



UNIVERSITY OF UTAH

Intercollegiate Athletic Department
Agreed-Upon Procedures Report
For the Year Ended June 30, 2012

Report No. 12-37

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



Auston G. Johnson, CPA
UTAH STATE AUDITOR

STATE OF UTAH
Office of the State Auditor

UTAH STATE CAPITOL COMPLEX
EAST OFFICE BUILDING, SUITE E310
P.O. BOX 142310
SALT LAKE CITY, UTAH 84114-2310
(801) 538-1025
FAX (801) 538-1383

DEPUTY STATE AUDITOR:
Joe Christensen, CPA

FINANCIAL AUDIT DIRECTORS:
Van H. Christensen, CPA
Deborah A. Empey, CPA
Stan Godfrey, CPA
Jon T. Johnson, CPA

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Trustees, Audit Committee
and
David W. Pershing, President
University of Utah

We have performed the procedures enumerated below, which were agreed to by the University of Utah's (University) management, solely to assist you in evaluating whether the accompanying Statement of Revenues and Expenses (Statement) of the University's Intercollegiate Athletic Department (Athletic Department) is in compliance with the National Collegiate Athletic Association (NCAA) Constitution 3.2.4.16 for the year ended June 30, 2012. The University's management is responsible for the Statement and the Statement's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

INTERNAL CONTROL – AGREED-UPON PROCEDURES

1. We reviewed the general control environment for the Athletic Department. As part of this review, we looked at the organization of the Athletic Department. We made certain inquiries of management regarding control consciousness, competence of personnel, adequate safeguarding and control of records and assets, the extent of the Internal Audit Department's involvement with athletics, and the controls over interactions with the Information Technology Department. We also tested the specific elements of the control environment and accounting systems that are unique to the Athletic Department that have not been addressed in connection with the audit of the University's financial statements. This included testing samples of transactions for compliance with internal control policies for the Ticket Office cash receipts, Business Office cash receipts, payroll transactions, and non-payroll transactions. Our sample sizes were limited to 25 items or 10% of the population, whichever was smaller. See finding and recommendation No. 1 on page 11 for weaknesses identified during this review.

2. We reviewed and tested the University's procedures for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the Athletic Department. The only booster group activity is the Crimson Club, which is included under the accounting control of the University.

STATEMENT OF REVENUES AND EXPENSES – AGREED-UPON PROCEDURES

3. We obtained the Athletic Department's Statement of Revenues and Expenses (the Statement) for the year ended June 30, 2012, as prepared by management and as presented in Exhibit I. We agreed the revenues and expenses on the Statement to the University's general ledger and supporting schedules, as applicable. We ensured that the amounts were reported in accordance with the NCAA Guidelines and generally accepted accounting principles. We proposed certain adjustments to the Statement to recognize amounts (\$275,000) paid to the University from a licensing revenue contract and to reclassify a transaction (\$1,002,771) as Salaries and Benefits rather than as Other Operating Expense, which have been reflected in the Statement and described in the Notes to the Statement.
4. We compared and agreed samples of revenue receipts and expenses to adequate supporting documentation. See finding and recommendation No. 1 on page 11 for weaknesses identified during this review.
5. We compared each major revenue and expense account to prior period amounts and budget estimates. We obtained and documented an understanding of any significant variances (greater than \$90,000 and 33%). There were no significant variances which were unexplained.
6. We performed the following procedures related to the Athletic Department's revenues and recalculated the totals for each category:
 - a. *Ticket Sales*
 - We compared tickets sold during the reporting period, complimentary tickets provided during the reporting period, and unsold tickets to the related revenue reported by the University in the Statement and the related attendance figures for Football, Women's Basketball, and Gymnastics.
 - b. *NCAA/Conference Distributions Including All Tournament Revenues*
 - We obtained and inspected agreements related to revenues from the University's participation in tournaments to gain an understanding of the relevant terms and conditions.
 - We compared and agreed the related revenues to the University's general ledger and/or the Statement.
 - c. *Broadcast, Television, Radio and Internet Rights*
 - We obtained and inspected agreements related to the University's participation in revenues from broadcast, television, radio, and internet rights to gain an understanding of the relevant terms and conditions.
 - We compared and agreed the related revenues to the University's general ledger and/or the Statement.

