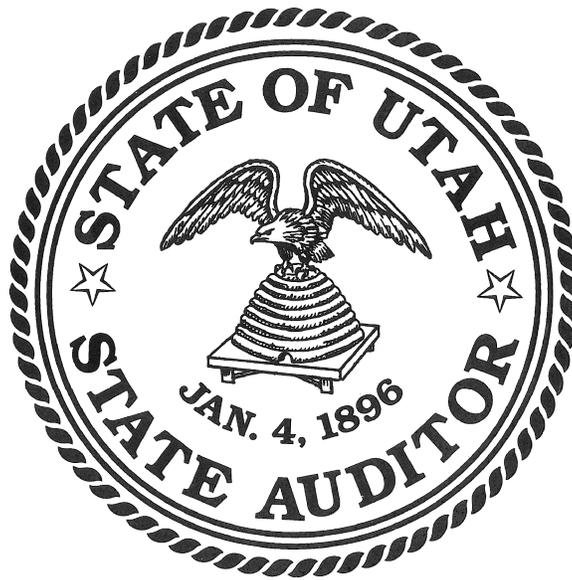


UNIVERSITY OF UTAH

Intercollegiate Athletics Department
Agreed-Upon Procedures Report
For the Year Ended June 30, 2018

Report No. 18-32



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Doug Seager, CPA, Audit Manager
Andrew Driggs, Audit Senior



OFFICE OF THE
STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Trustees, Audit Committee,
and
Ruth V. Watkins, 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 Athletics Department (Department) is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.15 for the year ended June 30, 2018. 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 performed and the associated findings are as follows:

Internal Control Agreed-upon Procedures

- A. We reviewed the general control environment for the Department. As part of this review, we reviewed the organization of the Department. We also made certain inquiries of management regarding departmental organization, control consciousness of staff, competency of personnel, adequate safeguarding and control of records and assets, the extent of the Internal Audit Department's involvement with athletics, controls over interactions with the Information Technology Department, and other relevant matters. We found no exceptions as a result of these procedures.
- B. We tested samples of Ticket Office cash receipts, Business Office cash receipts, payroll transactions, and non-payroll transactions to ensure that the internal controls of the Department are the same as those addressed in connection with the audit of the University's financial statements for June 30, 2018. Our sample sizes were limited to 5 items each for Ticket Office cash receipts, Business Office cash receipts, payroll transactions, and non-payroll transactions. We found no exceptions as a result of these procedures.
- C. We reviewed and tested the University's procedures for gathering information on the nature and extent of affiliated and outside organization activity for or on behalf of the Department. All booster group activity is under the accounting control of the University; therefore, we did not perform any additional procedures.

Statement of Revenues and Expenses Agreed-Upon Procedures

- D. We obtained the Department's Statement of Revenues and Expenses (Statement) for the year ended June 30, 2018, as prepared by management.
- We agreed the amounts reported on the Statement to the University's general ledger. We ensured that the amounts were reported in accordance with NCAA guidelines and generally accepted accounting principles.
 - We compared and agreed each operating revenue and expense category that comprised more than 4.0% of total revenues or total expenses, as reported on the Statement during the reporting period, to supporting schedules provided by the University.
 - We compared and agreed samples selected in step B above and in the Revenue and Expense Procedures noted below to adequate supporting documentation.
 - We compared each major revenue and expense account over 10% of the total revenues or total expenses to prior period amounts. We obtained and documented an explanation of any variations greater than 10%. We have reported our analysis as a supplement to this Agreed-Upon Procedures report (see Exhibit I).
 - We reviewed the footnotes to the Statement for propriety and compliance with NCAA guidelines.

We agreed to report on any matter that came to our attention that caused us to believe that any of the specified accounts or items needed to be adjusted by more than \$100,000. We identified \$856,069 in Royalties, Licensing, Advertisement, & Sponsorship Revenues, recognized in fiscal year 2017, that were written off in fiscal year 2018; therefore, the revenue on the Statement was adjusted to reflect the true revenues earned in fiscal year 2018.

