



VIRGINIA COMMONWEALTH UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts
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Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 15, 2019

The Honorable Ralph S. Northam
Governor of Virginia

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

Michael Rao
President, Virginia Commonwealth University

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of **Virginia Commonwealth 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 3.2.4.15.1, 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.

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 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. We noted no differences between the amounts in the Intercollegiate Athletics Department's accounting records and the amounts on the trial balance. 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:

<u>Line Item</u>	<u>Explanation</u>
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	The University reported an increase in compensation and benefits paid to support and administrative staff in fiscal year 2018. The increase was largely driven by merit-based raises given to Athletics staff during the year as well as a one percent increase to the fringe benefit rate. Additional increases were caused by the creation of new positions within Athletics.
Contributions	Revenue from contributions did not meet budgeted expectations. The shortfall was caused by lower-than-expected contributions to the Ram Athletic Fund, Club seat sales, and donations to the Men's Basketball team.

Revenues

9. We reviewed a sample of ticket sales reconciliations performed for accuracy and proper review and approval. We also performed a recalculation of ticket sales revenue for Men's Basketball by comparing the number of tickets sold, attendance, and sale price to total revenue recorded in the Schedule for a sample of games. We determined the reconciliations reviewed to be accurate and the amounts reported in the Schedule to be substantially in agreement with our recalculation.
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 received by Athletics from the Schedule. This amount was deemed to be immaterial for detailed testing.

12. We obtained the amount of indirect institutional support recognized by Athletics from the Schedule. This amount was deemed to be immaterial for detailed testing.
13. We obtained the amount of game guarantee revenue from the schedule. This amount was deemed immaterial for detailed testing.
14. 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 Commonwealth University 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 Commonwealth University Foundation, which exceeded ten percent of all contributions and agreed them to supporting documentation.
15. We obtained the amount of revenue from broadcast, television, radio, internet, and e-commerce rights from the Schedule. This amount was deemed to be immaterial for detailed testing.
16. We obtained the amount of revenues from tournaments, conference distributions, and NCAA distributions from the Schedule. These amounts were deemed to be immaterial for detailed testing.
17. We obtained the amount of program, novelty, parking, and concession sales revenue from the Schedule. This amount was deemed 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 athletics restricted endowment and investment income from the Schedule. This amount was deemed immaterial for detailed testing.
20. We obtained the amount of other operating revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

Expenses

21. 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 ten percent of 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 students information as reported in the NCAA's Compliance Assistant software to ensure proper calculation of revenue distribution equivalencies.
22. We obtained the amount of game guarantee revenue from the Schedule. This amount was deemed to be immaterial for detailed testing.
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, including 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.
24. 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.
25. We selected a sample of disbursements for team travel and direct overhead and administrative 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.
26. 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.
27. 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.

Other Reporting Items

- 28. We obtained repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We recalculated annual maturities reported in the notes to the Schedule and agreed total annual maturities and total outstanding athletic related debt to supporting documentation.
- 29. We agreed total outstanding institutional debt to supporting debt schedules and the University's audited financial statements.
- 30. We agreed the fair value of athletics dedicated endowments to supporting documentation provided by the University.
- 31. We agreed the fair value of institutional endowments to supporting documentation, including the audited financial statements of the University.
- 32. We obtained a schedule of athletics related capital expenditures made during the period and validated their existence and accuracy of recording and recalculated totals.

Additional Procedures

- 33. 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.
- 34. 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.
- 35. 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 agreement of the amounts reported.

