



# VIRGINIA MILITARY INSTITUTE

## INTERCOLLEGIATE ATHLETICS PROGRAMS

### FOR THE YEAR ENDED

JUNE 30, 2016

Auditor of Public Accounts

Martha S. Mavredes, CPA

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- TABLE OF CONTENTS -

	<u>Pages</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1-6
SCHEDULE	
Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	7
Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	8-9
INSTITUTE OFFICIALS	10



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

January 17, 2017

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Chairman, Joint Legislative Audit  
And Review Commission

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

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING 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) Constitution 3.2.4.15, for the year ended June 30, 2016. Institute management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) 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 and generally accepted government auditing standards. 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

Procedures described below were limited to material items. For the purpose of this report, and as defined in the agreed-upon procedures, items are considered material if they exceed one-half of one percent of total revenues or total expenses, as applicable. The procedures that we performed and our findings are as follows:

## **Internal Controls**

1. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audit 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 audit of the Institute's financial statements.
2. Intercollegiate Athletics Department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, competence of personnel, protection of records and equipment, and controls regarding information systems with the information technology department.
3. Intercollegiate Athletics Department management provided us with their process for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the Institute's Intercollegiate Athletics Programs. We tested these procedures as noted below.

## **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 for the year ended June 30, 2016, as prepared by the Institute 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. Certain adjustments to the Schedule were necessary to conform with NCAA reporting guidance. We discussed the nature of work sheet adjustments with management and are satisfied that the adjustments are appropriate.

8. We compared each major revenue and expense account over ten percent of total revenues or total expenses, respectively, to prior period amounts and budget estimates. Variances exceeding one million dollars or ten percent of prior period amounts or budget estimates are explained below:

<u>Line Item</u>	<u>Explanation</u>
Cadet Fees	The Institute’s athletic fee allocation increased from \$1,702 per cadet in fiscal year 2015 to \$3,090 per cadet in fiscal year 2016, an increase of approximately 82 percent. The Institute also decreased activity fees for athletic facilities by 44 percent from the prior year, which partially offset the increase in cadet fees. These changes account for the increase in Cadet Fees in the Schedule of 33.8 percent.
Direct Institutional Support	The Institute allocated additional funding from auxiliary reserves during fiscal year 2015 to fund athletic operations and reimburse the Institute’s Education and General (E&G) funds for the athletic departments share of overhead expenses as required by the Commonwealth. Athletics did not require the same level of support from the Institute’s auxiliary reserves during fiscal year 2016 resulting in a decrease in direct institutional support of 64 percent.
Indirect Cost	A reallocation of certain fees to athletics during fiscal year 2016 resulted in a higher base to which the Institute applies its indirect cost rate. As a result, the athletics department paid approximately 17 percent more in indirect cost to the Institute in fiscal year 2016.

**Revenues**

9. We reviewed a sample of ticket sales reconciliations performed for accuracy and proper review and approval. We performed a recalculation of ticket sales revenue for Football and Men’s Basketball by comparing the number of tickets sold and sale price to total revenue recorded in the Schedule. We determined the reconciliations reviewed to be accurate and the amounts reported in the Schedule to be substantially in agreement with our recalculation.
10. We obtained an understanding of the institution’s methodology for allocating cadet fees to intercollegiate athletics programs. We compared cadet 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 substantially in agreement.

11. We compared amounts reported in the Schedule for direct institutional support and transfers to the institution to institutional budget transfer documentation and/or other corroborative supporting documentation, and noted them to be substantially in agreement.
12. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports and guarantee agreements for all games and agreed selected amounts to proper posting in the accounting records and supporting documentation.
13. 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 Keydet Club, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the Keydet Club and agreed them to supporting documentation.
14. Intercollegiate Athletics Department management provided a list of in-kind contributions during the reporting period. This amount was 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. We obtained the amount of revenue related to program sales, concessions, novelty sales, and parking from the Schedule. This amount was deemed to be immaterial for detailed testing.
17. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, licensing, 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 compared the amount of revenue related to other revenue to the amount reported in the Schedule. The amount was deemed to be immaterial for detailed testing.

## Expenses

19. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the Institute uses the NCAA Compliance Assistant software to prepare athletic aid detail, we selected ten percent of 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. With the exception of two athletes, we agreed each cadet's information to ensure accurate reporting in the NCAA Membership Financial Reporting System. The Full Grant in Aid Award was improperly calculated in the NCAA Membership Financial Reporting System for two of twenty five athletes sampled (eight percent) due to the omission of amounts for books from the awarded aid for certain athletes in the squad listing. This error did not impact the equivalency calculations in the squad listing. Additionally, these exceptions did not impact the amounts reported as payments for athletic aid in the Schedule.
20. Intercollegiate Athletics Department management provided us with a listing of 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 coaches, support staff, and administrative personnel employed and paid by the Institute during the reporting period. We selected and tested individuals, including football and men's basketball coaches, 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. 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 Institute and NCAA policies and noted substantial agreement of those policies.
23. We selected a sample of disbursements for: recruiting, team travel, sports equipment, uniforms, and supplies, game expenses, direct overhead and administration, memberships and dues, and other operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, reasonable to intercollegiate athletics, and properly recorded in the accounting records. After reclassification of one amount for \$4,000 from team travel to memberships and dues, amounts are properly recorded in the Schedule.

24. We obtained an understanding of the Institute’s methodology for charging indirect cost to the athletic department. We evaluated indirect cost charges for reasonableness and noted proper reporting of these charges in the Schedule.

