

**Sweethawt Loans, Sugar Bowls, & Non-Profit Reforms: A Case Study of the Bowl  
Championship Series' (BCS') Abuses of Non-Profit Status**

**By**

**Josh Webb, B.A.**

**A Thesis Submitted to the Department of Public Policy and Administration  
California State University, Bakersfield  
In Partial Fulfillment for the Degree of Masters of Public Administration**

**Spring 2012**

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**By**

**Josh Webb**

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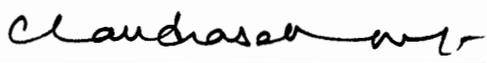
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**This thesis or project has been accepted on behalf of the Department of Public Policy  
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Chandrasekhar Commuri, Ph.D.

## Epigraph

**"I believe that decisions about college football should be made by university presidents, athletics directors, coaches and conference commissioners rather than by members of Congress" – *Bill Hancock, Director of Bowl Championship Series.***

**"We are in the business where big strong athletes are known to attend these types of establishments. It was important for us to visit, and we certainly conducted business." - *John Junker, Former Fiesta Bowl Director on reimbursing himself with taxpayer funds after visit to strip club.***

**"Almost all the postseason bowl games are put on by charitable groups, and since up to one-quarter of the proceeds from the games are dedicated to the community, local charities received tens of millions of dollars a year" – *Derrick Fox, CEO of Alamo Bowl testifying before Congress on May 1<sup>st</sup>, 2009.***

**"In all reality, if you figure out the BCS proceeds and take out all the expense allowances, we have enough money flowing in from the BCS and the other bowls to actually cover the deficit" – *Lisa Rudd, Virginia Tech's Assistant Director of Athletics on bowl losses***

**"At the end of my decision process, I was affirmed that two wonderful options stand before me. I am prepared to play quarterback in the NFL. It is my dream to play quarterback in the NFL. And I intend to make that dream a reality. ... But I know in my heart that I have not finished my journey as a Trojan football player. Our USC football team has been through some tough times, and we have persevered. But the 2012 team has some serious unfinished business to attend to, and I intend to play a part in it." – *Matt Barkley, USC QB on decision to return for his season in 2012.***

**"The answer to three questions will determine your success or failure.**

**1 - Can people trust me to do my best?**

**2 - Am I committed to the task in hand?**

**3 - Do I care about other people and show it?**

**If the answers to all three questions are yes, there is no way you can fail."**

**- *Lou Holtz***

## Acknowledgements

I would like to thank a number of people for their assistance during the writing process. I wish I could thank every single one of you by name, but I know I will forget someone. Please forgive me when I do.

My friends and family have been of the utmost help during all of my schooling and I cannot thank them enough for their friendship.

I would also like to thank Dr. Commuri. You have pushed me to be a better student and helped me realize this paper.

I'd like to recognize and thank Derrick Stacy and his family. You provided me with the first real opportunity I've had to have my voice heard by more than just my friends. Thanks to you, I have been able to share my thoughts with a much larger audience.

I would also like to thank Dan Wetzel, Jeff Passan, and Josh Peter. *Death to the BCS* was an inspiration for this project and provided me with a substantial base of information with which to work. Additionally, Dan and Jeff have answered multiple questions for me along the way and have never made me feel like I was wasting their time. Thank you both.

I would be remiss if I didn't acknowledge the fine work done by the people of the Arizona Republic. Their tireless efforts brought many of these scandals to light and forced changes within the system.

I need to send a special thank you to Chuck Strawn of the Buckeye Battle Cry. You showed a genuine interest in this project from almost the beginning and you have read multiple thoughts, revisions, and ideas along the way.

I can't forget Adam Kramer. The proprietor of Kegs 'N Eggs blog has been an invaluable resource to me. Adam, I know it didn't start off well, but I can't thank you enough for always taking the time to point me in the right direction.

Matthew Smith of College Football News was also a wonderful resource for me during this time. He gave me feedback, alternative theories, and his ideas throughout the entire process. Game recognizes game, Matt.

Lastly, I would like to thank Scott Enyeart of SB Nation. Scott, you've always entertained my ideas, even when they were moronic. You have always lent a hand to me when I've asked and always given me your time and expertise. You're an invaluable resource for young, aspiring journalists. Thank you.

Finally, I would like to thank Roy Nwaisser, the USC Trojans and everyone at USC Psychogate. You guys are my Saturday family. We all know how pure this sport can be and we all share the same frustrations over the current state of our game. USC football and the college football experience wouldn't be the same without you guys. Fight On.  
#UnfinishedBusiness

## **Abstract**

This study of the BCS is an evaluation of the current policies and guidelines' governing collegiate football's post-season. By focusing specifically on tax-exempt status bowls, this study highlights a disturbing trend among the individuals in charge of operating the bowls and their foundations. Rooted in non-profit literature, this study examines the Bowl Championship Series' misappropriation of tax payer's funds, by the participating organizations, under tax-exempt status. Reforms have been suggested based on the model provided by the Joint Commission for Accreditation of Healthcare Organizations. This unique study provides an in-depth examination of non-profit mismanagement, negligent spending, and legal violations as they pertain to the world of collegiate sports' highest grossing sport. The purpose of this report is to establish a set of rules and regulations by which the bowls and their directors must abide. The tax-payers of many communities have footed the bill for far too many unrelated business items. The time has come for the government to establish boundaries for this type of non-profit and hold them to their sworn congressional testimony. Furthermore, this paper will explore the literature of the non-profit world and how it directly relates to the conduct of the BCS.

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## **Chapter I: Introduction & Outline**

### ***Introducing the Topic***

#### *Introduction*

The problems facing the National Collegiate Athletic Association's (NCAA), Division 1, Football Bowl Subdivision's (FBS), current format for determining a national champion are many. The largest of these problems is that your system is currently exploiting and taking advantage of the benefits provided to a 501(c)(3), non-profit, tax-exempt organization. Under current Internal Revenue Service (IRS) (2010) mandate, requirements for a non-profit, tax-exempt organization are:

To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for exempt purposes set forth in section 501(c)(3), and none of its earnings may inure to any private shareholder or individual. In addition, it may not be an action organization, i.e., it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates. The organization must not be organized or operated for the benefit of private interests, and no part of a section 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual. If the organization engages in an excess benefit transaction with a person having substantial influence over the organization, an excise tax may be imposed on the person and any organization managers agreeing to the transaction.

This document outlines the violations that the Bowl Championship Series (BCS) has committed in an effort to place its personal agenda ahead of the mandated criteria under which a non-profit designate receives its tax-exempt status.

The Bowl Championship Series (BCS) is a 501(c)(3) system used in NCAA college football as a means to determine its national champion. The BCS is comprised of the Fiesta Bowl, Rose Bowl, Orange Bowl, Sugar Bowl, and BCS National Championship Game. The system is not without controversy; however, while many feel that the system does not actually determine a “true” national champion, this paper will focus solely on the definition of the problem as it exists now. It must be mentioned that many people do not feel that the system works because of how the system is currently abusing taxpayers’ trust with its exorbitant and egregious misuse of funds. The BCS is grossly misusing taxpayers’ dollars and violating its status as a non-profit organization which is based on charitable contributions and work. Aside from donating money to political campaigns, the executives of these bowls have reimbursed and floated the cost of numerous items that had nothing to do with providing a non-profit service. These problems will be outlined and discussed in detail in Chapter 2.

The clear and present dominant problem is the lack of oversight taken to ensure that these bowls are appropriating their funds in a manner conducive with Federal and IRS regulations. Because these funds are being allocated to a variety of different areas, mostly all inappropriate for a non-profit organization, it is difficult to pinpoint one area of spending that stands out above the rest. The biggest problem is the spending that is reimbursed. All areas of frivolous spending must be met with the same disdain. Whether it is money spent on lobbying groups, cruises to exotic locations, sweetheart loans, inflated salaries, unspecified

expenses filed to the IRS, or donations made to politicians, these actions are not acceptable for a non-profit organization. They ought to be spending their revenue on areas that address their mission statements required by the IRS for non-profit status. This paper will outline, in extensive detail, gross misuse of non-profit funds and, as such, there is no reason to continue to list these expenses for the sake of argument. Instead, it is imperative that the dominant problem be understood as expenditures that can be categorized as, at best, gross negligence on behalf of the responsible parties.

It is the belief of this author that the BCS has wholly violated all mandates for a non-profit organization and it no longer qualifies as a non-profit organization. The BCS has breached its fiduciary duty and misappropriated large sums of funds that came from honest and hard-working taxpayers. It has spent funds on items and activities that do not fall within the mandates of a non-profit organization and as the taxpayers fully expected when contributing to the BCS. According to Davidson (2011), the Fiesta attempted to “reimburse \$46,539 in improper campaign contributions” (p. 1). Additionally, Staples (2011), states that Fiesta Bowl CEO John Junker had a “\$1,241.75 excursion in September to a gentleman’s club called Bourbon Street with a bowl employee and a consultant” (p. 1). These items are but a few of the non-qualifying expenditures that were reimbursed as a result of the organization’s non-profit status.

