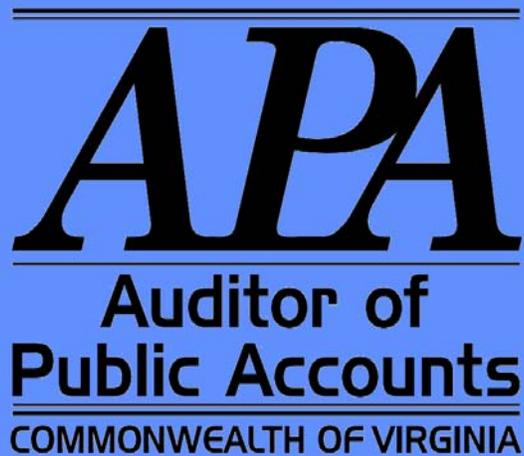


**VIRGINIA POLYTECHNIC INSTITUTE  
AND STATE UNIVERSITY**

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



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# Commonwealth of Virginia

*Auditor of Public Accounts*

Walter J. Kucharski  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

December 15, 2011

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
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 3.2.4.16.1, 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 the ticket and attendance reconciliations of ticket sales and revenue to the accounting records for selected periods and found those reconciliations to be accurate.
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 Tech 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. We reviewed these settlement reports and guarantee agreements for selected games and the 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 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.
16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, advertisements, and sponsorships and the 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, properly recorded in the accounting records, and deposited promptly and intact.

#### 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 and the amount was deemed to be immaterial for detailed testing.
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. 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 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 an item 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

# SCHEDULE

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY  
SCHEDULE OF REVENUES AND EXPENSES  
OF INTERCOLLEGIATE ATHLETIC PROGRAMS  
For The Year Ended June 30, 2011

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
Operating revenues:							
Ticket sales	\$16,339,537	\$2,498,388	\$ 141,204	\$ -	\$ -	\$ -	\$18,979,129
Student fees	-	-	-	-	2,140,751	5,096,341	7,237,092
Guarantees	2,361,547	182,500	-	3,303	4,250	-	2,551,600
Contributions	9,026,362	587,591	501,976	2,524,728	2,595,421	613,901	15,849,979
Third party support	185,000	-	-	-	-	-	185,000
Direct State or Other Government Support	-	-	-	-	-	492	492
Direct institutional support	-	-	-	-	-	353,531	353,531
NCAA/conference distributions							
including tournament revenues	6,505,429	4,158,381	30,024	114,396	120,562	1,539,075	12,467,867
Broadcast, television, radio, and internet rights	2,966,002	790,934	197,733	-	-	-	3,954,669
Program sales, concessions, novelty sales, and parking	1,225,272	71,593	11,160	17,666	10,458	363,942	1,700,091
Royalties, advertisements and sponsorships	580,535	160,063	73,641	92,500	92,000	385,698	1,384,437
Endowment and investment income	501,415	93,471	121,331	476,022	665,656	160,786	2,018,681
Other	11,500	-	-	53,037	53,037	109,409	226,983
Total operating revenues	<u>39,702,599</u>	<u>8,542,921</u>	<u>1,077,069</u>	<u>3,281,652</u>	<u>5,682,135</u>	<u>8,623,175</u>	<u>66,909,551</u>
Operating expenses:							
Athletic student aid	2,613,187	538,797	535,122	2,439,688	2,900,893	346,779	9,374,466
Guarantees	1,175,000	248,086	121,682	9,371	5,692	-	1,559,831
Coaching salaries, benefits, and bonuses	5,553,326	1,935,016	785,277	1,588,073	1,276,031	-	11,137,723
Coaching other compensation and benefits paid by a third party	185,000	-	-	-	-	-	185,000
Support staff/administrative salaries, benefits and bonuses	1,366,470	184,525	130,421	39,218	104,411	6,672,044	8,497,089
Severance payments	2,520	13,825	168	18,859	28,444	19,224	83,040
Recruiting	243,513	186,399	138,603	220,738	191,814	-	981,067
Team travel	1,668,574	520,778	252,953	844,890	781,987	-	4,069,182
Equipment, uniforms and supplies	636,298	116,805	84,078	293,657	247,234	201,472	1,579,544
Game expenses	1,767,989	318,620	172,856	233,197	150,976	467,640	3,111,278
Fund raising, marketing and promotions	353,126	284,997	130,937	80,684	58,620	396,430	1,304,794
Direct facilities, maintenance, and rental	7,049,983	433,209	423,924	376,600	600,412	7,153,016	16,037,144
Spirit groups	725,400	28,872	11,332	-	-	141,170	906,774
Medical expenses and medical insurance	117,008	41,882	32,665	193,629	158,915	211,718	755,817
Memberships and dues	1,285	780	848	4,453	2,914	24,008	34,288
Other	1,172,722	272,042	120,104	202,995	136,811	1,073,094	2,977,768
Total operating expenses	<u>24,631,401</u>	<u>5,124,633</u>	<u>2,940,970</u>	<u>6,546,052</u>	<u>6,645,154</u>	<u>16,706,595</u>	<u>62,594,805</u>
Excess (deficiency) of revenues over (under) expenses	\$15,071,198	\$3,418,288	(\$1,863,901)	(\$3,264,400)	(\$963,019)	(\$8,083,420)	\$4,314,746

