

**UNIVERSITY OF VIRGINIA**

**INTERCOLLEGIATE ATHLETICS PROGRAMS  
FOR THE YEAR ENDED  
JUNE 30, 2006**

---

---

***APA***

---

---

**Auditor of  
Public Accounts**

---

---

**COMMONWEALTH OF VIRGINIA**

- TABLE OF CONTENTS -

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT ON APPLICATION OF AGREED-UPON PROCEDURES	1-5
SCHEDULE	
Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	7- 8
Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	9-11
UNIVERSITY OFFICIALS	12



# Commonwealth of Virginia

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

November 10, 2006

The Honorable Timothy M. Kaine  
Governor of Virginia

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

John T. Casteen, III  
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** (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) Bylaw 6.2.3, for the year ended June 30, 2006. The University's management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) 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 audit of the University's financial statements.

2. We reviewed an organizational chart provided by the Intercollegiate Athletics Department and discussed it 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. The University 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. The 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. The Intercollegiate Athletics Department 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. We obtained any additional reports regarding internal control matters identified during the independent audits of affiliated and outside organizations and inquired as to the corrective action taken in response to such comments. We noted that the affiliated organizations had been audited by independent public accountants and we were not made aware of any internal control findings.

#### Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. We obtained the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2006, as prepared by the University and shown in this report. We recalculated the addition of the amounts on the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts on management's worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. We noted no differences between the amounts in the 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 balances reported on the Schedule in order to determine the reasonableness of amounts reported therein. These techniques included trend analyses and other tests using operating data and review of actual amounts expended in comparison to budgeted amounts.

#### Revenues

9. We compared each major revenue account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.

10. 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 to amounts recorded as ticket revenue for those games.
11. 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.
12. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and agreed significant amounts to supporting documentation.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Department 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. We vouched each individual contribution received directly by the University for its Intercollegiate Athletics Programs that constituted more than ten percent of the contributions so received. 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.
14. From the summary of revenues and expenses for or on behalf of the Intercollegiate Athletics Programs by affiliated and outside organizations, we selected and tested receipts of such revenue and agreed each selection to supporting documentation and proper posting in the accounting records. We found all reviewed transactions to be in agreement.
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 inspected the agreements and agreed significant amounts to 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. These agreements also include revenues from advertising, royalties and sponsorships. We inspected the agreements and agreed significant amounts to supporting documentation.

17. 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 reporting period. We found that the University received and recorded revenues consistent with the terms of the contracts.
18. Based on receipts as listed in the accounting records, we selected and tested collections by the Intercollegiate Athletics Program. We found all reviewed amounts to be in agreement with supporting documentation, deposited promptly and intact, and properly recorded in the accounting records.

#### Expenses

19. We compared each major expense account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.
20. 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.
21. Intercollegiate Athletics Department management provided us with game guarantee agreements for home games during the reporting period. We reviewed these amounts in the University's accounting system. We found all reviewed amounts to be properly recorded in the accounting records.
22. 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.
23. Intercollegiate Athletics Department management provided us a listing of all severance payments during the reporting period. This amount was deemed to be immaterial for further testing
24. We discussed the University's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies.
25. We obtained an understanding of the University's methodology for allocating administrative and facility support expenses and ensured that amounts reported on the Schedule agreed to amounts recorded in the accounting records.
26. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the Intercollegiate Athletics Program. These

disbursements were for supplies, equipment, travel, and other general 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 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 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

JHS:sks  
sks:

## **SCHEDULE**

UNIVERSITY OF VIRGINIA  
SCHEDULE OF REVENUES AND EXPENSES OF INTERCOLLEGIATE ATHLETICS PROGRAMS  
For the Year Ended June 30, 2006

	Football	Men's Basketball
Operating revenues:		
Ticket sales	\$ 9,650,866	\$ 1,786,372
Student fees	-	-
Away game sales and guarantees	1,037,821	320,581
Contributions	2,443,129	364,400
Conference distributions and post season revenues	957,819	68,413
Program sales, concessions, novelty, and parking	476,354	80,180
Royalties, advertising, and sponsorships	-	-
Sports camps	19,662	4,990
Endowment and investment income	-	-
Other	380,706	812
	<u>14,966,357</u>	<u>2,625,748</u>
Operating expenses:		
Athletic student aid	2,606,110	274,417
Guarantees	1,200,000	677,553
Coaching salaries and benefits	4,062,600	1,418,877
Staff and administrative salaries and benefits	869,655	259,655
Severance payments	-	46,316
Recruiting	359,774	294,431
Team travel	1,417,224	703,224
Equipment, uniforms, and supplies	444,106	67,494
Game expenses	941,121	342,452
Fund raising, marketing, and promotion	222,280	106,880
Direct facilities, maintenance, and rental	992,424	-
Spirit groups	38,321	940
Medical expenses and medical insurance	162,595	20,445
Memberships and dues	625	185
Other	715,448	186,842
	<u>14,032,284</u>	<u>4,399,710</u>
Excess/(deficiency) of revenues over/(under) expenses	<u>\$ 934,073</u>	<u>\$ (1,773,962)</u>

