

UNIVERSITY OF VIRGINIA

**INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2011**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

- TABLE OF CONTENTS -

	<u>Pages</u>
INTERNAL CONTROL FINDING AND RECOMMENDATION	1
INDEPENDENT AUDITOR'S REPORT ON APPLICATION OF AGREED-UPON PROCEDURES	2 - 6
SCHEDULE	
Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	7
Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	8 - 10
UNIVERSITY RESPONSE	11
UNIVERSITY OFFICIALS	12

INTERNAL CONTROL FINDING AND RECOMMENDATION

Deposit Receipts Timely

The Athletic Department deposited 24 of the 28 deposits (86 percent) tested two to seven business days after collection, and not the next business day as required by the University's policies and procedures. Promptly depositing all collections is important to safeguard collections and to maximize interest income on University funds.

The Athletic Department should devote sufficient resources in the Athletic Ticketing Office to ensure the prompt deposit of all cash collections according to the University's policies and procedures. Further, the Athletic Department must realize that the timeliness of deposits is an important internal control to prevent mishandling of funds and safeguard against loss.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
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December 21, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
And Review Commission

Teresa A. Sullivan
President, University of Virginia

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 **University of Virginia**, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.16.1, for the year ended June 30, 2011. 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, 2011, 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 an expected amount based on fee rates and enrollment. We found these amounts to be materially in agreement.
11. Intercollegiate Athletics Department management provided us with 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 Athletics Foundation, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs.
12. 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.
13. 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.
14. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, advertisements, and sponsorships. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
16. We obtained an understanding of the University's methodology for recording revenues from sport camps and inspected any sports camp contracts between the University and persons conducting sport camps or clinics during the reporting period. This amount was deemed to be immaterial for detailed testing.
17. Based on receipts as listed in the accounting records, we selected and tested collections by the Intercollegiate Athletics Programs. We compared and agreed the selected operating receipts to adequate supporting documentation. We found all reviewed amounts to be in agreement with supporting documentation, intact, and properly recorded in the accounting records. However, we found that receipts for ticket sales are not deposited in a timely manner. In our review, 86 percent of the deposits tested were made between two and seven days after actual receipt.

Expenses

18. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. We selected individual student-athletes across all sports and agreed amounts from the listing to their award letter. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system.
19. Intercollegiate Athletics Department management provided us with 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.
20. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for home games during the reporting period. This amount was deemed to be immaterial for detailed testing.
21. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. We reviewed selected severance payments and found that each selected payment agreed to the related termination letter or employment contract and was properly recorded in the accounting system.
22. We discussed the Intercollegiate Athletics Department's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies.
23. We obtained an understanding of the University's methodology for allocating indirect facilities support and ensured that amounts reported on the Schedule agreed to amounts recorded in the accounting records.
24. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the Intercollegiate Athletics Programs. These disbursements were for supplies, equipment, travel, and other general operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression on an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we made 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 University of Virginia or its Intercollegiate Athletics Department taken as a whole.

In connection with applying these procedures, we noted a matter involving internal control over Intercollegiate Athletics Program activities administered by the University and its operation that we consider to be a reportable condition. Our finding and recommendation entitled, Deposit Receipts Timely, is described in the section of this report titled, "Internal Control Finding and Recommendation." However, we do not consider the reportable condition to be a material weakness.

The University's response to the finding identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

