

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

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Item for Information

SUBJECT: FY 2008 University of Michigan Department of Athletics Operating Budgets

For the proposed FY 2008 Operating Budget (described in detail on the following pages), we project an operating surplus of \$12.9 million based on operating revenues of \$87.4 million and operating expenses of \$74.5 million. The budgeted operating surplus in FY 08 will be used to rebuild our operating reserves. Highlights are as follows:

- The budget reflects an eight home-game schedule for football (seven home games were played last year).
- The budget reflects expected Preferred Seat Donations of \$9.4 million (third year of full scheduled requirement following a 50% phase-in for FY 05).
- Revenue from sponsorship, licensing, and annual fund gifts (other than Preferred Seat Donations) continue to be budgeted at a conservative level and well below the projected results from FY 2007. These revenue sources are typically volatile, and we will strive to achieve results more in line with FY 2007.
- Included in operating expenses is a \$4.5 million transfer to a deferred maintenance fund established in FY 2003. The deferred maintenance fund is used as a means to provide for major repair and rehabilitation projects for our athletic facilities. We expect to continue to set aside additional funds in future years for this purpose.
- The budget reflects operating expenditure increases of 6.3% principally due to compensation, financial aid, utility costs, team travel, and home game expense increases.

We are also pleased to report that based on preliminary results, we project that the operating surplus for FY 07 will be \$13.6 million, \$6.5 million more than budgeted. The favorable outcome is the result of greater than expected revenues from licensing, investment income (due to higher interest rates and higher than expected cash balances), gifts, and corporate sponsorship. The accumulation of this year's and prior years operating surpluses have been used to fund our ongoing capital needs. In that regard, for FY 07 we expect to transfer \$25.1 million to our plant fund to fund facility renewal projects (most notably the Michigan Stadium Project).

Respectfully submitted,



William C. Martin
Donald R. Shepherd Director of Athletics



Jason J. Winters
Chief Financial Officer, Department of Athletics

July, 2007

MICHIGAN ATHLETIC DEPARTMENT
FY 2008 Operating Budget
(in thousands)

07/08 over 06/07

	<u>FY 06/07</u>			<u>FY 07/08</u>		<u>% Change</u>		<u>\$ Change</u>	
	<u>FY 05/06</u> <u>ACTUAL</u>	<u>BUDGET</u>	<u>PROJECTED</u>	<u>BUDGET</u>	<u>Budget</u>	<u>Projected</u>	<u>Budget</u>	<u>Projected</u>	
<u>REVENUES</u>									
Spectator admissions	\$ 35,270	\$ 34,429	\$ 34,229	\$ 38,360	11.4%	12.1%	\$ 3,931	\$ 4,131	
Conference distributions	10,675	10,715	13,363	16,856	57.3%	26.1%	6,141	3,493	
Proceeds from priority seating programs	9,367	9,425	9,425	9,425	0.0%	-29.5%	-	-	
Other annual gifts	4,594	3,660	4,410	3,910	6.8%	-58.5%	250	(500)	
Corporate sponsorship	5,855	5,041	5,687	4,925	-2.3%	11.7%	(116)	(762)	
Licensing royalties	5,304	3,000	4,314	3,300	10.0%	-23.5%	300	(1,014)	
Radio	1,787	1,875	1,975	2,050	9.3%	3.8%	175	75	
Facilities	2,010	1,850	1,850	1,909	3.2%	3.2%	59	59	
Concessions and parking	1,813	1,763	1,629	1,963	11.3%	20.5%	200	334	
Other income	1,216	757	1,400	896	18.4%	-36.0%	139	(504)	
Investment income	4,297	3,500	5,400	3,800	8.6%	-29.6%	300	(1,600)	
<u>CURRENT FUND REVENUES</u>	<u>\$ 82,188</u>	<u>\$ 76,015</u>	<u>\$ 83,682</u>	<u>\$ 87,394</u>	15.0%	4.4%	<u>\$ 11,379</u>	<u>\$ 3,712</u>	
<u>EXPENSES</u>									
Salaries, wages & benefits	\$ 22,800	\$ 24,391	\$ 25,341	\$ 26,845	10.1%	5.9%	\$ 2,454	\$ 1,504	
Financial aid to students	12,258	13,725	12,875	14,411	5.0%	11.9%	686	1,536	
Team and game expense	11,053	12,066	12,341	13,171	9.2%	6.7%	1,105	830	
Facilities	6,130	5,888	6,558	6,614	12.3%	0.9%	726	56	
Deferred maintenance fund transfer	4,500	4,500	4,500	4,500	0.0%	0.0%	-	-	
Other operating and administrative expenses	6,157	6,118	6,290	6,368	4.1%	1.2%	250	78	
Debt service transfer to plant fund	1,748	2,156	2,133	2,565	19.0%	20.3%	409	432	
<u>CURRENT FUND EXPENSES</u>	<u>\$ 64,646</u>	<u>\$ 68,844</u>	<u>\$ 70,038</u>	<u>\$ 74,474</u>	8.2%	6.3%	<u>\$ 5,630</u>	<u>\$ 4,436</u>	
<u>NET OPERATING SURPLUS</u>	<u>17,542</u>	<u>7,171</u>	<u>13,644</u>	<u>12,920</u>					
<u>Transfers and capital expenditures:</u>									
Capital expenditures from current funds and transfers to plant and other funds	(5,769)	(5,135)	(38,445)	(2,984)					
Transfer from quasi-endowment and other funds	-	-	13,355	-					
<u>Net transfers and capital expenditures</u>	<u>(5,769)</u>	<u>(5,135)</u>	<u>(25,090)</u>	<u>(2,984)</u>					
<u>INCREASE (DECREASE) IN CURRENT FUND BALANCES</u>	<u>11,773</u>	<u>2,036</u>	<u>(11,446)</u>	<u>9,936</u>					

