

**THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION**

**Received by the  
Regents  
March 19, 2015**

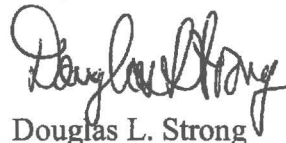
**ITEM FOR INFORMATION**

**SUBJECT:** Supplemental Information to the Audited Financial Statements of the  
Department of Intercollegiate Athletics of the University of Michigan for the  
Year Ended June 30, 2014

**BACKGROUND:**

Enclosed is supplemental information to the audited financial statements of the Department of Intercollegiate Athletics of the University of Michigan for the year ended June 30, 2014. The supplemental information represents a report on agreed-upon procedures performed by PricewaterhouseCoopers, in addition to the financial statement audit, in accordance with the National Collegiate Athletic Association's financial reporting requirements (NCAA Bylaw 3.2.4.16).

Respectfully submitted,



Douglas L. Strong  
Interim Executive Vice President and  
Chief Financial Officer

March 2015  
attachment



## **Report of Independent Accountants**

Mark S. Schlissel, President  
University of Michigan

We have performed the following procedures which were agreed to by Mary Sue Coleman, Former President of the University of Michigan (the "University"), solely to assist you in evaluating whether the accompanying schedule of revenue and expenses of Intercollegiate Athletics of the University of Michigan (the "Program") for the year ended June 30, 2014 (the "Schedule") submitted to the National Collegiate Athletic Association ("NCAA") is in compliance with the NCAA Bylaw 3.2.4.16 for the year ended June 30, 2014. Management of the Program is responsible for the Schedule and the compliance with the NCAA requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The Program which consists of certain departments of the University was subject to an audit of its financial statements as of and for the year ended June 30, 2014. This audit was performed in accordance with auditing standards generally accepted in the United States of America. The procedures enumerated herein represent the additional procedures necessary to meet the minimum requirements of the NCAA Bylaw 3.2.4.16. The procedures that we performed and our results are as follows.



1. We obtained the following list of booster and alumni organizations and a rollforward of the cash balance for the year ended June 30, 2014, from management of the Program.
  - a. We checked the mathematical accuracy of the rollforward, below, without exception.
  - b. We traced and agreed all amounts within the rollforward below to the Program's general ledger and the third party Disclosure Statement confirmations obtained directly from the officers or directors of the booster and alumni organizations (the Disclosure Statement confirmations are external financial activity confirmations received from each of the booster and alumni organizations regarding the financial activity as it relates to each organization for the fiscal year) without exception.

Organization (1)	Beginning Cash Balance	Cash Receipts	Athletics Contributions to or on behalf of Program (2)	Organization Expenditures not on behalf of Program (3)	Ending Cash Balance
<b>Booster Organizations:</b>					
Graduate "M" Club	\$314,515	\$93,768		\$(108,220)	\$300,063
Dekers Blue Line Club	15,878	4,006	\$ (12,469)	(2,662)	4,753
Bob Ufer Quarterbacks Club	5,050	57,380	(12,612)	(45,327)	4,491
University of Michigan Diamond Club	54,214	283	-	(20)	54,477
Michigan Women's Athletic Association	70,918	33,704	(7,250)	(11,010)	86,362
University of Michigan Club of Ann Arbor	47,693	31,572	(12,070)	(36,054)	31,141
Total booster organizations	508,268	220,713	(44,401)	(203,293)	481,287
<b>Alumni Organizations:</b>					
University of Michigan Club of Greater Detroit:					
Operating Fund	83,451	252,549	(9,758)	(238,747)	87,495
Scholarship Fund	79,760	13,506	-	-	93,266
University of Michigan Club of Greater Flint	38,345	43,140	(16,030)	(32,063)	33,392
University of Michigan Club of Chicago	135,095	58,285	(476)	(79,028)	113,876
University of Michigan Club of Grand Rapids	12,560	18,143	-	(21,368)	9,335
University of Michigan Club of Northville	7,814	12,976	(1,500)	(14,282)	5,008
University of Michigan Club of Toledo	9,929	18,894	(83)	(13,002)	15,738
University of Michigan Club of Mt. Clemens	17,503	2	-	-	17,505
Total alumni organizations	384,457	417,495	(27,847)	(398,490)	375,615
Total booster and alumni organizations	\$892,725	\$638,208	\$(72,248)	\$(601,783)	\$856,902

- (1) Booster organizations are organizations sanctioned by the Program to promote and support the Program in general and/or a specific intercollegiate sport. Alumni organizations are chartered clubs of the Alumni Association of the University of Michigan whose overall alumni activities include support to the Program.
- (2) Contributions to or on behalf of the Program include \$62,224 of direct donations received by the University for the Program and reported by the booster and alumni organizations primarily for scholarships and support of specific intercollegiate sports. Contributions also include \$9,804 of expenditures incurred but not received by the University, however these expenditures include booster and alumni organization expenditures made for the benefit of athletes or the University's athletic department staff. The expenditures incurred for the benefit of athletes or the University's athletic department staff are primarily the cost of sports banquets and outings allocable to athletes and the University's athletic department staff.





- (3) Expenditures not on behalf of the Program include the expenditures made by the booster or alumni organization for the purposes of the overall booster and alumni organization and are not incurred for the benefit of the Program. However, they are included as a part of the total reported booster and alumni organization expenditures. These expenditures include the following:

Banquets and outings	\$ 233,074
Scholarships	128,487
Tickets	112,209
Administrative expenses	57,481
Meetings	14,461
Other club activities*	56,071
Total expenditures not on behalf of Program	<u>\$ 601,783</u>

\* Other club activities include expenses for various miscellaneous items such as newsletters, lecture series, pep rallies, bumper stickers, coupon books, etc.