That said, the non-profit value of an entity such as college football could have a large number of positive impacts on society. Drastic changes need to be made to the system to ensure compliance with regulatory procedures as well as to enforcing the spirit of a non-profit organization. These bowls have been given the freedom to operate without the watchful eye of the government and they have abused that freedom on a repeated basis. It has

become clear that the organizations and foundations overseeing the non-profit charitable aspects and guidelines have no interest in initiating change within.

Despite the fact that as a non-profit organization, the BCS bowls are required to submit federal documentation regarding their expenditures and reimbursements, these organizations are allowed to submit ambiguous reports which allow them to disguise their hidden spending without fear of reprisal. According to Wetzel, Peter, and Passan (2010), an expense report filed with the IRS from the Sugar Bowl in 2005, '06 and '07 included the following: "\$455,781 on 'special appropriations' in 2006, \$201,226 on 'gifts and bonuses in 2007, and \$260,062 on 'other expenses' in 2007" (p. 28). These vague descriptions of expenditures have not been called into question until the recent internal investigation conducted by the Fiesta Bowl in 2011 alleging impropriety. These expenditures were written off as tax-exempt due to the current 501(c)(3) status enjoyed by the bowls currently aligned as BCS designates.

### ***Statement, Purpose, and Importance of Study***

#### *Statement of the Problem*

The BCS operates as the determining body of college football's national champion. It does so through a series of games operated by non-profit entities. The entities that run these bowl games and their accompanying festivities have come under investigation for their less-than-reputable practices. Originally meant to provide tourism and awareness of the communities these games represent, the system has evolved into one of corruption, profiteering, and rewarding members of the good-old-boys club. There is a lack of oversight

in the non-profit aspect of the BCS and this paper proposes that a governmental committee is formed to oversee that the BCS adheres to the letter and spirit of non-profit organizations.

### *Purpose of the Study*

The purpose of this study is to evaluate the policies, or lack thereof, currently in place to monitor the tax-exemption status of a multi-billion dollar industry that currently has no visible charitable foundation. The problems facing the current system will be outlined in the following chapters. These chapters will address the misappropriation of funds, lies to Congress under oath, investigations by the Department of Justice, Internal Revenue Service, and various other reporting bodies. Additionally, this paper will provide a list of solutions meant to aid in the oversight of the current system. Numerous individuals have posited ways to eliminate the system, but few have attempted to address the system to ensure compliance with the spirit and the laws behind non-profit tax exemption. The aim of this paper is to explore how this system is being abused by those in charge and to offer a solution to the current problems facing the BCS.

### *Importance of the Study*

This study is important and meaningful because amount of money being generated by the BCS. The system generates enough money to have a serious impact on local communities, charities, scholarships, and services provided, but it chooses to line the coffers of those involved. Furthermore, by instituting federal involvement in the matters, the system will be required to adhere to the testimony it provided to Congress as the basis for its tax-exemption. Additionally, there are some issues with patterns of behaviors within the current system and, while they will not be explored in-depth, they will be addressed to solidify the

assertions of this paper that those involved, currently, have little interest in the reasoning behind the creation of tax-emption. Lastly, this paper will illustrate that tax-payers and students have suffered for too long at the hands of corrupt businessmen with an ability to disguise obscene expenditures as necessary expenses while running a non-profit. With the large-scale tax breaks, local assistance, federal assistance, and the lies about charitable contributions, the importance of this study cannot be understated.

### ***Outline of Thesis***

#### *Chapter 2*

The second chapter of this thesis will outline and explore the non-profit world. This chapter will provide in-depth examination of the functions, roles, responsibilities, behaviors, abuses, and reasons for the existence of non-profit organizations. Provided within the second chapter will be examples of non-profit abuses and how these abuses resonated within the business sector. This evidence will provide a foundation for the claims against the BCS in Chapter 3.

While the central focus of this paper is on the BCS, Chapter 2 will be focused specifically on other non-profit organizations. The purpose here is to establish a strong foundation within non-profit literature as the BCS is a relatively new concept to academia. This section provides a balance to thesis by integrating scholarly research on non-profit organizations that will later be coupled with the journalistic investigations of the BCS. It is important to note the distinction between the scholarship done on non-profit organizations and the journalistic investigations done by the various different entities exploring this subject within the mainstream media.

### *Chapter 3*

Chapter 3 will provide an extensive and in-depth look at the Bowl Champion Series as it currently operates. This chapter provides the reader with background on the BCS, its intended purpose, the conditions surrounding the current public problem, and a numeration of BCS Bowl violations. Additionally, a quick reference table has been provided for convenience. This table provided highlights of abuses that have been categorized according to the transgressing bowl. This table can serve as a reference guide while reading or as a stand-alone list of offenses to be explored separately.

This chapter ties together the expected functions of a non-profit, as outlined in Chapter 2, with the functional reality of the Bowl Championship Series. Also contained within this chapter is a brief synopsis of how the non-profit aspect of collegiate bowl games operates. This section has been provided to highlight the various different ways in which non-profit bowls exist. Since there is not a one-size-fits-all model to bowl games, this section maintains a significant importance for individuals examining bowl games that function ethically versus those that do not. Lastly, this section highlights the fact that the term BCS is used an umbrella system for collegiate football's current post-season. The official system used by NCAA collegiate football is the BCS system, but almost all of these bowls have existed long before the advent of the BCS system. Yet, it is during the current BCS system that every single one of these offenses has occurred.

### *Chapter 4*

Chapter 4 contains the recommendations section of this thesis. This chapter provides a background of the Joint Commission for Accreditation of Healthcare Organizations

(JCAHO); the organization chosen as a model for reform of the BCS. The JCAHO is a non-profit organization that provides accreditation to hospitals based on their level of efficiency and compliance with health and safety standards. Institutions that have been accredited by the JCAHO are considered to be top-of-the-line health care providers and are held with a certain degree of respect.

Chapter 4 provides background on the JCAHO, accreditation process for the JCAHO, the cost of operating a regulatory committee of that size, the framework of the JCAHO, and detractors of their model. Chapter 4 provides a necessary background of the unique components of the JCAHO and how similar they are to the components of the BCS. This section provides the backbone for the proposed solution.

Chapter 4 also contains the proposed solution for the current policy regarding the oversight of the BCS. An evaluation of the current policy is only as strong as the recommendations to address those problems. A carefully constructed proposal has been made to the BCS with regard to reforming the system. This proposal outlines the adoption of the JCAHO model coupled with a feasible solution to the problems noted by the framework's detractors. This section is critical to aiding the reform effort within college football and is central to the purpose of this thesis.

As previously stated, it is counterproductive to point out everything wrong with a current system if one fails to provide solutions. This section provides exactly that and illustrates the framework needed to institute those changes. The backbone of this thesis, Chapter 4 provides realistic solutions to the current problems. It is worth noting that integrity was maintained throughout this paper and the solutions provided were specifically targeting

the current system. Though many people propose a complete reform to the system—including the elimination of computer polls entirely or moving to a traditional playoff—the purpose of this paper is to correct the current public issues within the current system.

### *Summation of Final Thoughts*

#### *Summary*

Among the problems currently facing collegiate football, one of the largest debates rages over the BCS and its perceived effectiveness in determining a champion. Because of this, many journalists, theorists, and politicians propose changes with a limited focus on non-profit reform. This is not to suggest that they have not addressed it thoroughly and in-depth, but rather to suggest that non-profit reform has been their specific end-game. It is because of that reason this paper stays away from philosophical solutions based on what is the best solution for determining a national champion and focuses on what is the best solution for reforming the non-profit aspect of the game.

This is where this paper will differ from those that have been published before it. There is a very real need to reform the current policies allowing non-profit bowls to operate with a devil-may-care attitude toward public funding. Extensive research was done during the writing of this thesis and not one article was found outlining how a new playoff would address the non-profit abuses of these bowls or increase their charitable contributions. For that reason, this thesis stresses the importance of non-profit reform within the system. Regardless of the fact that the BCS appears to be moving toward a playoff, none of these solutions include an outlined and detailed plan for non-profit reform.

## *Conclusion*

In sum, the purpose of this paper is to institute a change in the non-profit aspect of collegiate football only. An easy solution to this problem would be to eliminate the tax-exempt status of collegiate bowl games, but this author recognizes their importance and believes that they could be a vehicle for positive change if monitored correctly. This paper provides a detailed outline for that plan. Since there are individuals who believe that the JCAHO model has framework concerns, additional steps have been taken to address those concerns. Finally, this thesis establishes a solid link between real-world practices and scholarly application. By rooting the public issue within academia, this thesis provides a link between the Bowl Championship Series and the public arena. Furthermore, this thesis provides a unique and new examination of the BCS rooted in academia. As such, this thesis provides a new foundation for future academic studies.

## **Chapter II: Non-Profit Literature Review**

### ***Review of Literature on Non-Profit Organizations***

#### *Establishing the Function of a Non-Profit*

What is a non-profit organization? A non-profit organization can exist in a variety of different formats. The services provided by non-profit organizations are almost limitless if considering past non-profits, current non-profits, and non-profit organizations of the future.

Hines, Horwitz & Nichols (2009) state:

Nonprofits include familiar organizations such as the Salvation Army or the Girl Scouts, as well as churches, synagogues, mosques, the National Football League, and, until recently, the New York Stock Exchange. Health service organizations, such as hospitals and nursing homes, account for 59 percent of total nonprofit spending, with educational organizations accounting for an additional 17 percent (p. 1185).

