

**VIRGINIA POLYTECHNIC INSTITUTE  
AND STATE UNIVERSITY**

**INTERCOLLEGIATE ATHLETICS PROGRAMS  
FOR THE YEAR ENDED  
JUNE 30, 2008**

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**Auditor of  
Public Accounts**

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**COMMONWEALTH OF VIRGINIA**

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# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

October 31, 2008

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable M. Kirkland Cox  
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 **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) Bylaw 6.2.3, for the year ended June 30, 2008. The University'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 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. 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. 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 (Schedule) for the year ended June 30, 2008, 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 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 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 Program 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 verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements.
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 Tech Foundation, Inc., 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 verified the mathematical accuracy and coding of the distribution amounts.
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 inspected the agreements and verified the mathematical accuracy and coding of the revenue amounts.
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 selected and tested receipts of such revenue and, for those items, we inspected the agreements and verified the mathematical accuracy and coding of the payment amounts.

18. Based on receipts as listed in the accounting records, we selected and tested collections by the intercollegiate athletics program. We compared and agreed the selected operating receipts to adequate supporting documentation. We found all reviewed amounts to be in agreement with supporting documentation and properly recorded in the accounting records. We found that all revenue had been deposited promptly and intact.

### 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 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 verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and 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 or by third-parties 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 with a listing of severance payments made during the reporting period. We reviewed these amounts for reasonableness; however, since these payments in total were immaterial, we did not complete any detailed 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. Based on disbursements 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 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

## **SCHEDULE**

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY  
SCHEDULE OF REVENUES AND EXPENSES OF INTERCOLLEGIATE  
ATHLETICS PROGRAMS  
For The Year Ended June 30, 2008

	Football	Men's Basketball
Operating revenues:		
Ticket sales	\$ 14,887,767	\$ 2,415,815
Student fees	-	-
Guarantees	194,321	29,910
Contributions	9,344,678	994,515
Third party support	185,000	-
Direct institutional support	-	-
NCAA/conference distributions including tournament revenues	6,744,357	4,323,055
Broadcast, television, radio, and internet rights	2,075,245	553,399
Program sales, concessions, novelty sales, and parking	1,133,007	131,914
Royalties, advertisements and sponsorships	621,394	192,328
Endowment and investment income	1,922,729	115,586
Other	16,150	-
	<u>37,124,648</u>	<u>8,756,522</u>
Total operating revenues		
Operating expenses:		
Athletic student aid	2,249,239	398,949
Guarantees	2,106,400	693,500
Coaching salaries, benefits, and bonuses	4,789,177	1,243,545
Coaching compensation and benefits paid by a third party	185,000	-
Support staff/administrative salaries, benefits and bonuses	1,042,997	164,256
Severance payments	2,750	-
Recruiting	217,714	181,932
Team travel	1,672,317	465,706
Equipment, uniforms and supplies	500,683	78,559
Game expenses	1,450,684	219,814
Fund raising, marketing and promotions	479,327	255,745
Direct facilities, maintenance, and rental	9,116,067	661,875
Spirit groups	585,545	49,275
Medical expenses and medical insurance	67,171	18,001
Memberships and dues	5,165	570
Other	1,234,088	312,987
	<u>25,704,324</u>	<u>4,744,714</u>
Total operating expenses		
Excess (deficiency) of revenues over (under) expenses	<u>\$ 11,420,324</u>	<u>\$ 4,011,809</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	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
\$ 183,172	\$ -	\$ -	\$ -	\$17,486,754
-	-	2,014,931	4,142,882	6,157,813
-	1,000	11,000	-	236,231
972,413	2,230,889	3,188,432	614,201	17,345,128
-	-	-	-	185,000
-	-	-	367,642	367,642
31,494	136,302	189,518	1,095,071	12,519,797
138,350	-	-	-	2,766,994
40,183	-	-	247,950	1,553,054
81,707	97,560	92,000	368,755	1,453,744
76,841	412,466	481,996	1,087,368	4,096,986
-	49,070	49,070	128,908	243,198
1,524,159	2,927,287	6,026,947	8,052,777	64,412,341
346,703	1,443,984	2,131,748	307,348	6,877,971
81,164	4,259	-	-	2,885,323
651,874	1,312,000	1,198,714	-	9,195,310
-	-	-	-	185,000
114,759	30,785	23,717	6,230,025	7,606,539
9,827	1,457	7,810	41,772	63,616
117,444	170,092	137,114	-	824,296
358,769	687,912	816,793	-	4,001,497
68,218	249,554	199,999	107,761	1,204,774
157,800	124,893	124,712	-	2,077,903
140,089	95,768	61,995	472,875	1,505,799
621,319	773,722	1,615,683	5,230,753	18,019,419
16,621	428	-	145,147	797,016
8,518	99,805	130,480	383,510	707,485
725	4,325	2,901	20,687	34,373
92,629	172,116	154,427	1,205,169	3,171,416
2,786,459	5,171,100	6,606,093	14,145,047	59,157,737
\$(1,262,300)	\$(2,243,813)	\$(579,146)	\$(6,092,270)	\$ 5,254,604