- c. We obtained written confirmation of the financial activities presented above directly from the booster and alumni organization officers or directors. We traced and agreed amounts to the rollforward presented above, and to the related general ledger of the Program without exception.
- d. We reconciled all direct donations from the booster and alumni organizations to revenues recorded in the Program's general ledger without exception.
2. We obtained from the Program's management the Schedule included in Attachment 1. We obtained University prepared worksheets for each operating revenue and expense category on the Schedule, which management stated are generated from its general ledger.
- a. We mathematically checked the totals and subtotals included on the Schedule without exception.
- b. We mathematically checked the totals and subtotals included in the University prepared worksheets without exception.
- c. We compared the amounts for each operating revenue and expense category included on the Schedule to those in the University prepared worksheets without exception.
- d. We compared the amounts for each of the operating revenue and expense categories included on the University prepared worksheets to the University's general ledger without exception.
3. We obtained from Program management a listing of all contributions received by the University's athletics department during the year ended June 30, 2014.
- a. We mathematically checked the total dollar amount of the listing without exception.
- b. We compared the total dollar amount from the listing to the total dollar amount in the "Contributions" line item of the Schedule without exception.
- c. There were no contributions greater than ten percent of the total of all contributions received.
4. We obtained a detailed schedule of away game guarantee revenues from management of the Program for the year ended June 30, 2014.
- a. We compared the total on the detailed schedule to the general ledger without exception.
- b. We mathematically checked the detailed schedule without exception.
- c. We compared the total revenues for away game guarantees in the detailed schedule to the corresponding amount in the Total column on the Schedule without exception.





- d. We selected three agreements from the detailed schedule and compared the guarantee revenue on the detailed schedule to amounts specified in contracts or settlement reports. We compared the revenues per the agreements to the detailed schedule without exception.

	<u>Exception (Yes/No)</u>
Men's Football, September 21, 2013	No
Men's Basketball, December 21, 2013	No
Men's Hockey, January 23, 2014	No

5. We obtained a detailed schedule of guarantee expenses for the year ended June 30, 2014.
- a. We compared the total on the detailed schedule to the general ledger without exception.
  - b. We mathematically checked the total of the detailed schedule without exception.
  - c. We compared the total expenses for home game guarantees in the detailed schedule to the corresponding amount in the Total column on the Schedule without exception.
  - d. We selected three guarantee expenses for home games from the detailed schedule and compared the guarantee expense on the detailed schedule to amounts specified in contracts or settlement reports without exception.

Refer to schedule below for a listing of selections made and the results of testing.

	<u>Exception (Yes/No)</u>
Men's Football, August 31, 2013	No
Men's Football, September 7, 2013	No
Men's Football, September 14, 2013	No

6. We selected ten sports listed on the University's Athletic website, MGoBlue.com, and haphazardly selected one student-athlete from the squad list for each sport as of June 30, 2014.
- a. We obtained the Big Ten tenders for financial aid from the selected athlete's file, observed the financial aid listed on the tender and compared this to the information listed on the squad list without exception.
  - b. We observed the amount of financial aid the athlete received in the University's student financial aid system without exception.
  - c. We mathematically checked the amount of financial aid per the financial aid system and observed that it was less than or equal to the full Grant-in-Aid amount listed on the squad list without exception.

Refer to schedule below for a listing of selections made and the results of testing.

<u>Student's Sport</u>	<u>Exception (Yes/No)</u>
Men's Baseball	No
Men's Cross Country	No
Men's Tennis	No
Men's Basketball	No
Men's Soccer	No
Women's Basketball	No



Women's Softball	No
Women's Volleyball	No
Women's Track & Field	No
Women's Gymnastics	No

7. We obtained a listing from Program management of coaches employed by the University for the year ended June 30, 2014.
- We compared the total expenses for coaches' salaries in the detailed listing to the Program's general ledger which was compared to the corresponding amount in the Total column on the Schedule without exception.
  - We mathematically checked the total of the listing without exception.
  - From the listing of coaches employed by the University, we haphazardly selected ten coaches, including coaches for football, men's basketball and women's basketball. We compared the coaches' salaries per the contracts, as amended, or an equivalent such as a memorandum of understanding to the amounts recorded by the Program in the Schedule. For any salaries that did not agree, we obtained supporting reconciling documentation or explanations from management. We make no comment as to the appropriateness of the reconciling items or sufficiency of explanations obtained.
  - We obtained W-2's for the coaches selected and compared the dollar amounts appearing in the W-2's for gross wages to the related expense in the detailed listing. For W-2 items that did not agree to the related expenses in the detailed listing we obtained supporting reconciling documentation or explanations from management. We make no comment as to the appropriateness of the reconciling items or sufficiency of explanations obtained.

Refer to schedule below for a listing of selections made and the results of testing.

	<u>Exception (Yes/No)</u>
Men's Football Head Coach	Yes <sup>1</sup>
Men's Basketball Head Coach	No
Women's Basketball Head Coach	No
Men's Soccer Head Coach	No
Men's Hockey Head Coach	Yes <sup>2</sup>
Women's Tennis Head Coach	No
Women's Field Hockey Head Coach	Yes <sup>3</sup>
Women's Softball Head Coach	No
Men's Football Assistant Coach	No
Men's Football Assistant Coach	No

<sup>1</sup>In the previous year, we observed that this coach's employment contract included a provision which increased his annual salary by \$100,000, effective January 1, 2013 and that this provision was not reflected in the salary payments to the coach for the year ended June 30, 2013. This caused the coach to be underpaid by \$50,000 for the year ended June 30, 2013. This fiscal 2013 underpayment was corrected in fiscal 2014. Accordingly, payments to this coach in fiscal 2014 include contractually required payments as well as this correcting payment.

<sup>2</sup>In the previous year, we observed that this coach did not receive the monthly installment of "additional compensation" guaranteed by his employment contract during September 2012, which caused the coach to be underpaid by \$17,917 for the year ended June 30, 2013. This fiscal 2013 underpayment was corrected in fiscal 2014. Accordingly, payments to this coach in fiscal 2014 include contractually required payments as well as this correcting payment.



<sup>3</sup>We observed that this coach was paid at an annual rate higher than her contracted amount for two months in the year ended June 30, 2014 which resulted in her being overpaid \$667 for the year-ended June 30, 2014.