- E. We performed the following procedures related to the Department.

Revenue Procedures:

Student Fees

1. We compared and agreed student fees reported by the University in the Statement for the reporting period to student enrollments during the same reporting period and recalculated totals.
2. Because student fees reported in the Statement are based on headcount, we did not obtain documentation of the University's methodology for allocating student fees to the Department.

Guarantees

3. Because the Department did not use settlement reports in fiscal year 2018, we did not select a sample of 3 settlement reports for away games during the reporting period, agree each selection to the University's general ledger or the Statement, or recalculate totals.

4. We selected 4 contractual agreements pertaining to revenues derived from guaranteed contests during the reporting period and compared and agreed each selection to the University's general ledger and/or the Statement and recalculated totals.

Contributions

5. We agreed a detailed listing of contributions to the general ledger and then scanned the listing for contributions of moneys, goods, or services received directly by the University from any affiliated or outside organization, agency, or group of individuals (two or more) not included above (e.g. contributions by corporate sponsors) that constituted 10% or more in aggregate for the reporting year of all contributions received for intercollegiate athletics during the reporting period. We did not identify any such contributions and, therefore, did not obtain or review documentation for contributions or recalculate totals.

NCAA Distributions

6. We compared the amounts recorded in the revenue and expense reporting to general ledger detail for NCAA distributions and other corroborative supporting documents and recalculated totals.

Conference Distributions

7. We obtained and inspected agreements related to the University's conference distributions and to participation in revenues from tournaments during the reporting period for relevant terms and conditions.
8. We compared and agreed the related revenues to the University's general ledger and/or the Statement and recalculated totals.

Royalties, Licensing, Advertisements, and Sponsorships

9. We obtained and inspected agreements related to the University's participation in revenues from royalties, licensing, advertisements, and sponsorships during the reporting period for relevant terms and conditions.
10. We compared and agreed the related revenues to the University's general ledger and/or the Statement and recalculated totals. See the discussion in "D" above regarding the \$856,069 of Royalties, Licensing, Advertisement, and Sponsorship revenues that had been written off.

Except as noted in 10 above, we found no exceptions greater than \$100,000 as a result of these revenue procedures.

Expense Procedures:

Guarantees

11. Because the Department did not use visiting team away-game settlement reports in fiscal year 2018, we did not obtain and inspect visiting institutions' away-game settlement reports, agree related expenses to the University's general ledger, or recalculate totals.
12. We obtained and inspected all contractual agreements pertaining to expenses recorded by the Department from guaranteed contests during the reporting period. We compared

and agreed related amounts expensed to the University's general ledger and/or the Statement and recalculated totals.

Support Staff/Administrative Salaries, Benefits, and Bonuses Paid by the University and Related Entities

13. We selected 13 full-time support staff/administrative personnel employed by the University and related entities during the reporting period.
14. We obtained and inspected reporting period payroll summary registers for each selection. We compared and agreed related payroll summary registers to the related support staff/administrative salaries, benefits, and bonuses paid by the University and related entities expense recorded by the University in the Statement during the reporting period and recalculated totals.

Recruiting

15. We obtained documentation of the University's recruiting expense policies.
16. We compared and agreed these policies to existing University- and NCAA-related policies.
17. We obtained general ledger detail and compared it to the total expenses reported and recalculated totals.

Equipment, Uniforms, and Supplies

18. We obtained general ledger detail and compared it to the total expenses reported. We selected 5 transactions and validated the existence of and accuracy in recording the transactions and recalculated totals.

Spirit Groups

19. We obtained general ledger detail and compared it to the total expenses reported. We selected 5 transactions and validated the existence of and accuracy in recording the transactions and recalculated totals.

Student-Athlete Meals (non-travel)

20. We obtained general ledger detail and compared it to the total expenses reported. We selected 5 transactions and validated the existence of and accuracy in recording the transactions and recalculated totals.