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

AWP/clj

SCHEDULE

UNIVERSITY OF VIRGINIA
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2011

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-program Specific	Total
Operating Revenues:						
Ticket sales	\$ 8,049,704	\$2,588,998	\$ 102,916	\$ 809,863	\$ 623,596	\$12,175,077
Student fees	-	-	-	-	12,973,298	12,973,298
Guarantees	500,000	-	-	-	-	500,000
Contributions	2,875,458	2,060,176	88,346	2,194,933	27,284,153	34,503,066
NCAA conference distributions including all tournament revenues	4,841,342	4,360,723	40,537	492,602	1,869,478	11,604,682
Program sales, concessions, novelty sales and parking	493,312	154,480	47,959	22,971	218,010	936,732
Royalties, licensing, advertisements, and sponsorships	-	-	-	443,318	3,446,741	3,890,059
Sports camp revenues	5,755	5,873	6,200	140,558	16,564	174,950
Endowment and investment income	-	31	72	224	552,115	552,442
Other	10,300	-	5,045	51,817	1,061,538	1,128,700
Total operating revenues	16,775,871	9,170,281	291,075	4,156,286	48,045,493	78,439,006
Operating expenses:						
Athletics student aid	3,169,821	524,970	648,707	7,711,656	634,837	12,689,991
Guarantees	1,275,000	470,000	114,500	48,000	-	1,907,500
Coaching salaries, benefits, and bonuses paid by the University and related entities	4,591,248	2,723,070	1,757,001	4,999,385	-	14,070,704
Support staff and administrative salaries, benefits, and bonuses paid by the University and related entities	1,156,583	507,874	262,226	186,874	10,838,363	12,951,920
Severance payments	2,239,996	1,021,188	474,151	-	-	3,735,335
Recruiting	276,806	186,612	92,687	489,788	77,826	1,123,719
Team travel	1,135,799	591,163	496,981	2,354,080	10,649	4,588,672
Equipment, uniforms, and supplies	529,029	24,002	9,385	494,515	94,194	1,151,125
Game expenses	1,471,206	670,444	467,449	1,178,210	88,304	3,875,613
Fund-raising, marketing, and promotion	205,365	-	1,376	2,477	680,013	889,231
Direct facilities maintenance, and rental	97,068	55,789	14,498	464,577	10,129,625	10,761,557
Spirit groups	-	-	-	-	61,575	61,575
Medical expenses and medical insurance	93,973	21,137	15,041	228,559	949,947	1,308,657
Membership and dues	2,094	1,737	4,172	17,527	30,526	56,056
Other	495,600	183,216	259,340	721,589	1,568,942	3,228,687
Total operating expenses	16,739,588	6,981,202	4,617,514	18,897,237	25,164,801	72,400,342
Excess (deficiency) of revenues over (under) expenses	<u>\$ 36,283</u>	<u>\$2,189,079</u>	<u>\$(4,326,439)</u>	<u>\$(14,740,951)</u>	<u>\$22,880,692</u>	<u>\$ 6,038,664</u>

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

UNIVERSITY OF VIRGINIA

NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF

INTERCOLLEGIATE ATHLETIC PROGRAMS

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011. 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 \$24,276,227 in operating contributions from the Virginia Athletics Foundation (VAF). This amount includes approximately \$13,229,467 for scholarships for student-athletes, and \$10,157,919 for operating expenses. It also includes approximately \$888,841 paid directly by VAF for the benefit of University Athletics, for fundraising and operating expenses, as well as for improvements and equipment. These amounts are included in the accompanying schedule in Contributions revenue.

In addition to operating contributions included in the accompanying schedule, the University received approximately \$8,684,751 from VAF used to fund capital expenses and debt service for the John Paul Jones Arena, \$949,000 for McCue Center improvements, and \$970,486 for Baseball Stadium renovations.

3. CAPITAL ASSETS

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

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

equipment and capitalized software is provided on a straight-line basis over estimated useful lives ranging from one to twenty years.

Capital assets related to construction are capitalized as expenses are incurred. Projects that have not been completed as of the date of the statement of net assets are classified as Construction in Process. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the capital asset. Capital assets, such as roads, parking lots, sidewalks, and other non-building structures and improvements are capitalized as infrastructure and depreciated accordingly.

A summary of the various capital asset categories relating to Athletics for the year ending June 30, 2011 is presented below. The summary presents total amounts for capital assets that are used some or all of the time for intercollegiate athletic activities, including the John Paul Jones Arena. While all basketball games will be played in the Arena, it hosts many non-Athletic events.