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 Virginia Commonwealth 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 Commonwealth 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

SAH/vks

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

	Men's Basketball	Women's Basketball	Men's Baseball	Other Sports	Non-Program Specific	Total
<u>Operating revenues:</u>						
Ticket sales	\$ 3,045,131	\$ 12,022	\$ 29,608	\$ 13,079	\$ 101,579	\$ 3,201,419
Student fees	-	-	-	-	20,695,657	20,695,657
Direct institutional support	-	-	-	-	237,548	237,548
Indirect institutional support	-	-	-	-	417,538	417,538
Guarantees	40,525	-	-	-	-	40,525
Contributions	4,383,812	-	18,813	96,613	532,350	5,031,588
Media rights	-	-	-	-	177,345	177,345
NCAA distributions	-	-	-	10,275	324,020	334,295
Conference distributions (non-media or bowl)	-	-	-	-	1,261,258	1,261,258
Program, novelty, parking, and concession sales	-	-	-	-	253,733	253,733
Royalties, licensing, advertisement and sponsorships	1,868,065	-	2,303	7,528	915,527	2,793,423
Athletics restricted endowment and investments income	5,671	500	2,750	30,709	22,159	61,789
Other operating revenue	-	-	-	3,690	1,289,017	1,292,707
Total operating revenues	<u>9,343,204</u>	<u>12,522</u>	<u>53,474</u>	<u>161,894</u>	<u>26,227,731</u>	<u>35,798,825</u>
<u>Operating expenses:</u>						
Athletic student aid	761,295	715,463	539,276	4,037,090	80,422	6,133,546
Guarantees	531,187	30,000	11,856	28,082	-	601,125
Coaching salaries, benefits, and bonuses paid by the University and related entities	2,399,231	758,992	374,915	1,942,661	-	5,475,799
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	565,270	188,430	14,526	27,050	5,319,696	6,114,972
Recruiting	217,988	100,007	33,280	144,822	-	496,097
Team travel	832,498	360,908	141,517	957,944	-	2,292,867
Sports equipment, uniforms, and supplies	95,801	70,126	61,070	343,960	430,145	1,001,102
Game expenses	140,085	65,810	36,625	81,587	-	324,107
Fundraising, marketing and promotion	-	-	7,718	-	716,715	724,433
Spirit groups	-	-	-	-	162,182	162,182
Athletic facility leases and rental fees	-	-	119,000	20,994	283,291	423,285
Athletic facility debt service	-	-	-	-	1,302,215	1,302,215
Direct overhead and administrative expenses	179,550	56,754	16,003	92,650	5,708,444	6,053,401
Indirect cost paid to the institution by athletics	227,341	77,284	30,793	178,246	447,058	960,722
Indirect institutional support	-	-	-	-	417,538	417,538
Medical expenses and insurance	1,632	1,280	-	28,677	458,889	490,478
Memberships and dues	1,815	806	-	10,036	10,408	23,065
Student-Athlete Meals (non-travel)	183,035	89,676	23,789	121,972	-	418,472
Other operating expenses	<u>61,672</u>	<u>34,534</u>	<u>23,352</u>	<u>139,478</u>	<u>934,184</u>	<u>1,193,220</u>
Total operating expenses	<u>6,198,400</u>	<u>2,550,070</u>	<u>1,433,720</u>	<u>8,155,249</u>	<u>16,271,187</u>	<u>34,608,626</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 3,144,804</u>	<u>\$ (2,537,548)</u>	<u>\$ (1,380,246)</u>	<u>\$ (7,993,355)</u>	<u>\$ 9,956,544</u>	<u>\$ 1,190,199</u>
<u>Other Reporting Items:</u>						
Total athletics-related debt						\$ 17,097,618
Total institutional debt						\$ 462,722,152
Value of athletics-dedicated endowments						\$ 85,493
Value of institutional endowments						\$ 316,899,851
Total athletics-related capital expenditures						\$ 560,272

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

VIRGINIA COMMONWEALTH UNIVERSITY
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 have 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 intercollegiate 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 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. ENDOWMENT

The Intercollegiate Athletics Department has one restricted endowment established for the benefit of the Department. The recorded value of the endowment totaled \$85,493 at June 30, 2018. The University has entrusted most, including Athletics, endowment funds to the VCU Foundation, an affiliated foundation, for investment in the Foundation's investment pool. Funds transferred to the VCU Foundation are subject to the investment policies of the VCU Foundation. University and component unit endowments totaled \$316,899,851 at June 30, 2018.