8. For coaches not employed under contract, we obtained a listing of coaches that received bonuses during the year from management. We haphazardly selected five coaches from the listing and recalculated the bonus received per the payroll system based on guidelines per the Program's NCAA Post-Season Criteria Listing, a schedule prepared by the Program which details bonus guidelines based on various criteria met, without exception.

Refer to schedule below for a listing of selections made and the results of testing.

	Exception (Yes/No)
Men's Football Assistant Coach	No
Men's Gymnastics Head Coach	No
Men's Football Assistant Coach	No
Women's Rowing Head Coach	No
Women's Swimming Assistant Coach	No

9. We obtained a listing of support staff for athletics and their salaries for the year ended June 30, 2014.
- We compared and agreed the total expenses for support staff salaries in the detailed listing to the Program's general ledger and to the corresponding amount in the Total column on the Schedule without exception.
  - We mathematically checked the total of the listing without exception.
  - From the listing of support staff employed by the University, we haphazardly selected one support staff. We compared the support staff's salary and bonus per the contract or an equivalent such as a memorandum of understanding to the amounts recorded by the Program in the Schedule without exception.
  - We obtained the W-2 for the support staff selected and compared the dollar amounts appearing in the W-2 for gross wages to the related expense in the detailed listing. For W-2 items that did not agree to the related expenses in the detailed listing we obtained supporting reconciling documentation or explanations from management. We make no comment as to the appropriateness of the reconciling items or sufficiency of explanations obtained.

Refer to schedule below for a listing of selections made and the results of testing.

	Exception (Yes/No)
Athletic Director	No

10. We obtained from the Program's management a summary schedule of severance payments for the year ended June 30, 2014.
- We mathematically checked the total of the detailed schedule without exception.
  - We compared the total dollar amount of expense for severance to the corresponding amount in the line item "Severance Payments" included in the Schedule without exception.





- c. We haphazardly selected one payment from the schedule obtained, and for each item selected, we obtained the related severance agreement from the Program's management. We compared the total dollar amount of payments related to each agreement to the severance agreements without exception.

Refer to the schedule below for a listing of selections made and the results of the procedures performed.

	Exception (Yes/No)
Men's Football Offensive Coordinator	No
11. We compared the direct institutional support recognized in the Schedule for the year ended June 30, 2014 to the general ledger without exception.	
12. We inquired of management regarding indirect institutional support recorded by the Program during the year ended June 30, 2014 and were told that there was no indirect institutional support recorded during this period.	
13. We obtained an understanding of the University's methodology for allocating indirect facilities and administrative support during the year ended June 30, 2014. We compared and agreed the indirect facilities and administrative support expense reported by the Program in the Schedule to the corresponding revenue category reported by the Program in the Schedule without exception. We mathematically checked the totals for indirect facilities and administrative support without exception.	
14. We obtained from Program management the Program's recruiting and travel policies. We compared the index of the Program's policies to the NCAA policies and observed that the Program's policies included each of the following topics included in the NCAA policies: Travel Procedures, Vehicle Rentals, Meal Allowance, Hosting Recruits, Recruiting Travel, NCAA Travel, Entertainment, Banquet/Meal Expenses, and Gifts/Flowers/Awards without exception. We make no comment as to the appropriateness of the Program's detailed policies.	
15. We obtained representations from the Program's management that to the best of their knowledge and belief, all revenues and expenditures related to the Department of Athletics had been properly included in the Schedule.	

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Schedule included in Attachment 1 of the Program for the year ended June 30, 2014. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the University and is not intended to be and should not be used by anyone other than this specified party.

*PricewaterhouseCoopers LLP*

December 23, 2014

**The University of Michigan Department of Athletics**  
**Schedule of Revenues and Expenses Submitted to NCAA**  
**For the Year Ended June 30, 2014 (UNAUDITED)**

Item	Football	Men's Basketball	Women's Basketball	Other Sports	Non-Program Specific	Total
<b>Revenues</b>						
Ticket Sales	\$ 46,108,503	\$ 4,768,080	\$ 97,869	\$ 2,294,604		\$ 53,269,056
Student Fees						-
Guarantees	400,000	197,124		230,000		827,124
Contributions	26,076,649	2,115,387	5,840	1,328,248	\$ 5,741,143	35,267,267
Compensation and Benefits Provided by a Third Party						-
Direct State or Other Government Support						-
Direct Institutional Support				2,400	4,431	6,831
Indirect Facilities and Administrative Support					249,485	249,485
NCAA/Conference Distributions including all tournament revenues	15,279,385	6,132,293		133,383	7,727,692	29,272,753
Broadcast, Television, Radio and Internet Rights						-
Program Sales, Concessions, Novelty Sales and Parking	2,576,089	375,935	27,653	244,046	980,689	4,204,412
Royalties, Licensing, Advertisements and Sponsorships					22,123,931	22,123,931
Sports Camp Revenues					348,053	348,053
Endowment and Invested Income	943,123	48,147	64,586	1,055,614	866,249	2,977,719
Other Operating Revenues				66,691	9,286,498	9,353,189
<b>Total Operating Revenues</b>	<b>91,383,749</b>	<b>13,636,966</b>	<b>195,948</b>	<b>5,354,986</b>	<b>47,328,171</b>	<b>157,899,820</b>
<b>Expenses</b>						
Athletic Student Aid	5,047,904	662,459	569,353	13,052,038	233,017	19,564,771
Guarantees	2,050,000	474,570	50,000	162,400		2,736,970
Coaching Salaries, Benefits and Bonuses Paid by the University and Related Entities	8,521,787	3,683,899	1,025,903	8,452,304		21,683,893
Coaching Other Compensation and Benefits Paid by a Third Party						-
Support Staff/Administrative Salaries, Benefits and Bonuses Paid by the University and Related Entities	1,537,887	533,043	267,017	774,577	24,624,756	27,737,280
Support Staff/Administrative Other Compensation and Benefits Paid by a Third Party						-
Severance Payments	293,185			149,521	46,951	489,657
Recruiting	584,721	234,090	198,381	1,039,853		2,057,045
Team Travel	2,455,554	937,174	705,169	6,001,050	113,956	10,212,903
Equipment, Uniforms and Supplies	1,328,573	162,496	124,036	1,786,921	1,955,615	5,357,641
Game Expenses	2,769,103	466,986	182,587	673,008	235,518	4,327,202
Fund Raising, Marketing and Promotion	495	316	292	1,654	3,998,666	4,001,423
Sports Camp Expenses						-
Direct Facilities, Maintenance and Rental					29,776,106	29,776,106
Spirit Groups					1,196,139	1,196,139
Indirect Facilities and Administrative Support					249,485	249,485
Medical Expenses and Medical Insurance					618,222	618,222
Memberships and Dues	2,470	300	1,316	12,463	210,986	227,535
Other Operating Expenses	2,164,053	302,222	170,565	1,322,119	8,356,763	12,315,722
<b>Total Operating Expenses</b>	<b>26,755,732</b>	<b>7,457,555</b>	<b>3,294,619</b>	<b>33,427,908</b>	<b>71,616,180</b>	<b>142,551,994</b>
Transfers to Institution					2,309,198	2,309,198
<b>Total Expenses</b>	<b>26,755,732</b>	<b>7,457,555</b>	<b>3,294,619</b>	<b>33,427,908</b>	<b>73,925,378</b>	<b>144,861,192</b>
<b>Excess (Deficiencies) of Revenues Over (Under) Expenses</b>	<b>\$ 64,628,017</b>	<b>\$ 6,179,411</b>	<b>\$ (3,098,671)</b>	<b>\$ (28,072,922)</b>	<b>\$ (26,597,207)</b>	<b>\$ 13,038,628</b>

**INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN**

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 and 2013  
with  
INDEPENDENT AUDITOR'S REPORT**



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

June 30, 2014 and 2013

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## **Independent Auditor's Report**

The Regents of the University of Michigan

We have audited the accompanying financial statements of Intercollegiate Athletics of the University of Michigan ("ICA"), which consists of certain departments of the University of Michigan, as of and for the years ended June 30, 2014 and 2013 and the related notes to the financial statements which collectively comprise the statements of net position and the related statements of revenues, expenses and changes in net position and cash flows.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to ICA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ICA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ICA at June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

As discussed in Note 1, the financial statements of ICA present only the net position, revenues, expenses and changes in net position, and cash flows of that portion of the financial reporting entity of the University of Michigan that is attributable to the transactions of ICA. They do not purport to, and do not, present fairly the financial position of the University of Michigan at June 30, 2014 and 2013, and the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 3 through 9 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*PricewaterhouseCoopers LLP*

December 16, 2014



**INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN**

**Management's Discussion and Analysis (Unaudited)**

**Introduction**

The following discussion and analysis provides an overview of the financial position of Intercollegiate Athletics of the University of Michigan ("ICA") at June 30, 2014 and 2013 and its activities for the three fiscal years ended June 30, 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

ICA operates under the control of the Regents of the University of Michigan (the "University") to administer the intercollegiate athletic programs of the University. As part of the University, the assets, liabilities, revenues, expenses and changes in net position of ICA are included in the consolidated financial statements of the University. All organizations controlled by ICA, consisting of its various departments, are included in the financial statements; organizations not controlled by ICA, such as certain booster and alumni organizations, are not included in the financial statements.

**Using the Financial Statements**

ICA's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Management's Discussion and Analysis (Unaudited)--Continued**

**Financial Highlights**

ICA continued its solid financial performance in fiscal year 2014. Net position, which represents the residual interest in ICA's assets after liabilities are deducted, grew by \$119.4 million and reflects ICA's strong financial position. Net position totaled \$485.9 million at June 30, 2014 compared to \$366.5 million at June 30, 2013. ICA's operating results for the three years ended June 30, 2014 are summarized as follows:

	2014	2013	2012
	(in millions)		
<b>Operating Results</b>			
Operating revenues	\$ 114.4	\$ 104.8	\$ 103.4
Nonoperating and other revenues, net	\$ 151.2	\$ 38.4	\$ 39.7
Operating expenses	\$ 144.9	\$ 131.1	\$ 116.8
Increase in net position	\$ 119.4	\$ 13.4	\$ 24.6

ICA's operating revenues increased \$9.6 million in 2014 due to increases in spectator admissions, facility revenues and conference distributions. The increase in spectator admissions resulted from one additional home football game and an increase in men's basketball admissions. The increase in facility revenue resulted from the \$3.1 million NHL Winter Classic stadium rental which took place in January 2014. ICA's operating revenues increased \$1.4 million in 2013 due to increases in facility revenues, conference distributions and licensing royalties offset by a decrease in spectator admissions, which resulted from two less home football games. The increase in facilities revenues was due in part to the assignment of Radrick Farms Golf Course to ICA in 2013.

Significant recurring sources of revenue for ICA, including gifts and investment income, are included in nonoperating revenues, as required by GASB. Net nonoperating and other revenues increased \$112.8 million in 2014 due primarily to an increase in capital gifts received to expand and renovate the Stephen M. Ross Athletic Campus, as well as increases in other gifts and net investment income. Net nonoperating and other revenues decreased \$1.3 million in 2013 due primarily to a decrease in capital gifts and an increase in net interest expense, offset by increased preferred seating donations and net investment income.

ICA's operating expenses increased \$13.8 million in 2014 and \$14.3 million in 2013. A portion of the increased operating expenses in 2014 and 2013 are due to the elevation of men's and women's lacrosse to varsity status. Men's lacrosse commenced intercollegiate competition in 2012 and women's lacrosse commenced intercollegiate competition in 2014. Effective in 2013, ICA assumed control of the Radrick Farms Golf Course which increased operating expenses by \$1.6 million. Salaries, wages and benefits increased \$4.6 million in 2014 and \$5.4 million in 2013 as a result of contractual pay increases, additional employees hired and ICA's annual merit program.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Management's Discussion and Analysis (Unaudited)—Continued**

Depreciation expense increased \$2.3 million in 2014 and \$2.8 million in 2013, due to the recent completion of various capital projects including the Donald R. Shepherd Softball Center, Schembechler Hall, Crisler Center, Yost Ice Arena and the William Davidson Player Development Center. The remaining cost increases generally reflect increased ICA activity and increasing costs.

