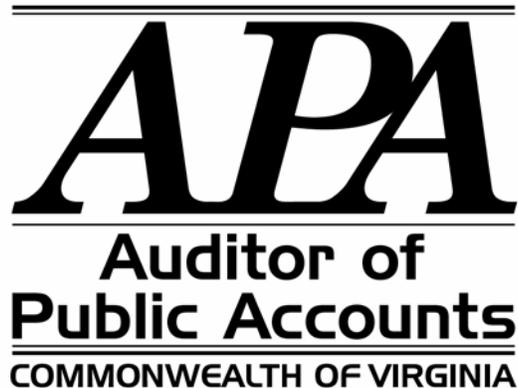


VIRGINIA MILITARY INSTITUTE

**INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2005**



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INSTITUTE OFFICIALS



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

January 11, 2006

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

General J.H. Binford Peay III
Superintendent, Virginia Military Institute

INDEPENDENT AUDITOR'S REPORT ON APPLICATION OF AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the Superintendent of **Virginia Military Institute** solely to assist the Institute in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the Institute is in compliance with National Collegiate Athletic Association (NCAA) Bylaw 6.2.3.1, for the year ended June 30, 2005. The Institute's 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 Institute. 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 Institute'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 Institute'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 Institute 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. 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. There were no additional reports regarding internal control matters identified during the independent audits of affiliated and outside organizations.

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, 2005, as prepared by the Institute 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 Intercollegiate Athletics Department's accounts in the accounting records and the amounts on the worksheets. We discussed the nature of worksheet 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 reasonable.
12. We reviewed the Intercollegiate Athletics Department's procedures for receiving and accounting for game guarantee revenues and found such procedures to be adequate. We deemed these revenues to be immaterial for detailed testing.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods, or services received directly by the Intercollegiate Athletics 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 Institute for its intercollegiate athletics programs that constituted more than ten percent of the contributions so received. Except for total contributions received from the Virginia Military Institute Development Board, an affiliated organization, and the Virginia Military Institute Keydet Club, a booster organization, we noted no individual contribution, which constituted more than ten percent of total contributions received for intercollegiate athletics.
14. Based on analytical testing, we deemed revenues from tournaments, conference distributions, and NCAA distributions to be reasonable. We deemed these revenues to be immaterial for detailed testing.
15. Intercollegiate Athletics Department management indicated that there were no agreements related to participation in revenues from broadcast, television, radio, and Internet rights.
16. We reviewed the Intercollegiate Athletics Department's policies and procedures for participation in revenues from royalties, advertisements, and sponsorships and found such procedures to be adequate. We deemed revenue from royalties, advertisements, and sponsorships to be immaterial for detailed testing.
17. Virginia Military Institute does not receive revenues associated with sports camps.
18. Based on receipts as listed in the accounting records, we deemed other revenues collected by the Intercollegiate Athletics Department to be immaterial for detailed testing.

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. Based on analytical testing, we deemed game guarantee expenses for home games during the reporting period to be reasonable. We deemed these expenses to be immaterial for detailed testing.
22. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the Institute 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. The Intercollegiate Athletics Department did not make any severance payments during the reporting period.
24. We discussed the Institute'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 Institute's methodology for allocating indirect facilities support 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 Virginia Military Institute in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the Institute. This report relates only to the accounts and items specified above and does not extend to the financial statements of Virginia Military Institute or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the Superintendent and the Institute 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

WHC/kva

VIRGINIA MILITARY INSTITUTE
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the Year Ended June 30, 2005

