

UNIVERSITY OF UTAH

Intercollegiate Athletic Department
Agreed-Upon Procedures Report
For the Year Ended June 30, 2014

Report No. 14-33



OFFICE OF THE
UTAH STATE AUDITOR

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AUDIT LEADERSHIP:

Hollie Andrus, CPA, Audit Director

Jason Allen, CPA, CFE, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

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 (the Statement) of the University's Intercollegiate Athletic Department is in compliance with the National Collegiate Athletic Association (NCAA) Constitution 3.2.4.16 for the year ended June 30, 2014. 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 Intercollegiate Athletic Department. As part of this review, we looked at the organization of the Intercollegiate 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 Intercollegiate Athletic Department that have not been addressed in connection with the audit of the University's financial statements. This included testing through inquiry and observation (i.e. walk-throughs of cash receipts (ticket and business offices), payroll, and nonpayroll transactions) to ensure that internal controls of the Intercollegiate Athletic Department are the same as those addressed in connection with the audit of the University's financial statements for June 30, 2014. We found no exceptions as a result of these procedures.

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 Intercollegiate Athletic Department. The only booster group activity is the Crimson Club, which is under the accounting control of the University.

STATEMENT OF REVENUES AND EXPENSES – AGREED-UPON PROCEDURES

3. We obtained the Intercollegiate Athletic Department's Statement of Revenues and Expenses (the Statement) for the year ended June 30, 2014, 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 found no exceptions as a result of these procedures other than those described in the Notes to the Statement and in the following paragraph.

We proposed the following to the Statement:

- Adjustments to reclassify \$455,277 reported as Sports Camp Expenses instead of Salaries and Benefits paid to Athletic Department coaches;
- An adjustment to reclassify \$85,000 reported as Salaries and Benefits instead of Severance Payments; and
- An adjustment to eliminate the double counting of \$275,000 in the Statement reported as revenue from Compensation and Benefits Provided by a Third Party and as Salaries and Benefits expenses.

All adjustments have been reflected in the attached Statement.

4. We compared and agreed 5 revenue receipts and 35 expense transactions to adequate supporting documentation. We found no exceptions as a result of the comparisons.
5. We compared each major revenue and expense account (defined as greater than 5% of the total revenues or total expenses) 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 University's Intercollegiate Athletic Department 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 to the related attendance figures.
 - b. *Guarantees*
 - We did not select a sample of settlement reports for away games as there were none for the year ended June 30, 2014.
 - We selected one contractual agreement (100%) pertaining to revenues derived from guaranteed contests and compared and agreed the contract to the University's general ledger and/or the Statement.
 - c. *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.
 - d. *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.

e. *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/or the Statement.

We found no exceptions as a result of these procedures.

7. We performed the following procedures related to the University's Intercollegiate Athletic Department expenses, and recalculated the totals for each category:

a. *Athletic Student Aid*

- We selected a sample of 10 students from the listing of institutional student aid recipients, two each from football, men's basketball, women's basketball, gymnastics, and other sports (combined).
- 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. *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.

c. *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.

d. *Fund Raising, Marketing, and Promotion*

- We compared and agreed expense categories to supporting schedules.
- We selected a sample of 15 transactions, five each from the three activities that make up these expenses.

e. *Direct Facilities, Maintenance and Rental*

- We compared and agreed expense categories to supporting schedules.
- We selected a sample of 8 transactions from the five sports (football, men's basketball, women's basketball, gymnastics, and baseball) that make up these expenses.

We found no exceptions 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 the compliance of the accompanying Statement of Revenues and Expenses of the University's Intercollegiate Athletic Department. Accordingly, we do not express any such opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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.

