



VIRGINIA MILITARY INSTITUTE

INTERCOLLEGIATE ATHLETICS PROGRAMS

FOR THE YEAR ENDED

JUNE 30, 2017

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	8-10
INSTITUTE OFFICIALS	11



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Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 16, 2018

The Honorable Ralph S. Northam
Governor of Virginia

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

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 3.2.4.15.1, for the year ended June 30, 2017. Institute management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. 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 four 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 organizations 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, 2017, 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 trial balance worksheets, and agreed the amounts in management's trial balance 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 accounting records and the amounts on the trial balance. We discussed the nature of

adjusting journal entries 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 ten percent of prior period amounts or budget estimates are explained below:

<u>Line Item</u>	<u>Explanation</u>
Indirect cost paid to the institution by athletics	The Institute performs a recalculation of the indirect cost recovery rate every two years, which resulted in a reduction from 29.06 percent to 23.61 percent. As a result, indirect cost paid to the institution by Athletics decreased by \$668,060 or almost 28 percent from the previous year.

Revenues

9. We obtained the amount recorded in the Schedule for ticket sales revenue. This amount was deemed to be immaterial for detailed testing.
10. We obtained an understanding of the institution's methodology for allocating student fees to intercollegiate athletics programs. 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 substantially in agreement with minor differences attributed to the methodology used for projecting student fee revenue.
11. We obtained the amount recorded in the Schedule for direct institutional support. This amount was deemed to be immaterial for detailed testing.
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 selected 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 Virginia Military Institute Development Board and Virginia Military Institute Keydet Club, affiliated organizations, we noted no individual contribution that constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the Virginia Military

Institute Development Board and Virginia Military Institute Keydet Club, which exceeded ten percent of all contributions and agreed them to supporting documentation. We noted a reconciling difference of \$13,869 between the contributions reported by management of the affiliated organizations and the amount reported by the Institute in the Schedule. However, based on additional review, the contributions reported by the Institute in the Schedule are accurate.

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. We obtained the amount reported in the Schedule for program sales, concessions, novelty sales, and parking. This amount was deemed to be immaterial for detailed testing.
16. We obtained the amount reported in the Schedule for royalties, licensing, advertisements, and sponsorships. This amount was deemed to be immaterial for detailed testing.
17. We obtained the amount of other revenue recorded in the Schedule. This amount was deemed to be immaterial for detailed testing.

Expenses

18. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the Institute used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected 10 percent of individual student-athletes across all sports and obtained the students' account detail from the institution's student information system. We agreed each student's information to the information reported in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport agreed to amounts reported as Financial Aid in the student accounting system.
19. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for home games during the reporting period. Game guarantee expenses were deemed to be immaterial for detailed testing.
20. 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.

21. 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.
22. We selected a sample of disbursements for team travel 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.
23. 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.

Other Reporting Items

24. We obtained general ledger detail for Conference realignment expenses and compared the amount to the total expenses reported in the Schedule. We agreed all expenses in order to validate existence of the transaction and accuracy of recording and recalculated totals.
25. We agreed total outstanding institutional debt to supporting debt schedules and the Institute's unaudited financial statements, as the audited financial statements were not yet available.
26. We agreed the fair value of athletics dedicated endowments to supporting documentation provided by the Institute.
27. We agreed the fair value of institutional endowments to the Institute's unaudited financial statements, as the audited financial statements were not yet available.

Additional Procedures

28. 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.
29. 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.