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF

INTERCOLLEGIATE ATHLETICS PROGRAMS

FOR THE YEAR ENDED JUNE 30, 2008

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, 2008. The Schedule includes those intercollegiate athletics revenues and expenditures made in behalf of the University's intercollegiate 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 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 \$19,125,926 from the Virginia Tech Foundation, Inc. Approximately \$6,828,298 of these funds were for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$17,345,127 is included in the Contributions line item and \$1,780,799 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 Intercollegiate Athletics 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 \$3,440,000 and will be repaid with general operating revenues through 2016. The non-refinanced portion of the original issue was repaid in 2006 with general operating revenues.

In October 2001, a \$26,285,000 note was issued for the Intercollegiate Athletics Department. This note was issued for the South End Zone addition to Lane Stadium. This note has an outstanding balance of \$14,935,000 and will be repaid with private fund raising and operating revenues through 2027. Part of this debt was refinanced in January 2008 with a \$2,860,000 note that will be repaid through 2020.

In May 2004, a \$52,715,000 revenue bond was issued for the Intercollegiate Athletics 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 \$44,395,000 and will be repaid with private fund raising and operating revenues through 2029.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2008 is presented as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 4,815,000	\$ 3,083,969	\$ 7,898,969
2010	2,280,000	2,888,456	5,168,456
2011	2,375,000	2,793,456	5,168,456
2012	2,465,000	2,692,919	5,157,919
2013	2,580,000	2,581,613	5,161,613
2014-2018	13,770,000	10,952,403	24,722,403
2019-2023	15,625,000	7,511,506	23,136,506
2024-2028	18,650,000	3,242,644	21,892,644
2029-2033	<u>3,070,000</u>	<u>145,825</u>	<u>3,215,825</u>
Total	<u>\$65,630,000</u>	<u>\$35,892,791</u>	<u>\$101,522,791</u>

#### 4. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Intercollegiate Athletics Department an administrative fee. During the fiscal year, the Department paid \$1,874,365 to the University. This amount is included in Direct Facilities, Maintenance, and Rental, and includes \$54,407 in Football, and \$1,861,116 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 on-going construction of the Basketball Practice Facility. 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 moveable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2008 (*all dollars in thousands*):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings	\$119,925	\$ 142	\$ -	\$120,067
Moveable equipment	3,999	115	47	4,067
Fixed equipment	6,571	248	34	6,785
Infrastructure	<u>13,659</u>	<u>1,471</u>	<u>-</u>	<u>15,130</u>
 Total depreciable capital assets, at cost	 <u>144,154</u>	 <u>1,976</u>	 <u>81</u>	 <u>146,049</u>
Less accumulated depreciation:				
Buildings	18,238	2,621	-	20,859
Moveable equipment	2,451	319	30	2,740
Fixed equipment	3,714	241	33	3,922
Infrastructure	<u>8,011</u>	<u>1,685</u>	<u>-</u>	<u>9,696</u>
 Total accumulated depreciation	 <u>32,414</u>	 <u>4,866</u>	 <u>63</u>	 <u>37,217</u>
 Total depreciable capital assets, net of accumulated depreciation	 <u>111,740</u>	 <u>(2,890)</u>	 <u>18</u>	 <u>108,832</u>
Non-depreciable capital assets:				
Construction in progress	<u>297</u>	<u>3,812</u>	<u>1,198</u>	<u>2,911</u>
 Total capital assets, net of accumulated depreciation	 <u>\$112,037</u>	 <u>\$ 922</u>	 <u>\$1,216</u>	 <u>\$111,743</u>

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Blacksburg, Virginia

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