Other Reporting Items

Total Institutional Debt

21. We agreed the total outstanding institutional debt to supporting documentation and the University's audited financial statements, if available, or the University's general ledger.

We found no exceptions greater than \$100,000 as a result of these expense and other reporting items procedures.

Additional Agreed-Upon Procedures

- F. We compared and agreed the sports sponsored as reported in the NCAA Membership Financial Reporting System (MFRS) to the Calculation of Revenue Distribution Equivalencies Report (CRDE).
- G. We obtained the University's Sports Sponsorship and Demographics Forms Report for the reporting year and validated that the countable sports reported by the University met the minimum requirements set forth in Bylaw 20.9.6.3 for the number of contests and the number of participants in each contest that are counted toward meeting the minimum contest requirement. We then ensured that the University properly reported these sports as countable for revenue distribution purposes within the MFRS.
- H. We agreed the total number of Division I student athletes who, during the academic year, received a Pell Grant award and the total value of these Pell Grants reported in the MFRS to a report, generated out of the University's financial aid records, of all student-athlete Pell Grants.

We found no exceptions as a result of these additional procedures.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Statement's compliance with NCAA Bylaw 3.2.4.15. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

As noted above, this agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. These standards require us to convey that "this report is intended for the information and use of the Board of Trustees, Audit Committee, and Administration of 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 public document and its distribution is not limited.