30. We obtained a listing of student-athletes receiving Pell Grant awards from the institution's student information system and agreed the total value of these Pell Grants to the amount reported in the NCAA Membership Financial Reporting System. The Institute did not include Pell Grant disbursements totaling \$15,278 in the NCAA Membership Financial Reporting System for four athletes, who either received awards after the start of the semester or were not loaded into the NCAA Compliance Assistant software. Additionally, the Institute did not adjust one student-athlete's aid by \$2,908 following his decision not to attend in the Fall semester.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, the objective of which would be the expression of 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 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

JRQ/alh

VIRGINIA MILITARY INSTITUTE
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2017

	Football	Men's Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:					
Ticket sales	\$ 256,633	\$ 70,971	\$ 1,330	\$ -	\$ 328,934
Student fees	-	-	-	5,826,517	5,826,517
Direct institutional support	22,000	23,619	53,629	231,354	330,602
Guarantees	315,000	355,000	1,500	-	671,500
Contributions	2,054,325	574,221	1,580,511	1,238,614	5,447,671
NCAA distributions	32,380	27,620	-	531,167	591,167
Conference distributions (non-media or bowl)	-	-	-	81,111	81,111
Program, novelty, parking, and concession sales	3,937	1,061	-	-	4,998
Royalties, licensing, advertisement and sponsorships	-	-	-	77,151	77,151
Other operating revenue	-	-	-	165	165
Total operating revenues	2,684,275	1,052,492	1,636,970	7,986,079	13,359,816
Operating expenses:					
Athletic student aid	2,086,705	600,211	1,393,539	13,969	4,094,424
Guarantees	-	5,000	-	-	5,000
Coaching salaries, benefits, and bonuses paid by the University and related entities	867,883	424,429	1,091,287	-	2,383,599
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	54,485	84,397	-	2,203,524	2,342,406
Recruiting	63,002	40,369	44,529	1,942	149,842
Team travel	187,251	179,830	462,454	9,247	838,782
Sports equipment, uniforms, and supplies	104,154	33,276	160,335	56,751	354,516
Game expenses	38,464	57,762	90,779	14,089	201,094
Fundraising, marketing and promotion	-	-	-	23,404	23,404
Direct overhead and administrative expenses	-	813	5,468	190,970	197,251
Indirect cost paid to the institution by athletics	-	-	-	1,722,284	1,722,284
Medical expenses and insurance	-	-	162	47,469	47,631
Memberships and dues	968	15,047	15,002	164,035	195,052
Other operating expenses	37,618	28,211	24,732	575,927	666,488
Total operating expenses	3,440,530	1,469,345	3,288,287	5,023,611	13,221,773
Excess (deficiency) of revenues over (under) expenses	\$ (756,255)	\$ (416,853)	\$ (1,651,317)	\$ 2,962,468	\$ 138,043

Other Reporting Items:

Conference realignment expenses	\$ 132,800
Total institutional debt	\$ 22,998,103
Value of athletics-dedicated endowments	\$ 362,459
Value of institutional endowments	\$ 11,720,730

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, 2017

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 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 2017. 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 assets 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 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 \$4,520,989 to the Institute during fiscal year 2017. These contributions include \$3,528,005 for intercollegiate athletic programs student financial assistance, and \$992,984 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 \$425,540 in restricted support and \$485,000 in student financial assistance to the Institute in support of intercollegiate athletics during fiscal year 2017.

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 fiscal year 2017, the VMI Foundation provided \$7,450 in restricted funds for athletic student financial aid and \$8,692 in unrestricted funds.

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 June 30, 2017 follows:

Athletic Capital Asset Footnote

Depreciable capital assets	
Buildings	\$32,503,642
Improvements other than Buildings	4,443,118
Equipment	<u>480,572</u>
Total Depreciable capital assets at	<u>37,427,332</u>
Less accumulated depreciation:	
Buildings	(7,108,669)
Improvements other than Buildings	(2,853,737)
Equipment	<u>(400,412)</u>
Total Accumulated depreciation:	<u>(10,362,819)</u>
Total depreciable capital assets, net of accumulated depreciation	27,064,513
Non-depreciable capital assets	
Construction in progress	<u>-</u>
Total capital assets for intercollegiate athletics, net of accumulated depreciation	<u>\$27,064,513</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 2017 fiscal year, the Institute recovered from the intercollegiate athletics program \$723,221 of institutional support costs and \$999,063 for operation and maintenance of plant costs, both are reflected as a non-program, indirect cost expense.

VIRGINIA MILITARY INSTITUTE

As of June 30, 2017

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