**Additional Procedures**

25. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the squad lists of the institution. We noted agreement of the sports reported.
26. We obtained the institution’s Sports Sponsorship and Demographics Forms Report for the reporting year. We validated that the countable sports identified by the institution met the minimum requirements for number of contests and minimum number of participants as defined in NCAA Bylaw 20.9.6.3. We ensured that countable sports have been properly identified in the NCAA Membership Financial Reporting System for the purpose of revenue distribution calculations.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion of 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 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

EMS/alh



**VIRGINIA MILITARY INSTITUTE**  
**SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
For the year ended June 30, 2016

	Football	Men's Basketball	Other Sports	Non-Program Specific	Total
<b>Operating revenues:</b>					
Ticket sales	\$ 206,602	\$ 40,230	\$ 3,225	\$ -	\$ 250,057
Cadet fees	-	-	-	5,505,304	5,505,304
Direct institutional support	22,240	10,983	30,922	881,931	946,076
Less: Transfers to institution	-	-	-	(30,000)	(30,000)
Guarantees	385,000	355,000	7,500	-	747,500
Contributions (Note 2)	2,041,711	535,858	1,578,849	1,170,067	5,326,485
In-Kind	-	-	-	625	625
NCAA distributions	60,000	-	-	433,754	493,754
Conference distributions (non media or bowl)	-	-	-	15,000	15,000
Program, novelty, parking, and concession sales	3,307	1,247	-	-	4,554
Royalties, licensing, advertisement and sponsorships	-	-	-	56,840	56,840
Other operating revenue	-	-	2,818	3,356	6,174
Total operating revenues	<u>2,718,860</u>	<u>943,318</u>	<u>1,623,314</u>	<u>8,036,877</u>	<u>13,322,369</u>
<b>Operating expenses:</b>					
Athletic student aid	2,095,530	534,742	1,391,884	18,320	4,040,476
Guarantees	-	8,500	-	-	8,500
Coaching salaries, benefits, and bonuses paid by the University and related entities	848,938	437,318	1,055,559	-	2,341,815
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	87,134	88,054	-	2,172,246	2,347,434
Recruiting	57,175	38,763	44,394	296	140,628
Team travel	92,454	97,701	427,696	6,072	623,923
Sports equipment, uniforms, and supplies	130,777	28,040	192,420	34,594	385,831
Game expenses	76,480	67,277	69,823	32,440	246,020
Fundraising, marketing and promotion	-	-	400	14,141	14,541
Direct overhead and administrative expenses	559	46	2,297	220,477	223,379
Indirect cost paid to the institution by athletics	-	-	-	2,390,345	2,390,345
Medical expenses and insurance	2,468	-	7,075	102,761	112,304
Memberships and dues	1,124	7,686	12,175	164,559	185,544
Other operating expense	47,045	14,008	42,440	413,582	517,075
Total operating expenses	<u>3,439,684</u>	<u>1,322,135</u>	<u>3,246,163</u>	<u>5,569,833</u>	<u>13,577,815</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (720,824)</u>	<u>\$ (378,817)</u>	<u>\$ (1,622,849)</u>	<u>\$ 2,467,044</u>	<u>\$ (255,446)</u>

**Other Reporting Items:**

Conference realignment expenses	\$ 132,800
Total institutional debt	\$ 24,429,714
Value of institutional endowments	\$ 10,972,149

*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 SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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 30 June 2016. The Schedule includes those intercollegiate athletic 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 either the financial position or changes in Net Position 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 (VMI) 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 \$4,352,450 to the Institute during fiscal year 2016. These contributions include \$3,417,346 for intercollegiate athletic programs student financial assistance, and \$935,104 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 VMI from cash donations and income from its endowment. The Board contributed \$429,227 in restricted support and \$511,210 in student financial assistance to the Institute in support of intercollegiate athletics during fiscal year 2016.

The VMI Foundation, Incorporated was established for the purpose of soliciting and accepting various funds and to disburse such funds, or income earned from those funds, for the advancement of VMI and the VMI Alumni Association. During the 2016 fiscal year, the VMI Foundation provided restricted funds of \$33,600 for athletic student financial aid.

3. CAPITAL ASSETS

The Institute's policies and procedures for acquiring, approving, depreciating, and disposing of athletic-related capital assets are the same for all of the Institute's 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. 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 \$100,000, 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 50 years for buildings, ten to 30 years for infrastructure and land improvements, and five to 25 years for equipment.

A summary of capital asset balances for intercollegiate athletics at 30 June 2016 follows:

Depreciable capital assets	
Buildings	\$ 32,503,642
Improvements other than Buildings	4,443,118
Equipment	<u>474,896</u>
Total Depreciable capital assets at cost	<u>37,421,656</u>
Less accumulated depreciation:	
Buildings	(6,295,476)
Improvements other than Buildings	(2,686,723)
Equipment	<u>(401,605)</u>
Total Accumulated depreciation:	<u>(9,383,804)</u>
Total depreciable capital assets, net of accumulated depreciation	28,037,852
Non-depreciable capital assets	
Construction in progress	<u>-</u>
Total capital assets for intercollegiate athletics, net of accumulated depreciation	<u>\$ 28,037,852</u>

#### 4. ADMINISTRATIVE COST RECOVERIES

The Institute recovers from auxiliary enterprises an amount to reimburse for the cost of institutional support and the operation and maintenance of plant. For the 2016 fiscal year, the Institute recovered from the intercollegiate athletics program \$1,185,927 of institutional support costs and \$1,204,418 for operation and maintenance of plant costs, both are reflected as a non-program, indirect cost expense.

## VIRGINIA MILITARY INSTITUTE

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### **OFFICERS**

As of June 30, 2016

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Robert L. Green

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Kevin A. Ryan

Comptroller