Office of the State Auditor

Office of the State Auditor
January 11, 2019



**UNIVERSITY OF UTAH
ATHLETICS DEPARTMENT
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

| REVENUES: | Football | Men's Basketball | Women's Basketball | Gymnastics | Other Sports | Non-Sport Specific | Total |
|--|----------------------|---------------------|-----------------------|-----------------------|------------------------|------------------------|---------------------|
| Ticket Sales (Note 2) | \$ 14,667,733 | \$ 2,557,345 | \$ 13,681 | \$ 545,897 | \$ 73,698 | \$ 871,689 | \$ 18,730,043 |
| Direct State or Other Gov't'l Support | - | - | - | - | - | - | - |
| Student Fees | - | - | - | - | - | 5,956,842 | 5,956,842 |
| Direct Institutional Support (Note 4) | 1,123,013 | 142,151 | 198,524 | 237,750 | 963,015 | 1,970,024 | 4,634,477 |
| Indirect Institutional Support | 39,491 | - | - | - | 16,730 | 1,726,578 | 1,782,799 |
| Guarantees | 250,000 | 250,000 | - | - | 7,291 | 32,145 | 539,436 |
| Contributions (Note 3) | 7,477,389 | 1,404,330 | 12,558 | 26,330 | 482,755 | 82,735 | 9,486,097 |
| In-Kind | 73,000 | 7,900 | - | 15,000 | - | 56,738 | 152,638 |
| Compensation and Benefits by 3rd Party | - | - | - | - | - | - | - |
| Media Rights (Note 6) | 19,108,992 | 3,372,175 | - | - | - | - | 22,481,167 |
| NCAA Distributions (Note 5) | - | 1,461,158 | - | 12,000 | 40,702 | 1,730,613 | 3,244,473 |
| Pac-12 Distributions (Note 6) | 8,895,674 | 33,356 | 65,170 | - | - | 559,083 | 9,553,283 |
| Program, Novelty, Parking, & Concessions Sales (Note 7) | 452,551 | - | (20) | - | 39,026 | 1,418,596 | 1,910,153 |
| Royalties, Licensing, Advertisement & Sponsorships (Note 8) | 7,184,803 | 1,210,344 | 109,181 | 73,707 | 559,982 | 789,583 | 9,927,600 |
| Sports Camps (Note 12) | 119,365 | 136,616 | 130,335 | 53,928 | 688,776 | - | 1,129,020 |
| Endowment and Investment Income | - | (6) | (5) | (30) | 63 | 275,882 | 275,904 |
| Other Operating Revenue | 45,264 | 795 | 200 | - | 50,915 | 733,852 | 831,026 |
| Bowl Revenues | 751,635 | - | - | - | - | - | 751,635 |
| Total revenues | <u>60,188,910</u> | <u>10,576,164</u> | <u>529,624</u> | <u>964,582</u> | <u>2,922,953</u> | <u>16,204,360</u> | <u>91,386,593</u> |
| EXPENSES: | | | | | | | |
| Student Aid (Note 4) | 3,487,942 | 597,726 | 686,417 | 610,899 | 5,055,855 | 455,243 | 10,894,082 |
| Guarantees | 750,000 | 668,371 | 80,000 | - | 51,048 | - | 1,549,419 |
| Salaries and Benefits | 10,848,248 | 5,291,292 | 1,203,602 | 1,017,973 | 4,068,309 | 9,443,107 | 31,872,531 |
| Severance Payments | 826,698 | - | - | 16,675 | 35,587 | 53,526 | 932,486 |
| Recruiting | 1,052,271 | 199,881 | 221,851 | 102,678 | 387,480 | - | 1,964,161 |
| Team Travel | 2,095,400 | 874,997 | 625,833 | 273,634 | 2,355,778 | 21,218 | 6,246,860 |
| Equipment, Uniforms & Supplies | 1,498,287 | 184,476 | 106,795 | 162,178 | 914,919 | 803,535 | 3,670,190 |
| Game Expenses (Note 9) | 1,139,568 | 406,168 | 190,720 | 135,380 | 372,798 | 263,256 | 2,507,890 |
| Fund Raising, Marketing & Promotion | 679,347 | 219,745 | 21,845 | 91,392 | 104,709 | 1,148,366 | 2,265,404 |
| Sports Camps (Note 12) | 66,919 | 50,276 | 107,080 | 28,754 | 104,448 | - | 357,477 |
| Spirit Groups | - | - | - | - | - | 416,421 | 416,421 |
| Facilities, Debt Service, Leases & Rental Fees (Note 10) | 1,884,344 | 25,001 | 18,000 | 7,250 | 190,415 | 4,644,966 | 6,769,976 |
| Direct Overhead & Admin Expenses | 50,134 | 3,212 | 3,052 | 6,293 | 23,330 | 1,118,192 | 1,204,213 |
| Indirect Institutional Support | 39,491 | - | - | - | 16,730 | 1,726,578 | 1,782,799 |
| Medical Expenses & Insurance | 403,760 | 67,015 | 48,696 | 38,287 | 412,465 | 122,311 | 1,092,534 |
| Memberships & Dues | 3,589 | 855 | 725 | 645 | 72,161 | 62,279 | 140,254 |
| Student Athlete Meals | 817,876 | 61,305 | 25,480 | 22,577 | 158,578 | 190,995 | 1,276,811 |
| Other Operating Expenses (Note 11) | 2,099,640 | 848,454 | 163,843 | 122,161 | 331,242 | 7,403,735 | 10,969,075 |
| Bowl Expenses | 1,666,252 | - | - | - | - | - | 1,666,252 |
| Total Expenses | <u>29,409,766</u> | <u>9,498,774</u> | <u>3,503,939</u> | <u>2,636,776</u> | <u>14,655,852</u> | <u>27,873,728</u> | <u>87,578,835</u> |
| Excess (Deficit) Revenues over Expenses | 30,779,144 | 1,077,390 | (2,974,315) | (1,672,194) | (11,732,899) | (11,669,368) | 3,807,758 |
| Transfers, Net In/(Out) (Note 13) | - | - | - | - | - | 968,446 | 968,446 |
| Change in Net Assets | <u>\$ 30,779,144</u> | <u>\$ 1,077,390</u> | <u>\$ (2,974,315)</u> | <u>\$ (1,672,194)</u> | <u>\$ (11,732,899)</u> | <u>\$ (10,700,922)</u> | <u>\$ 4,776,204</u> |