There is not a one-size-fits-all look to non-profit organizations. They vary in size, services provided, sustainability, prominence, and so much more, but they also share a large number of similarities.

Non-profit organizations exist within society for a variety of reasons. Recent scholastic literature suggests that the reasons people participate in non-profit organizations are more bountiful than we previously understood. DiMaggio & Anheier (1990) assert that, “Nonprofitness” has no single trans-historical or transnational meaning; nonprofit-sector functions, origins, and behavior reflect specific legal definitions, cultural inheritances, and state policies in different national societies” (p. 137). Some people value the intent behind non-profits, some people do them for religious reasons, and others use them as a status symbol by serving on a board of directors. Social scientists are still researching the various different reasons that people participate in the non-profit sector.

Non-profits exist in a variety of different forms. The specifics behind non-profits vary from entity to entity. Regardless of their purpose, all non-profit organizations must adhere to the rules and regulations set forth by the government and the Internal Revenue Service (IRS). Mulligan (2007), asserts that:

“first and most important, nonprofit organizations are subject to a nondistributional constraint. That is to say, nonprofit organizations may earn net profits, but they may not distribute these profits to persons who exercise control over the organization (i.e. directors, officers, employees, and other members of the organization)” (p. 1985).

Non-profit organizations can make a profit, but there are strict laws regarding what they may do with the profits.

Under current Internal Revenue Service (IRS) (2010) mandate, requirements for a non-profit, tax-exempt organization are:

To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for exempt purposes set forth in section 501(c)(3), and none of its earnings may inure to any private shareholder or individual. In addition, it may not be an action organization, *i.e.*, it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates. The organization must not be organized or operated for the benefit of private interests, and no part of a section 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual. If the organization engages in an excess benefit transaction with a person having substantial influence over the organization, an excise tax may be imposed on the person and any organization managers agreeing to the transaction.

In other words, non-profit organizations may not endorse political candidates, lavish themselves or their constituents with benefits, and above all, the organization cannot exist for the purposes of advancing private interests. These laws were designed to prevent non-profit organizations from turning into private corporations that operate with all of the benefits of a non-profit, but function as a private, for-profit corporation.

Furthermore, a non-profit organization provides a service to the community and must have a mission statement that identifies how it intends to carry out this mission using the additional funding provided by the tax-breaks. Hines et al. (2009) claim, “State law generally requires nonprofits to identify a charitable mission in their organizing documents and operate in furtherance of that mission, restricts distribution of assets to other charities upon dissolution, and invests oversight authority in the state attorney general” (p. 1185). This means that the non-profit organization must clearly outline what it intends to do and that it has restrictions on the manner in which it may spend its funding and profits.

Unique to non-profits are a set of tax provisions that provide them and individuals donating to them a break from the IRS come tax season. Pike (2010) states, ““Nonprofits live in the rarified domain of tax-free existence. They neither pay taxes on revenue associated with their primary purposes, nor do they pay tax on interest, investment income, or gifts” (p. 4). These provisions were put in place to provide non-profits with the incentive to provide a public service while existing outside of the regular tax laws facing the for-profit sector. In exchange for these tax breaks, Pike (2010) claims, “They live in a landscape of taxpayer-supported services designed to enhance the public good, such as safety and fire protection, school systems, consumer protection, regulated markets, military security, and social safety net programs” (p. 4).

Hines et al.(2009) state that there are “...two federal tax provisions available to eligible nonprofits, one that exempts from tax most net income that they earn, and one that permits donors to deduct their contributions” (p. 1185). While the provisions are helpful to corporations, the author further states that, “Even with these exemptions and deductions, no nonprofit is completely exempt from taxation, since all are subject to the federal unrelated

business income tax, and many make payments in lieu of taxes or other fees for services provided by local governments” (Hines et al., 2009). In other words, even tax-exempt organizations still have to pay taxes. They are just not responsible for the same taxes as normal, for-profit organizations. According to Cain (1999), “When applying the UBTI (unrelated business taxable income) to any potential non-profit direct marketing activity, the non-profit marketer and/or tax advisor must keep in mind the tax-exempt organization’s goals regarding the activity” (p. 328). All UTBI should be related to the mission of the organization.

However, while most not profits are able to receive breaks in the taxes that they have to pay, not every non-profit organization can provide the donating individual with a tax-exemption for their donation to the non-profit:

With the exception of churches and very small nonprofits, organizations to which contributions are tax deductible must be certified by the IRS and most—though not all—are described by I.R.C. 501(c) (3) (addressing organizations commonly thought of as charities), 501(c)(13) (addressing cemetery companies), and 501(c)(19) (addressing veterans’ organizations). Most organizations described by other I.R.C. 501(c) sections are tax exempt but do not, with some exceptions, receive tax-deductible contributions. (p. 1186).

Inasmuch as there are a variety of non-profits, so too are there are variety of non-profit classifications within the federal government. The essential element here to be identified is that every non-profit is different and each will each have a different set of rules and regulations attached to its tax benefits. What can be established, however, is that organizations identifying themselves as 501(c)(3) are commonly referred to as charities or charitable organizations.

Non-profit organizations are on the rise in the United States. Husock (2007) affirms this claim by stating that, “Indeed, the past ten years have seen 67 percent growth in the

overall number of U.S. nonprofits. Thus, the stars are aligned for private, nongovernmental organizations to play a much larger role in assisting those in need” (p. 20). The implication here is that non-profits are poised to play a much larger role in needs-based assistance than the U.S. government. Husock (2007) backs this claim by asserting, “In light of government’s problematic performance, it is worth considering whether privately funded nonprofits could begin to replace government as providers of social services” (p. 20).

### *Why Non-Profits Exist*

Why do non-profits exist? According to Child & Gronbjerg (2007), non-profits allow “individuals to come together to promote their own particular vision of the common good, such as pressuring government to respond to disadvantaged groups, preserving values or historical artifacts, or attending to unresolved problems, whether locally or across the world” (p. 260). These organizations exist to provide a service that would likely not exist were it not for them. They work in tandem with state and federal entities to provide a needed service to a particular community.

In her research regarding the role of the non-profit organizations in Australia, Cham (2003) asserts, “the not-for-profit sector provides the social glue that makes democracy viable” (p. 29). It is the idea that society comes together in an effort to make a difference in a cause and will form social bonds with the same common goal as its driving focus. These organizations serve as a conduit for change under the combined leadership of individuals with an altruistic set of goals. “In short, philanthropy serves as an effective advocate for sustainability and positive change” (Cham, 2003).

In order to continue to provide these services, it is important for non-profit organizations to have a vested interest in public policy. Child & Gronbjerg (2007) state that non-profits have a:

...Deep stake in the formulation and implementation of public policies. This is most obviously the case when shifts in government spending affect nonprofit access to government grants or contracts, when changes in tax rates modify incentives for charitable contributions, or when regulations require nonprofits to disclose financial information or refrain from certain types of financial or political activities (p. 259).

This symbiotic relationship between non-profits and government has allowed the two to play off of one another in a manner that provides substantial benefits to both. In a sense, the non-profit sector takes care of a number of duties that the federal government is either unable or unwilling to assist. This is not to say that the federal government is callous, but there are only so many people that a government can assist at any one, particular time.

The greater reason for the existence of non-profits is something that is still being studied in the academic world. Anheier (2009) emphasizes the interplay between non-profits and governments by stating the following:

First, nonprofits are increasingly part of new public management (NPM) approaches and what could be called a mixed economy of welfare and development. Expanded contracting of nonprofit organizations in governmental welfare provision, voucher programs, or client/user empowerment projects are examples of this development (p. 1082).

In other words, the federal government uses non-profits as an assistance wing. Services are needed throughout the country and non-profit organizations are able to provide these services with minimal assistance from the government.

The role of non-profits extends beyond the function of an assistance wing, though. Anheier (2009) posits a secondary function of the non-profit sector:

Second, they are seen as central to civil society approaches, specifically the Neo-Tocquevillian emphasis on the nexus between social capital and social and economic development. Attempts to revive or strengthen a sense of community and belonging

and enhance civic mindedness and engagement (including volunteering and charitable giving) are illustrative of this perspective (p. 1083).

In other words, the non-profit sector provides individuals with a sense of togetherness and community. The idea here is that communities come together in an effort to create a positive impact on their surrounding environment. By coming together as a single entity, whose goal is to aid and assist those in need, social capital is created through the value of social networking. Different individuals, all possessing different kinds of connections, knowledge, experience, and skill-sets are able to create vehicles of change through the exchange of those commodities.

While community-based giving and a symbiotic relationship with the federal government provide a solid foundation for the existence of non-profit organizations, Anheier (2009) stresses one, final function of these organizations by asserting:

Third, nonprofits are part of a wider social accountability perspective that sees these organizations as instruments of greater transparency, heightened accountability, and improved governance of public institutions. Such mechanisms include citizen advisory boards, community councils, participatory budgeting, public expenditure tracking, and monitoring of public service delivery.

The emphasis here has been placed on the belief that an organization dedicated to a specific change is likely to be more accountable, transparent, and forward-thinking than the federal government, which is dealing with hundreds of thousands of issues at any given time.

