an adjustment of $1,487,509 from the conference distribution to the NCAA distribution line item in the Schedule. After this reclassification, amounts are properly recorded in the Schedule.

17. We obtained the amount of program, novelty, parking, and concession sales revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

18. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, licensing, advertisement, and sponsorships. We inspected the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.

19. We obtained the amount of sports camp revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

20. We obtained the amount of athletics restricted endowment and investment income reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

21. We obtained and inspected agreements related to the institution's participation in a post-season bowl to gain an understanding of the relevant terms and conditions. We compared and agreed the related revenues to amounts reported in the general ledger and the Schedule. We noted a classification error related to bowl game ticket sales and requested an adjustment of $100,603 that was initially reported as ticket sales but was moved to bowl revenues. After this reclassification, amounts are properly recorded in the Schedule.

22. We obtained the amount of other operating revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

Expenses

23. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the University used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected 40 individual student-athletes across all sports and obtained the students' account detail from the institution's student information system. We agreed each student's information to the information reported in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport agreed to amounts reported as Financial Aid in the student accounting system. We performed a check of selected student's information as reported in the NCAA's Compliance Assistant software to ensure proper calculation of revenue distribution equivalencies.

24. We obtained the amount of game guarantee expense reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

25. 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 football and 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.

26. We obtained the amount of severance payments expense reported in the Schedule during the reporting period. This amount was deemed to be immaterial for detailed testing.

27. We obtained the Intercollegiate Athletics Department's written recruiting and team travel policies from 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.

28. We selected a sample of disbursements for team travel; game expenses; direct overhead and administration; 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.

29. We obtained a listing of debt service payments, lease payments, and rental fees for athletics facilities for the reporting year. We selected a sample of facility payments included in the Schedule, including the two highest facility payments, and agreed them to supporting documentation.

30. 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.

<u>Other Reporting Items</u>

31. We obtained repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We recalculated annual maturities reporting in the notes to the Schedule and agreed total annual maturities and total outstanding athletic related debt to supporting documentation.

32. We agreed total outstanding institutional debt to supporting debt schedules and the University's audited financial statements.

33. We agreed the fair value of athletics dedicated endowments to supporting documentation provided by the University.

34. We agreed the fair value of institutional endowments to supporting documentation, including the audited financial statements of the University and its related Foundations.

35. We obtained a schedule of athletics related capital expenditures made during the period. We selected a sample of transactions to validate existence and accuracy of recording and recalculated totals.

<u>Additional Procedures</u>

36. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the Calculation of Revenue Distribution Equivalencies Report (CRDE) from the NCAA's Compliance Assistant software for the institution. We noted agreement of the sports reported.

37. 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.

38. We obtained a listing of student-athletes receiving Pell Grant awards from the institution's student information system and agreed the total value of these Pell Grants to the amount reported in the NCAA Membership Financial Reporting System. We noted a net difference of $2,376 between the amounts reported in the respective systems.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, 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 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/clj