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

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETICS DEPARTMENT
Notes to the Statement of Revenues and Expenses
For the Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Statement of Revenues and Expenses (Statement) presents the results of financial activity of the University of Utah's Intercollegiate Athletics Department (Department) and has been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles except for the following:

- Direct institutional support revenues and athletic student aid expenses have not been reduced for scholarship allowances of \$2,796,589.
- Tuition waivers have been reported as direct institutional support and athletic student aid expenses.
- Contribution revenues are recognized in the Statement when both received and used, rather than when pledged or received, as required by NCAA.
- Debt service payments paid by the University for athletic-related debt have been reported as indirect institutional support revenues and athletic facilities debt service expenses.
- Debt service payments paid by athletic endowment donations for athletic-related debt have been reported as athletic endowment income and athletic facilities debt service expenses as required by NCAA.

The Department includes the George S. Eccles Tennis Facility, Spence & Cleone Eccles Football Center, and Jon M. & Karen Huntsman Basketball Facility. The financial activity of the 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 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 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, student wellness, 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

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETICS DEPARTMENT
Notes to the Statement of Revenues and Expenses
For the Year Ended June 30, 2018

allocated based on the 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, 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.

2. TICKET SALES

Football ticket revenue includes \$952,551 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, and Scholarship Circle Development accounts. Donation money is transferred from the development account into the Department operating accounts to cover the aforementioned expenses.

The 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.

In Kind Contributions include: dealer provided automobiles, equipment, goods, and services.

4. DIRECT INSTITUTIONAL SUPPORT

Direct institutional support includes facilities, general and administrative, and Title IX support. The Department receives state funds as tuition waivers such as: Title 53, special, and continuing scholarships. These waivers, totaling \$2,796,589, are included as revenue under direct institutional support and subsequently expensed under student aid.

5. NCAA DISTRIBUTIONS

NCAA distributions include NCAA sport sponsorships, NCAA grant-based aid, Student Athlete Opportunity Fund subsidies, academic enhancements, NCAA reimbursements for post-season participation, and any NCAA distributions that pass through the PAC-12 Conference.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETICS DEPARTMENT
Notes to the Statement of Revenues and Expenses
For the Year Ended June 30, 2018

6. PAC-12 DISTRIBUTIONS / MEDIA RIGHTS

The Department received a net distribution of \$28,932,333 from the PAC-12 conference during fiscal year 2018. The distribution represents a full 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 \$3,333,333. For NCAA reporting purposes, the Department reports gross revenues in the PAC-12 distributions and media rights revenue line items. That revenue is then netted by allocating conference deductions and expenses to their respective expense category (i.e. game officials, bowl expense sharing, etc.). Gross broadcast rights for fiscal year 2018 were \$22,481,167, which were allocated 85% to football and 15% to men's basketball.

7. CONCESSIONS, MERCHANDISE, AND NOVELTIES

Concessions are operated by Auxiliary Services. A memorandum of understanding between Auxiliary Services and the Department states that they are to share 50% of net profits for athletic-related events. For fiscal year 2018, the money transferred to the Department was \$349,569.

8. LICENSING AND SPONSORSHIPS

Licensing and University Campus Store merchandise sales are allocated 85% to football and 15% to men's basketball.

According to the contract, Learfield Communications retains all rights to local media and corporate sponsorships for University athletics. The financial agreement to obtain these rights for fiscal year 2018 was a guaranteed payment of \$5,947,520. The payment was allocated 85% to football and 15% to men's basketball.

Under Armour (UA) is the exclusive outfitter of the Department. Per contractual agreement, UA paid the Department \$1,010,000. An additional payment of \$90,000 was also received for football bowl game participation, men's basketball 20-win season, volleyball NCAA tournament appearance, and gymnastics super six appearance. A product allowance of \$1,785,050 was also received.