**Statement of Net Position**

The statement of net position presents the financial position of ICA at the end of the fiscal year, and includes all assets and liabilities of ICA. The difference between total assets and total liabilities – net position – is one indicator of the current financial condition of ICA, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year. A comparison of ICA assets, liabilities and net position at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
	(in thousands)	
Net Current Assets (Liabilities):		
Cash equivalents	\$ 108,652	\$ 103,768
Receivables and other assets, net	20,190	10,753
Advance sale of game tickets	(38,967)	(37,883)
Current portion of notes payable	(5,600)	(5,400)
Other current liabilities	(14,856)	(13,392)
Total Net Current Assets	69,419	57,846
Net Noncurrent Assets (Liabilities):		
Investments	83,013	65,874
Pledges receivable, net	92,785	19,743
Capital assets, net	472,044	465,298
Other noncurrent assets	398	664
Obligations for postemployment benefits	(16,784)	(16,278)
Notes payable	(212,405)	(223,005)
Other noncurrent liabilities	(2,559)	(3,589)
Total Net Noncurrent Assets	416,492	308,707
Net Position	\$ 485,911	\$ 366,553



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Management's Discussion and Analysis (Unaudited)--Continued**

ICA continues to make investments in its physical plant, financed by debt, capital gifts and reserves. Net capital additions less depreciation were \$7.0 million in 2014 and \$22.4 million in 2013. The additions were primarily attributable to the completion of the Donald R. Shepherd Softball Center, the Schembechler Hall renovation project, improvements to Michigan Stadium and the commencement of the new field hockey stadium project.

ICA uses a combination of gifts, debt from the University and capital reserves to fund its capital investments. Outstanding debt as of June 30, 2014 and 2013 totaled \$218.0 million and \$228.4 million, respectively. Over the past few years, debt has provided funding for the renovation of the Michigan Stadium, the construction of the Al Glick Field House, the Crisler Center renovation and expansion projects, the William Davidson Player Development Center and various other projects.

ICA's overall financial position improved in 2014 as net position increased approximately \$119.4 million. Net position as of June 30, 2014 and 2013 totaled \$485.9 million and \$366.5 million, respectively, and is summarized as follows:

	<b>2014</b>	<b>2013</b>
	(in thousands)	
Net investment in capital assets	\$ 254,039	\$ 236,893
Restricted:		
Nonexpendable	45,353	37,693
Expendable	158,367	71,704
Unrestricted	28,152	20,263
	<u>\$ 485,911</u>	<u>\$ 366,553</u>

**INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN**

**Management's Discussion and Analysis (Unaudited)--Continued**

**Results of Operations**

ICA measures its results of operations based on certain activities, which are summarized as follows for the three years ended June 30, 2014:

	2014	2013	2012
	(in thousands)		
<b>Revenues:</b>			
Spectator admissions	\$ 50,215	\$ 45,127	\$ 48,500
Conference distributions	27,455	25,823	24,653
Corporate sponsorship and licensing royalties	22,124	22,473	21,411
Other revenues	14,613	11,358	8,818
Total operating revenues	114,407	104,781	103,382
Private gifts for other than capital and endowment purposes, current funds	6,743	3,817	6,145
Preferred seating donations	28,524	27,468	22,373
Investment income, current funds	2,978	2,749	2,705
Total Revenues	152,652	138,815	134,605
<b>Expenses and Other Uses:</b>			
Salaries, wages and benefits, current funds	49,904	45,035	39,830
Financial aid	19,436	18,167	16,838
Team and game	23,010	20,943	18,838
Other operating and administrative	15,179	13,229	10,874
Operations and maintenance of plant, current funds	10,055	9,290	9,310
Operating expenses, current funds	117,584	106,664	95,690
Deferred maintenance transfer	4,750	4,500	4,500
Debt service transfer	14,970	15,155	13,273
Equity transfers to the University, current funds	2,309	1,117	1,654
Total Expenses and Other Uses	139,613	127,436	115,117
Excess of revenues over expenses and other uses	13,039	11,379	19,488
Debt stabilization return	4,234		3,789
Adjusted excess of revenues over expenses and other uses	\$ 17,273	\$ 11,379	\$ 23,277

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Management's Discussion and Analysis (Unaudited)—Continued**

Adjusted excess of revenues over expenses and other uses increased \$5.9 million in 2014 and decreased \$11.9 million in 2013. In 2014, spectator admissions increased \$5.1 million due to the impact of seven home football games versus six in 2013 in addition to an increase in men's basketball spectator admissions. In 2013, spectator admissions decreased \$3.4 million due to the impact of six home football games versus eight in 2012, partially offset by the neutral site game as well as an increase in men's basketball spectator admissions. Preferred seating donations increased \$5.1 million in 2013 due to a rate increase in Michigan Stadium premium seats. ICA received returns of debt service transfers from the University's debt stabilization program in the amount of \$4.2 million in 2014 and \$3.8 million in 2012.

**Statement of Cash Flows**

The statement of cash flows provides additional information about ICA's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
	(in thousands)	
Net cash used in operating activities	\$ (7,116)	\$ (812)
Net cash provided by investing activities	2,353	10,931
Net cash used in capital and related financing activities	(21,427)	(51,662)
Net cash provided by noncapital financing activities	31,074	32,823
Net increase (decrease) in cash equivalents	\$ 4,884	\$ (8,720)

Cash received from operations primarily consists of spectator admissions, conference distributions and other media rights. Cash received from noncapital financing primarily consists of private gifts and preferred seating donations. ICA continued to invest in its physical plant by devoting \$21.4 million in net cash to capital activities in 2014 and \$51.7 million in 2013.

