

**VIRGINIA POLYTECHNIC INSTITUTE  
AND STATE UNIVERSITY**

**INTERCOLLEGIATE ATHLETICS PROGRAMS  
FOR THE YEAR ENDED  
JUNE 30, 2012**



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Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
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December 3, 2012

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable John M. O'Bannon III  
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 the **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) Constitution 3.2.4.16, for the year ended June 30, 2012. 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 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 audits 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, 2012, 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 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 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 amounts from the university's comprehensive fee allocated to intercollegiate athletics. 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 Tech 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. We compared amounts reported in the Schedule for direct state or other governmental support, direct institutional support, and indirect facilities and administrative support to appropriations, institutional authorizations, and other supporting documentation. 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 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.
  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 gained an understanding of the 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 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.
  18. We obtained and inspected endowment agreements to gain an understanding of the relevant terms and conditions of the agreement. We compared the use and classification of endowment and investment income to the corresponding endowment agreement.

#### Expenses

19. 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.
20. 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 agreed selected amounts to proper posting in the accounting records and supporting documentation.
21. 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.

22. 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.
23. 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.
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 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 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 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

KKH/clj

## SCHEDULE

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY  
SCHEDULE OF REVENUES AND EXPENSES  
OF INTERCOLLEGIATE ATHLETICS PROGRAMS  
For The Year Ended June 30, 2012

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
Operating revenues:							
Ticket sales	\$ 13,832,551	\$ 2,823,351	\$ 139,707	\$ -	\$ -	\$ -	\$ 16,795,609
Student fees	-	-	-	-	2,147,890	5,199,588	7,347,478
Guarantees	450,000	-	-	500	500	-	451,000
Contributions	8,971,633	817,798	658,934	2,556,361	4,129,948	1,018,517	18,153,191
Compensation and benefits provided by a third party	185,000	-	-	-	-	-	185,000
Direct state or other government support	-	-	-	-	-	645	645
Direct institutional support	-	-	-	-	-	317,084	317,084
NCAA conference distributions including all tournament revenues	9,675,678	6,349,637	25,988	152,378	159,861	1,555,052	17,918,594
Broadcast television, radio and internet rights	3,084,800	822,613	205,653	-	-	-	4,113,066
Program sales, concessions, novelty sales, and parking	1,232,220	80,748	9,398	16,424	10,967	375,989	1,725,746
Royalties, advertisements and sponsorships	636,951	145,835	66,459	112,000	118,500	465,676	1,545,421
Endowment and investment income	572,453	118,588	98,298	472,063	594,557	95,876	1,951,835
Other	8,250	-	-	50,351	50,350	110,138	219,089
Total operating revenues	<u>38,649,536</u>	<u>11,158,570</u>	<u>1,204,437</u>	<u>3,360,077</u>	<u>7,212,573</u>	<u>9,138,565</u>	<u>70,723,758</u>
Operating expenses:							
Athletic student aid	3,220,196	536,480	523,386	2,243,702	3,335,515	417,722	10,277,001
Guarantees	1,325,000	595,126	71,976	15,741	24,246	-	2,032,089
Coaching salaries, benefits, and bonuses	5,535,897	1,836,253	822,293	1,613,399	1,388,947	-	11,196,789
Coaching other compensation and benefits paid by a third-party	185,000	-	-	-	-	-	185,000
Support staff and administrative salaries, benefits and bonuses	1,787,474	228,979	170,986	36,503	101,092	7,104,425	9,429,459
Severance payments	-	87,165	71,244	10,311	8,707	19,962	197,389
Recruiting	342,899	215,225	209,747	186,956	198,075	2,050	1,154,952
Team travel	1,708,234	689,267	443,505	929,666	836,665	-	4,607,337
Equipment, uniforms, and supplies	632,929	46,671	28,102	432,099	371,492	52,254	1,563,547
Game expenses	1,504,629	367,701	166,798	207,486	187,878	477,674	2,912,166
Fund-raising, marketing and promotions	315,837	336,160	109,836	62,908	44,539	446,790	1,316,070
Direct facilities, maintenance and rental	6,379,377	547,953	500,862	1,096,734	1,261,611	7,531,482	17,318,019
Spirit groups	628,727	63,614	9,449	12,227	16,667	93,855	824,539
Indirect facilities and administrative support	191,129	43,666	12,858	159,643	172,206	410,530	990,032
Memberships and dues	2,515	990	980	5,538	3,903	27,131	41,057
Other	1,225,671	284,798	129,848	230,707	217,030	837,304	2,925,358
Total operating expenses	<u>24,985,514</u>	<u>5,880,048</u>	<u>3,271,870</u>	<u>7,243,620</u>	<u>8,168,573</u>	<u>17,421,179</u>	<u>66,970,804</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 13,664,022</u>	<u>\$ 5,278,522</u>	<u>\$ (2,067,433)</u>	<u>\$ (3,883,543)</u>	<u>\$ (956,000)</u>	<u>\$ (8,282,614)</u>	<u>\$ 3,752,954</u>