Additionally, monitoring how well these organizations carry out their mission is a lot easier when individuals do not have to deal with the bureaucratic issues that accompany a governmental project. Lastly, it provides recourse for accountability if the issues are not being addressed.

### *Behavior In The Non-Profit Sector*

The moral accountability of a non-profit organization is often the driving factor behind its ability to provide a service over a long period of time. “Moral accountability arises from an organization’s mission and is closely related to its legitimacy to speak for and on behalf of others” (Anheier, 2009). A non-profit’s effectiveness will be determined by its ability to police itself, ensure that it is reaching its goals as an organization, and its continued ability to provide services in the name of a cause.

Further emphasizing the role of moral accountability, Needleman (2001) claims that “non-profits have a comparative advantage in offering goods or services when consumers are not well positioned to evaluate the service offered” (p. 1115). Essentially, the role of the non-profit is to understand that individuals are in need of some services whether they realize it or not. Unlike a salesman, the non-profit worker must be able to create and maintain a level of trust with the individuals for whom services are being provided.

The trust and accountability that a non-profit entity has is not limited to its client base. Beyer (2007) argues:

Non-Governmental Organizations (NGOs) have gained increasing importance as actors in international relations, world politics and global governance. This is shown not only by the rise in their numbers but also in the increased acceptance by the established actors – states and international organizations – of global governance and in their willingness to let NGOs participate, to listen to them and let them work for their own ends (p. 513)

The government continues to provide benefits and regulatory breaks to non-profits because of its ability to provide established assistance in various regions of the country. The belief that non-profits are able to monitor, police, and improve upon their own activities has provided a foundation for their acceptance in the international community.

Inasmuch as for-profit organizations have a management structure to ensure the mission of the company is carried out, so too do non-profit organizations. Rather than focusing on the wealth of the shareholders though, the non-profit organization must ensure that the mission statement of the organization is being met above all else. To ensure a system of checks and balances, non-profit organizations have a figurehead and a committee of individuals overseeing the mission. “The two key figures in nonprofit organizations are, therefore, the chairperson of the board and the CEO. This structure requires the chairperson to be the most active person among the board members but grants the CEO a great deal of power over the board” (Iecovich & Bar-Mor, 2007).

The roles of the CEO and board are to ensure that the mission of the organization is being carried out in a fluid manner. However, the CEO is responsible for the day-to-day operations of the non-profit while the board is responsible for the long-term delivery of that mission and financial stability as an organization. When running a non-profit business, Collins states, “The critical question for the not-for-profit sector is not, as in business, ‘How much money do we make?’ The critical question is ‘How can we develop a sustainable resource engine to deliver superior performance relative to our mission’” (As cited in Regenstrief, 2008, p. 9)? It is important for the board to focus on sustaining its resources and commit over the long haul.

Non-profit behavior is often a matter of public perception. Public perception often helps to determine whether or not an organization can continue to remain afloat. As with all aspects of life, the non-profit sector shares the negative aspects of operation with the positive aspects. Abzug (2007) states, “Elite nonprofit institutions, including the alma maters, museums, think

tanks, and other playgrounds of the rich and famous, receive almost two-thirds of all philanthropic dollars” (p. 45). The perception that funding for non-profit organizations is fair and equitable could not be further from the truth. Even the charity aspect of non-profit organizations favors the rich and powerful.

Non-profit organizations are not able to operate like their for-profit counterparts. The for-profit sector operates under the premise that the CEO and board of directors are financially liable to their shareholders. The non-profit sector does not operate with the same liability and Richman (2006) argues that, “Since 1994, courts have largely reasoned that because nonprofits, by law, may not distribute profits to shareholders, they do not (and would not) abuse market power like for-profit institutions and raise prices to monopoly levels” (p. 140). The services that a non-profit provides are meant to remain steady without increasing the cost to individuals due to lack of competition. The cost of participating in the services provided by a non-profit organization should not exponentially increase because it is the only one of its kind available to the community. Additionally, it does not exist with the purpose of eliminating other, like-minded organizations, which would offer a similar service, in an effort to establish a monopoly on the service provided.

It is this very structure that provides the non-profit the incentive it needs to exist without the need to drive up prices and eliminate competitors. Hines et al. (2009) state:

The absence of shareholders is the first among several features that distinguish nonprofits from for-profits; nonprofit organizations may have members and other stakeholders, but may not distribute profits to any owner. This means that their directors and managers may dictate the use of nonprofit assets, but may not personally profit from those assets. (p. 1184).

By deemphasizing the role of profits among the shareholders, the non-profit organization is able to focus its efforts toward the delivery of the organization’s mission. Additionally, this

prevents greedy CEO's from making decisions that would increase their personal wealth and potentially harm others. The mission, rather than profit, is the motivating factor for running a successful non-profit organization.

Organizational behaviors within the non-profits are as bountiful as the organizations themselves. A generally agreed upon principal is that of using money for an intended cause. This is often referred to as donor intent, but the term donor intent has other implications. Pike (2010) succinctly states, "If you raise money for one thing, spend it on that thing, or else go back to the fonder and seek approval for repurposing the funds. Waiting until the end of a grant period will sour your relationship" (p. 6). The basic premise here, to borrow from an old adage, is that your organization "puts its money where its mouth is." If the organization is dedicated to saving the wildlife, then the donor has the right to operate under the assumption that the money donated will go to wildlife preservation. If the organization is using some of that money to put up churches in remote areas of the world, then it violated the premise under which it took the donation.

#### *Ethical Violations In Non-Profit Sector*

While non-profits are closely monitored to ensure that donor intent is met, there have been a number of situations in which non-profit organizations have violated donor intent. Mead (2008) states, "One of the most publicized scandals involved the handling of donations by the Red Cross following the terrorist attacks of September 11, 2001. Although many donors intended to help the victims of the terrorist attacks, the Red Cross funneled their donations to other operations" (p. 884). The Red Cross failed to use the money as the donor had intended it to be used and was found to be in violation of donor-intent laws.

Violating non-profit laws are not always as simple as using donor's money for something other than the intended purpose. Mead (2008) illustrates another example when he states, "The United Way of the National Capital Area fell victim to financial mismanagement when the CEO of the organization took \$1.5 million in 'questionable payments,' including advances on salary and undocumented reimbursements, from 1987 to 2001" (p. 884). What happened here was a case of management reimbursing itself for items that it failed to specify and gave itself advances on salaries with non-profit funds.

Of course, violations of non-profit laws do not end with the previous two examples. Non-profit organizations are expressly forbidden from engaging in any activity that would endorse a particular candidate or political party. Any usage of non-profit funds for partisan politics is explicitly forbidden. Leech (2006) affirms this, "By law, federal funds may not be used for lobbying, but many corporations and nonprofit organizations that receive government grants and contracts also engage in lobbying activities using private funds" (p. 17). The general idea behind this is that non-profit organizations receive funding from a variety of different individuals. As such, these individuals all have different political and social agendas. Additionally, providing federal funding to partisan politics is an extreme conflict of interest. To avoid the appearance of bias and to ensure that donors may give to an organization free of political agenda, the federal government has placed restrictions upon the usage of funds for partisan politics.

Still, other non-profit organizations have found ways to take advantage of the system and to exploit the economy for large sums of money. Mead (2008) states, "In California, legislators were concerned when Aaron Tonken, a Hollywood fundraiser, pleaded guilty to diverting \$7 million of charitable donations to himself and his 'associates.' News articles

from 1995 to 2002 reported a total loss of \$1.28 billion due to nonprofit scandals during that period” (p. 885). Even though they are getting caught, non-profit organizations have consistently found ways to exploit the tax loopholes provided to them by the IRS and federal government.

### **Chapter III: Bowl Championship Series Literature Review**

#### *Review of Literature on Bowl Championship Series*

##### *Defining the Bowl Championship Series (BCS)*

The Bowl Championship Series (BCS) is an assortment of post-season college football games that are designed to reward the premier teams in college football during a given year. “The Bowl Championship Series (BCS) is a five-game showcase of college football. It is designed to ensure that the two top-rated teams in the country meet in the national championship game, and to create exciting and competitive matchups among eight other highly regarded teams in four other bowl games” (BCS, 2011). The aim of the organization is to determine a national champion at the end of the college bowl season using a formula rather than the previous system based on random pairings that were based on best guesses. The post-season games involved in the BCS “are the Tostitos Fiesta Bowl, Discover Orange Bowl, Rose Bowl presented by VIZIO, Allstate Sugar Bowl and the BCS National Championship Game, which is played each year at one of the bowl sites” (BCS, 2011). These games are often referred to as the “major bowls.”

Aside from the actual BCS bowls, qualifying collegiate football teams are eligible to compete in other bowl games as a part of the BCS system. In all, the BCS system is comprised of 35 bowl games on a contract that lasts through January of 2014 (Schrotenboer, 2010). A number of the participating bowl games are non-profit entities. That number changes as bowl games come and go, but there has been a consistency to the majority of the bowls enjoying non-profit status. According to Calabrese (2012), “the majority of college football’s bowl games are currently deemed non-profit entities” (p. 1). This allows these bowl

games to operate tax-free. Everything the bowl takes in and spends can be written off during the tax season.

