



**VIRGINIA POLYTECHNIC INSTITUTE  
AND  
STATE UNIVERSITY**

**INTERCOLLEGIATE ATHLETICS PROGRAMS  
FOR THE YEAR ENDED  
JUNE 30, 2013**

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# Commonwealth of Virginia

*Auditor of Public Accounts*

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Auditor of Public Accounts

P.O. Box 1295  
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December 13, 2013

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable John M. O'Bannon, III  
Chairman, Joint Legislative Audit  
And Review Commission

Charles W. Steger  
President, Virginia Polytechnic Institute and State University

## INDEPENDENT AUDITOR'S REPORT ON THE 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, for the year ended June 30, 2013. 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 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 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, 2013, 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 amounts from the University's comprehensive fee allocated to intercollegiate athletics. We found these amounts to be materially in agreement.
11. 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.

12. 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.
13. From the summary revenues and expenses for or on behalf of the Intercollegiate Athletics Programs by affiliated and outside organizations, we agreed contribution amounts to supporting documentation and proper posting in the accounting records. We found all reviewed transactions to be in agreement.
14. We obtained amounts reported in the Schedule for direct state or other governmental support, direct institutional support, and indirect facilities and administrative support. These amounts were deemed to be immaterial for detailed testing.
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 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 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.
17. 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.
18. We obtained and inspected endowment agreements to gain an understanding of the relevant terms and conditions of the agreement. We compared the use and classification of endowment and investment income to the corresponding endowment agreement.

#### Expenses

19. 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.
20. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for home games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and agreed selected amounts to proper posting in the accounting records and supporting documentation.

21. 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 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.
22. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by third-parties during the reporting period. This amount was deemed to be immaterial for detailed testing.
23. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. This amount was deemed to be immaterial for detailed testing.
24. 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.
25. 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.
26. 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 the various activities listed within the Schedule. 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 conducted 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 items 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

EMS/alh

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY  
SCHEDULE OF REVENUES AND EXPENSES OF  
INTERCOLLEGIATE ATHLETICS PROGRAMS  
For the year ended June 30, 2013

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
Operating revenues:							
Ticket sales	\$ 14,259,840	\$ 2,301,635	\$ 125,204	\$ -	\$ -	\$ 3,060	\$ 16,689,739
Student fees	-	-	-	-	2,165,582	5,441,153	7,606,735
Guarantees	500,000	-	-	15,500	6,200	-	521,700
Contributions	9,003,612	449,506	573,395	2,352,173	2,904,901	1,316,015	16,599,602
Compensation and benefits provided by a third party	185,000	-	-	-	-	-	185,000
Direct state or other government support	-	-	-	-	-	645	645
Direct institutional support	-	-	-	-	-	281,359	281,359
NCAA conference distributions including all tournament revenues	9,052,533	6,784,756	34,634	228,073	123,696	1,678,966	17,902,658
Broadcast television, radio and internet rights	3,220,455	873,119	218,280	-	-	-	4,311,854
Program sales, concessions, novelty sales, and parking	1,232,870	54,751	11,374	33,798	10,482	353,218	1,696,493
Royalties, advertisements and sponsorships	1,163,405	126,809	61,702	112,000	118,500	484,113	2,066,529
Endowment and investment income	513,355	128,475	97,161	500,294	667,120	80,953	1,987,358
Other	4,975	-	-	50,564	50,564	74,712	180,815
Total operating revenues	<u>39,136,045</u>	<u>10,719,051</u>	<u>1,121,750</u>	<u>3,292,402</u>	<u>6,047,045</u>	<u>9,714,194</u>	<u>70,030,487</u>
Operating expenses:							
Athletic student aid	3,277,245	416,177	577,001	2,364,871	3,226,094	375,707	10,237,095
Guarantees	718,750	409,500	41,989	25,626	7,500	-	1,203,365
Coaching salaries, benefits, and bonuses	5,709,487	2,172,611	860,218	1,812,579	1,506,889	-	12,061,784
Coaching other compensation and benefits paid by a third-party	185,000	-	-	-	-	-	185,000
Support staff and administrative salaries, benefits and bonuses	1,689,811	269,340	181,680	61,811	103,094	7,856,699	10,162,435
Severance payments	64,491	12,047	17,941	5,538	4,415	28,444	132,876
Recruiting	353,983	237,297	163,383	249,393	190,116	2,000	1,196,172
Team travel	1,651,863	400,114	343,654	917,140	914,436	59,169	4,286,376
Equipment, uniforms, and supplies	508,847	123,007	104,221	393,297	464,953	69,907	1,664,232
Game expenses	1,738,231	387,526	212,046	305,492	193,037	375,659	3,211,991
Fund-raising, marketing and promotions	335,860	352,029	103,977	86,149	50,805	441,221	1,370,041
Direct facilities, maintenance and rental	7,276,321	436,105	438,797	476,801	542,196	7,614,035	16,784,255
Spirit groups	272,921	18,932	11,084	-	-	106,343	409,280
Medical expenses and medical insurance	155,372	27,445	28,515	180,073	136,468	317,016	844,889
Memberships and dues	2,039	1,020	1,308	7,096	3,220	27,379	42,062
Other	1,122,963	232,150	101,701	246,709	138,132	948,416	2,790,071
Total operating expenses	<u>25,063,184</u>	<u>5,495,300</u>	<u>3,187,515</u>	<u>7,132,575</u>	<u>7,481,355</u>	<u>18,221,995</u>	<u>66,581,924</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 14,072,861</u>	<u>\$ 5,223,751</u>	<u>\$ (2,065,765)</u>	<u>\$ (3,840,173)</u>	<u>\$ (1,434,310)</u>	<u>\$ (8,507,801)</u>	<u>\$ 3,448,563</u>