9. GAME EXPENSES

Game expenses include the cost of officials expensed through the conference office as a deduction from the University's year-end revenues. The total for fiscal year 2018 was \$643,253.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETICS DEPARTMENT
Notes to the Statement of Revenues and Expenses
For the Year Ended June 30, 2018

10. FACILITY RENT AND DEBT SERVICE

The Department paid \$2,125,009 in facility rent and fees for use of the Rice-Eccles Stadium and its suites, the Jon M. Huntsman Center, and Smith's Ballpark, during fiscal year 2018. A portion of these costs are associated with miscellaneous facility agreements and one-time rentals.

The Department has assumed the annual bond payment for the Spence & Cleone Eccles Football Center. In fiscal year 2018, the annual debt service totaled \$2,052,475. As of June 30, 2018, the Department had \$20,380,000 of outstanding Series 2012 Auxiliary and Campus Facilities Revenue Bonds for the Spence & Cleone Eccles Football Center. The Department anticipates the bond will be paid off as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|--------------------|----------------------|---------------------|-----------------------|
| 2019 | \$ 1,060,000 | \$ 991,675 | \$ 2,051,675 |
| 2020 | 1,090,000 | 957,525 | 2,047,525 |
| 2021 | 1,145,000 | 903,025 | 2,048,025 |
| 2022 | 1,205,000 | 845,775 | 2,050,775 |
| 2023 | 1,265,000 | 785,525 | 2,050,525 |
| 2024-2028 | 7,340,000 | 2,912,875 | 10,252,875 |
| 2029-2032 | 7,275,000 | 922,275 | 8,197,275 |
| | <u>\$ 20,380,000</u> | <u>\$ 8,318,675</u> | <u>\$ 28,698,675</u> |

The Department has also assumed the annual bond payment for the Jon M. and Karen Huntsman Basketball Training Center. In fiscal year 2018, the annual debt service totaled \$1,792,490. As of June 30, 2018, the Department had \$23,688,875 of outstanding debt for the Jon M. and Karen Huntsman Basketball Training Center. The Department anticipates the bond will be paid off as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|--------------------|----------------------|----------------------|-----------------------|
| 2019 | \$ 809,744 | \$ 982,746 | \$ 1,792,490 |
| 2020 | 840,968 | 951,522 | 1,792,490 |
| 2021 | 873,440 | 919,050 | 1,792,490 |
| 2022 | 907,214 | 885,276 | 1,792,490 |
| 2023 | 942,342 | 850,148 | 1,792,490 |
| 2024-2028 | 4,652,555 | 3,687,662 | 8,340,217 |
| 2029-2033 | 5,236,156 | 2,689,242 | 7,925,398 |
| 2034-2038 | 6,447,522 | 1,477,876 | 7,925,398 |
| 2039-2041 | 2,978,934 | 191,224 | 3,170,158 |
| | <u>\$ 23,688,875</u> | <u>\$ 12,634,746</u> | <u>\$ 36,323,621</u> |

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETICS DEPARTMENT
Notes to the Statement of Revenues and Expenses
For the Year Ended June 30, 2018

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 Department's revenues. Additional information related to these bonds is available in the University's separately-issued financial statements.

11. OTHER EXPENSES

Other expenses include miscellaneous operating expenses such as, PAC-12 conference bowl game expense sharing (\$1,528,132), PAC-12 conference operating expenses (\$2,116,500), and Independent Contractors/Consultants (\$2,723,720).

12. SPORT CAMPS

The Department maintains sports camps in-house. The profit earned from the sports camps are paid to 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.

13. 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.

14. CAPITAL ASSETS

As described in the University's separately-issued financial statements, capital assets are recorded at historical cost or at acquisition value at the donation date 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.

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETICS DEPARTMENT
Notes to the Statement of Revenues and Expenses
For the Year Ended June 30, 2018

15. ATHLETICS RESERVES

In addition to the Statement, the Department has included other pertinent information to further illustrate its current financial condition. This information can be found in the table below.

