



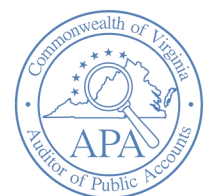
JAMES MADISON UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts
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Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 13, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
And Review Commission

Jonathan R. Alger
President, James Madison University

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

We have performed the procedures enumerated below, which were agreed to by the President of **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) Constitution 3.2.4.16, for the year ended June 30, 2014. University 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 audit of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audit of the University's financial statements.

2. Intercollegiate Athletics Department management provided an organizational chart which we reviewed 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. Intercollegiate Athletics Department management 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. Intercollegiate Athletics Department management prepared and provided to us a summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations included in the Schedule.
6. Intercollegiate Athletics Department management provided to us any additional reports regarding internal control matters identified during the audits of affiliated and outside organizations performed by independent public accountants. We were not made aware of any internal control findings.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. Intercollegiate Athletics Department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) for the year ended June 30, 2014, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts in 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 revenue and expense amounts reported in the Schedule in order to determine the reasonableness of amounts reported therein. These techniques included trend analyses and review of actual amounts in comparison to budget estimates. We obtained and documented an understanding of significant variations.

Revenues

9. Intercollegiate Athletics Department management provided us with a reconciliation of tickets sold during the reporting period along with complimentary tickets and unsold tickets to the revenue recorded in the Schedule and related attendance figures. We reviewed these reconciliations for selected months and found such reconciliations to be accurate and agreed them to the amounts recorded as ticket revenue for those months.
10. We compared student fees reported in the Schedule to amounts reported in the accounting records and amounts from the University's comprehensive fee allocated to intercollegiate athletics. We found these amounts to be materially in agreement.
11. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for away games during the reporting period. This amount was deemed to be immaterial for detailed testing.
12. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Programs from any affiliated or outside organization, agency or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. Except for contributions received from the JMU Foundation, Inc., an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs.
13. From the summary of revenues and expenses for or on behalf of the Intercollegiate Athletics Programs by affiliated and outside organizations, we selected individual contribution amounts and agreed each selection to supporting documentation and proper posting in the accounting records. We found all reviewed transactions to be in agreement.
14. We obtained amounts reported in the Schedule for direct institutional support. This amount was deemed to be immaterial for detailed testing.
15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. This amount was deemed to be immaterial for detailed testing.
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. This amount was deemed to be immaterial for detailed testing.

Expenses

17. 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.
18. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for home games during the reporting period. This amount was deemed to be immaterial for detailed testing.
19. 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 during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.
20. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. This amount was deemed to be immaterial for detailed testing.
21. We discussed the Intercollegiate Athletics Department's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies.
22. 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.
23. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the Intercollegiate Athletics Programs. These disbursements were for the various activities listed within the Schedule. 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 of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of any

financial statements of the Intercollegiate Athletics Department of James Madison 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 James Madison 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

DBC/alh

JAMES MADISON UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2014

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:						
Ticket sales	\$ 1,986,154	\$ 105,777	\$ 80,971	\$ 15,915	\$ 106,167	\$ 2,294,984
Student fees	3,426,714	1,802,268	1,807,485	9,595,378	16,998,975	33,630,820
Guarantees	300,000	130,968	15,000	29,000	-	474,968
Contributions	37,028	660	525	258,681	1,945,875	2,242,769
Direct institutional support	1,259,897	163,777	263,519	141,006	266,030	2,094,229
NCAA/conference distributions including all tournament revenues	49,217	73,265	10,706	165,192	1,315,872	1,614,252
Program sales, concessions, novelty sales, and parking	213,900	-	-	-	-	213,900
Royalties, advertisements, and sponsorships	538,642	384,964	81,380	140,739	27,431	1,173,156
Other	-	-	3,639	-	24,769	28,408
Total operating revenues	<u>7,811,552</u>	<u>2,661,679</u>	<u>2,263,225</u>	<u>10,345,911</u>	<u>20,685,119</u>	<u>43,767,486</u>
Expenses:						
Athletic student aid	1,700,437	551,846	392,328	4,319,589	477,333	7,441,533
Guarantees	175,000	5,000	24,995	9,000	-	213,995
Coaching salaries, benefits, and bonuses paid by the University and related entities	1,283,623	767,371	608,694	2,427,297	-	5,086,985
Support staff/administrative salaries, benefits, and bonuses paid by the University and related entities	462,068	97,453	113,179	-	5,898,868	6,571,568
Severance payments	446,470	-	-	1,509	11,088	459,067
Recruiting	127,868	101,583	65,016	184,054	-	478,521
Team travel	292,788	224,041	208,741	1,180,218	-	1,905,788
Equipment, uniforms, and supplies	267,337	36,505	38,838	362,753	59,982	765,415
Game expenses	1,187,508	127,102	147,407	269,654	321,906	2,053,577
Fund-raising, marketing, and promotion	338,787	219,463	69,243	121,990	657,695	1,407,178
Direct facilities, maintenance, and rental	1,220,128	433,634	521,092	1,085,559	2,305,217	5,565,630
Athletic facilities debt service	-	-	-	-	6,244,938	6,244,938
Spirit groups	-	-	-	-	531,309	531,309
Medical expenses and medical insurance	48,392	20,067	14,387	56,607	421,720	561,173
Membership and dues	31,070	1,130	800	9,459	65,817	108,276
Other	230,076	76,484	58,505	318,222	3,689,246	4,372,533
Total operating expenses	<u>7,811,552</u>	<u>2,661,679</u>	<u>2,263,225</u>	<u>10,345,911</u>	<u>20,685,119</u>	<u>43,767,486</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

JAMES MADISON UNIVERSITY
NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES
OF INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2014

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, with the exception of debt service payments and depreciation. Principal and interest payments made on long-term debt related to athletic facilities are included in expenses on the cash basis (see Note 4). In the University's financial statements, depreciation expense is not included at the program level, and therefore is not allocated to athletics in the accompanying Schedule. See Note 3 for further information on athletics related capital assets.