*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, 2011

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, 2011. 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 \$17,604,380 from the Virginia Tech Foundation, Incorporated. Approximately \$9,210,472 of these funds were for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$15,849,980 is included in the Contributions line item and \$1,754,400 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 \$2,285,000 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. This note has an outstanding balance of \$680,000 and will be repaid with private fund raising and operating revenues through 2012. 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 \$2,835,000. The majority of 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 \$37,985,000 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 \$8,435,000 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, 2011 is presented as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,740,000	\$ 2,997,075	\$ 5,737,075
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
2017-2021	16,135,000	9,820,325	25,955,325
2022-2026	20,055,000	5,508,181	25,563,181
2027-2030	<u>12,500,000</u>	<u>1,117,994</u>	<u>13,617,994</u>
Total	<u>\$ 63,760,000</u>	<u>\$ 30,082,088</u>	<u>\$ 93,842,088</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 \$3,034,919 to the University. This amount is included on line 30, Direct Facilities, Maintenance, and Rental, and includes \$73,563 in Football, and \$2,961,356 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 addition to the Jamerson Center. 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, 10 to 50 years for infrastructure and land improvements, and 3 to 30 years for fixed and movable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2011 (all dollars in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable capital assets				
Buildings	\$ 127,636	\$ 14,417	\$ -	\$ 142,053
Moveable equipment	4,521	526	130	4,917
Fixed equipment	6,818	155	-	6,973
Infrastructure	<u>15,845</u>	<u>722</u>	<u>-</u>	<u>16,567</u>
Total depreciable capital assets, at cost	<u>154,820</u>	<u>15,820</u>	<u>130</u>	<u>170,510</u>
Less accumulated depreciation				
Buildings	26,329	3,132	-	29,461
Moveable equipment	3,046	353	114	3,285
Fixed equipment	4,373	246	-	4,619
Infrastructure	<u>11,826</u>	<u>965</u>	<u>-</u>	<u>12,791</u>
Total accumulated depreciation	<u>45,574</u>	<u>4,696</u>	<u>114</u>	<u>50,156</u>
Total depreciable capital assets, net of accumulated depreciation	<u>109,246</u>	<u>11,124</u>	<u>16</u>	<u>120,354</u>
Non-depreciable capital assets				
Construction in progress	<u>2,611</u>	<u>12,451</u>	<u>14,923</u>	<u>139</u>
Total capital assets, net of accumulated depreciation	<u>\$ 111,857</u>	<u>\$ 23,575</u>	<u>\$ 14,939</u>	<u>\$ 120,493</u>

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Blacksburg, Virginia

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