**University of Michigan Athletic Department
2007 – 2008 Budget Notes and Assumptions
(all dollar amounts in 000's)**

Basis for accounting: The University of Michigan Athletic Department manages its financial activity through the use of three different funds, the Operating Fund, the Endowment Fund, and the Plant Fund. The Operating Fund budget is presented herein. (A consolidated financial statement is prepared annually and audited by PricewaterhouseCoopers).

The Operating Fund budget includes most of the revenues and expenditures of the Athletic Department, with the exception of Endowment Fund gifts and associated market value adjustments (which are recorded in the Endowment Fund), and investments in the physical plant (with the associated debt, which are recorded in the Plant Fund).

Governmental Accounting Standards Board Statement No. 33 (“GASB 33”) requires that the promises of private donations be recognized as receivables and revenues in the year the pledge was given, provided they are verifiable, measurable, and probable of collection. The Athletic Department Operating Fund budget presented herein records gifts when received (i.e., on a cash basis). The Operating Fund budget presented also reflects 100% of the gifts related to preferred seat donations (“PSD”) as gift income. For financial reporting purposes, 20% of PSD gifts are reflected in spectator admissions.

1. **Spectator admissions:** Spectator admissions are net of associated guarantee payments to visiting schools and consist of the following:

	Actual FY 04	Actual FY 05	Actual FY 06	Projected FY 07	Budget FY 08
Football	\$ 29,190	\$ 26,266	\$ 30,570	\$ 29,800	\$ 34,000
Basketball	2,315	2,271	2,354	2,270	2,162
Hockey	1,888	1,873	2,141	1,987	2,000
Other	<u>168</u>	<u>232</u>	<u>205</u>	<u>172</u>	<u>198</u>
Total	\$ 33,561	\$ 30,642	\$ 35,270	\$ 34,229	\$ 38,360

Memo:

Home football games	7	6	7	7	8
Regular season football games	12	11	11	12	12

2. **Conference distributions:** Expected Big 10 conference distributions consist of the following:

	Actual FY 04	Actual FY 05	Actual FY 06	Projected FY 07	Budget FY 08
Television (football and basketball)	\$ 6,122	\$ 6,258	\$ 6,143	\$ 8,719	\$ 12,288
Football Bowl games	1,993	1,721	1,917	1,947	1,730
NCAA basketball based distributions	2,257	2,306	2,275	2,297	2,438
Other miscellaneous	<u>331</u>	<u>377</u>	<u>340</u>	<u>400</u>	<u>400</u>
	\$ 10,703	\$ 10,662	\$ 10,675	\$ 13,363	\$ 16,856

3. **Facilities:** Facility income includes the fee and rental revenue from the University of Michigan Golf Course, the Varsity Tennis Center, Yost Ice Arena, and the various other athletic department facilities.
4. **Investment Income:** Investment income includes the return from the University Investment Pool (UIP) program as well as the quarterly distribution from Endowment and Quasi-Endowment Funds.
5. **Other Income:** Other income consists of guarantees received for hockey and basketball away games, ticket handling fees, and other miscellaneous income.

**University of Michigan Athletic Department
2007 – 2008 Budget Notes and Assumptions
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6. **Compensation expense:** The athletic department has approximately 240 full time employees including those that have joint appointments with other University units, and various part time employees, interns, and graduate assistants. Compensation expense by area is as follows:

	<u>Actual</u> <u>FY 04</u>	<u>Actual</u> <u>FY 05</u>	<u>Actual</u> <u>FY 06</u>	<u>Projected</u> <u>FY 07</u>	<u>Budget</u> <u>FY 08</u>
Coaches and team staff	\$ 8,326	\$ 8,444	\$ 8,980	\$ 10,807	\$ 11,438
Compliance, sports information, and other administration	2,349	2,390	2,575	2,852	2,978
Athletic medicine, conditioning, academic support	2,059	2,134	2,316	2,522	2,621
Facilities	2,132	2,308	2,404	2,397	2,563
Sports marketing, development & studio operations	951	1,011	853	819	869
Ticket and business office	635	688	733	766	786
Fringe benefits	4,269	4,446	4,939	5,178	5,590
Total	\$ 20,721	\$ 21,421	\$ 22,800	\$ 25,341	\$ 26,845

7. **Financial aid to students:** The athletic department grants the maximum allowable scholarships to all varsity sports. Total grant-in-aid equivalencies are approximately 335 with an estimated in-state to out-of-state ratio of 30%/70%.

