



# VIRGINIA MILITARY INSTITUTE

## INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



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Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

January 15, 2019

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
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 President 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, 2018. 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 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, 2018, 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. Certain adjustments to the Schedule were necessary to conform to NCAA reporting guidance. 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>
Contributions	The increase is primarily attributable to an additional \$535,873 in scholarship funding transferred from the Foundation to the Institute.
Athletic student aid	The increase is primarily attributable to an increase of \$358,000 in athletic scholarship payments applied to sports other than football and basketball.

### **Revenues**

9. We obtained the amount of ticket sales revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
10. We obtained documentation 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 of direct institutional support reported in the Schedule. 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 VMI Foundation, Virginia

Military Institute Development Board, and Virginia Military Institute Keydet Club, affiliated organizations, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the VMI Foundation, 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 identified a reconciling difference of \$14,250 between the Institute's accounting system and the amount of contributions reported in the affiliated organizations' agreed-upon procedures report.

14. We obtained the amount of in-kind revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
15. We obtained the amount of revenue from tournaments, conference distributions, and NCAA distributions reported in the Schedule. These amounts were deemed to be immaterial for detailed testing.
16. We obtained the amount of program, novelty, parking, and concession sales revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
17. We obtained the amount of royalties, licensing, advertisement, and sponsorships revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
18. We obtained the amount of other operating revenue reported in the Schedule. This 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 used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected ten 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. We performed a check of selected students information as reported in the NCAA's Compliance Assistant software to ensure proper calculation of revenue distribution equivalencies.
20. We obtained the amount of game guarantee expense reported in the Schedule. 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 obtained the Intercollegiate Athletics Department's written recruiting and team travel policies from 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 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.
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.

#### **Other Reporting Items**

25. We agreed total outstanding institutional debt to supporting debt schedules and the Institute's unaudited financial statements and general ledger, 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 recommended an adjustment to the amount reported for the fair value of institutional endowments in order to conform to NCAA financial reporting guidance. We agreed the adjusted fair value of institutional endowments to supporting documentation provided by the Institute.
28. We obtained a schedule of athletics related capital expenditures made during the period. We selected a sample of transactions to validate existence and accuracy of recording and recalculated totals.

#### **Additional Procedures**

29. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the Calculation of Revenue Distribution Equivalencies Report (CRDE) from the NCAA's Compliance Assistant software for the institution. We noted agreement of the sports reported.

30. 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.
31. 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. We noted a total reconciling difference of \$7,059.03 between the student information system and Pell awards reported in Compliance Assistant. \$4,455 was a result of improper exclusion of Pell disbursements for two athletes from Compliance Assistant, \$654.03 related to a Pell adjustment, and \$1,950 resulted from the difference between maximum annual Pell being included in Compliance Assistant when the Institute disbursed a lesser amount to the athlete. However, we noted that Institute personnel made the required entries to resolve the reconciling differences in the Financial Reporting System submission.

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/vks

**VIRGINIA MILITARY INSTITUTE**  
**SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
For the year ended June 30, 2018

	<b>Football</b>	<b>Men's Basketball</b>	<b>Other Sports</b>	<b>Non-Program Specific</b>	<b>Total</b>
<b><u>Operating revenues:</u></b>					
Ticket sales	\$ 209,752	\$ 59,819	\$ 750	\$ -	\$ 270,321
Student fees	-	-	-	6,114,079	6,114,079
Direct institutional support	22,670	23,984	67,231	166,743	280,627
Guarantees	400,000	350,000	16,000	-	766,000
Contributions	2,081,249	601,177	1,943,588	1,578,006	6,204,020
In-Kind	-	-	-	740	740
NCAA distributions	51,466	60,167	7,946	423,223	542,802
Conference distributions (non-media or bowl)	-	-	-	50,000	50,000
Program, novelty, parking, and concession sales	4,049	871	-	-	4,920
Royalties, licensing, advertisement and sponsorships	-	-	-	69,399	69,399
Other operating revenue	-	-	51,081	3,000	54,081
<b>Total operating revenues</b>	<b>2,769,185</b>	<b>1,096,019</b>	<b>2,086,596</b>	<b>8,405,190</b>	<b>14,356,990</b>
<b><u>Operating expenses:</u></b>					
Athletic student aid	2,125,860	608,825	1,752,379	20,097	4,507,161
Guarantees	30,000	-	-	-	30,000
Coaching salaries, benefits, and bonuses paid by the Institute and related entities	896,492	456,806	1,145,264	-	2,498,562
Support staff/administrative compensation, benefits, and bonuses paid by the Institute and related entities	72,590	86,317	-	2,476,238	2,635,145
Recruiting	74,333	39,005	44,018	-	157,356
Team travel	186,863	114,279	498,525	-	799,667
Sports equipment, uniforms, and supplies	117,977	45,257	193,222	57,472	413,928
Game expenses	45,425	61,288	106,283	4,173	217,169
Fundraising, marketing and promotion	-	-	100	27,603	27,703
Direct overhead and administrative expenses	-	494	29,106	274,648	304,248
Indirect cost paid to the institution by athletics	-	-	-	1,602,226	1,602,226
Medical expenses and insurance	-	-	-	64,241	64,241
Memberships and dues	1,502	10,010	17,251	32,969	61,732
Other operating expenses	63,953	25,481	34,369	494,478	618,280
<b>Total operating expenses</b>	<b>3,614,994</b>	<b>1,447,762</b>	<b>3,820,517</b>	<b>5,054,145</b>	<b>13,937,418</b>
Excess (deficiency) of revenues over (under) expenses	\$ (845,809)	\$ (351,743)	\$ (1,733,921)	\$ 3,351,045	\$ 419,572
<b><u>Other Reporting Items:</u></b>					
Total institutional debt					\$ 21,386,492
Value of athletics-dedicated endowments					\$ 326,459
Value of institutional endowments					\$ 473,341,310
Total athletics-related capital expenditures					\$ 7,995

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, 2018**

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 2018. 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 \$4,398,407 to the Institute during fiscal year 2018. These contributions include \$3,342,085 for intercollegiate athletic programs student financial assistance, and \$1,056,322 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 \$406,527 in restricted support and \$310,000 in student financial assistance to the Institute in support of intercollegiate athletics during fiscal year 2018.

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 2018 fiscal year, the VMI Foundation provided \$708,040 in student financial assistance, \$365,519 in unrestricted funds, and restricted funds of \$7,360 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 June 30, 2018 follows:

#### **Athletic Capital Asset Footnote**

Depreciable capital assets	
Buildings	\$ 32,503,642
Improvements other than buildings	4,443,118
Equipment	<u>450,042</u>
Total depreciable capital assets at cost	<u>37,396,802</u>
Less accumulated depreciation	
Buildings	(7,921,861)
Improvements other than buildings	(3,163,379)
Equipment	<u>(371,619)</u>
Total accumulated depreciation	<u>(11,456,859)</u>
Total depreciable capital assets, net of accumulated depreciation	<u>25,939,944</u>
Total capital assets for intercollegiate athletics, net of accumulated depreciation	<u>\$ 25,939,944</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 2018 fiscal year, the Institute recovered from the Intercollegiate Athletics Program \$856,497 of institutional support costs and \$745,729 for operation and maintenance of plant costs, both are reflected as a non-program, indirect cost expense.

## VIRGINIA MILITARY INSTITUTE

As of June 30, 2018

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