As stated above, the number of tax-exempt bowls varies from season to season. According to Wetzel (2011), “Eleven of the thirty-five bowl games scheduled for 2011-12 are privately owned...So nearly a third of bowl games are the opposite of charities. They exist purely and expressly for profit. They even pay taxes” (p. 25). This leaves twenty-four bowl games that enjoy non-profit status. It is worth noting that different non-profit groups run the various different non-profit bowls. For example:

Florida Citrus Sports (FCSports or FCS) is a not-for-profit membership organization dedicated to increasing community spirit and pride, promoting tourism, stimulating economic development and ultimately benefiting charities, educational institutions and the quality of life in Central Florida through its signature events: The Capitol One Bowl, the Champs Sports Bowl, the Fresh From Florida Parade, the Florida Classic, the Florida Citrus Sports Shootout and the OUC Half Marathon and 5K (FCS, 2012).

Essentially, even though the Capitol One Bowl and the Champs Sports Bowl are two different entities, they are still operated by the same non-profit group. Just like the amount of non-profit bowls, the amount of non-profit groups, running the bowls also changes. The four major bowls are all operated by their own non-profit organization, but several groups have control of multiple lower-tier bowls.

#### *Purpose of the BCS*

The major bowls have a variety of different mission statements, but the general tone of them is all the same. They generally play to the fact that the bowl and accompany festivities are an integral part of the community and a charitable source for the community. For example:

The Orange Bowl Committee was created in 1935 with the mission of generating tourism for South Florida through an annual football game and supporting Festival.

Since its inception, the not-for-profit, primarily-volunteer organization, which has grown to 343 members, has expanded beyond the Greater Miami area to become a cornerstone of the entire South Florida community. The Committee is aided by approximately one thousand additional "Ambassadors," community volunteers who make us, the Festival, and our community stronger. (Orange Bowl Committee Community Involvement, 2012).

Like the Orange Bowl, the Rose, Sugar, and Fiesta bowls provide similar statements about their respective bowls. As will be illustrated later, these mission statements have been given as testimony to congress about the importance of their non-profit status.

The specifics of the mission statements are often region specific. Even when a single organization is operating multiple bowls, the multiple bowls tend to be within a specific region and focus their mission statements to those regions. Illustrating the example of an organization operating multiple different bowls and focusing on the region:

The Fiesta Bowl organization is comprised of four tax-exempt 501(c)(3) nonprofit corporations: The Arizona Sports Foundation dba the Fiesta Bowl, Valley of the Sun Bowl Foundation, Fiesta Events, Inc., and The Arizona College Football Championship Foundation (collectively, "Fiesta Bowl Charities" or the "Fiesta Bowl organization"). Through the creation of the Festival of College Football, which is inclusive of more than 40 statewide events, the annual Tostitos Fiesta Bowl and the Insight Bowl, the Fiesta Bowl organization continues to promote volunteerism, athletic achievement and higher education. (Fiesta Bowl Charities, 2012).

Like the Orange Bowl, the Fiesta Bowl emphasizes its role in the community, volunteering, and charity within its mission statement.

Further aiding the bowls' abilities to exist in the non-profit sector are the subsidies provided by state and local governments. Waldron (2012) states that "Because those bowls are set up as tax-exempt, nonprofit charities, they pay little, if any, taxes on huge profits, even as they receive millions in taxpayer subsidies from state and local governments" (p.1). These subsidies are provided because bowl games will often generate substantial tourism in the region which helps local businesses and the economy. According to Waldron (2012)

“bowl games claim that they are nonprofit charities by touting the fact that they generate hundreds of millions of dollars in economic benefits for state and local economies, help universities, and provide aid to charities in the communities that host the games” (p. 1).

Indeed, the claims made by various authors vis-à-vis the claims being made by bowls are supported by the bowls themselves. In 2009, Derrick Fox, the CEO of the Alamo Bowl, gave sworn testimony to Congress on the very nature bowls play in the non-profit sector. According to Wetzel (2011), Fox stated, “Almost all post-season bowl games are put on charitable groups, and since up to one-quarter of the proceeds from the games are dedicated to the community, local charities receive tens of millions of dollars a year” (p. 24). Put simply, even non-profit bowl directors are claiming that they operate in the spirit and tradition of a non-profit organization. In fact, by giving testimony to Congress, the CEO is swearing under oath that the charity aspects of collegiate bowls are of the utmost importance.

### *Conditions Representing a Public Problem*

There are a number of investigating bodies that have examined the BCS and their current exploits. One of these investigating bodies is a committee made up of politicians known as the Playoff PAC. On its website, the Playoff PAC (2012) states its purpose as:

Playoff PAC is a federal political committee dedicated to establishing a competitive post-season championship for college football. The Bowl Championship Series is inherently flawed. It crowns champions arbitrarily and stifles inter-conference competition. Fans, players, schools, and corporate sponsors will be better served when the BCS is replaced with an accessible playoff system that recognizes and rewards on-the-field accomplishment. To that end, Playoff PAC helps elect pro-reform political candidates, mobilizes public support, and provides a centralized source of pro-reform news, thought, and scholarship (Playoff PAC, 2012).

While the organization’s goal is to help create an accessible playoff, it does not have an outlined model of a playoff in mind. Instead, its aim is to create a post season for college

football that is accessible and fair for every participating institution. Additionally, any information used in this paper from the Playoff PAC was relegated to scholarly articles and legal documents available on their website.

It is worth noting that the agenda-bias of the Playoff PAC has been diminished by the BCS itself. The BCS proposed a new system to be introduced by 2014 that favors a 4 team playoff. Brett McMurphy (2012) reported that “The reality of a college football playoff got another step closer Thursday when the BCS announced it was recommending a four-team playoff beginning in 2014” (p. 1). The BCS is currently ironing out the specifics of the playoff, but the organization has shifted its model to one that reflects a traditional playoff. McMurphy (2012) goes on further to state that, “the new playoff format would start after the 2014 regular season and would replace the current BCS model that pairs the No. 1 and 2 ranked teams in a bowl game” (p. 1). Any conflict of interest by the Playoff PAC with regard to a playoff versus the current system was rendered moot when the BCS decided to abandon the current system in favor of a playoff.

In a letter to the IRS filed by the Playoff PAC (2010) indicates that “Bowl organizations have long justified their existence, if not their tax-exempt status, by trumpeting their magnanimity. And, the press reported that the 23 bowl games run by charitable groups “combined to give just \$3.2 million to local charities on \$186.3 million in revenue” (p. 3). Since these bowls operate under the auspice of a charitable organization, whose goals are to help their communities with the revenue, they ought to be fulfilling these goals, but have yet to meet them.

Economic impact vis-à-vis bowl reimbursements and charitable contributions: Because the major bowls enjoy state and federal subsidies, there is an undoubted economic impact that takes place. Derrick Fox, the CEO of the Alamo Bowl testified before congress about the nature of the bowl's current non-profit status. According to Wetzel et al (2010), Fox testified that "up to one-quarter of the proceeds from the games are dedicated to the community" (p. 26). Furthermore, Wetzel et al (2010) state that the "Sugar Bowl, for instance, received \$3 million in direct funding from the Louisiana state government, according to its 2008 tax filing" and that the bowl:

gave nothing. Not a buck to the Hurricane Katrina reconstruction effort. Not a dime to a New Orleans after-school program. Not a penny to Habitat for Humanity. The Sugar Bowl, one of the richest bowls in existence, didn't give back 25 percent of its proceeds to the community. It hogged everything, including the \$3 million in taxpayers' money (p. 27).

The bowl received its funding from the citizens of Louisiana yet did not give one cent back to those citizens. A city facing severe economic crisis funded a bowl to the tune of \$3 million dollars and that bowl did nothing to improve the current situation.

The issues facing the public are not relegated to the lack of charitable contributions made by these non-profit organizations. Additionally, the same Playoff PAC (2010) reports also states that:

BCS Bowls also fetch sizeable public subsidies. For example, the Sugar Bowl collected \$5,448,539 in government grants the past three years, the Orange Bowl received a \$1,213,383 government grant in the fiscal year ending in ("FYE") 2009, and the Fiesta Bowl has profited from the State of Arizona's considerable financial support (p. 4).

Yet, as indicated by the aforementioned uses of this money, these bowls have willfully engaged in illegal uses of these federal and state funds. They have continued to receive these funds despite filing IRS paperwork indicating outrageous amounts of money spent on

unspecified items. These issues present a large problem to the public as state and federal taxes undoubtedly provide the bulk of these subsidies.

### *Bowl Operations & Violations*

Enjoying its current status as a non-profit organization, the BCS' deeds went largely unchecked until the Arizona Republic began investing a BCS bowl's, the Fiesta Bowl, expenses in 2009. This ultimately led to several shocking findings and prompted a system-wide investigation by multiple different media outlets and journalists. According to Davidson (2011), the Fiesta attempted to "reimburse \$46,539 in improper campaign contributions" (p. 1). Additionally, Staples (2011) states that Fiesta Bowl CEO John Junker had a "\$1,241.75 excursion in September to a gentleman's club called Bourbon Street with a bowl employee and a consultant" (p. 1). These items are but a few of the frivolous expenditures that were reimbursed as a result of its non-profit status. For a more thorough list of bowl violations, please see Chapter 3.1 in the List of Tables.