- d. *Royalties, Licensing, Advertisements, and Sponsorships*
 - We obtained and inspected agreements related to the University's participation in revenues from royalties, licensing, advertisements, and sponsorships to gain an understanding of the relevant terms and conditions.
 - We compared and agreed the related revenues to the University's general ledger and to the Statement and noted the University did not receive the entire \$550,000 from the University's official outfitter as specified in their contract. See finding and recommendation No. 2 on page 11.

We found no exceptions, other than those noted above, as a result of these procedures.

7. We performed the following procedures related to the Athletic Department expenses, and recalculated the totals for each category:
 - a. *Athletic Student Aid*
 - We selected a sample of 25 students from the listing of institutional student aid recipients.
 - We obtained individual student account detail for each selection and compared total aid from the related aid award letter to the student's account.
 - b. *Guarantees*
 - We obtained and inspected away-game settlement reports received by the University and agreed related expenses to the University's general ledger and/or the Statement.
 - We obtained and inspected contractual agreements pertaining to expenses recorded by the University from guaranteed contests.
 - We compared and agreed related amounts expensed by the University to the University's general ledger and/or the Statement.
 - c. *Severance Payments*
 - We selected a sample of employees receiving severance payments by the University and agreed each severance payment to the related termination letter or employment contract.
 - d. *Recruiting*
 - We obtained and documented an understanding of the University's recruiting expense policies and compared and agreed them to existing institutional and NCAA-related policies.
 - e. *Team Travel*
 - We obtained and documented an understanding of the University's team travel policies and compared and agreed them to existing institutional and NCAA-related policies.
 - f. *Equipment, Uniforms and Supplies / Game Expenses*
 - We compared and agreed both of these expense categories to supporting schedules.
 - We selected a sample of 10-15 transactions from these two statement expense line items and agreed the sample items to supporting documentation, except that two transactions from our sample of equipment, uniforms, and supplies did not have supporting documentation. See finding and recommendation No. 1 on page 11.

We found no exceptions, other than those noted above, as a result of these procedures.

8. We reviewed the footnotes to the Statement and found them to be proper and in compliance with NCAA guidelines.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on either the Athletic Department's internal control or on the accompanying Statement of Revenues and Expenses. Accordingly, we do not express any such opinions. Had we performed additional procedures, other matters might have come to our attention that would have been reported to the University.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, and Administration of the University and authorized representatives of the NCAA and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a public document and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Auston G. Johnson". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Auston G. Johnson, CPA
Utah State Auditor
December 17, 2012



UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Football	Men's Basketball	Women's Basketball	Gymnastics	Other Sports (Note 1)	Non-Sport Specific (Note 1)	Total
REVENUES:							
Ticket Sales (Note 2)	\$ 9,052,422	\$ 1,743,293	\$ 8,570	\$ 453,771	\$ 29,869	\$ -	\$ 11,287,925
Student Fees	-	-	-	-	-	6,012,882	6,012,882
Guarantees	250,000	125,000	2,000	-	2,458	-	379,458
Contributions (Note 3)	5,682,138	2,291,015	18,759	121,206	157,559	101,820	8,372,497
Compensation & Benefits by 3rd Party	-	-	-	-	-	-	-
Direct State or Other Gov't Support	-	-	-	-	-	-	-
Direct Institutional Support (Note 4)	1,540,503	104,504	141,681	120,334	792,621	1,269,969	3,969,612
Indirect Facilities & Admin Support	-	-	-	-	-	-	-
NCAA/Pac-12 Distributions (Note 5)	2,880,899	719,917	-	-	15,735	1,667,791	5,284,342
E-commerce/Broadcast Rights	-	-	-	-	-	17,983	17,983
Concession and Novelties (Note 6)	1,061,432	167,886	17,602	103,301	16,530	118,040	1,484,791
Licensing and Sponsorships (Note 7)	2,258,624	847,982	-	-	-	-	3,106,606
Sports Camps	-	-	-	-	-	-	-
Endowment and Investment Income	948	-	30	-	31	191,265	192,274
Other Operating Revenue	85,862	-	(202)	(631)	60,508	502,758	648,295
Total Revenues	22,812,828	5,999,597	188,440	797,981	1,075,311	9,882,508	40,756,665
EXPENSES:							
Financial Aid (Note 4)	2,337,343	416,572	414,666	440,596	3,379,926	545,881	7,534,984
Guarantees	725,000	264,828	76,894	-	18,937	-	1,085,659
Salaries and Benefits	5,302,241	1,911,969	675,655	565,334	2,115,531	6,393,886	16,964,616
Severance Payments	-	516,667	-	-	-	-	516,667
Recruiting	465,775	218,759	116,457	63,527	231,288	225	1,096,031
Team Travel	2,223,255	253,768	334,572	121,259	1,522,889	9,779	4,465,522
Uniforms and Equipment	976,033	306,584	15,734	85,761	347,606	755,418	2,487,136
Game Operations (Note 8)	741,208	257,102	125,230	108,444	170,685	178,867	1,581,536
Marketing and Promotion	481,335	183,207	12,201	65,584	56,952	632,935	1,432,214
Sports Camps	-	-	-	-	-	-	-
Direct Facilities, Maintenance, and Rental (Note 9)	1,315,971	39,846	14,306	20,204	153,297	349,880	1,893,504
Spirit Groups	-	-	-	-	-	56,837	56,837
Indirect Facilities & Admin Support	-	-	-	-	-	-	-
Medical Expenses and Insurance	268,822	50,094	36,489	36,190	216,170	58,000	665,765
Memberships and Dues	2,280	2,625	3,270	784	9,474	68,451	86,884
Other Operating Expense (Note 10)	974,006	220,409	107,159	90,523	236,106	2,684,233	4,312,436
Total Expenses	15,813,269	4,642,430	1,932,633	1,598,206	8,458,861	11,734,392	44,179,791
Excess (Deficit) Revenues over Expenses	6,999,559	1,357,167	(1,744,193)	(800,225)	(7,383,550)	(1,851,884)	(3,423,126)
Transfers, Net In/(Out) (Note 11)	(90,313)	-	-	-	(48,025)	(1,676,417)	(1,814,755)
Change in Net Assets	\$ 6,909,246	\$ 1,357,167	\$ (1,744,193)	\$ (800,225)	\$ (7,431,575)	\$ (3,528,301)	\$ (5,237,881)

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Statement of Revenues and Expenses (Statement) has been prepared on the accrual basis of accounting, with the exception of Direct Institutional Support revenues and Financial Aid expenses which have not been reduced for scholarship allowances of \$1,814,642. The Statement presents the results of financial activity of the University of Utah (University) Intercollegiate Athletic Department (Athletic Department), which includes the George S. Eccles Tennis Facility. The financial activity of the Athletic Department's endowment and fixed assets, in accordance with NCAA reporting guidelines, is not included in the Statement. In addition, the financial activity of the Huntsman Center, Rice-Eccles Stadium, and sports camps conducted by University coaching staff is not included in the financial statement because they are not under the jurisdiction of the Athletic Department. The significant accounting policies followed are described below.

Sports Accounting

Because of the significant revenues and expenses generated by football, men's basketball, women's basketball, and gymnastics, they are reported separately. Other sports in which the University participates are combined and reported as "Other Sports." The administrative functions of the Athletic Department and activities, which provide support for all sports, have been combined for reporting purposes under the caption "Non-Sport Specific." These supportive activities include costs such as those related to weight and training rooms, academic advising, marketing, compliance, media relations, cheerleaders, Utah Dance Team, etc.

Revenue Allocation

Sales and services revenues have been allocated to the activity generating the income. All revenues – student activity fees, contributions, conference distributions, national broadcast revenue, e-commerce, investment income, direct institutional support, etc. – have been allocated based on the Athletic Department's management decisions and categorized as instructed by the NCAA's revenue and expense policies and procedures.

Expenditure Allocation

Generally, expenses have been allocated to the activity incurring the expense. The majority of the advertising/promotions, facility rentals, memberships, insurance, and general and administrative expenditures were charged to "Non-Sport Specific."

Additional Significant Accounting Policies

Other significant accounting policies are set forth in the following notes.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

2. TICKET SALES

Football ticket revenue includes \$628,250 generated from the sale of the Rice-Eccles Stadium suites.

