



# VIRGINIA MILITARY INSTITUTE

## INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2020

Auditor of Public Accounts

Staci A. Henshaw, CPA

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– TABLE OF CONTENTS –

Pages

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



Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

March 19, 2021

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Kenneth R. Plum  
Chairman, Joint Legislative Audit  
and Review Commission

Cedric T. Wins  
Interim 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** (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 3.2.4.17.1, for the year ended June 30, 2020. 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, 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 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 Institute's 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, 2020, 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 Institute experienced a total decrease of \$634,495, or 11 percent, resulting from a decrease of \$236,870 from the Keydet Club, \$393,407 from the Development Board, and \$6,470 from the VMI Foundation. This reduction was offset by a minimal third-party contribution increase.

### Revenues

9. We obtained the amount of ticket sales revenue from the Schedule. The amount was deemed to be immaterial for detailed testing.
10. We obtained documentation 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 with minor differences attributed to the methodology used for projecting cadet fee revenue.
11. We obtained the amount of direct institutional support reported in the Schedule. The 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 and game cancellation agreements during the reporting period. We reviewed these settlement reports and agreements and agreed 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, VMI Development Board, and VMI Keydet Club, which are 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, VMI Development Board, and VMI Keydet Club, which exceeded ten percent of all contributions and agreed them to supporting documentation.

14. We obtained the amount of in-kind revenue from the Schedule. The amount was deemed to be immaterial for detailed testing.
15. We obtained the amount of revenue from tournaments, conference distributions, and NCAA distributions from 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 from the Schedule. The amount was deemed to be immaterial for detailed testing.
17. We obtained the amount of royalties, licensing, advertisement, and sponsorships revenue from the Schedule. The amount was deemed immaterial for detailed testing.
18. We obtained the amount of other operating revenue from the Schedule. The amount was deemed to be immaterial for detailed testing.

### **Expenses**

19. Intercollegiate Athletics department management provided us a listing of cadets receiving athletic aid during the reporting period. Since the Institute used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected ten percent of individual athletes across all sports and obtained the cadets' account detail from the institution's cadet information system. We agreed each cadet'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 accounting system. We performed a check of selected cadets' information as reported in the NCAA Membership Financial Reporting System to ensure proper calculation of revenue distribution equivalencies.
20. We obtained the amount of game guarantee expense from the Schedule. The 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 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. 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 VMI Foundation and found the amount to be in agreement.
27. We agreed the fair value of institutional endowments to supporting documentation provided by the Institute, including the audited financial statements of the VMI Alumni Agencies.
28. We obtained a schedule of athletics-related capital expenditures made during the period. During test work, we noted construction in progress related to athletics of \$1,391,950 and expenses for two pieces of equipment totaling \$20,597 were not included in the Other Reporting Items section of the Schedule. After adjustment, we determined athletics-related capital expenditures to be properly reported in the Schedule.

### **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 Institute. We noted agreement of the sports reported.
30. We compared total current year grants-in-aid revenue distribution equivalencies to total prior year reported equivalencies per the NCAA Membership Financial Report submission and noted no variations exceeding four percent when compared to prior year.

31. 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 or qualified for the extraordinary blanket waiver per NCAA guidance due to the COVID-19 pandemic. We ensured that countable sports have been properly identified in the NCAA Membership Financial Reporting System for the purpose of revenue distribution calculations.
32. We compared the current number of sports sponsored to the prior year total reported in the Institute's NCAA Membership Financial Report submission and noted no variations when compared to prior year.
33. We obtained a listing of cadet-athletes receiving Pell grant awards from the institution's cadet information system and agreed the total value of these Pell grants to the amount reported in the NCAA Membership Financial Reporting System. We noted that the Institute underreported Pell grant awards in the NCAA Membership Financial Reporting System by \$5,845.
34. We compared the total number of Pell grant awards in the current year to the number reported in the prior year NCAA Membership Financial Report submission. We noted no variations greater than 20 grants when compared with the prior year.