**Economic Factors That Will Affect the Future**

ICA is continuing to make significant investments in its facilities that have required additional debt and the use of ICA cash reserves. In addition, ICA has added men's and women's lacrosse as varsity sports which has increased annual costs to its operations. Nevertheless, ICA believes that it is well positioned to generate sufficient cash flows to finance planned facility projects and sustain continued success in its operations.



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Management's Discussion and Analysis (Unaudited)—Continued**

ICA will continue to be challenged to provide sufficient funds for additional anticipated needs of its physical plant. Most notably, ICA plans to utilize significant resources for new facilities for the lacrosse, track, rowing, strength and conditioning, athletic medicine and soccer programs. To address these funding challenges, ICA management continues to emphasize positive operating results, expanded private giving and continued use of long term debt to offset the future infrastructure and facility renewal needs of the department. In 2013, ICA initiated a fundraising campaign called the South Campus Athletics Project with the goal of providing sufficient private giving to support its plan to construct new and replacement facilities in support of its teams and student-athletes. Based on the success of the campaign, ICA is planning to undertake a \$168 million construction project on the south end of the Stephen M. Ross Athletic Campus called the Athletics South Competition and Performance Project. The project will add competition venues for lacrosse and track, in addition to team centers for lacrosse, track, rowing and soccer. The project also includes medical and strength and conditioning facilities.

A major portion of ICA's revenue, such as conference media contracts and corporate sponsorship arrangements, is contractually defined for a number of years in the future. However, a significant portion of ICA's revenue base, such as gifts, football admissions and premium seat sales, are directly tied to its football program. While ICA has sold out the premium seats at Michigan Stadium and enjoyed football season ticket renewals of greater than 95 percent for a number of years, there is no guarantee that the historical economic success of its football program will continue in the future. In 2015, ICA will be challenged to increase single game sales in response to a decrease in student season ticket demand. ICA would be negatively impacted if football admission and gift revenue are reduced due to a significant decline in premium seat sales, season ticket renewals and individual game sales.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Statement of Net Position**

	June 30, 2014	2013
	(in thousands)	
<b>Assets</b>		
Current Assets:		
Cash equivalents on deposit with the University	\$ 108,652	\$ 103,768
Accounts receivable, net	5,097	5,420
Current portion of pledges receivable, net	14,379	4,764
Current portion of prepaid expenses and other assets	714	569
Total Current Assets	<u>128,842</u>	<u>114,521</u>
Noncurrent Assets:		
Endowment investments on deposit with the University	83,013	65,874
Pledges receivable, net	92,785	19,743
Prepaid expenses and other assets	398	664
Capital assets, net	472,044	465,298
Total Noncurrent Assets	<u>648,240</u>	<u>551,579</u>
<b>Total Assets</b>	<u><b>\$ 777,082</b></u>	<u><b>\$ 666,100</b></u>
<b>Liabilities and Net Position</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 7,955	\$ 5,408
Accrued compensation	5,189	6,086
Advance sale of game tickets	38,967	37,883
Current portion of unearned revenues	1,712	1,898
Current portion of notes payable to the University	5,600	5,400
Total Current Liabilities	<u>59,423</u>	<u>56,675</u>
Noncurrent Liabilities:		
Unearned revenues	2,559	3,589
Obligations for postemployment benefits	16,784	16,278
Notes payable to the University	212,405	223,005
Total Noncurrent Liabilities	<u>231,748</u>	<u>242,872</u>
Total Liabilities	<u>291,171</u>	<u>299,547</u>
Net Position:		
Net investment in capital assets	254,039	236,893
Restricted:		
Nonexpendable	45,353	37,693
Expendable	158,367	71,704
Unrestricted	28,152	20,263
Total Net Position	<u>485,911</u>	<u>366,553</u>
<b>Total Liabilities and Net Position</b>	<u><b>\$ 777,082</b></u>	<u><b>\$ 666,100</b></u>

The accompanying notes are an integral part of the financial statements.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Statement of Revenues, Expenses and Changes in Net Position**

	Year Ended June 30,	
	2014	2013
	(in thousands)	
<b>Operating Revenues</b>		
Spectator admissions	\$ 50,215	\$ 45,127
Conference distributions	27,455	25,823
Corporate sponsorships and other media rights	15,793	15,634
Licensing royalties	6,331	6,839
Facilities revenues	7,557	4,456
Concessions, publications and parking	4,204	3,632
Other revenues	2,852	3,270
<b>Total Operating Revenues</b>	<b>114,407</b>	<b>104,781</b>
<b>Operating Expenses</b>		
Salaries, wages and benefits	50,302	45,662
Financial aid	19,436	18,167
Team and game	23,010	20,943
Other operating and administrative	15,179	13,229
Operations and maintenance of plant	12,970	11,380
Depreciation	23,994	21,714
<b>Total Operating Expenses</b>	<b>144,891</b>	<b>131,095</b>
Operating loss	(30,484)	(26,314)
<b>Nonoperating Revenues (Expenses)</b>		
Private gifts for other than capital and endowment purposes	6,793	3,824
Preferred seating donations	28,524	27,468
Net investment income	11,362	5,471
Interest expense and other, net	(3,599)	(9,159)
<b>Total Nonoperating Revenues, Net</b>	<b>43,080</b>	<b>27,604</b>
Income before other revenues and transfers	12,596	1,290
<b>Other Revenues</b>		
Capital gifts	100,455	7,750
Private gifts for permanent endowment purposes	7,685	3,054
<b>Total Other Revenues</b>	<b>108,140</b>	<b>10,804</b>
Net revenues before transfers	120,736	12,094
Equity transfers (to) from other University departments	(1,378)	1,331
Increase in net position	119,358	13,425
Net Position, Beginning of Year	366,553	353,128
<b>Net Position, End of Year</b>	<b>\$ 485,911</b>	<b>\$ 366,553</b>

The accompanying notes are an integral part of the financial statements.