3. CONTRIBUTIONS

Donations are used to subsidize student athlete scholarships, facility upgrades, and academic support. Donations received are posted to Crimson Club, Athletic Development accounts and Scholarship Circle development funds. Donation money is transferred from the restricted development account into the Crimson Club operating account to cover the costs of scholarships.

For fiscal year 2012, 70% of all donations deposited to the Crimson Club accounts were allocated to football and 30% were allocated to men's basketball. All sport specific donations are allocated accordingly.

4. DIRECT INSTITUTIONAL SUPPORT

Direct Institutional Support includes Facility, General and Administrative, and Title IX support. The Athletic Department receives state funds as tuition waivers such as: Title 53, special, and continuing scholarships. These waivers of \$1,814,642 are included as revenue under Direct Institutional Support and subsequently expensed under Financial Aid.

5. NCAA AND CONFERENCE DISTRIBUTIONS

National Pac-12 broadcast rights of \$2,399,722 were allocated 70% to football and 30% to men's basketball. Revenue of \$127,273 was the University's portion of the profit generated from the Pac-12 football championship game. The University also received a Pac-12 distribution of \$754,505 for its participation in the Sun Bowl. This distribution was paid net of deductions of \$446,589 in game official costs and \$361,573 due to the Sun Bowl for tickets.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

6. CONCESSION AND NOVELTIES

All non-University concession revenue was allocated to “Non-Sport Specific.” Vendors are required to pay 35% commission on all food items and 80% on all beverages sold at University athletic events.

7. LICENSING AND SPONSORSHIPS

The University Campus Store handles all merchandise sales at regular season home football and basketball games. The Athletic Department handles merchandise sales at away games. Licensing and University Campus Store merchandise sales are allocated 70% to football and 30% to men’s basketball.

Per contract, Utah Sports Property retains all rights to local media and corporate sponsorships for University of Utah athletics. The financial agreement to obtain these rights for fiscal year 2012 was a base of \$1,800,000. This revenue stream was allocated 70% to football and 30% to men’s basketball.

8. GAME OPERATIONS

Game Operations includes the cost of officials expensed through the conference office as a deduction from the University’s year-end revenues. The total for fiscal year 2012 was \$446,589.

9. FACILITY RENT AND DEBT SERVICE

The Athletic Department paid \$1,206,739 in facility rent and fees for use of the stadium and its suites during fiscal year 2012 for the 2011 football season.

The University has assumed the annual bond payment for the Rice-Eccles Stadium. As of June 30, 2012, the University had \$3,000,000 of outstanding Series 1997A Auxiliary and Campus Facilities Revenue Bonds for the Rice-Eccles Stadium.

These outstanding bonds are not an obligation to the Athletic Department, but are secured by the University’s pledging of the Stadium’s net revenues, student building fees, and other miscellaneous fees. Additional information related to these bonds is available in the University’s separately-issued financial statements.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

The University has been making debt service payments in advance of the original debt service schedule for this bond, which would not have matured until 2027. The University anticipates that this bond will be paid off as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2013	\$ 1,000,000	\$ 8,000	\$ 1,008,000
2014	1,000,000	4,800	1,004,800
2015	1,000,000	1,600	1,001,600
	<u>\$ 3,000,000</u>	<u>\$ 14,400</u>	<u>\$ 3,014,400</u>

10. OTHER OPERATING EXPENSES

Other Operating Expenses include miscellaneous operating expenses with the top three categories being Cost of Goods Sold for Concessions (\$460,962), Meals (\$432,215), and Independent Contractors/Consultants (\$140,055).

11. TRANSFERS

The Transfer line items include funds reallocated from sport development accounts to subsidize deficits in operating activities. They also include the transfer of funds to plant operations for general construction projects and maintenance.

