



VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2017

Auditor of Public Accounts
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– TABLE OF CONTENTS –

	<u>Pages</u>
INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES	1-7
SCHEDULE	
Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	8
Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs	9-12
UNIVERSITY OFFICIALS	13



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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

Timothy D. Sands
President, Virginia Polytechnic Institute
And State University

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 Polytechnic Institute and State University, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15.1, for the year ended June 30, 2017. University 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 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.

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 University'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 University's financial statements.
2. Intercollegiate Athletics Department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, 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 University'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, 2017, as prepared by the University 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>
Contributions	This line item decreased by \$3.57 million, or 18.6 percent, in the current year due to Athletics not fully utilizing its contributions raised for scholarship funding but rather using the operating budget for a portion of the scholarship expense. Contributions are recognized when used to support operations and unused contributions are deferred to subsequent fiscal years.

Revenues

9. We reviewed a sample of ticket sales reconciliations performed for accuracy and proper review and approval. We determined the reconciliations reviewed to be accurate and substantially in agreement with the amounts reported in the Schedule.
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 reported 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 Tech Foundation, an affiliated organization, 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 Tech Foundation, which exceeded ten percent of all contributions, and agreed them to supporting documentation.

14. We obtained the amount reported in the Schedule for in-kind contributions. 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 broadcast, television, radio, internet, and e-commerce rights. We gained an understanding of the relevant terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
16. 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.
17. 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.
18. We obtained the amount reported in the Schedule for royalties, licensing, advertisements, and sponsorships. This amount was deemed to be immaterial for detailed testing.
19. The Virginia Tech Foundation manages athletics-related endowment funds on behalf of the University. The University has access to request endowment income from the Foundation in accordance with certain budgetary restrictions. This amount was deemed to be immaterial for detailed testing.
20. We obtained the amount reported in the Schedule for the University's participation in a post-season bowl. This amount was deemed to be immaterial for detailed testing.
21. We obtained the amount reported in the Schedule for other revenue. This amount was deemed to be immaterial for detailed testing.

Expenses

22. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the University used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected 40 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 with minor differences attributed to how book charges post to the accounting system.
23. We obtained the amount reported in the Schedule for game guarantee agreements for home games. This amount was deemed to be immaterial for detailed testing.
24. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals, including football and men's and women'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.
25. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. This amount was deemed to be immaterial for detailed testing.
26. 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 University and NCAA policies and noted substantial agreement of those policies.
27. We selected a sample of disbursements for team travel, game expenses, direct overhead and administrative expenses, 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.
28. We obtained a listing of debt service payments, lease payments, and rental fees for athletics facilities for the reporting year. We agreed all significant facility payments

included in the Schedule, including the two highest payments, to supporting documentation.

29. We obtained an understanding of the University'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

30. We obtained repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We recalculated annual maturities reporting in the notes to the Schedule and agreed total annual maturities and total outstanding athletic related debt to supporting documentation.
31. We agreed total outstanding institutional debt to the University's audited financial statements.
32. We agreed the fair value of athletics dedicated endowments to supporting documentation provided by the University.
33. We agreed the fair value of institutional endowments to supporting documentation, including the audited financial statements of the University's Foundation.
34. 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

35. 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.
36. 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.
37. 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 agreement of the amounts reported.

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 Polytechnic Institute and State University in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report relates only to the accounts and items specified above and does not extend to the financial statements of Virginia Polytechnic Institute and State University or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the President and the University 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/clj