Despite the fact that, as a non-profit organization, these bowls are required to submit federal documentation regarding their expenditures and reimbursements, these organizations are allowed to submit fairly ambiguous reports which allow them to disguise their hidden spending without fear of reprisal. According to Wetzel, Peter, & Passan (2010), an expense report filed to the IRS from the Sugar Bowl, another BCS designate enjoying non-profit status, in 2005, '06 and '07 included the following: "\$455,781 on 'special appropriations' in 2006, \$201,226 on 'gifts and bonuses in 2007, and \$260,062 on 'other expenses' in 2007" (p. 28). These vague descriptions of expenditures have not been called into question until the recent internal investigation conducted by the Fiesta Bowl in 2011 alleging impropriety.

These expenditures were written off as tax exempt due to the current 501(c)(3) status enjoyed by the bowls currently aligned as BCS designates.

A Playoff PAC organized by the NCAA and BCS also turned up more frivolous spending by BCS designates. According to the Playoff PAC Blog (2011), the committee found that “The Orange Bowl spent \$331,938 on "parties" and "summer splash" in FY 2004, \$42,281 on "golf" in FY 2004 and FY 2006, \$535,764 on "gifts" in FY 2006, and \$472,627 on "gifts" in FY 2008” (p. 1). This “Summer Splash” trip was a fully-funded trip for 57 members on the Orange Bowl’s tab. According to the Playoff PAC Blog (2011):

The evidence indicates that the BCS's Orange Bowl, which is organized as a public charity, used its charitable funds to treat Orange Bowl executives and college athletic directors to a four-day "complimentary getaway" aboard Royal Caribbean's *Majesty of the Seas* earlier this year. As shown by the detailed agenda, this Caribbean cruise was a junket. No business meetings were held. Attendees were instead occupied with full-day excursions to Atlantis Resort and CocoCay, a private island. This Caribbean cruise was the 2010 iteration of an annual trip called "Summer Splash” (p. 1)

They reimbursed these expenses by charging the participating universities outrageous fees to play in their bowls. According to Schrottenboer (2009), “Virginia Tech earned a berth in the Orange Bowl and was required to buy 17,500 tickets at \$125 each. It only sold 3,342 of them, leading to a loss of \$1.77 million for the university and the Atlantic Coast Conference, records show” (p. 1). In a sense, Virginia Tech helped fund the “Summer Splash” getaway from its university’s payments to the Orange Bowl.

### *Stakeholder Liability*

Depending on how this problem is examined, there are several different stakeholders. Federal and state taxpayers represent one side of the issue as they help to fund these bowls and use them as forms of entertainment and travel. Local and state officials have a vested

interest in making sure that illegal usage of funds does not occur on their watch. Students at the universities have an interest in this because their tuition money helps to cover general and athletic expenditures put forth by the university. Bowl designates/stadiums see large amounts of revenue from these games and would likely have to pay large amounts of taxes on this revenue were their non-profit status stripped from them by the Internal Revenue Service. Lastly, CEO's and Bowl executives see large salaries based on their positions as such and enjoy the perks of this lifestyle. So they, too, are invested in this problem definition.

### *Bowl Improprieties*

After the Arizona Republic blew the lid on the misappropriation of funds carelessly spent on personal agendas rather than for the interest of the bowl's goals and objectives, an internal investigation into the expenditures of the Fiesta Bowl was conducted in March of 2011. The results were a 276 page public report detailing all expenditures made by the Fiesta Bowl and its executives. According to Cain (1999), "when applying the UBTI (unrelated business taxable income) to any potential non-profit direct marketing activity, the non-profit marketer and/or tax advisor must keep in mind the tax-exempt organization's goals regarding the activity" (p. 328). The excuse provided by John Junker with regard to his gentleman's club expenditures was outlined in Murphy and McKnight (2011), when he said "We are in the business where big strong athletes are known to attend these types of establishments. It was important for us to visit and we certainly conducted business" (p. 1). Most taxpayers would generally agree that a strip-club visit would definitely fall under UTBI.

As stated above, the CEO's and bowl executives enjoy rather lucrative lifestyles based on their annual salaries. They have largely justified these salaries based on the tremendous profits they earn for the bowls. This does not tell the whole story, however. The

IRS and Federal law prohibits executives from inuring themselves to the profits made by a tax-exempt organization. During their investigation, the Playoff PAC (2010) found that “The Sugar Bowl’s top three execs received \$1,225,136 in FYE 2009 on revenue of \$12.7 million, meaning that just three people skimmed almost \$1 of every \$10 the Bowl earned” (p. 3). Additionally, states the Playoff PAC (2010):

Fiesta Bowl CEO John Junker received \$317,717 in FYE 2009 for working just 21 hours per week from the Arizona Sports Foundation, the Bowl’s lead entity. Mr. Junker’s total compensation package from all Fiesta Bowl-related entities was \$592,418 for FYE 2009, nearly quadruple the CEO pay at similarly sized charities (p. 3).

These large salaries are not justifiable when compared to other non-profit organizations’ salaries for individuals of a similar status. They are over-inflated and, on some levels, almost egregious.

For instance, the Playoff PAC (2010) asserts that “Sugar Bowl Exec. Dir. Paul Hoolahan received \$645,386 in FYE 2009, a year in which the Sugar Bowl lost money despite receiving a \$1.4 million government grant. Mr. Hoolahan collected \$25,000 more than the Rose Bowl’s top three executives combined” (p. 3). Justifying these salaries at the expense of taxpayers and government grants is inconceivable on almost every level. Yet these individuals have been informed of these numbers in comparison and have done nothing to rectify their lavish lifestyles. If anything, they have increased spending and begun sharing their wealth in the form of interest free, sweetheart loans to their friends and colleagues, as well as bestowing gifts and monetary contributions upon them which they reimburse.

In fact, even when compared to their for-profit counterparts, bowl directors made an obscene amount of money. They made so much money that even the lower-tier bowl

directors made more than their for-profit counterparts of much larger organizations.

According to Time Magazine's Sean Gregory (2010):

Rick Baker, the executive director for the Cotton Bowl, made \$490,433 in 2007. Derrick Fox, who runs the Alamo Bowl in San Antonio, a lower-tier event, took in \$438,044. The head of an even more obscure game, the Kraft Fight Hunger Bowl, took in \$320,492 in fiscal 2008. That amounted to 11% of the game's revenue, according to the book. If the CEO of a for-profit company like Walmart got 11% of the revenues, he'd be making \$44 billion (according to forbes.com, Walmart CEO Mike Duke will earn \$19.2 million in total compensation in 2010, or .005% of the company's revenues) (p. 1).

If anything, bowl directors have increased their salaries over time. It is, in a sense, tantamount to giving themselves a cut of the profits. This is something that is expressly forbidden among non-profit organizations.

The bowl directors continue with their excessive benefits and increase in salaries. They boast salaries that go above and beyond what their counterparts made. Gregory elaborates further by stating the Playoff PAC found that:

While Junker and Hoolahan made north of a half million dollars, non-profits with budgets comparable to the Fiesta and Sugar Bowls — between \$10 and \$24 million — pay their CEOs, on average, \$185,270. The highest-paid non-profit CEO in this comparison group made \$383,500. A 2009 study from Charity Navigator found that organizations almost six times larger than the Fiesta and Sugar Bowls paid their CEOs, on average, \$462,037 — still less than the guys in charge of a football game. (p. 1).

Whether you want to use direct salary comparisons to similar-sized non-profit organizations or percentage comparisons to for-profit organizations, the fact remains that bowl directors are making an abnormal amount of money.

Mulligan (2007), states that, “Nonprofit directors have a unique legal fiduciary duty as well. Specifically, nonprofit directors have a duty of obedience to the mission of the nonprofit organization. As one court put it, ‘nonprofit directors . . . must be principally

concerned about the effective performance of the nonprofit's mission” (p. 1985). The director of a non-profit, in this case CEO John Junker, should have been primarily concerned with the academics of participating universities and ensuring that those universities received the highest possible payout in an effort to achieve that mission.

Additionally, Mulligan (2007), asserts that, “first and most important, nonprofit organizations are subject to a nondistributional constraint. That is to say, nonprofit organizations may earn net profits, but they may not distribute these profits to persons who exercise control over the organization (i.e. directors, officers, employees, and other members of the organization)” (p. 1985). Usage of Fiesta Bowl resources by its director to finance personal birthday parties and weddings for colleagues and friends certainly constitutes the distribution of profits to persons who exercise control over the organization. This is especially true when the individual in charge is reimbursing themselves at the taxpayers’ expense. In every possible instance, it was in Hoolahan, Junker, and the other executives’ best interest to avoid these limitations. In order to maintain their lavish lifestyles, these executives need to distribute these profits among themselves.

## **Chapter IV: Recommendations**

### *Proposal of Alternative Solutions, Solutions, and Recommendations*

#### *Alternative Solutions*

The proposed solution is the creation of a federal regulatory commission and that it be granted the authority under the Senate Finance Committee, which oversees tax issues, to annually review, in conjunction with the IRS and the Department of Justice (DOJ), bowl records and finances to ensure compliance with current non-profit guidelines. This will include, but is not limited to the following: detail audits of all expenses reimbursed by bowl, expenses from the bowl, salary justifications, state and federal subsidy reimbursement, and charitable donations made by the bowls. As of right now, there is no form of regulation or oversight, other than the current non-profit filings and reviews of the IRS, to ensure that these bowls are not taking advantage of the non-profit system.

