

**JAMES MADISON UNIVERSITY**

**INTERCOLLEGIATE ATHLETIC PROGRAM  
FOR THE YEAR ENDED  
JUNE 30, 2005**

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**Auditor of  
Public Accounts**

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**COMMONWEALTH OF VIRGINIA**

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# Commonwealth of Virginia

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

December 6, 2005

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
And Review Commission

Dr. Linwood H. Rose, President  
James Madison University

## **INDEPENDENT AUDITOR'S REPORT ON APPLICATION OF AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by the President of the **James Madison 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) Bylaw 6.2.3.1, for the year ended June 30, 2005. The University's management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs and the Schedule's compliance with NCAA 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 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**

The procedures that we performed and our findings are as follows:

#### Internal Controls

1. We reviewed documentation of accounting systems and operating procedures. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audits 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 audits of the University's financial statements.

2. We reviewed an organizational chart provided by Intercollegiate Athletics Department and discussed it with appropriate personnel. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, and protection of records and equipment.
3. The University provided us with their procedures for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the intercollegiate athletics programs.

#### 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. The Intercollegiate Athletics Department 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. We obtained any additional reports regarding internal control matters identified during the independent audits of affiliated and outside organizations. We noted that the affiliated organizations had been audited by independent public accountants and had no internal control findings.

#### Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. We obtained the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) for the year ended June 30, 2005, as prepared by the University and shown in this report. We recalculated the addition of the amounts on the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts on management's 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 accounts in the accounting records and the amounts on the worksheets. We discussed the nature of work sheet adjustments with management and are satisfied that the adjustments are appropriate.
8. We applied certain analytical review techniques to the balances reported on the Schedule in order to determine the reasonableness of amounts reported therein. These techniques included trend analyses and other tests using operating data and review of actual amounts expended in comparison to budgeted amounts.

#### Revenues

9. We compared each major revenue account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.

10. We reviewed the Intercollegiate Athletics Department's reconciliation procedures for ticket sales and found such procedures to be adequate. We deemed ticket sales revenue to be immaterial for detailed testing.
11. 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 reasonable.
12. Intercollegiate Athletics Program management provided us with 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 verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements. We found that revenue was properly computed and deposited promptly and intact.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Department 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. We vouched each individual contribution received directly by the University for its Intercollegiate Athletics Programs that constituted more than ten percent of the contributions so received. Except for contributions received from the James Madison University Foundation, Incorporated, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for intercollegiate athletics.
14. Based on analytical testing, we deemed revenues from tournaments, conference distributions, and NCAA distributions to be reasonable. We deemed these revenues to be immaterial for detailed testing.
15. Intercollegiate Athletics Department management indicated that there were no agreements related to participation in revenues from broadcast, television, radio, and internet rights.
16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, advertisements, and sponsorships. We selected and tested receipts of such revenue and, for those items; we inspected the agreements and verified the mathematical accuracy and coding of the payment amounts in the University's accounting system.
17. The University does not receive revenues associated with sports camps.
18. Based on receipts as listed in the accounting records, we reviewed the receipting and recording procedures for other revenues collected by the Intercollegiate Athletics Program, and found these procedures to be adequate.

## Expenses

19. We compared each major expense account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.
20. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. We selected individual student athletes across all sports and agreed amounts from the listing to their award letter. We also ensured that the total aid amount for each sport materially agreed to amounts reported as financial aid in the student accounting system.
21. Based on analytical testing, we deemed game guarantee expenses for home games during the reporting period to be reasonable. We deemed these expenses to be immaterial for detailed testing.
22. 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 and compared amounts paid for one pay period or a bonus payment 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.
23. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. The total severance payments were immaterial therefore no testwork was performed concerning them.
24. We discussed the University's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies.
25. We obtained an understanding of the University's methodology for allocating indirect facilities support and ensured that amounts reported on the Schedule agreed to amounts recorded in the accounting records.
26. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the Intercollegiate Athletics Program. These disbursements were for supplies, equipment, travel, and other general expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.

We were not engaged to, and did not; conduct an examination, the objective of which would be the expression on an opinion on the Schedule 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 made an audit of any financial statements of the Intercollegiate Athletics Department of the 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 the 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

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## **SCHEDULE**



JAMES MADISON UNIVERSITY ATHLETIC DEPARTMENT  
SCHEDULE OF REVENUES AND EXPENSES  
OF INTERCOLLEGIATE ATHLETICS PROGRAMS  
For the year ended June 30, 2005