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, 2014. 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.

Sports Accounting – Because of the significant revenues and expenses generated by football, men's basketball, and women's basketball, they are reported separately. Other sports in which the University participates are combined and reported as "Other Sports." Athletic department administrative functions and activities that provide support for all sports have been combined for reporting purposes under the caption "Non-Program Specific." These support activities include costs such as those related to facilities maintenance, fundraising/promotions, sports medicine, academic counseling, administration, communications, ticket office, compliance, etc.

Student Fees – The University assesses each student a comprehensive fee that covers a variety of auxiliary programs, such as student activities, student health, transportation, athletics, and auxiliary related debt service. The comprehensive fee is distributed near year-end based on budgeted amounts. For the Schedule of Revenues and Expenses, student fees are further allocated to cover any sport specific or overall athletic operating deficit. Conversely, if revenues exceed expenses, student fees allocated are reduced since any excess does not remain with the athletic department but instead increases the University's general auxiliary reserve.

Direct Institutional Support – The University funds various auxiliary renovation and maintenance projects or enhances auxiliary operating budgets from the general auxiliary reserve. Athletic related project expenses that are not capitalized and non-recurring operating enhancements are recorded in the applicable expense categories, with an offsetting amount recognized as direct institutional support revenue.

2. COMPONENT UNIT

The James Madison University Foundation, Inc. is included as a component unit in the University's financial statements. The Foundation was formed to promote the achievements and further the aims and purposes of the University. The Foundation accomplishes its purposes through fundraising and funds management efforts that benefit the University and its programs. Donations to the foundation earmarked for athletics operations or capital projects are not included in the Schedule, nor is endowment financial activity related to athletics. Foundation expenses made on behalf of the athletics programs are included in the Schedule. Expenses made in support of athletics totaling \$2,029,394 are included in revenue as "contributions" and included in various operating expense lines.

3. CAPITAL ASSETS

The University's policies and procedures for acquiring, approving, depreciating, and disposing of athletic-related capital assets is the same as for all University 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, and therefore depreciation is not included in the Schedule of Revenues and Expenses. Useful lives by asset categories are listed below:

Buildings	25-50 years
Other improvements and infrastructure	20 years
Equipment	5-15 years

A summary of athletic related capital assets for the year ending June 30, 2014 is presented as follows:

	<u>Ending Balance</u>
Depreciable Capital Assets:	
Buildings and other improvements	\$ 128,475,665
Infrastructure	15,335,314
Equipment	<u>4,235,843</u>
Total Depreciable Capital Assets	<u>148,046,822</u>
Less Accumulated Depreciation For:	
Buildings and other improv	25,536,821
Infrastructure	2,007,857
Equipment	<u>2,188,778</u>
Total Accumulated Depreciation	<u>29,733,456</u>
Total Capital Assets, net	<u>\$ 118,313,366</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, 2014</u>
Veteran's Memorial Park	3.00 – 5.00	2029	\$ 8,440,000
Bridgeforth Stadium	2.00 – 5.00	2030	37,435,000
University Park*	2.00 – 5.50	2031	<u>20,732,700</u>
Total			<u>\$ 66,607,700</u>

*Multiple debt issues were used for both athletic and recreation facilities.
Debt listed above represents only the portion of debt allocated to athletics.

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2015	\$ 2,885,800	\$ 3,185,937
2016	3,031,350	3,042,410
2017	3,183,150	2,890,850
2018	3,337,850	2,731,989
2019	3,504,200	2,563,989
2020-2024	20,285,700	10,001,659
2025-2029	25,112,650	4,432,978
2030-2034	<u>5,267,000</u>	<u>154,607</u>
Total	<u>\$66,607,700</u>	<u>\$29,004,419</u>

5. OTHER EXPENSES

The Commonwealth's Appropriation Act requires that educational and general programs in institutions of higher education recover the full indirect cost of auxiliary enterprise programs. The University assesses each auxiliary unit an indirect charge to recover institutional educational and general administrative overhead costs. In fiscal year 2014, this charge to the athletics' departments amounted to \$2,879,837 and is included in the "other" expense line. Other types of expenses in this category include communication services, supplies, non-capitalized equipment/rentals, employee training and development, moving and relocation, and travel (other than team travel).

6. EQUITY IN DISCLOSURE ACT (EADA) REPORTING

The University annually prepares the EADA Survey that reports on athletic participation, staffing, and revenue and expenses, categorized by men's and women's teams. The Survey is submitted to the federal Department of Education's Office of Postsecondary Education and is available at the following web address: <http://ope.ed.gov/athletics>.

It is the University's policy that revenue and expenses reported in the EADA Survey will equal the NCAA Schedule of Revenues and Expenses balances, with the exception of debt service. The EADA Survey requires that preparers exclude debt service from athletic related expenses. In prior years, the University also excluded debt service from the NCAA Schedule; however, we have included debt service for 2014 in order to report consistently with other Commonwealth higher education institutions.

JAMES MADISON UNIVERSITY

Harrisonburg, Virginia

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