

**VIRGINIA POLYTECHNIC INSTITUTE
AND STATE UNIVERSITY
BLACKSBURG, VIRGINIA**

**INTERCOLLEGIATE ATHLETIC PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2004**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

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UNIVERSITY OFFICIALS



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 22, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
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 audited the financial statements of **Virginia Polytechnic Institute and State University** as of and for the year ended June 30, 2004, and have issued our unqualified report thereon dated October 22, 2004. At the request of the President of the University, we have performed certain agreed-upon procedures to the University's Intercollegiate Athletics Programs for the fiscal year ended June 30, 2004, discussed below, solely to assist the University in complying with National Collegiate Athletic Association (NCAA) Bylaw 6.2.3.1. The University is responsible for the Intercollegiate Athletics Programs including preparation of the Schedule of Revenues and Expenditures of Intercollegiate Athletics Programs. 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.

Schedule of Revenues and Expenditures of Intercollegiate Athletics Programs – Agreed-Upon Substantive Procedures

- a. We obtained the Schedule of Revenues and Expenditures of Intercollegiate Athletics Programs (Schedule) for the year ended June 30, 2004, 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 worksheet adjustments with management and are satisfied that the adjustments are appropriate.

- b. 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.
- c. 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, Incorporated, an affiliated organization, and the Virginia Tech Athletic Fund, Incorporated, a booster organization, we noted no individual contribution which constituted more than ten percent of total contributions received for intercollegiate athletics.

Because the above procedures “a” through “c” do not constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on the Schedule of Revenues and Expenditures of Intercollegiate Athletics Programs or any of the accounts or items referred to above. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the specified accounts or items should be adjusted. 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, matters might have come to our attention that would have been reported to the President of the University. This report relates only to the accounts and items specified above and do not extend to the financial statements of Virginia Polytechnic Institute and State University or its Intercollegiate Athletics Department taken as a whole.

Internal Control Related to Intercollegiate Athletics Programs Agreed-Upon Procedures

The management of Virginia Polytechnic Institute and State University is responsible for establishing and maintaining internal control for its Intercollegiate Athletics Programs. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management’s authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of change in conditions, or that the degree of compliance with the procedures may deteriorate. Our procedures and findings are as follows:

- d. We reviewed an organizational chart provided by Intercollegiate Athletics Department and discussed it with appropriate personnel. We reviewed documentation of accounting systems and operating procedures. 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.

- e. We reviewed internal control over cash receipts and disbursements, including payroll, for the Intercollegiate Athletics Programs. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with the audit of the University's financial statements. Our review also included those controls unique to Intercollegiate Athletics which have not been reviewed in connection with the audit of the financial statements.
- f. We reviewed the University's procedures for monitoring booster group activities and concluded that those procedures were adequate.

Agreed-upon procedures "d" through "f" applied to certain aspects of the University's internal control were more limited than would be necessary to express an opinion on internal control of Virginia Polytechnic Institute and State University in effect for the year ended June 30, 2004, taken as a whole. Because our review and evaluation was limited to applying those agreed-upon procedures, we do not express such an opinion. In connection with applying procedures "d" through "f" above, we noted no material weaknesses relating to internal control over the Intercollegiate Athletics Program activities administered by the University.

This report is intended solely for the information and use of the University and authorized representatives of the National Collegiate Athletic Association 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

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VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENDITURES OF INTERCOLLEGIATE ATHLETICS PROGRAMS
For The Year Ended June 30, 2004