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



VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY  
NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF  
INTERCOLLEGIATE ATHLETIC PROGRAMS  
AS OF JUNE 30, 2012

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 the Schedule is to present a summary of revenues and expenses of the intercollegiate athletic programs of the University for the year ended June 30, 2012. The Schedule includes those intercollegiate athletics revenues and expenses 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 fund balances, 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 \$19,947,086 from the Virginia Tech Foundation, Inc. Approximately \$10,207,474 of these funds were used for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$18,153,191 is included in the Contributions line item and \$1,793,895 is included in the Endowment and Investment Income line item.

3. LONG-TERM DEBT

In October 1996, a revenue bond of \$6,250,000 was issued for the Athletic Department. This bond was issued 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 \$1,870,000 and will be repaid with general operating revenues through 2016.

In October 2001, a \$26,285,000 note was issued for the Athletic Department. This note was issued for the South End Zone addition to Lane Stadium. Part of the original debt was refinanced in January 2008 with a \$2,860,000 note that will be repaid through 2020 and has an outstanding balance of \$2,825,000. The remaining original debt issuance was refinanced in February 2011 with an \$11,540,000 note that will be repaid through 2027 and has an outstanding balance of \$11,540,000.

In May 2004, a \$52,715,000 revenue bond was issued for the Athletic Department. This bond was issued for the West Side Expansion to Lane Stadium which was substantially completed in 2006. This bond has an outstanding balance of \$36,625,000 and will be repaid with private fund raising and operating revenues through 2029.

In November 2009, an \$8,705,000 note was issued for the Athletic Department. This note was issued for the Hahn Hurst Basketball Practice Center which was substantially complete in 2009. This note has an outstanding balance of \$8,160,000 and will be repaid with private fund raising and operating revenues through 2030.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2012 is presented as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,870,000	\$2,878,019	\$ 5,748,019
2014	3,005,000	2,740,694	5,745,694
2015	3,155,000	2,589,294	5,744,294
2016	3,300,000	2,430,506	5,730,506
2017	2,935,000	2,264,206	5,199,206
2018-2022	16,935,000	9,023,906	25,958,906
2023-2027	20,915,000	4,583,956	25,498,956
2028-2030	<u>7,905,000</u>	<u>574,431</u>	<u>8,479,431</u>
Total	<u>\$61,020,000</u>	<u>\$27,085,012</u>	<u>\$88,105,012</u>

#### 4. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Athletic Department an administrative fee. During the fiscal year, the Department paid \$3,202,204 to the University. This amount is included in Direct Facilities, Maintenance, and Rental, and includes \$83,433 in football, and \$3,118,771 in the non-program specific category.

#### 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 completion of the English Field Improvements and renovations to Cassell Coliseum. All gifts of capital assets are recorded at fair market value as of the donation date.

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, ten to 50 years for infrastructure and land improvements, and three to 30 years for fixed and movable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2012 (all dollars in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings	\$142,053	\$1,502	\$ -	\$143,555
Moveable equipment	4,917	734	136	5,515
Fixed equipment	6,973	536	-	7,509
Infrastructure	<u>16,567</u>	<u>1,564</u>	<u>-</u>	<u>18,131</u>
Total depreciable capital assets, at cost	<u>170,510</u>	<u>4,336</u>	<u>136</u>	<u>174,710</u>
Less accumulated depreciation:				
Building	29,461	3,198	-	32,659
Moveable equipment	3,285	420	130	3,575
Fixed equipment	4,619	252	-	4,871
Infrastructure	<u>12,791</u>	<u>741</u>	<u>-</u>	<u>13,532</u>
Total accumulated depreciation	<u>50,156</u>	<u>4,611</u>	<u>130</u>	<u>54,637</u>
Total depreciable capital assets, net of accumulated depreciation	<u>120,354</u>	<u>(275)</u>	<u>6</u>	<u>120,073</u>
Non-depreciable capital assets				
Construction in progress	<u>139</u>	<u>4,373</u>	<u>3,419</u>	<u>1,093</u>
Total capital assets, net of accumulated depreciation	<u>\$120,493</u>	<u>\$4,098</u>	<u>\$3,425</u>	<u>\$121,166</u>

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Blacksburg, Virginia

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