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

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
Operating revenues:							
Ticket sales	\$ 14,599,726	\$ 2,528,127	\$ 166,414	\$ 17,800	\$ -	\$ -	\$ 17,312,067
Student fees	-	-	-	-	2,304,921	6,580,953	8,885,874
Direct institutional support	-	-	-	-	643	2,020	2,663
Guarantees	4,300,000	7,500	-	1,000	1,000	-	4,309,500
Contributions	7,874,708	744,793	687,339	601,121	2,031,737	3,681,034	15,620,732
In-Kind	40,353	52,068	7,430	4,977	8,280	33,615	146,723
Media rights	17,609,812	4,493,678	300,399	30,000	37,500	-	22,471,389
NCAA distributions	-	1,645,122	9,436	70,663	12,584	2,613,736	4,351,541
Conference distributions (non-media or bowl)	4,972,248	99,024	63,030	160,626	156,511	2,000	5,453,439
Program, novelty, parking, and concession sales	1,617,603	81,782	20,011	20,231	8,375	20,992	1,768,994
Royalties, licensing, advertisement and sponsorships	1,219,449	177,775	79,176	165,125	181,125	749,644	2,572,294
Athletics restricted endowment and investments income	725,601	135,014	110,052	665,105	848,488	137,011	2,621,271
Other operating revenue	108,580	-	-	100,000	-	519,305	727,885
Bowl revenues	<u>1,183,148</u>	-	-	-	-	-	<u>1,183,148</u>
Total operating revenues	<u>54,251,228</u>	<u>9,964,883</u>	<u>1,443,287</u>	<u>1,836,648</u>	<u>5,591,164</u>	<u>14,340,310</u>	<u>87,427,520</u>
Operating expenses:							
Athletic student aid	3,579,878	536,358	683,943	2,789,011	4,375,190	1,463,593	13,427,973
Guarantees	612,949	598,657	146,181	23,533	25,530	-	1,406,850
Coaching salaries, benefits, and bonuses paid by the University and related entities	8,826,626	3,964,395	1,584,861	2,534,261	2,381,430	-	19,291,573
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	1,856,546	598,449	460,545	108,292	137,381	10,023,319	13,184,532
Severance payments	53,511	334,161	58,516	42,744	13,158	76,957	579,047
Recruiting	652,455	63,588	189,242	224,442	234,369	42,091	1,406,187
Team travel	940,966	845,903	476,120	1,137,375	932,325	115	4,332,804
Sports equipment, uniforms, and supplies	998,939	375,599	109,102	472,192	434,858	235,543	2,626,233
Game expenses	1,311,179	433,906	244,183	255,041	163,566	1,788,991	4,196,866
Fundraising, marketing and promotion	190,506	159,626	29,928	54,801	63,748	698,762	1,197,371
Spirit groups	451,883	113,343	15,085	-	-	213,397	793,708
Athletic facility leases and rental fees	2,000	910	700	133,718	126,574	30	263,932
Athletic facility debt service	4,088,355	283,629	283,629	-	-	918,823	5,574,436
Direct overhead and administrative expenses	3,232,112	529,513	215,152	505,499	505,785	3,347,967	8,336,028
Indirect cost paid to the institution by athletics	92,280	-	-	-	-	4,999,761	5,092,041
Medical expenses and insurance	184,480	72,906	49,809	242,632	318,520	342,678	1,211,025
Memberships and dues	3,915	1,235	15,090	9,601	12,909	34,027	76,777
Student-Athlete Meals (non-travel)	874,797	146,533	71,299	153,392	176,018	115,132	1,537,171
Other operating expenses	1,312,307	695,876	177,284	372,102	327,471	1,684,226	4,569,266
Bowl expenses	<u>1,612,601</u>	-	-	-	-	-	<u>1,612,601</u>
Total operating expenses	<u>30,878,285</u>	<u>9,754,587</u>	<u>4,810,669</u>	<u>9,058,636</u>	<u>10,228,832</u>	<u>25,985,412</u>	<u>90,716,421</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 23,372,943</u>	<u>\$ 210,296</u>	<u>\$ (3,367,382)</u>	<u>\$ (7,221,988)</u>	<u>\$ (4,637,668)</u>	<u>\$ (11,645,102)</u>	<u>\$ (3,288,901)</u>
Other Reporting Items:							
Total athletics-related debt							\$ 74,926,000
Total institutional debt							\$ 456,772,000
Value of athletics-dedicated endowments							\$ 61,694,166
Value of institutional endowments							\$ 946,513,459
Total athletics-related capital expenditures							\$ 7,044,000

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

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
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 the Schedule is to present a summary of revenues and expenses of the intercollegiate athletic programs of the University for the year ended June 30, 2017. The Schedule includes those intercollegiate athletics revenues and expenses made on 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 fund balances, or cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented 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 University received \$18,018,489 from the Virginia Tech Foundation, Inc. Approximately \$9,427,973 of these funds were used for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$7,030,217 is included in the Contributions line item and \$2,397,756 is included in the Athletics Restricted Endowment and Investment Income line item.

3. LONG-TERM DEBT

In October 2001, a \$26,285,000 note was issued for the Athletic Department. This note was issued for the South End Zone addition to Lane Stadium. Part of the original debt was refinanced in January 2008 with a \$2,860,000 note that will be repaid through 2020 and has an outstanding balance of \$2,775,000. The remaining original debt issuance was refinanced in February 2011 with an \$11,540,000 note that will be repaid through 2027 and has an outstanding balance of \$7,625,000.

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 which was completed in 2006. The majority of this debt was refinanced in November 2012 with a \$32,365,000 note. This note has an outstanding balance of \$26,745,000 and will be repaid with private fund raising and operating revenues through 2029. The remaining original debt issuance was repaid with private fund raising and operating revenues during 2014.

In November 2009, an \$8,705,000 note was issued for the Athletic Department. This note was issued for the Hahn Hurst Basketball Practice Center. Part of the original debt was refinanced in November 2016 with a \$5,385,000 note that will be repaid through 2030 and has an outstanding balance of \$5,385,000. The remaining original debt issuance has an outstanding balance of \$1,160,000 which will be repaid with private fund raising and operating revenues through 2020.