12. CAPITAL ASSETS

As described in the University's separately-issued financial statements, capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Buildings, infrastructure and improvements, and additions to existing assets are capitalized when acquisition costs equal or exceed \$50,000. Equipment is capitalized when acquisition costs equal or exceed \$5,000. All land is capitalized and not depreciated. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Capital assets of the University are depreciated on a straight-line basis over their estimated useful lives: 40 years for buildings, 15 years for infrastructure and improvements, and 5 to 20 years for equipment.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

13. SUBSEQUENT EVENTS

As described in the University's separately-issued financial statements, on July 10, 2012 the University issued a \$46,235,000 Auxiliary and Campus Facilities System Revenue Bond, Series 2012A. A portion of this bond issuance, estimated to be \$30 million, is to be used to expand the Dee Glen Smith Athletic Center. These outstanding bonds are not an obligation of the Athletic Department, but are secured by the University's pledging of the Stadium's net revenues, student building fees, and other miscellaneous fees. Additional information related to these bonds is available in the University's separately-issued financial statements.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012

1. INTERNAL CONTROL WEAKNESS OVER CASH DISBURSEMENTS

We reviewed the general control environment for the Intercollegiate Athletic Department (Athletic Department) at the University of Utah (University) for the fiscal year ended June 30, 2012. As part of this review we tested a sample of 25 cash disbursements. We noted one purchase card transaction that included three child admissions to a local movie theater. University funds should not be used for personal benefit. The University's review of the monthly purchase card statement and supporting documentation did not identify this improper expenditure. Failure to review detailed purchase card transactions may result in undetected misuse of Athletic Department funds.

Additionally, we tested a sample of 15 equipment, uniforms, and supplies expenditures. We noted two purchase card transactions in our sample, totaling \$270, for which the University did not have supporting documentation or an approved purchase card statement. The supporting documentation was apparently lost when a university employee moved to a new office. Supporting documentation for all transactions should be properly retained for subsequent review and audit purposes.

Recommendation:

We recommend that the Athletic Department properly review all purchase card transactions and detailed monthly statements in accordance with University purchase card policies to ensure that purchases are reasonable, proper, and for University-business purposes.

Additionally, we recommend that the Athletic Department retain all applicable supporting documentation and purchase card statements for all purchase card transactions in a safe and secure location to ensure that they are readily available for review or audit.

Athletic Department's Response:

All purchase card users will be asked to review and manifest a working knowledge of purchase card policies and procedures. We may also deem it necessary and appropriate to require some, or all, purchase card users to attend additional trainings.

Purchase card statements will continue to be locked and stored in a secure location. Going forward, should any statement be requested either by an auditor, supervisor, the purchase card user, or any other individual, for any purpose, the requested statement, with the accompanying receipt under review, will be copied and the original document will be quickly returned to its appropriately filed location.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012

2. NONCOMPLIANCE WITH CONTRACTUAL AGREEMENT

As part of our review of the royalties and licensing revenues received by the University's Athletic Department for the fiscal year ended June 30, 2012, we reviewed the contract between the University and the official outfitter for the University's athletic teams and coaches. This contract specifies that the University is to receive \$550,000 per year from the official outfitter. In review of the payments received by the University, we noted that \$275,000 of the contract was paid directly to the head football coach by the official outfitter without passing through the University, even though the contract specifies that the full \$550,000 is to go to the University. The head football coach's employment contract with the University specifies that he is to receive \$275,000 in relation to the official outfitter agreement, but that he will be paid by the University after the University receives the payment from the official outfitter. This contract payment should have been reported on the coach's W-2 by the University rather than on a 1099 from the official outfitter.

Additionally, the contract specifies that the University is to receive a \$10,000 bonus payment if the football team participates in a bowl game. The football team participated in the Sun Bowl on December 31, 2011. However, as of December 2012, the University has not received the payment for their participation.

The Athletics Department should have ensured that the full contract amount was received by the University and then made the payment to the head football coach, as the contracts specify. Noncompliance with the terms of a contract could result in inappropriate or unintended payments and benefits for employees and lost revenue for the Athletics Department.

Recommendation:

We recommend that the Athletics Department comply with the terms of the contracts with their official outfitter and head football coach and ensure that the University receives and pays the appropriate amounts in accordance with contractual terms.

Athletic Department's Response:

The University of Utah will work closely with official outfitter and compose an addendum to the existing contractual agreement between the two parties. The addendum will specify that the head football coach is to receive \$275,000 directly from the official outfitter, with the remaining \$275,000 is to be paid directly to the University of Utah's Athletics Department.

The University of Utah's Athletics Department will invoice the official outfitter, in accordance with the agreed upon payment schedule, to assure timely quarterly payments. Furthermore, the Athletics Department will hold an annual review in April to determine whether or not it qualifies for additional bonus payments due to the post season participation of its athletic teams.