There have been suggested alternative solutions by opponents of the BCS system. They have included moving the bowls to a different classification. In other words, eliminating their non-profit status and moving the Bowl Championship Series into the for-profit sector. This would eliminate the need for federal oversight and quell the desire from taxpayers to closely monitor the expenditures of the collegiate bowl system.

An additional proposed solution to this problem would be the complete elimination of the BCS in favor of a traditional playoff system. The playoff system would be monitored by a single committee designed to oversee and regulate bowl involvement and would be responsible for bowl-payouts and charitable contributions within the specific regions. By implementing a playoff, the NCAA would also remove the possibility of the anti-trust issues

that are currently under investigation by the United States Department of Justice. As stated earlier, the BCS espoused the playoff idea of their own volition. Individuals will likely need to see the new playoff in action before finding fault with this solution.

### ***Proposed Solution***

The proposed solution is to create a regulatory commission on the federal level that works with the IRS and the DOJ to ensure that the bowl system, currently in place, is keeping accurate and detailed records of all expenditures and subsidies on an annual basis. In other words, under the Senate Finance Committee, an annual audit will occur before and after each bowl season to ensure that the bowl committees are not illegally reimbursing funds, distributing tax-free dollars to political campaigns, or otherwise taking advantage of the system with egregious spending of taxpayers' dollars on cruises, birthday parties, personal weddings, strips clubs, and any other illegal expenditures.

Implementation of policy requires that the BCS participating entities fund this committee. It is not unreasonable to ask that the BCS expend its funds for this oversight committee since it is this organization that has violated the current federal mandates. Such a committee would be comprised of the following: one retired federal judge, one representative from the BCS organization, a former IRS auditor, a former director of a major non-profit with a reputation for ethical and philanthropic values, and the chair of the Senate Finance Committee. Comprising the committee of individuals from these various different professional fields will help ensure that all aspects of BCS's mission are being met. If one draws upon the example provided by Dodd (2011) that the Fiesta bowl's mission "includes assisting 'the cause of higher education with the highest university payouts possible'" (p. 1),

then it is understandable that one could have a hard time seeing how visits to strip clubs and private birthday parties assisted the students of the universities that have taken part in the Fiesta Bowl.

### *Joint Commission*

The creation of such a commission for such large enterprises is not without precedent. The health care industry created such an organization with the formation of the Joint Commission in 1951. According to the Joint Commission website (2012):

Founded in 1951, The Joint Commission seeks to continuously improve health care for the public, in collaboration with other stakeholders, by evaluating health care organizations and inspiring them to excel in providing safe and effective care of the highest quality and value. The Joint Commission evaluates and accredits more than 19,000 health care organizations and programs in the United States. An independent, not-for-profit organization, The Joint Commission is the nation's oldest and largest standards-setting and accrediting body in health care (The Joint Commission, 2012).

In a sense, the Joint Commission's primary goal is to ensure that any organization under their umbrella is above reproach and operates at the highest standards of professional health care. An accredited member of the Joint Commission is considered to be a high-level institution with the highest regard for safety and accountability.

Operationally, the Joint Commission is no different than the proposed solution of a regulatory committee. According to Joint Commission's (2012) website, "The Joint Commission is governed by a 32-member Board of Commissioners that includes physicians, administrators, nurses, employers, a labor representative, health plan leaders, quality experts, ethicists, a consumer advocate and educators" (The Joint Commission,2012). Like the Joint Committee, the regulatory committee would feature members from the Senate Finance Committee, IRS, former/current judges, non-profit directors, and more. The list of

professionals serving on the committee would reflect the different interests of the parties. For example, esteemed non-profit directors serving on the committee will help to ensure that the charitable aspects of the bowl games are held to acceptable standards. Bowl games will no longer be able to pocket tens of millions of dollars while only contributing several thousand.

Acceptance as a non-profit bowl under the regulatory committee could be based off the model provided by the Joint Commission. In a link provided by the Institute of Medicine, a non-profit organization based in health care, an older fact sheet from the Joint Commission (2008) states:

To earn and maintain accreditation, a hospital must undergo an on-site survey by a Joint Commission survey team. Joint Commission surveys are unannounced and occur 18 to 39 months after the previous unannounced survey. The objective of the survey is not only to evaluate the hospital, but to provide education and guidance that will help staff continue to improve the hospital's performance. The survey process evaluates actual care processes by tracing patients through the care, treatment and services they received. (The Joint Commission, Survey Process, 2008).

Like the Joint Commission, acceptance into the regulatory committee would be based on a bowl's ability to demonstrate that they are within compliance of state, federal, and local laws. Additionally, regulatory committee approval would also depend upon the bowl's ability to demonstrate that they are a charitable organization in the spirit of the law as well as the letter of the law.

#### *Cost of Regulatory Committee*

Naturally, the question of funding a committee such as this will come into question when this solution is presented. We will, once again, turn to the Joint Commission's model for acceptance and accreditation:

Annual fees are based on the size and the service complexity of individual hospitals and range from \$1,780 to \$36,845. For 2008, the on-site survey fees for hospitals are: \$2,500 per surveyor for the first day and \$1,030 per surveyor for the second and subsequent days. For small hospitals (those with fewer than 26 beds and less than 50,000 visits), the 2008 annual fee is \$1,090 and the on-site survey fees are \$4,580

per survey. The on-site survey fee is paid at the beginning of the year in which the on-site survey will be conducted, along with the annual fee, and covers survey-related direct costs.

Using this model will allow the smaller bowls to gain accreditation through the regulatory committee, but would not bankrupt them with high costs that only the bigger bowls could afford. Similarly to the Joint Commissions approach to smaller hospital fees versus larger hospital fees, the regulatory committee could use a sliding scale based on the size of the bowl and other mitigating factors. These fees would go toward the operating costs and budget of the regulatory committee.

#### *Detractors of the Joint Commission Model*

As with most ideas, the Joint Commission is not without those that believe it still falls short of the intended goal due to similar problems facing the BCS. Myers (2006) states that:

Nonprofit-for-profit business models are considered by some economists to be organizational anomalies, characterized as "bottomless receptacles into which limitless funds can be poured." The receptacles are bottomless, in part, because of conflicts between the stated missions of hospital systems and their actual performance in the market (p. 466).

In a sense, the BCS bares striking similarity to a non-profit-for-profit business. They have testified before Congress that they do one thing, when the reality of the situation is much different.

To that end, some may argue, the ability to influence and elect committee members to enable their continued abuse of non-profit status may be called into question. This has certainly been the case in the field of health care. Meyers (2006) affirms this point when he asserts:

A CEO can be expected to employ strategies intended to protect his/her acquired status and associated prerequisites. In fact, healthcare administration students are taught that CEO tenure is best protected by first influencing the selection of board

members, and second, to the extent legally and ethically permissible, creating director-organizational relationships that reward board members who support the status quo and its current leadership. (p. 469).

Utilizing the template set forth by the Sarbanes-Oxley Act of 2002 would help to ensure that the regulatory committee remains steadfast in their efforts to ensure reform in the non-profit aspect of the BCS.

Introducing Sarbanes-Oxley into the model provided by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) is a concept familiar to academia and the health care world. Meyers (2006) supports this idea by positing:

Further, by incorporating Sarbanes-type requisites into JCAHO standards, two levels of enhanced accountability would be realized: 1) private, professional review, with its attendant education and self-enforcement and 2) public, external review with the force of the government's police power. This dual level of professional and public oversight would greatly enhance the potential for comprehensive nonprofit accountability. (p. 468).

This same theory could be applied to the regulatory commission model that is proposed within this paper. Internal and external audits would ensure that committee members are in compliance with the ideas put forth by the commission and that they are not caught in a conflict of interest with a particular lobbying group.

#### *Use of Joint Commission Model in Other Organizations*

The Joint Commission model also has its fair share of proponents who would see the model adapted to other organizations. Anderson, Cuellar & Rich (2003) claim “the JCAHO performance improvement framework has been used successfully in diverse health care settings to measure, assess, and improve patient outcomes” (p. 416). Organizations within the health care industry have adopted the JCAHO model to their own enterprise in an effort to create reform from within.

The model for applying the framework is relatively easy and painless for an organization. Anderson et al. (2003) state “the JCAHO framework for performance improvement offers a systematic approach to improving performance in the way functions and processes are implemented within a health care organization” (p. 417). The BCS can apply this framework to improve performance, processes, and functionality within the organization. Anderson et al. (2002) further states that JCAHO’s 3 main components are the external environment, internal environment, and the cycle for improving performance (Anderson, Cuellar & Rich, 2003, p. 417). The authors effectively state that, in order to truly model an organization after the Joint Committee, these three elements must be present in the model.

Anderson et al. (2003) describe the external framework as “the factors outside of organizations that affect the way their services are designed and implemented and include[s] the demands of purchasers, payers, employers, regulators, consumers, and accrediting bodies (p. 417). If applied to the BCS, these things would become conference tie-ins, sponsors, funders, sanctioning bodies, etc. The BCS need only sit down and do a thorough examination of all outside contributors and stakeholders in order to determine that affect the services they provide. Again, this is fairly easy for an organization to do and is often already done for the annual audit and in the form of 990’s and 990PF’s.