	Football	Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:					
Ticket sales	\$ 105,357	\$ 16,364	\$ -	\$ -	\$ 121,721
Cadet activity fees	-	-	-	1,720,687	1,720,687
Guarantees	125,000	82,000	-	-	207,000
Contributions (Note 2)	1,101,882	369,444	1,162,750	2,354,071	4,988,147
Direct governmental support-work study	-	-	-	577	577
Direct institutional support	-	-	-	177,000	177,000
NCAA/conference proceeds	-	-	-	151,140	151,140
Concessions and program income	5,175	724	-	-	5,899
Royalties, advertising, and licensing	5,230	-	-	74,625	79,855
Other	1,294	12,317	-	25,158	38,769
Total operating revenues	1,343,938	480,849	1,162,750	4,503,258	7,490,795
Operating expenses:					
Athletic student aid	1,034,652	327,680	888,717	2,000	2,253,049
Guarantees	40,000	12,500	-	-	52,500
Coaching salaries, benefits, and bonuses paid by the Institute and related entities	520,020	318,655	849,396	2,864	1,690,935
Support staff salaries, benefits, and bonuses paid by the Institute and related entities	57,264	101,825	7,891	1,277,138	1,444,118
Recruiting expenses	21,155	25,634	47,525	-	94,314
Team travel	70,812	75,550	177,696	1,637	325,695
Team equipment, uniforms, and supplies	109,079	27,750	135,449	13,609	285,887
Game expenses	28,298	23,892	30,234	-	82,424
Marketing and promotion	-	-	-	32,798	32,798
Direct facilities maintenance	-	-	29,968	345,574	375,542
Medical expenses and insurance	-	-	-	32,874	32,874
Memberships and dues	450	-	2,217	23,447	26,114
Other	69,859	51,100	70,742	639,053	830,754
Total operating expenses	1,951,589	964,586	2,239,835	2,370,994	7,527,004
Net increase/(decrease) for the year	\$ (607,651)	\$ (483,737)	\$ (1,077,085)	\$ 2,132,264	\$ (36,209)

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

VIRGINIA MILITARY INSTITUTE

NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF

INTERCOLLEGIATE ATHLETICS PROGRAMS

AS OF JUNE 30, 2005

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 this schedule is to present a summary of operating revenues and expenses of the intercollegiate athletic programs of the Institute for the year ended June 30, 2005. The Schedule also includes those intercollegiate athletics revenues and expenses made on behalf of the Institute's athletics programs by outside organizations not under the accounting control of the Institute. This schedule includes a selected portion of the Institute's activities and is not intended to and does not present the net assets, changes in net assets, 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. AFFILIATED ORGANIZATIONS

The Virginia Military Institute Keydet Club was established in 1948 for the purpose of raising contributions for scholarships to be awarded to athletes of the Institute. The Keydet Club contributed \$2,789,489 to the Institute during fiscal year 2005. These contributions include \$2,104,662 for intercollegiate athletic programs student financial assistance and \$684,827 in non-cash support provided by the Keydet Club.

The Virginia Military Institute Development Board was established in 1978 by the Virginia Military Institute Alumni Association to implement a comprehensive development program and to coordinate the Institute's various fund-raising activities. The Board provides support to the Institute from cash donations and income from its endowment. The Board contributed \$1,561,879 in unrestricted support and \$563,997 in restricted support to the Institute during fiscal year 2005. In addition, the Board contributed \$72,782 in non-cash support to the Institute.

3. 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 on-going renovations to the P. Wesley Foster, Jr. Stadium at Alumni Memorial Field and the Gray-Minor Stadium at Patchin Field. All gifts of capital assets are recorded at fair market value as of the date of donation.

Equipment is capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Renovation costs are capitalized when expenses total more than \$10,000, the asset value significantly increases, and 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 30 to 50 years for buildings, 10 to 20 years for infrastructure and land improvements, and 5 to 10 years for equipment.

A summary of capital asset balances at June 30, 2005, follows:

Depreciable capital assets:	
Buildings	\$4,319,975
Equipment	231,594
Infrastructure	<u>1,017,423</u>
Total depreciable capital assets at cost	<u>5,568,992</u>
Less accumulated depreciation:	
Buildings	1,196,279
Equipment	113,678
Infrastructure	<u>827,041</u>
Total accumulated depreciation	<u>2,136,998</u>
Total depreciable capital assets, net of accumulated depreciation	<u>3,431,994</u>
Nondepreciable capital assets:	
Construction-in-progress	<u>729,066</u>
Total capital assets, net of accumulated depreciation	<u>\$4,161,060</u>

4. ADMINISTRATIVE COST RECOVERIES

The Institute recovers from each auxiliary enterprise an amount to reimburse for the cost of institutional support and the operation and maintenance of plant. For the 2005 fiscal year, the Institute recovered \$249,807 of institutional support costs, which is reflected as non-program specific, other operating cost expenses and \$297,598 for operation and maintenance of plant costs, which is reflected as non-program specific, direct facilities maintenance expenses.

VIRGINIA MILITARY INSTITUTE

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