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.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

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**VIRGINIA MILITARY INSTITUTE**  
**SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
For the year ended June 30, 2020

	<u>Football</u>	<u>Basketball</u>	<u>Other Sports</u>	<u>Non-Program Specific</u>	<u>Total</u>
<b>Operating revenues:</b>					
Ticket sales	\$ 223,607	\$ 50,940	\$ 1,105	\$ -	\$ 275,652
Cadet activity fees	-	-	-	6,382,594	6,382,594
Direct institutional support	30,044	29,676	67,945	135,066	262,731
Guarantees	625,000	285,000	9,000	-	919,000
Contributions	2,099,476	583,634	1,997,863	713,092	5,394,065
In-Kind	-	-	-	2,590	2,590
NCAA distributions	165,468	29,251	24,686	262,024	481,429
Conference distributions (non-media or bowl)	-	-	-	51,000	51,000
Program, novelty, parking, and concession sales	2,839	921	-	-	3,760
Royalties, licensing, advertisement and sponsorships	-	-	-	70,024	70,024
Other operating revenue	50	-	77,774	5,494	83,318
Total operating revenues	<u>3,146,484</u>	<u>979,422</u>	<u>2,178,373</u>	<u>7,621,884</u>	<u>13,926,163</u>
<b>Operating expenses:</b>					
Athletic student aid	2,256,864	610,615	1,945,279	54,236	4,866,994
Guarantees	40,000	9,000	1,000	-	50,000
Coaching salaries, benefits, and bonuses paid by the University and related entities	1,003,875	488,838	1,209,220	-	2,701,933
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	25,488	98,490	-	2,004,811	2,128,789
Recruiting	48,609	39,148	48,279	-	136,036
Team travel	189,378	129,855	336,738	-	655,971
Sports equipment, uniforms, and supplies	124,034	30,704	199,546	31,291	385,575
Game expenses	73,440	72,346	99,590	2,210	247,586
Fundraising, marketing and promotion	-	-	-	42,847	42,847
Direct overhead and administrative expenses	-	-	190	251,114	251,304
Indirect cost paid to the institution by athletics	-	-	-	1,219,212	1,219,212
Medical expenses and insurance	-	-	-	67,197	67,197
Memberships and dues	1,068	1,231	17,651	40,303	60,253
Other operating expenses	60,308	20,775	38,889	363,432	483,404
Total operating expenses	<u>3,823,064</u>	<u>1,501,002</u>	<u>3,896,382</u>	<u>4,076,653</u>	<u>13,297,101</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (676,580)</u>	<u>\$ (521,580)</u>	<u>\$ (1,718,009)</u>	<u>\$ 3,545,231</u>	<u>\$ 629,062</u>
<b>Other Reporting Items:</b>					
Total institutional debt					\$ 25,094,995
Value of athletics-dedicated endowments					\$ 254,459
Value of institutional endowments					\$ 497,049,013
Total athletics-related capital expenditures					\$ 1,451,335

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

**VIRGINIA MILITARY INSTITUTE (VMI)**  
**NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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 June 30, 2020. 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 financial 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 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 \$5,048,090 to the Institute during fiscal year 2020. These contributions include \$4,539,480 for intercollegiate athletic programs student financial assistance, \$4,770 in unrestricted support, and \$503,840 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 \$281,612 in restricted support and \$16,655 in student financial assistance to the Institute in support of intercollegiate athletics during fiscal year 2020.

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 2020 fiscal year, the VMI Foundation provided restricted funds of \$39,218 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 acquisition 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, 10 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, 2020 follows:

Depreciable capital assets:	
Buildings	\$ 34,091,311
Improvements other than buildings	3,380,528
Equipment	<u>707,712</u>
Total depreciable capital assets at cost	<u>38,179,551</u>
Less accumulated depreciation:	
Buildings	9,561,476
Improvements other than buildings	2,288,327
Equipment	<u>566,549</u>
Total depreciable capital assets at cost	<u>12,416,352</u>
Total depreciable capital assets, net of accumulated depreciation	<u>25,763,199</u>
Total capital assets for intercollegiate athletics, net of accumulated depreciation	<u>\$ 25,763,199</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 2020 fiscal year, the Institute recovered from the intercollegiate athletics program \$587,306 of institutional support costs and \$631,906 for operation and maintenance of plant costs, both are reflected as a non-program, indirect cost expense.

## VIRGINIA MILITARY INSTITUTE

As of June 30, 2020

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