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 ATHLETICS PROGRAMS  
AS OF JUNE 30, 2013

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, 2013. 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 \$18,451,525 from the Virginia Tech Foundation, Inc. Approximately \$10,152,106 of these funds were used for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$16,599,602 is included in the Contributions line item and \$1,851,923 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 \$1,435,000 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. 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 \$2,815,000. 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 \$10,820,000.

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. The majority of this debt was refinanced in November 2012 with a \$32,365,000 note. This note has an outstanding balance of \$31,370,000 and will be repaid with private fund raising and operating revenues through 2029. The remaining original debt issuance has an outstanding balance of \$1,490,000 and will be repaid with private fund raising and operating revenues through 2014.

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 \$7,875,000 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, 2013 is presented as follows:

Year Ended June 30, 2013	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,005,000	\$ 2,438,088	\$ 5,443,088
2015	3,060,000	2,257,288	5,317,288
2016	3,195,000	2,108,850	5,303,850
2017	2,825,000	1,945,925	4,770,925
2018	2,955,000	1,804,781	4,759,781
2019-2023	17,040,000	6,669,462	23,709,462
2024-2028	19,675,000	2,520,137	22,195,137
2029-2030	<u>4,050,000</u>	<u>107,000</u>	<u>4,157,000</u>
Total	<u>\$ 55,805,000</u>	<u>\$ 19,851,531</u>	<u>\$ 75,656,531</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 \$3,335,234 to the University. This amount is included in the Direct Facilities, Maintenance, and Rental line and includes \$98,332 in Football and \$3,236,902 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. There were no activities related to CIP in FY13. 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. Software is capitalized when the acquisition and/or the development costs exceed \$50,000. 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, 2013 (*all dollars in thousands*):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings	\$143,555	\$ 1,010	\$ 7	\$144,558
Moveable equipment	5,515	315	286	5,544
Software	-	165	-	165
Fixed equipment	7,509	43	1,299	6,253
Infrastructure	<u>18,131</u>	<u>722</u>	<u>-</u>	<u>18,853</u>
Total depreciable capital assets, at cost	<u>174,710</u>	<u>2,255</u>	<u>1,592</u>	<u>175,373</u>
Less accumulated depreciation:				
Building	32,659	3,248	-	35,907
Moveable equipment	3,575	398	280	3,693
Software	-	55	-	55
Fixed equipment	4,871	168	536	4,503
Infrastructure	<u>13,532</u>	<u>797</u>	<u>-</u>	<u>14,329</u>
Total accumulated depreciation	<u>54,637</u>	<u>4,666</u>	<u>816</u>	<u>58,487</u>
Total depreciable capital assets, net of accumulated depreciation	<u>120,073</u>	<u>(2,411)</u>	<u>776</u>	<u>116,886</u>
Non-depreciable capital assets				
Construction in progress	<u>1,093</u>	<u>1,221</u>	<u>1,725</u>	<u>589</u>
Total non-depreciable capital assets	1,093	1,221	1,725	589
Total capital assets, net of accumulated depreciation	<u>\$121,166</u>	<u>\$(1,190)</u>	<u>\$2,501</u>	<u>\$117,475</u>

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Blacksburg, Virginia

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