8. **Sports programs:** Sports program expense is comprised of the following:

	<u>Actual</u> <u>FY 04</u>	<u>Actual</u> <u>FY 05</u>	<u>Actual</u> <u>FY 06</u>	<u>Projected</u> <u>FY 07</u>	<u>Budget</u> <u>FY 08</u>
Team travel expenses	\$ 3,169	\$ 3,223	\$ 3,329	\$ 4,095	\$ 4,156
Equipment	1,730	1,759	1,814	1,855	1,848
Home game, hosted events, & officials	1,548	1,539	1,722	1,973	2,520
Training and medical expenses	665	599	828	822	836
Recruiting	835	892	993	992	982
Vacation board	456	528	521	599	766
Post season expenses, net	519	340	520	500	600
Booster & "special account" expenses	646	408	503	575	513
Other sport program expenses	699	679	823	930	950
Total	\$ 10,267	\$ 9,967	\$ 11,053	\$ 12,341	\$ 13,171

Post season expenses are estimated based on the likelihood of participation in post season events for the majority of varsity sports. The post-season budget assumes that the football bowl expenditures will not exceed the bowl expense allowance received.

9. **Facility expenses:** Facility expenses consist of the following:

	<u>Actual</u> <u>FY 04</u>	<u>Actual</u> <u>FY 05</u>	<u>Actual</u> <u>FY 06</u>	<u>Projected</u> <u>FY 07</u>	<u>Budget</u> <u>FY 08</u>
Repairs & maintenance	\$ 1,844	\$ 2,015	\$ 2,237	\$ 2,519	\$ 2,206
Utilities	1,683	1,862	2,340	2,600	2,783
Supplies & equipment	551	931	804	719	909
Other facility expenses	645	628	749	720	716
Total	\$ 4,723	\$ 5,436	\$ 6,130	\$ 6,558	\$ 6,614

**University of Michigan Athletic Department
2007 – 2008 Budget Notes and Assumptions
(all dollar amounts in 000's)**

10. **Deferred Maintenance Fund Transfer:** In 2002 the department established a Deferred Maintenance Fund as a means to provide for repair and rehabilitation projects for the athletic physical plant. Transfers from the Operating Fund to the Deferred Maintenance Fund are reflected as operating expenses in this presentation. Activity in the Fund is summarized as follows:

	Actual FY 04	Actual FY 05	Actual FY 06	Projected FY 07	Budget FY 08
Beginning balance	\$ 1,415	\$ 2,064	\$ 2,499	\$ 6,177	\$ 7,680
Transfers	4,250	4,250	4,500	4,500	4,500
Uses	(3,601)	(3,815)	(822)	(2,997)	(3,029)
Ending balance	\$ 2,064	\$ 2,499	\$ 6,177	\$ 7,680	\$ 9,151

11. **Other operating and administrative expenses:** Other operating and administrative expenses consist of the following:

	Actual FY 04	Actual FY 05	Actual FY 06	Projected FY 07	Budget FY 08
Corporate sponsor and development expenses, including television production costs	\$ 1,748	\$ 1,677	\$ 1,806	\$ 1,862	\$ 1,836
Postage, equipment & ticket expenses	921	914	1,131	1,160	1,128
University re-charges	850	868	802	705	730
Insurance	548	556	462	313	399
Telephone	339	276	290	294	320
Publications & printing	396	366	366	326	361
Professional travel	267	255	298	332	381
Band expenses, excluding post-season expenses	163	160	164	220	229
Big 10 conference and other dues	97	100	98	100	100
Provision for basketball penalties	(209)		-	-	-
Other expenses	668	871	739	978	884
Total	\$ 5,788	\$ 6,043	\$ 6,156	\$ 6,290	\$ 6,368

12. **Debt service:** Debt service and associated debt is summarized as follows:

	FY 2008 Budget			Scheduled Balance	
	Interest	Principal	Total Debt Service	June, 2007	June, 2008
		\$	\$	\$	\$
Canham Natatorium	35	805	840	805	-
Stadium expansion	31	705	736	705	-
Ross Academic Center	82	400	482	2,500	2,100
Stadium concrete	332	140	472	7,745	7,605
Hartwig renovation	140	55	195	3,245	3,190
Softball renovation	165	65	230	-	3,565
Rowing facility	42	50	92	855	805
Total	\$ 827	\$ 2,220	3,047	\$ 15,855	\$ 17,265
Less amounts collected on pledges in Plant Fund			(482)		
Net debt service - Operating Fund			\$ 2,565		

13. **Transfers to Plant Fund for capital expenditures:** Capital expenditures and estimated plant fund transfers are budgeted at \$2.9 million for fiscal year 2008 and consist of various renovation projects.