Office of the Utah State Auditor

Office of the Utah State Auditor

January 12, 2015



UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Football	Men's Basketball	Women's Basketball	Gymnastics	Other Sports (Note 1)	Non-Sport Specific (Note 1)	Total
REVENUES:							
Ticket Sales (Note 2)	\$ 11,157,781	\$ 2,010,279	\$ 17,917	\$ 439,567	\$ 32,876	\$ 20,603	\$ 13,679,023
Student Fees	-	-	-	-	-	6,083,151	6,083,151
Guarantees	250,000	-	-	-	10,089	21,745	281,834
Contributions (Note 3)	8,318,238	1,228,615	29,393	160,939	216,773	13,880	9,967,838
Compensation and Benefits by 3rd Party	-	-	-	-	-	-	-
Direct State or Other Gov't Support	-	-	-	-	-	-	-
Direct Institutional Support (Note 4)	1,613,316	104,317	115,675	178,708	797,895	969,044	3,778,955
Indirect Facilities and Admin Support	-	-	-	-	-	-	-
NCAA/Pac-12 Distributions (Note 5)	12,667,379	2,897,244	-	-	-	922,861	16,487,484
E-commerce/Broadcast Rights	-	-	-	-	-	35,706	35,706
Concessions, Merchandise, and Novelties (Note 6)	272,650	-	-	-	(910)	1,220,851	1,492,592
Licensing and Sponsorships (Note 7)	2,918,487	470,615	-	2,500	-	-	3,391,602
Sports Camps (Note 11)	191,940	57,088	106,800	63,384	372,110	-	791,322
Endowment and Investment Income	438	-	-	-	(19)	(21,828)	(21,409)
Other Operating Revenue	1,009	-	1,933	72	52,136	447,061	502,211
Total Revenues	37,391,238	6,768,158	271,718	845,170	1,480,950	9,713,074	56,470,309
EXPENSES:							
Financial Aid (Note 4)	2,588,235	457,124	501,378	426,009	3,570,811	549,901	8,093,458
Guarantees	400,000	419,000	65,000	-	27,016	-	911,016
Salaries and Benefits	6,589,749	1,962,382	846,289	842,792	2,850,448	8,199,480	21,291,140
Severance Payments	85,000	83,419	-	-	-	-	168,419
Recruiting	434,009	154,700	135,100	68,022	271,721	268	1,063,820
Team Travel	1,210,752	355,000	320,339	173,141	1,780,080	55,321	3,894,633
Uniforms and Equipment	549,862	95,984	4,964	149,710	567,779	807,667	2,175,966
Game Operations (Note 8)	890,083	372,087	139,003	94,387	265,771	153,051	1,914,382
Marketing and Promotions	490,173	178,632	11,981	73,258	91,646	924,813	1,770,503
Sports Camps (Note 11)	53,380	34,382	55,709	32,354	110,786	-	286,611
Direct Facilities, Maintenance, and Rental (Note 9)	1,580,550	533	16,000	3,731	53,449	454,313	2,108,576
Indirect Facilities and Admin Support	-	-	-	-	-	-	-
Spirit Groups	-	-	-	-	-	161,371	161,371
Medical Expenses and Insurance	421,094	23,652	74,705	43,040	431,203	-	993,694
Memberships and Dues	2,380	3,970	630	700	14,014	64,287	85,981
Other Operating Expenses (Note 10)	978,332	312,111	120,954	91,032	255,604	3,446,487	5,204,520
Total Expenses	16,273,599	4,452,976	2,292,052	1,998,176	10,290,328	14,816,959	50,124,090
Excess (Deficit) Revenues over Expenses	21,117,639	2,315,182	(2,020,334)	(1,153,006)	(8,809,378)	(5,103,885)	6,346,219
Transfers, Net In/(Out) (Note 12)	-	175,000	-	93,663	(73,815)	(4,869,707)	(4,674,859)
Change in Net Position	\$ 21,117,639	\$ 2,490,182	\$ (2,020,334)	\$ (1,059,343)	\$ (8,883,193)	\$ (9,973,592)	\$ 1,671,360

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, 2014

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 \$2,007,911. 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 and Spence & Cleone Eccles Football Center. 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 and Rice-Eccles Stadium 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, information technology, sports information, media relations, 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, 2014

2. TICKET SALES

Football ticket revenue includes \$673,408 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 restricted accounts, and Scholarship Circle development accounts. Donation money is transferred from the development account into the Crimson Club operating account to cover the costs of scholarships.

For fiscal year 2014, facility donations of \$2,100,000 were all allocated to football. These donations subsidized debt service payments and capital improvements to the Spence & Cleone Eccles Football Center.

The remaining donations deposited to the Crimson Club accounts were allocated 85% to football and 15% 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 \$2,007,911 are included as revenue under Direct Institutional Support and subsequently expensed under Financial Aid.