The Foundation offers no guarantees relating to loss of investment value or rate of return on investments. Further, amounts transferred to the Foundation must remain with the Foundation unless the University Board of Visitors approves the use of these invested funds for specific University purposes.

3. CAPITAL ASSETS

The Intercollegiate Athletics Department follows the same policies and procedures as the University for acquiring capital assets. Capital assets are stated at cost or, if donated, at fair market value on the date of acquisition. Equipment costing \$5,000 or more with a useful life of two or more years is capitalized. Infrastructure assets are included in the financial statements and are depreciated. The University records depreciation on property, plant and equipment, including capital leases and excluding land and construction in progress, computed over the estimated useful lives of the assets based on the straight-line method. The general range of estimated useful lives is ten to 40 years for buildings and fixtures and five to 20 years for

equipment. The general range of estimated useful lives is 10 to 25 years for land improvements and infrastructure. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. Capital assets at the time of disposal revert to the Commonwealth of Virginia for disposition.

Athletics-related capital assets as of June 30, 2018 were as follows:

Land Improvements	\$ 3,662,691
Buildings	65,205,911
Equipment	<u>2,062,114</u>
Total Cost	70,930,716
Less: Accumulated Depreciation	
Land Improvements	3,363,941
Buildings	24,559,990
Equipment	<u>1,385,895</u>
Total Accumulated Depreciation	29,309,826
Net Property & Equipment	<u>\$ 41,620,890</u>

Total athletics related capital expenditures for the fiscal year ending June 30, 2018 were \$179,758. Additionally, \$380,514 from operating accounts, was paid towards prior year capital expenditures.

4. DEBT REPAYMENT SCHEDULE

The Virginia College Building Authority (VCBA) issues Educational Facilities Revenue Bonds (Public Higher Education Financing Program). As a participating institution in this program, the University issued a note payable to the VCBA. This note, along with the notes of other institutions, is held by the VCBA as security for the Educational Facilities Revenue Bonds. For accounting purposes, the financing arrangement is considered to represent a note payable. The Sports Medicine Facility was financed through the VCBA. The notes have interest rates of 2.0 percent to 6.0 percent.

The debt maturity schedule and summary of future interest requirements is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 209,458	\$ 24,112
2020	218,820	15,023
2021	212,934	5,323
Total	<u>\$ 641,212</u>	<u>\$ 44,458</u>

General Revenue Pledge Bonds were issued to fund the capital construction of a basketball training facility in June 2015, totaling \$10,000,000. The bonds carry an interest rate of 2.03 percent and are due May 1, 2030.

The debt maturity schedule and summary of future interest requirements is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 634,615	\$ 173,214
2020	648,078	160,331
2021	661,538	147,175
2022	675,000	133,746
2023	688,462	120,043
2024-2028	3,655,769	384,958
2029-2033	1,569,231	47,939
Total	<u>\$ 8,532,693</u>	<u>\$ 1,167,406</u>

An installment purchase contract was entered into to acquire capital equipment.

The debt maturity schedule and summary of future interest requirements is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 181,052	\$ 23,864
2020	184,699	20,217
2021	188,420	16,496
2022	192,216	12,700
2023	196,089	8,827
2024-2028	335,633	5,894
Total	<u>\$ 1,278,109</u>	<u>\$ 87,998</u>

Additionally, \$8,600,000 in draws from of a line of credit was outstanding from the prior fiscal year. During the fiscal year there were reductions of \$1,573,982 received from the VCU Foundation and \$380,514 paid from operating accounts. The balance of this short term debt totaled \$6,645,604 as of June 30, 2018.

Total University debt totaled \$462,722,152 as of June 30, 2018.

5. CONTRIBUTIONS

During the fiscal year ended June 30, 2018, the University received Athletics-related contributions from the Virginia Commonwealth University Foundation, totaling \$4,898,356 which constituted ten percent or more of total contributions.

VIRGINIA COMMONWEALTH UNIVERSITY

As of June 30, 2018

BOARD OF VISITORS

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UNIVERSITY OFFICIALS

Michael Rao, President

Edward K. McLaughlin, Director of Intercollegiate Athletics Programs