	<u>Ending Balance</u>
Non-depreciable Capital Assets:	
Construction in progress	\$ <u>890,411</u>
Depreciable Capital Assets:	
Buildings	209,512,321
Infrastructure	11,654,309
Equipment	4,287,106
Improvements other than building	<u>99,888,378</u>
Total Depreciable Capital Assets	<u>325,342,114</u>
Less Accumulated Depreciation For:	
Buildings	46,026,292
Infrastructure	1,972,385
Equipment	2,078,970
Improvements other than building	<u>54,994,295</u>
Total Accumulated Depreciation	<u>105,071,942</u>
Depreciable Capital Assets, net	<u>220,270,172</u>
Total Capital Assets, net	<u>\$221,160,583</u>

4. LONG-TERM DEBT

Long-term debt relating to Athletics includes debt for Scott Stadium and the John Paul Jones Arena:

Description	Interest Rates	Maturity	Balance at June 30, 2011
Revenue Bonds:			
University of Virginia Series 2003B 9(d)	4.0% - 5.0%	2033	\$30,982,000
University of Virginia Series 2005 9(d)	4.0% - 5.0%	2037	\$73,556,870
University of Virginia Series 2008 9(d)	5.0%	2040	\$ 3,578,232
University of Virginia Series 2010 9(d)	3.2%	2041	\$ 196,493
Total Long-term debt			\$108,313,595

Long-term debt matures as follows:

	Principal	Interest
2012	\$ 3,367,749	\$ 5,259,405
2013	3,536,938	5,091,018
2014	3,712,405	4,914,171
2015	3,906,292	4,728,550
2016	4,094,039	4,533,236
2017-2021	20,744,929	19,604,385
2022-2026	15,791,978	15,036,369
2027-2031	9,106,000	12,459,966
2032-2036	27,754,382	9,665,178
2037-2041	16,298,883	1,212,973
Total	\$108,313,595	\$82,505,251

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, 2011 was 4.7 percent and generated \$2,025,300 in overhead recoveries from Athletics.



University of Virginia

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To: Andrew Powell, Project Manager
Stephen Walker, Auditor In-charge
Melinda Tanner, NCAA Auditor

From: Corbin Hunt, Associate Athletics Director, Ticket Sales/Operations
Keith VanDerbeek, Associate Athletics Director, Business Affairs

Date: December 13, 2011

Subject: Management Letter Comment – Response

This memorandum serves in response to the findings from the NCAA Audit sent to athletics from the Commonwealth of Virginia Auditor of Public Accounts on December 8, 2011. The finding is improvement of internal controls over cash collection and depositing so that the Athletics Ticket Office complies with the Commonwealth Accounting Policies and Procedures of cash to be deposited by the next business day.

Athletics concurs with the finding but believes that most of the deposits tested were from weekend collections which would have been deposited on a Tuesday the second business day after collection. The Athletics Ticket Office will implement additional training procedures to ensure that deposits are made daily.

- The Athletics Ticket Office will train two additional employees on depositing procedures to ensure that a deposit can be made all five business days of the week.
- The Athletics Ticket Office is committed to submitting a deposit every business day regardless of how much cash was collected the previous day. All batches with cash will be closed out daily to ensure all cash is deposited.

The Athletics Ticket Office requests that cash collected from weekend events (Friday night, Saturday, and Sunday) be deposited on Tuesday morning. With up to four or five events on some weekends it is virtually impossible to count and reconcile cash collected over a weekend on Monday and deposit that day. Cash collected during regular office business on Friday will continue to be deposited on Monday.

All cash collected from weekend events is brought back to the Athletics Ticket Office by the ticketing event supervisor from the event site where it is stored in a locked vault and the office is armed with a security system until Monday morning when the counting and reconciliation process takes place.

Without this concession to the one business day policy, the Athletics Ticket Office will incur significant overtime pay by requiring a depositor to be in the office very late after events to count, reconcile and prepare the deposit for Monday morning.

UNIVERSITY OF VIRGINIA

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