5. NCAA AND CONFERENCE DISTRIBUTIONS

The Athletic Department received a net distribution of \$11,075,648 from the Pac-12 conference during fiscal year 2014. The distribution represents a 75% share of conference revenues less conference operating expenses, championship expenses, NCAA basketball expenses, official's payments and other miscellaneous items. The University also booked and accrued a receivable in the amount of \$3,191,489. Broadcast rights were allocated 85% to football and 15% to men's basketball.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

6. CONCESSIONS, MERCHANDISE, AND NOVELTIES

All non-University concession revenue was allocated to “Non-Sport Specific.”

Concessions are now operated by Auxiliary Services, who provided \$1,500,000 to the Athletic Department to obtain those rights. The funds will be amortized over three years, and \$588,000 was recognized in fiscal year 2014.

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 85% to football and 15% to men’s basketball.

Per contract, Utah Sports Property (USP) retains all rights to local media and corporate sponsorships for University of Utah athletics. The financial agreement to obtain these rights for fiscal year 2014 was a guaranteed payment of \$1,346,946. After meeting an agreed upon threshold, the remaining generated revenue was split between the Athletic Department (70%) and USP (30%). The Athletic Department’s portion of additional revenue totaled \$758,759. The combined guaranteed payment and additional revenue payment was allocated 85% to football and 15% to men’s basketball.

Under Armour (UA) is the exclusive outfitter of the Athletic Department. Per contractual agreement, UA paid the Athletic Department \$550,000. An additional payment of \$7,500 for Men’s Basketball NIT and Gymnastics post season participation was also received.

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 2014 was \$555,709.

9. FACILITY RENT AND DEBT SERVICE

The Athletic Department paid \$1,552,285 in facility rent and fees for use of the stadium and its suites during fiscal year 2014. A portion of these costs are associated with miscellaneous facility agreements and one-time rentals.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

The Athletic Department has assumed the annual bond payment for the Spence & Cleone Eccles Football Center. In fiscal year 2014, the annual debt service totaled \$2,049,525. As of June 30, 2014, the Athletic Department had \$24,300,000 of outstanding Series 2012 Auxiliary and Campus Facilities Revenue Bonds for the Spence & Cleone Eccles Football Center. The Athletic Department anticipates the bond will be paid off as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2015	\$ 920,000	\$ 1,127,675	\$ 2,047,675
2016	960,000	1,090,875	2,050,875
2017	1,000,000	1,052,475	2,052,475
2018	1,040,000	1,012,475	2,052,475
2019-2023	5,765,000	4,483,525	10,248,525
2024-2028	7,340,000	2,912,875	10,252,875
2029-2032	7,275,000	922,275	8,197,275
	<u>\$ 24,300,000</u>	<u>\$ 12,602,175</u>	<u>\$ 36,902,175</u>

These outstanding bonds are secured by the University's pledging of net revenues, student building fees, and other miscellaneous fees. The debt service payments are paid by the Athletic Department's revenues. Additional information related to these bonds is available in the University's separately-issued financial statements.

The Athletic Department will also assume the annual bond payment for the Jon M. and Karen Huntsman Basketball Training Center upon its completion in fiscal year 2015.

10. OTHER OPERATING EXPENSES

Other Operating Expenses include miscellaneous operating expenses such as, Out of State Travel (\$376,729), Cost of Goods Sold for concession sales (\$546,504), and Independent Contractors/Consultants (\$1,859,187).

11. SPORTS CAMPS

In fiscal year 2013, the Athletic Department began conducting in-house sports camps. The profit earned from the sports camps are paid to Athletic Department coaches as compensation upon completion of the camp. Revenues from the sports camps are recognized in the Statement when earned and expenses are recognized when incurred.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETIC DEPARTMENT

NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

12. TRANSFERS

The Transfer line items include the transfer of funds to plant operations for general construction projects and maintenance. They also include the transfer of funds to the Athletics Training Education Program and funds to support the Band. The transfers also include the transfer of funds to a strategic reserve account. Due to the NCAA cost of attendance legislation, it is estimated that the Athletic Department will incur an annual expense of \$800,000 to \$1.2 million. There will also be an increase in nutritional expenses for student athletes, as well as a possible trust fund for athletes.

13. 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 \$250,000. 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.