	Football	Men's Basketball	Women's Basketball
Operating revenues:			
Ticket sales	\$ 11,693,814	\$ 1,325,352	\$ 201,223
Television and radio	2,518,516	233,658	58,415
Program sales	44,947	3,015	1,425
Advertising	302,526	67,725	16,931
Gifts:			
Unrestricted	245,542	107,153	178,790
Restricted - Scholarship support	1,576,226	262,509	310,041
Restricted - Other	3,619,910	168,000	-
Student activity fees	-	-	-
Concessions	430,883	94,392	64,894
Investment income	58,016	-	-
Conference allocation	2,100,000	75,900	65,690
NCAA allocation	-	-	-
Lease assessments	-	-	-
Parking	240,687	-	-
Other income	232,951	17,170	734,818
Post-season revenue	1,019,525	-	-
Total operating revenues	24,083,543	2,354,874	1,632,227
Operating expenditures:			
Coaches salaries	2,374,067	748,426	468,077
Other salaries	639,821	84,567	86,997
Fringe benefits	459,807	155,181	107,593
Travel:			
Team	884,812	270,728	321,463
Recruiting	127,030	114,805	92,468
Administrative	70,594	26,417	9,946
Game settlements	1,050,000	167,622	21,405
Conference fee	-	-	-
Financial aid	1,575,996	262,467	310,014
University administrative fee	-	-	-
Repairs, maintenance, equipment, and supplies	1,121,635	171,992	169,223
Game officials	62,782	92,511	63,173
Insurance	5,194	-	2,010
Printing, photography, and subscriptions	197,505	50,813	41,253
Telecommunications	94,667	43,190	36,124
Publicity	210,551	160,021	77,884
Game operations	60,626	7,643	7,643
Medical	69,856	29,839	22,964
Other	1,355,117	201,200	156,727
Total operating expenditures	10,360,060	2,587,422	1,994,964
Excess/(Deficiency) of revenues over/(under) expenditures for the year before transfers	13,723,483	(232,548)	(362,737)
Transfers to plant funds for capital improvements	-	-	-
Excess/(Deficiency) of revenues over/(under) expenditures for the year	\$ 13,723,483	\$ (232,548)	\$ (362,737)

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

Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
\$ -	\$ 1,562	\$ -	\$ 13,221,951
-	-	-	2,810,589
-	-	204,616	254,003
-	-	-	387,182
280,153	214,655	241,388	1,267,681
816,816	1,380,449	175,611	4,521,652
161,218	-	-	3,949,128
-	1,894,039	3,888,156	5,782,195
-	-	-	590,169
-	-	101,640	159,656
28,059	15,475	-	2,285,124
-	-	739,163	739,163
-	-	486,264	486,264
-	-	-	240,687
-	-	123,509	1,108,448
13,392	578	-	1,033,495
1,299,638	3,506,758	5,960,347	38,837,387
534,656	595,003	267,450	4,987,679
18,150	7,434	2,867,674	3,704,643
160,332	150,662	830,841	1,864,416
356,936	321,017	23,423	2,178,379
53,172	84,030	-	471,505
36,435	15,373	87,088	245,853
-	-	-	1,239,027
-	-	2,500,000	2,500,000
816,736	1,380,298	175,577	4,521,088
-	-	1,276,785	1,276,785
546,647	292,926	1,372,802	3,675,225
133,375	44,930	-	396,771
6,526	7,928	233,565	255,223
35,378	31,596	140,072	496,617
26,701	27,438	201,030	429,150
43,552	26,211	87,474	605,693
13,097	12,568	1,533	103,110
64,348	43,862	138,688	369,557
70,079	65,217	638,968	2,487,308
2,916,120	3,106,493	10,842,970	31,808,029
(1,616,482)	400,265	(4,882,623)	7,029,358
-	-	3,972,896	3,972,896
\$ (1,616,482)	\$ 400,265	\$ (8,855,519)	\$ 3,056,462

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

NOTES TO THE SCHEDULE OF REVENUES AND EXPENDITURES

OF INTERCOLLEGIATE ATHLETICS PROGRAMS

AS OF JUNE 30, 2004

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, 2004. The Schedule includes those intercollegiate athletics revenues and expenditures 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 financial position, 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 \$6,452,152 from the Virginia Tech Foundation, Incorporated. Approximately \$4,521,652 of these funds were for grant-in-aid scholarships for student athletes. These contributions are included in the accompanying schedule.

3. OBLIGATIONS

The University withdrew from membership in the Big East Conference effective June 30, 2004. In accordance with the payment schedule approved by the conference, the Athletics Department had an outstanding entry fee balance of \$1,700,000 which was to be paid over the next six fiscal years. The Department negotiated a reduced one-time payment of \$1,300,000 to be paid in July 2005, in lieu of the scheduled payments.

4. BONDS PAYABLE

In October 1996, a revenue bond of \$6,250,000 was issued for the Athletic Department. This bond was issued for athletic facility improvements. This bond will be repaid with general operating revenues through 2016.

In October 2001, a \$26,285,000 revenue bond was issued for the Athletic Department. This bond was issued for the South End Zone addition to Lane Stadium. This bond will be repaid with private fund raising and operating revenues through 2027.

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. This bond will be repaid with private fund raising and operating revenues through 2029.

5. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Athletic Department an administrative fee. During the fiscal year, the Department paid \$1,276,785 that is recorded as Non-Program Specific.

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Blacksburg, Virginia

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