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

	Women's Basketball	Other Sports	Non-Program Specific	Total
\$	128,055	\$ 380,136	\$ 208,072	\$ 12,153,501
	-	-	9,127,368	9,127,368
	-	-	-	1,358,402
	12,575	705,303	11,041,849	14,567,256
	47,035	374,543	9,054,258	10,502,068
	31,780	904	210,313	799,531
	50,000	165,000	2,025,604	2,240,604
	10,669	66,729	44,031	146,081
	1,214	4,495	586,949	592,658
	-	18,533	1,011,206	1,411,257
	281,328	1,715,643	33,309,650	52,898,726
	324,037	5,423,403	147,974	8,775,941
	54,500	29,732	-	1,961,785
	885,644	3,418,499	-	9,785,621
	166,489	171,395	8,533,258	10,000,452
	-	260,600	-	306,916
	114,202	466,754	-	1,235,161
	396,310	1,779,239	60,033	4,356,029
	6,042	620,236	51,296	1,189,174
	136,908	416,411	89,296	1,926,188
	78,421	115,142	560,017	1,082,740
	-	157,395	3,725,292	4,875,111
	2,020	-	39,577	80,858
	34,837	230,794	416,610	865,281
	2,340	6,873	24,448	34,471
	71,730	406,076	3,735,573	5,115,670
	2,273,481	13,502,548	17,383,375	51,591,398
\$	(1,992,153)	\$ (11,786,905)	\$ 15,926,275	\$ 1,307,328

UNIVERSITY OF VIRGINIA  
NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF  
INTERCOLLEGIATE ATHLETICS PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 2006

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenditures 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 expenditures of the Intercollegiate Athletics Programs of the University for the year ended June 30, 2006. The Schedule includes those intercollegiate athletics revenues and expenditures 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 expenditures directly identifiable with each category of sport presented are reported accordingly. Revenues and expenditures not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

2. AFFILIATED ORGANIZATIONS

The University received \$11,135,000 in operating contributions from the Virginia Athletics Foundation. This amount includes approximately \$8,989,000 for scholarships for student-athletes and \$454,000 in the form of fundraising and operating expenses paid directly by VAF. 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 \$17,493,000 from VAF designated to fund capital expenditures for the new John Paul Jones Arena. VAF also paid \$4,161,000 for construction and equipment capitalized by the University, including \$2,924,000 and \$850,000 for four of the Boar's Head Inn tennis courts and the Birdwood Golf Course practice facility, respectively.

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 expenditures of \$250,000 or more are capitalized only to the extent that such expenditures 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 fifty years. Depreciation of equipment and capitalized software is provided on a straight-line basis over estimated useful lives ranging from one to twenty years.

Fixed assets related to construction are capitalized as expenditures are incurred. Projects that have not been completed as of the date of the statement of net assets are classified as construction-in-progress. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed 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, 2006 is presented below. The summary presents total amounts for capital assets that are used at least some or all of the time for intercollegiate athletic activities. Construction-in-progress includes approximately \$128.5 million for the John Paul Jones Arena, which opened in July 2006. While all basketball games will be played in the Arena, it will also host many non-athletic events.

Nondepreciable capital assets:	
Construction-in-progress	<u>\$128,548,737</u>
Depreciable capital assets:	
Buildings	54,910,263
Equipment	3,584,866
Improvements other than buildings	<u>108,004,172</u>
Total depreciable capital assets	<u>166,499,301</u>
Less accumulated depreciation for:	
Buildings	16,015,474
Equipment	2,167,424
Improvements other than buildings	<u>34,403,089</u>
Total accumulated depreciation	<u>52,585,987</u>
Depreciable capital assets, net	<u>113,913,314</u>
Total capital assets, net	<u>\$242,462,051</u>

4. LONG-TERM DEBT

Long-term debt relating to Athletics:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance at June 30, 2006</u>
Revenue bonds:			
University of Virginia Series 2005 9(d)	4.0% - 5.0%	2024	\$48,951,002
University of Virginia Series 2003 B 9(d)	4.0% - 5.0%	2033	<u>34,699,000</u>
Total long-term debt			<u>\$83,650,002</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,740,670	\$ 3,910,699
2008	2,858,463	3,794,322
2009	2,977,395	3,676,433
2010	3,105,606	3,549,918
2011	3,232,538	3,417,943
2012-2016	18,617,424	14,631,813
2017-2021	20,744,928	9,709,820
2022-2026	15,791,978	5,141,803
2027-2031	9,106,000	2,565,400
2032-2034	<u>4,475,000</u>	<u>338,400</u>
Total	<u>\$83,650,002</u>	<u>\$50,736,551</u>

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 expenditure base. This rate is calculated every two years. The rate in effect for the year ended June 30, 2006 was 7.3 percent and generated \$1,808,808 in overhead recoveries from Athletics.

UNIVERSITY OF VIRGINIA

BOARD OF VISITORS

Thomas F. Farrell, II  
Rector

Daniel R. Abramson	Vincent J. Mastracco, Jr.
A. Macdonald Caputo	Lewis F. Payne
Alan A. Diamonstein	Don R. Pippin
Susan Y. (Syd) Dorsey	Gordon F. Rainey, Jr.
Georgia Willis Fauber	Warren M. Thompson
G. Slaughter Fitz-Hugh, Jr.	Edwin Darracott Vaughan, Jr. M.D.
W. Heywood Fralin	John O. Wynne
Glynn D. Key	Anne Elizabeth Mullen (Student Member)

Alexander G. Gilliam, Jr.  
Secretary to the Board of Visitors

ADMINISTRATIVE OFFICERS

John T. Casteen, III  
President

Leonard W. Sandridge, Jr.  
Executive Vice President and Chief Operating Officer

Craig K. Littlepage  
Director of University Athletic Programs

Keith D. Vanderbeek  
Associate Athletic Director for Business Operations