In the first few years of being a member of the PAC-12 Conference, the Department did not receive a full revenue share. However, it was evident that expenses would need to increase in order to compete at a high level with its new peers. Recognizing that in the first few years expenses would climb faster than revenues, the Department assumed a loan from the University to subsidize its budget for fiscal years 2012 and 2013. The Department borrowed roughly \$7.5M but has made payments reducing that debt since fiscal year 2014. The current balance on that loan is listed as the operating fund balance (\$3,880,573).

The athletics reserves include facility and sport specific contributions, which are not recognized in the Statement. This is in accordance with the NCAA's definition to only include contributions that are provided and used by athletics within that reporting year. The additional unrestricted reserves were originally established in fiscal year 2015 in order to offset additional costs associated with current and future autonomy or NCAA legislation. For example: the cost of attendance legislation, new recruiting rules, more meals for student athletes, etc. The facility reserves are for assistance in subsidizing future debt payments and/or Repair & Replacement (R&R) projects in our facilities.

| | <u>Football</u> | <u>Men's Basketball</u> | <u>Women's Basketball</u> | <u>Gymnastics</u> | <u>Other Sports (Note 1)</u> | <u>Non-Sport Specific (Note 1)</u> | <u>Total</u> |
|------------------------------|-----------------|-----------------------------|-------------------------------|-------------------|--------------------------------------|--|----------------|
| Operating Fund Balance | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (3,880,573) | \$ (3,880,573) |
| Capital Expenditures | 285,000 | - | 16,000 | 30,639 | 1,726,260 | 94,061 | 2,151,960 |
| Athletics Reserves: | | | | | | | |
| Unrestricted Reserves | - | - | - | - | - | 6,722,650 | 6,722,650 |
| Facility Restricted Reserves | - | - | - | - | - | 15,130,580 | 15,130,580 |
| Sport Restricted Reserves | 184,338 | 590,686 | (64,627) | 110,620 | 714,912 | 211,162 | 1,747,091 |
| Total Reserves | | | | | | | 23,600,321 |
| Value of Endowments | - | - | - | - | - | 7,686,516 | 7,686,516 |

UNIVERSITY OF UTAH
INTERCOLLEGIATE ATHLETICS DEPARTMENT
Auditor's Analysis of Significant Variances
For the Year Ended June 30, 2018

Comparison of Current Year Actual to Prior Year Actual:

| | <u>2018</u> <u>Totals</u> | <u>2017</u> <u>Totals</u> | <u>Variance \$</u> <u>Over/(Under)</u> | <u>Variance %</u> <u>Over/(Under)</u> |
|---|------------------------------|------------------------------|---|--|
| REVENUES: | | | | |
| Ticket Sales | \$ 18,730,004 | \$ 17,097,290 | \$ 1,632,714 | 9.55% |
| Contributions | 9,486,096 | 8,890,497 | 595,599 | 6.70% |
| Media Rights | 22,481,167 | 21,401,034 | 1,080,133 | 5.05% |
| Pac-12 Distributions | 9,553,283 | 9,322,446 | 230,837 | 2.48% |
| Royalties, Licensing, Advertisement & Sponsorships | 9,927,600 | 5,544,141 | 4,383,459 | 79.06% ^(A) |
| EXPENSES: | | | | |
| Student Aid | 10,894,082 | 10,688,219 | 205,863 | 1.93% |
| Salaries and Benefits | 31,872,531 | 30,245,301 | 1,627,230 | 5.38% |
| Other Operating Expenses | 10,969,075 | 9,087,504 | 1,881,571 | 20.71% ^(B) |

Explanations for Variances:

- (A) The increase in Royalties, Licensing, Advertisements & Sponsorships can be attributed to increased guaranteed revenue from a new 10-year Multi-Media Rights contract with Learfield Communications.
- (B) A significant portion of the increase of Other Operating Expenses is attributed to the fact that during the 2017 Football season, a record of nine PAC-12 teams qualified for bowl games. The previous year, only 6 had qualified. Therefore, the University's share of conference travel expenses increased from the prior year.