	Football	Men's Basketball
Revenues:		
Ticket sales	\$ 354,297	\$ 102,244
Student fees	1,718,030	1,257,065
Guarantees	235,000	33,000
Contributions	35,495	4,250
NCAA/conference distributions including all tournament revenues	-	-
Royalties, advertisements, and sponsorships	570,298	15,811
Other	-	-
Total operating revenues	<u>2,913,120</u>	<u>1,412,370</u>
Expenses:		
Athletics student aid	1,099,616	218,769
Guarantees	75,000	106,265
Coaching salaries, benefits, and bonuses paid by the university and related entities	964,218	484,548
Support staff/administrative salaries, benefits, and bonuses paid by the university and related entities	82,051	49,972
Severance payments	-	134,664
Recruiting	52,311	63,711
Team travel	207,032	101,754
Equipment, uniforms, and supplies	168,513	44,905
Game expenses	32,297	34,860
Fund-raising, marketing, and promotion	13,808	1,273
Direct facilities, maintenance, and rental	432,982	247,107
Spirit groups	-	-
Medical expenses and medical insurance	-	3
Membership and dues	615	1,140
Other	39,447	32,282
Total operating expenses	<u>3,167,890</u>	<u>1,521,253</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (254,770)</u>	<u>\$ (108,883)</u>

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

Women's Basketball	Other Sports	Non-program Specific	Total
\$ 11,557	\$ 15,761	\$ 29,206	\$ 513,065
1,145,908	4,693,578	9,003,742	17,818,323
3,000	-	-	271,000
10,903	180,930	765,445	997,023
-	-	832,722	832,722
6,561	40,872	413,818	1,047,360
-	-	75,705	75,705
1,177,929	4,931,141	11,120,638	21,555,198
247,136	1,787,631	515,493	3,868,645
9,600	-	181	191,046
339,132	1,648,107	15,073	3,451,078
58,606	51,236	3,627,156	3,869,021
-	-	-	134,664
48,747	88,032	-	252,801
99,396	740,272	-	1,148,454
52,371	218,881	8,033	492,703
26,897	74,492	-	168,546
5,083	39,907	717,821	777,892
246,161	203,181	1,331,793	2,461,224
-	-	356,482	356,482
819	11	346,111	346,944
750	6,945	94,134	103,584
65,557	105,854	3,284,879	3,528,019
1,200,255	4,964,549	10,297,156	21,151,103
\$ (22,326)	\$ (33,408)	\$ 823,482	\$ 404,095

JAMES MADISON UNIVERSITY ATHLETIC DEPARTMENT  
NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES  
OF INTERCOLLEGIATE ATHLETICS PROGRAMS  
AS OF JUNE 30, 2005

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses for the University's Athletic Department has been prepared on the accrual basis of accounting. The Schedule's purpose is to present a summary of revenues and expenses related to the University's intercollegiate athletics programs for the year ended June 30, 2005. The Schedule includes both those revenues and expenses for athletic programs under the direct accounting control of the University and those on behalf of the University's athletics programs by outside organizations not under the University's accounting control. Because the Schedule presents only a selected portion of the University's activities, it is not intended to and does not present either the net assets, changes in net assets, or changes in cash flow 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. COMPONENT UNIT

The Schedule includes transactions of the James Madison University Foundation, Inc. This foundation was organized for fund-raising activities that support the welfare, efficiency, and general objectives of the University. The Foundation's expenses made in support of athletics totaling \$854,079 are included in the revenue as "contributions" and included in various operating expense lines. Foundation support of \$2,829,647 for capital project expenses is not included in the Schedule.

3. CAPITAL ASSETS

Capital assets include buildings and other improvements, equipment, and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the University as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	50 years
Other improvements and infrastructure	20 years
Equipment	5-15 years

A summary of athletic related capital assets for the year ending June 30, 2005 is presented as follows:

Depreciable capital assets:	
Buildings and other improvements	\$34,454,494
Infrastructure	765,586
Equipment	<u>1,633,754</u>
Total depreciable capital assets	<u>36,853,834</u>
Less accumulated depreciation for:	
Buildings and other improvements	9,789,695
Equipment	<u>1,254,200</u>
Total accumulated depreciation	<u>11,043,895</u>
Total capital assets, Net	<u>\$25,809,939</u>

#### 4. LONG-TERM DEBT

For debt related to the Intercollegiate Athletic Department, the University has issued Section 9(d) bonds pursuant to Article X of the Constitution of Virginia. These bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia, legally, morally, or otherwise. Pledged general fund revenues include general fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue also secures these notes.

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Balance at June 30, 2005</u>
Athletic Performance Center, Series 2003A	2.00 – 5.00	2014	\$1,740,000

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 165,000	\$ 73,250
2007	170,000	68,638
2008	175,000	61,712
2009	185,000	54,794
2010	190,000	47,500
2011-2014	<u>855,000</u>	<u>88,125</u>
Total	<u>\$1,740,000</u>	<u>\$394,019</u>

5. OTHER EXPENSES

The Commonwealth of Virginia's Appropriation Act requires that educational and general programs in institutions of higher education recover the full indirect cost of auxiliary enterprise programs. Therefore, the University assesses each auxiliary unit an "agency service charge" to recover institutional educational and general administrative costs. In fiscal year 2005, this charge to the Intercollegiate Athletics' Department amounted to \$1,543,911 and is included in the "other" expense line. Other non-program specific expenses also include \$614,852 in non-capitalized equipment purchases from auxiliary reserve funds for the new Athletic Performance Center.

JAMES MADISON UNIVERSITY

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