Anderson et al. (2003) go on further to define the internal environment as “the functions within organizations that affect the quality of care delivered to customers and customers' perceptions of their satisfaction with the services received (e.g., knowledge, clinical expertise, critical thinking skills, coordination of services) (p. 417). Like before, the BCS executives need only sit down as an organization and identify the functions within their

organizations that correlate. For example, as a charitable organization, did the bowl in question operate within the spirit of a non-profit when it came time to disperse revenue to charities? Did the bowl in question do everything in their power to aid in the mission of higher education, by the participating universities, without putting them substantially out-of-pocket with excessive ticket prices and sales requirements? The BCS can surely identify more than just this, but for the purposes of this paper, these examples will prove sufficient.

Lastly, Anderson et al. (2003) state the cycle for improving performance is “the main blueprint for performance improvement of functions and processes within organizations. Work on improvement can begin at any point along the cycle” and “being process minded and outcomes oriented is the anchor point for teams and organizations implementing a successful performance improvement program” (p. 418). Essentially, the BCS can begin repairs to the system at any time. In fact, using the Joint Commission model, the BCS would begin with reform immediately to identify the problem areas that need to be addressed using the stated criteria.

The Joint Commission has provided a model for the BCS if they wish to use it. While the Joint Commission model does have some flaws, the key flaws have been addressed within this paper and recommendations to solve these dilemmas have been suggested. A regulatory committee based off the Joint Committee model can only help to ensure that non-profit ideals are espoused by the participating bowls. Additionally, security measures and a system of checks and balances will prevent future abuses of revenue by non-profit organizations. Lastly, this model will provide a variety of individuals, varying in their fields and expertise, the ability to rely upon one another’s strengths to meet the mission statements put forth by these organizations. After all, the aim of every non-profit organization ought to

be coming as close as they possibly can to realizing their mission statement. If nothing else, a continued effort to meet as many of their goals as possible should be the bare minimum standard put forth by any non-profit.

## **Chapter V: Exploring Areas for Further Study & Conclusion**

### *Areas for Further Study*

#### *Areas of Interest*

This thesis provides a foundation for exploring the subject on a more in-depth level. This topic could be further explored in a doctoral dissertation or continued in the world of non-profit literature. If inclined, a more detailed examination could be done of every non-profit bowl in the BCS system. By exploring bowl finances further, one could gain a more thorough and complete understanding of non-profit contributions on a bowl-by-bowl basis. This would provide an outline of where to begin the process of reform and the totality of the situation. Due to the scope of this project, such an undertaking was not done.

#### *Limitations*

Due to the scope of the paper, an extensive study of each bowl's finances was not provided. However, while specific bowl finances were not provided, an exact sum of the combined revenue versus the total amount given to charity was provided. The recommendations made were brief and specific to the scope of the paper. Additional research into the application of the JCAHO model to the BCS could only strengthen the purpose of this paper, but was not permitted due to time constraints. Both of these areas could be addressed as an area for further study.

## *Conclusion*

### *Summation of Thesis*

As outlined in Chapter 1, this thesis provided a substantial look at several aspects of non-profit management. Chapter 2 provided an examination of non-profit organizations, their operations, and a brief history of abuses that have occurred in the non-profit sector. Chapter 3 provided an examination of the Bowl Championship Series, the non-profit aspect of collegiate bowls, and a thorough examination of the BCS' abuses of tax-exempt status. Chapter 4 tied the thesis together with a look at the Joint Commission for Accreditation of Healthcare Organizations' framework for governing larger non-profit industries.

### *Conclusion*

In sum, the conditions that set the stage for these sorts of misuses of public funds are many. Whether one wishes to cite lack of oversight, corrupt executives, simple negligence, or lack of awareness by the public, it does not matter, the conditions were set and these individuals took full advantage of the situation. The problem has now been defined and it is up to those at the highest levels, Federal, state, Senate, and Congress, to address these problems and institute future policies to govern the spending of high-profit, 501(c)(3) organizations. Numerous violations, expenses, comparative salaries, and Federal policies have been cited within this text to illustrate, define, and expound upon this problem. It is now up to those that govern these areas of institutions to address them, punish them, correct them, and proactively prevent this from happening again.



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**Date:** 26 April 2012

**To:** Josh Webb, MPA Student

**cc:** Paul Newberry, IRB Chair  
Chandra Commuri, Business & Public  
Administration

**From:** Steve Suter, Research Ethics Review Coordinator

**Subject: Protocol 12-61: Not Human Subjects  
Research**

Thank you for bringing your protocol, "**A Case Study of BCS' Abuses of Non-Profit Status**", to the attention of the IRB/HSR. On the form, "*Is My Project Human Subjects Research?*", received April 25th, 2012, you indicated the following:

I want to interview, survey, systematically observe, or collect other data from human subjects, for example, students in the educational setting. **NO**

I want to access data about specific persons that have already been collected by others [such as test scores or demographic information]. Those data can be linked to specific persons [regardless of whether I will link data and persons in my research or reveal anyone's identities]. **NO**

Given this, your proposed project will not constitute human subjects research. Therefore, it does not fall within the purview of the CSUB IRB/HSR. Good luck with your project.

If you have any questions, or there are any changes that might bring these activities within the purview of the IRB/HSR, please notify me immediately at 654-2373. Thank you.

A handwritten signature in blue ink, appearing to read "Steve Suter".

---

Steve Suter, University Research Ethics Review Coordinator

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**Chapter 3.1: Quick Reference Table of Abuses by Bowl**

<b>Organization/Bowl</b>	<b>Infraction</b>
Fiesta Bowl	Reimbursed \$46,539 in campaign contributions since 2000 (14 people contributed)
	Has given \$1,217,081 to Arizona lobbying firms
	Has given \$124,500 in interest free loans to executives
	Spends \$331,438 per year on “Fiesta Frolic Golf Weekend”
	Participating university, University of Connecticut, lost \$2.5 million to play in the game FYE 2010
	Former Tempe City Councilman accepted tickets to sporting event from Bowl executives after helping to secure \$6.45million subsidy from the City of Tempe in 2005, additionally received 2009 Super Bowl tickets worth \$4,000 total and an all expenses paid trip for 2 to travel to Minnesota to watch a bowl game.
	CEO John Junker reimbursed \$13,086 for a friend’s wedding, \$22,000 for gold and silver coins, and \$38,113 for his private birthday party. Additionally it paid for Junker’s \$10,800 per year membership fee to Whispering Rock Country Club, gave him an interest free loan for \$100,000 for the entry fee, and he spent \$1,241.17 at Bourbon Street Strip Club in Phoenix (later billed as a business expense).
Arizona Sports Foundation gave \$225,000 grants from 2005 through 2009 to Big XII Conference (Big XII Conference is contractually obligated to participate in game)	
Music City Bowl	Spent \$7,203 on Miniature Golf Tournament in FYE 2003
Non-Bowl Specific	All bowl directors receive salaries disproportionate to salaries for equally sized non-profit organizations and even some equal sized for-profit organizations (Examples: Kraft Fight Hunger Bowl CEO’s salary was 11% of total revenue in FYE 2008; Cotton Bowl CEO, Rick Baker, received salary of \$490,433 in FYE 2007; Sugar Bowl CEO, Paul Hoolahan, received salary of \$609,225 in FYE 2008; increased to \$645,386 in FYE 2009)
	All Bowls combine gave only \$3.3 million in charities of \$186 million in revenue in FYE 2009 (more than half came of the \$3.3 million came from only 2 bowls)
Orange Bowl	Spent \$331,938 on “Summer Splash” cruise and parties in FYE 2004 (The trip was fully funded for 57 people on Royal Caribbean Cruise line to the Caribbean paid for by charitable funds. No business related items conducted during the duration.)
	Spent \$42,281 on golf on FYE 2004 and FYE 2006
	Charitable grants largely given to affiliated foundations

Appendix B:

**Chapter 3.1...continued**

<b>Organization/Bowl</b>	<b>Infraction</b>
Orange Bowl (con't.)	Spent \$535,764 on gifts in FYE 2006
	Spent \$472,627 on gifts in FYE 2008
	Spent \$1,017,322 on unspecified event catering/entertainment in FYE 2008
	Participating university, Virginia Tech, lost \$1.77 million FYE 2009
	Participating university, Virginia Tech, lost \$421,046 in FYE 2010
	Spent \$1,189,005 on unspecified event catering/entertainment in FYE 2009
	Spent \$756,546 on bowl personnel travel in FYE 2009
	Spent \$60,000 on governmental relations in FYE 2008
	Donated only \$10,570 of \$12.4 million in revenue to charities in FYE 2008
Sugar Bowl	Received \$5,448,539 in government grants in total
	Spent \$710,406 in FYE 2007 and FYE 2008 on a category called "Special Appropriations"
	Spent \$201,226 on gifts in FYE 2008
	Spent \$330,244 on decorations on FYE 2008
	Received \$3million in direct funding from Louisiana state government in FYE 2008 and donated nothing to charity, despite making \$34.1 million in revenue
	Top three executives made combined salaries of \$1,225,136 on \$12.7million in revenue in FYE 2009

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