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Statement of Cash Flows**

	Year Ended June 30,	
	2014	2013
	(in thousands)	
<b>Cash Flows from Operating Activities</b>		
Spectator admissions	\$ 51,317	\$ 47,567
Conference distributions	27,374	25,711
Corporate sponsorships and other media rights	12,322	11,809
Licensing royalties	6,391	6,470
Facilities revenues	7,578	5,090
Concessions, publications and parking	3,985	3,414
Other revenues	2,892	3,257
Payments for salaries, wages and benefits	(50,825)	(43,431)
Payments for financial aid	(19,436)	(18,167)
Payments for team and game expenses	(20,605)	(18,116)
Payments for other operating and administrative expenses	(15,329)	(13,048)
Payments for operations and maintenance of plant	(12,780)	(11,368)
<b>Net Cash Used in Operating Activities</b>	<b>(7,116)</b>	<b>(812)</b>
<b>Cash Flows from Investing Activities</b>		
Investment income	3,053	2,847
Investment of capital debt proceeds, net		8,333
Increase in investments on deposit with the University, net	(700)	(249)
<b>Net Cash Provided by Investing Activities</b>	<b>2,353</b>	<b>10,931</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital gifts	20,663	10,355
Proceeds from issuance of capital debt	1,000	5,000
Principal payments on capital debt	(11,400)	(7,615)
Interest payments on capital debt	(6,698)	(9,536)
Debt stabilization refunds	4,234	
Purchases of capital assets	(29,226)	(49,866)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(21,427)</b>	<b>(51,662)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Private gifts for other than capital and endowment purposes	3,928	6,472
Preferred seating donations	28,524	27,468
Equity transfers to other University departments, net	(1,378)	(1,117)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>31,074</b>	<b>32,823</b>
<b>Net increase (decrease) in cash equivalents</b>	<b>4,884</b>	<b>(8,720)</b>
Cash Equivalents on Deposit with the University, Beginning of Year	103,768	112,488
<b>Cash Equivalents on Deposit with the University, End of Year</b>	<b>\$ 108,652</b>	<b>\$ 103,768</b>

The accompanying notes are an integral part of the financial statements.

**INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN**

**Statement of Cash Flows--Continued**

	Year Ended June 30,	
	2014	2013
	(in thousands)	
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (30,484)	\$ (26,314)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	23,994	21,714
Changes in assets and liabilities:		
Accounts receivable, net	277	(812)
Prepaid expenses and other assets	120	299
Accounts payable	(102)	417
Accrued compensation	(789)	1,966
Advance sale of game tickets	1,084	2,408
Unearned revenues	(1,216)	(490)
Net cash used in operating activities	<u>\$ (7,116)</u>	<u>\$ (812)</u>

The accompanying notes are an integral part of the financial statements.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements**

June 30, 2014 and 2013

**Note 1--Organization and Summary of Significant Accounting Policies**

Organization and Basis of Presentation: Intercollegiate Athletics of the University of Michigan ("ICA") operates under the control of the Regents of the University of Michigan (the "University") to administer the intercollegiate athletic programs of the University. As part of the University, the assets, liabilities, revenues, expenses and changes in net position of ICA are included in the consolidated financial statements of the University. All organizations controlled by ICA, consisting of its various departments, are included in the financial statements; organizations not controlled by ICA, such as certain booster and alumni organizations, are not included in the financial statements. As part of the University, ICA is exempt from income taxes under Internal Revenue Code Sections 501(c)(3) and 115.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of State and Local Governments*. ICA reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation, unspent capital debt proceeds and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
  - Nonexpendable – Net position subject to externally imposed stipulations that it be maintained permanently. Such net position includes the corpus portion (historical value) of gifts to ICA's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

Expendable – Net position whose use by ICA is subject to externally imposed stipulations that can be fulfilled by actions of ICA pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of ICA's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 1--Organization and Summary of Significant Accounting Policies--Continued**

- **Unrestricted:** Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

**Adoption of New Accounting Standards:** During 2014, the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption of this statement did not have a material impact on ICA's financial statements.

**Summary of Significant Accounting Policies:** For purposes of the statement of cash flows, ICA considers all highly liquid investments purchased with a maturity of three months or less, to be cash equivalents. Cash equivalents generally represent investments in the University Investment Pool ("UIP"), a short-term commingled pool managed by the University that can be readily liquidated to pay contractual liabilities.

Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is maintained at a level to absorb losses inherent in accounts receivable. Management determines the adequacy of the allowance for doubtful accounts by estimating uncollectability based on recent loss experience. Actual losses may vary from those projected amounts.

ICA receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 1--Organization and Summary of Significant Accounting Policies--Continued**

Endowment investments primarily represent investments in the University Endowment Fund ("UEF"), a commingled pool which is invested entirely in the Long Term Portfolio, a diversified, equity-oriented investment pool managed by the University. The net asset value ("NAV") of UEF shares is determined at the end of each calendar quarter based on the fair value of the pool. Participants may purchase or redeem UEF shares at NAV at each valuation date, subject to minimum holding and notice requirements.

Capital assets are recorded at cost or, if donated, at appraised value at the date of donation. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets, which primarily range from four to forty years.

Advance sale of game tickets consists of spectator admissions collected for athletic contests scheduled for the subsequent fiscal year and therefore not earned as of the end of the current fiscal year.

Unearned revenues consist primarily of cash received from unearned golf course memberships, corporations, sponsorships and other contracts which have not yet been earned under the terms of the agreements.

From time to time, ICA hires coaches who have buyout clauses in their contracts with former employers. When ICA agrees to fund contractual buyouts and other termination expenses on behalf of a new coach, it is ICA's policy to record the cost as a prepaid expense and amortize it as compensation over the term of the coach's contract with ICA. Pursuant to this policy, the financial statements include a prepaid expense of \$664,000 and \$929,000 at June 30, 2014 and 2013, respectively, related to agreements with coaches.

For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Regents to appropriate an amount of realized and unrealized endowment appreciation as determined to be prudent. The University's policy is to retain net realized and unrealized appreciation with the endowment after spending rule distributions. Cumulative net appreciation of permanent endowment funds, which totaled \$28,611,000 and \$21,195,000 at June 30, 2014 and 2013, respectively, is available to meet spending policy rate distributions and is recorded in restricted expendable net position. The University's endowment spending rule is further discussed in Note 2.