UNIVERSITY OF VIRGINIA
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2018

	Football	Men's Basketball	Women's Basketball	Baseball	Track & Field	Other Sports	Non-Program Specific	Total
Operating revenues:								
Ticket sales	$ 8,017,015	$ 4,654,678	$ 142,369	$ 457,084	$ -	$ 211,376	$ 403,006	$ 13,885,528
Student fees	-	-	-	-	-	-	14,231,359	14,231,359
Direct institutional support	-	-	-	-	-	-	2,340,634	2,340,634
Guarantees	200,000	55,000	-	-	-	10,000	-	265,000
Contributions	6,985,667	3,967,335	851,360	869,203	1,833,779	11,339,023	1,294,229	27,140,596
In-Kind	-	281,639	-	-	1,271	71,762	99,149	453,821
Media rights	15,374,400	3,843,600	-	-	-	-	-	19,218,000
NCAA distributions	-	41,615	72,775	-	33,183	157,866	5,431,939	5,737,378
Conference distributions (non-media or bowl)	248,919	261,475	209,298	117,230	130,612	356,181	4,788,645	6,112,360
Program, novelty, parking, and concession sales	490,599	397,680	50,950	114,828	3,944	76,133	-	1,134,134
Royalties, licensing, advertisement and sponsorships	-	-	-	-	-	-	9,457,752	9,457,752
Sports camp revenues	-	-	-	-	-	-	163,559	163,559
Athletics restricted endowment and investments income	-	-	-	-	-	390,223	2,489,467	2,879,690
Other operating revenue	-	-	-	-	-	-	2,328,156	2,328,156
Bowl revenues	1,233,603	-	-	-	-	-	-	1,233,603
Total operating revenues	32,550,203	13,503,022	1,326,752	1,558,345	2,002,789	12,612,564	43,027,895	106,581,570
Operating expenses:								
Athletic student aid	4,504,247	853,565	853,967	648,408	1,788,459	9,892,905	419,695	18,961,246
Guarantees	1,050,000	490,000	101,000	32,500	-	21,000	-	1,694,500
Coaching salaries, benefits, and bonuses paid by the University and related entities	7,198,022	5,179,946	1,697,867	1,518,784	720,647	5,916,806	-	22,232,072
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	2,218,107	928,043	403,683	204,975	38,076	334,730	13,941,369	18,068,983
Severance payments	111,680	-	-	-	-	183,547	385,491	680,718
Recruiting	727,972	281,975	102,448	77,615	81,404	469,048	-	1,740,462
Team travel	1,652,276	1,236,612	728,277	447,123	585,260	2,440,853	-	7,090,401
Sports equipment, uniforms, and supplies	862,193	87,889	77,096	107,429	146,184	870,946	2,883	2,154,620
Game expenses	1,716,838	1,041,858	546,947	521,375	146,427	593,337	317,433	4,884,215
Fundraising, marketing and promotion	197,993	75,001	27,117	20,263	3,220	76,790	86,533	486,917
Sports camp expenses	-	-	-	-	-	-	143,269	143,269
Spirit groups	7,616	1,599	-	-	-	-	137,268	146,483
Athletic facility leases and rental fees	-	-	-	-	-	-	721,161	721,161
Athletic facility debt service	-	-	-	-	-	-	8,929,481	8,929,481
Direct overhead and administrative expenses	225,639	78,812	17,612	12,911	14,500	284,471	4,865,326	5,499,271
Indirect cost paid to the institution by athletics	-	-	-	-	-	-	3,711,000	3,711,000
Medical expenses and insurance	173,933	51,826	21,131	32,550	73,015	283,798	940,066	1,576,319
Memberships and dues	4,378	50	3,320	2,230	2,748	13,911	73,377	100,014
Student-Athlete Meals (non-travel)	8,742	5,584	10,373	604	9,293	41,554	1,143,471	1,219,621
Other operating expenses	965,311	261,784	193,335	53,931	56,748	522,761	3,744,681	5,798,551
Bowl expenses	801,339	-	-	-	-	-	-	801,339
Bowl expenses - coaching compensation/bonuses	286,271	-	-	-	-	-	-	286,271
Total operating expenses	22,712,557	10,574,544	4,784,173	3,680,698	3,665,981	21,946,457	39,562,504	106,926,914
Excess (deficiency) of revenues over (under) expenses	$ 9,837,646	$ 2,928,478	$ (3,457,421)	$ (2,122,353)	$ (1,663,192)	$ (9,333,893)	$ 3,465,391	$ (345,344)
Other Reporting Items:								
Total athletics-related debt								$ 57,328,987
Total institutional debt								$ 1,306,577,295
Value of athletics-dedicated endowments								$ 172,269,008
Value of institutional endowments								$ 6,673,148,807
Total athletics-related capital expenditures								$ 30,521,769

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 SCHEDULE OF REVENUES AND EXPENSES OF INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018. 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 $38,797,609 in contributions from the Virginia Athletics Foundation (VAF). This amount includes approximately $18,574,298 for scholarships for student-athletes, $3,853,521 for operating expenses and $11,209,392, which is used to fund capital expenses. Due to NCAA reporting requirements, these capital expenses are not recorded in the Schedule of Revenues and Expenses.

It also includes approximately $453,821 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 $4,706,577 from VAF, which the University is currently using to fund debt service for Scott Stadium and the John Paul Jones Arena. These amounts are included in the accompanying Schedule in Contributions revenue.

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 three 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 position 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, 2018 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.

	Balance at June 30, 2018
Nondepreciable Capital Assets	
Construction in Progress	$ 1,811,734
Total Nondepreciable Capital Assets	1,811,734
Depreciable Capital Assets:	
Buildings	249,627,035
Infrastructure	12,712,719
Equipment	4,063,213
Improvements other than buildings	131,081,633
Total depreciable capital assets	397,484,600
Less Accumulated Depreciation for:	
Buildings	91,032,404
Infrastructure	4,832,844
Equipment	3,109,635
Improvements other than buildings	93,598,602
Total accumulated depreciation	192,573,485
Total Depreciable Capital Assets, Net	204,911,115
Total Capital Assets, Net	$ 206,722,849

4. LONG-TERM DEBT

Long-term debt relating to Athletics:

Description	Interest Rate	Maturity	Balance at June 30, 2018
Revenue Bonds:			
Scott Stadium/JPJ Arena Combo	3.81%	2025	$ 57,328,987
Total Long-term Debt			$ 57,328,987

Long-term debt maturities:	Fiscal Year	Principal	Interest
	2019	$ 5,149,889	$ 1,988,024
	2020	5,149,889	1,791,813
	2021	5,149,889	1,595,602
	2022	5,149,890	1,399,391
	2023	5,149,890	1,203,180
	2024-2025	31,579,540	1,820,468
	Total	$ 57,328,987	$ 9,798,478

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, 2018 was 5.3 percent and generated $3,711,000 in overhead recoveries from Athletics.

UNIVERSITY OF VIRGINIA
As of June 30, 2018

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