In October 2015, a \$510,000 revenue bond was issued for the Athletic Department. This bond was issued for the Indoor Practice Facility. This note has an outstanding balance of \$510,000 and will be repaid with general operating revenues through 2035.

In August 2016, a \$31,509,000 internal loan was issued for the Athletic Department. This loan was issued for improvements to the Baseball Stadium and Rector Field House. This note has an outstanding balance of \$30,726,000 and will be repaid with general operating revenues through 2034.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2017 is presented as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 3,367,326	\$ 2,281,627	\$ 5,648,953
2019	3,468,090	2,175,244	5,643,334
2020	3,905,333	2,017,228	5,922,561
2021	4,111,801	1,843,209	5,955,010
2022	4,293,470	1,655,040	5,948,510
2023 - 2027	23,376,195	5,584,575	28,960,770
2028 - 2032	24,260,675	2,124,405	26,385,080
2033 - 2035	<u>8,143,407</u>	<u>213,246</u>	<u>8,356,653</u>
Total	<u>\$74,926,297</u>	<u>\$17,894,574</u>	<u>\$92,820,871</u>

4. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Athletic Department an administrative fee. During the fiscal year, the Department paid \$5,092,041 to the University. This amount is included on the Indirect Cost Paid to the Institution by Athletics line item, and includes \$92,280 in Football, and \$4,999,761 in the Non-Program Specific category.

5. 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 donation date.

Equipment is capitalized when the unit acquisition cost is \$2,000 or greater and the estimated useful life is one year or more. Software is capitalized when the acquisition and/or the development costs exceed \$100,000. Renovation costs are capitalized when expenses total more than \$100,000, the asset value significantly increases, or 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 40 to 60 years for buildings, ten to 50 years for infrastructure and land improvements, and three to 30 years for fixed and movable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2017 (all dollars in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings	\$171,582	\$ 794	\$ 140	\$172,236
Moveable equipment	7,340	426	256	7,510
Software	313	-	-	313
Fixed equipment	13,242	83	2,552	10,773
Infrastructure	<u>19,805</u>	<u>202</u>	<u>578</u>	<u>19,429</u>
Total depreciable capital assets, at cost	<u>212,282</u>	<u>1,505</u>	<u>3,526</u>	<u>210,261</u>
Less accumulated depreciation:				
Buildings	46,330	3,865	72	50,123
Moveable equipment	4,929	553	256	5,226
Software	225	20	-	245
Fixed equipment	5,954	515	2,550	3,919
Infrastructure	<u>16,699</u>	<u>653</u>	<u>481</u>	<u>16,871</u>
Total accumulated depreciation	<u>74,137</u>	<u>5,606</u>	<u>3,359</u>	<u>76,384</u>
Total depreciable capital assets, net of accumulated depreciation	<u>138,145</u>	<u>(4,101)</u>	<u>167</u>	<u>133,877</u>
Non-depreciable capital assets:				
Construction in progress	<u>1,907</u>	<u>6,681</u>	<u>1,131</u>	<u>7,457</u>
Total non-depreciable capital assets	<u>1,907</u>	<u>6,681</u>	<u>1,131</u>	<u>7,457</u>
Total capital assets, net of accumulated depreciation	<u>\$140,052</u>	<u>\$2,580</u>	<u>\$1,298</u>	<u>\$141,334</u>

6. OPERATING DEFICIT

As with all auxiliaries, the University requires the Athletic Department to maintain adequate fund balances or reserves necessary to protect operations from volatility of changes in athletic program revenues and to serve as a contingency fund. Any proposed use of reserve funds must be approved in advance through the budget process. In fiscal year 2017 a use of reserves was approved, in part, to cover an expected scholarship fundraising shortfall. Athletic scholarships are primarily funded by gifts, and less than 20 percent of those gifts are from endowments, which tend to have predictable annual distributions. Therefore, the majority of scholarships are funded by annual fundraising campaigns and are more volatile and such gifts tend to be received mainly in the latter part of each fiscal year (between December and March). If the fundraising campaign falls short of budgeted targets, the Athletic Department must use a combination of current year operating revenues or Athletic Department reserves to make up the shortfall. For fiscal year 2017, the approved budget authorized the use of \$4 million from other operating funds to cover scholarship expenses, because on July 1, 2016, only \$1.7 million of cash from gifts was available for scholarships. As the year progressed, the fund raising campaign for fiscal year 2017 exceeded the budgeted target and the cash balance held by the Virginia Tech Foundation, Inc. at June 30, 2017 to fund scholarships was approximately \$7.3 million. The contribution revenue for these funds will be recognized in fiscal year 2018 as they are used to fund scholarships. The operating deficit for fiscal year 2017 occurred primarily due to the decision to use funds other than gifts to fund scholarships.

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

As of June 30, 2017

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