Conference distributions consist of television revenue and tournament and bowl payouts distributed to ICA by the Big Ten Conference.

ICA records non-cash, value-in-kind trade transactions in both corporate sponsorships and other media rights revenue and team and game expense. These transactions consist primarily of athletic apparel and footwear, and amounted to \$2,629,000 in 2014 and \$2,600,000 in 2013.



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 1--Organization and Summary of Significant Accounting Policies--Continued**

Facilities revenues represent revenue from usage of ICA facilities.

Preferred seating donations represent an annual seating program for men's football, basketball and hockey, with seat location linked to donation levels.

Team and game expenses include post-season play expenditures, net of reimbursement from the National Collegiate Athletic Association and sponsoring bowl organizations.

Sales tax collected on behalf of the State of Michigan on athletic event concessions revenue is recorded on a net basis.

Interest expense is recorded net of capitalized interest and any debt stabilization refunds received from the University.

Operating activities as reported in the statement of revenues, expenses and changes in net position are those that generally result from exchange transactions, such as sales of tickets for games and payments made for services or goods received. Nonexchange transactions are reported as nonoperating activities.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Note 2--Cash and Investments**

The University maintains centralized management for substantially all cash and investments of ICA. Cash reserves and relatively short duration assets are invested in the UIP, while longer term assets held in the UEF are invested in the University's Long Term Portfolio. Unexpended capital debt proceeds are invested by the University in overnight cash management vehicles. The UIP is principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. The longer investment horizon of the University's Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets.



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 2--Cash and Investments--Continued**

The UEF consists of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain intact and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by ICA for long-term investment purposes, but are not limited by donor stipulations requiring ICA to preserve principal in perpetuity.

The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio, in which the UEF invests, sets a general target of 80 percent equities and 20 percent fixed income securities, within a permitted range of 65 to 90 percent for equities and 10 to 35 percent for fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories. At June 30, 2014 and 2013, the Long Term Portfolio consisted of cash and equivalents (1 percent and 0 percent), fixed income securities (13 percent and 13 percent), U.S. and non-U.S. equities (15 percent and 11 percent), commingled funds (20 percent and 20 percent) and nonmarketable alternative investments (51 percent and 56 percent).

Commingled (pooled) funds held in the Long Term Portfolio include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Commingled funds are primarily invested in non-U.S./global equities and absolute return strategies, but also include exposure to domestic fixed income and equity securities. Certain commingled funds held in the Long Term Portfolio may use derivatives, short positions and leverage as part of their investment strategy; however, these investments are structured to limit the University's risk exposure to the amount of invested capital.

Nonmarketable alternative investments held in the Long Term Portfolio consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed to invest in underlying strategies. Distributions of capital and return on invested capital are made during the life of the partnership as the underlying strategies are concluded. These limited partnerships include venture capital, private equity, real estate, natural resources and absolute return strategies. There is no active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 2--Cash and Investments--Continued**

The Long Term Portfolio holds investments denominated in foreign currencies and forward foreign exchange contracts used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies. Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Long Term Portfolio's non-U.S. dollar exposure amounted to 10 percent and 11 percent of the portfolio at June 30, 2014 and 2013, respectively.

The University's investment strategy, like that of most other institutions, incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forwards, futures and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net position and is not represented by the contract or notional amounts of the instruments.

ICA receives distributions from the UEF based on the University's endowment spending rule. Commencing with the quarter ending September 30, 2010, the annual distribution rate began to be reduced from 5 percent of the one-quarter lagged seven year moving average fair value of fund shares to 4.5 percent. Distributions were managed toward the new rate by keeping quarter to quarter distributions per share unchanged and gradually moving toward the 4.5 percent rate when increases in share value would otherwise result in higher per share distributions. The University reached the 4.5 percent target distribution rate as of December 31, 2013. To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Distributions are also made from the UIP to ICA based on the 90-day U.S. Treasury Bill rate. The University's costs to administer and grow the UEF and UIP are funded by investment returns.

Withdrawals may be made quarterly from the UEF, with thirty days' notice, based upon University policy, generally after a five year investment period. Withdrawals may be made from the UIP on a daily basis.



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 3--Pledges Receivable**

The composition of pledges receivable at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
	(in thousands)	
Gift pledges outstanding:		
Capital	\$ 107,274	\$ 24,048
Operations	4,526	1,571
	111,800	25,619
Less:		
Allowance for uncollectible pledges	2,691	823
Unamortized discount to present value	1,945	289
Total pledges receivable, net	107,164	24,507
Less current portion	14,379	4,764
	<u>\$ 92,785</u>	<u>\$ 19,743</u>

Payments on pledges receivable at June 30, 2014 are expected to be received in the following years ended June 30 (in thousands):

2015	\$ 14,877
2016	11,831
2017	12,616
2018	11,908
2019	8,739
2020 and after	51,829
	<u>\$ 111,800</u>

As discussed in Note 1, permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling approximately \$11,786,000 and \$3,404,000 at June 30, 2014 and 2013, respectively, are not recognized as assets in the accompanying financial statements. Also, pledges totaling \$9,606,000 and \$8,562,000 at June 30, 2014 and 2013, respectively, for the use of football suites in future years have not met time requirements and have not been recorded in the financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation.



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**Note 4--Capital Assets**

Capital assets activity for the years ended June 30, 2014 and 2013 is summarized as follows:

<b>2014</b>				
	Beginning Balance	Additions	Retirements	Ending Balance
	(in thousands)			
Land	\$ 1,818			\$ 1,818
Land improvements	15,510	\$ 1,973		17,483
Infrastructure	2,112	131		2,243
Buildings	558,842	23,154	\$ 2,372	579,624
Construction in progress, net	9,400	4,570		13,970
Equipment	8,737	478		9,215
	596,419	30,306	2,372	624,353
Less accumulated depreciation	131,121	23,297	2,109	152,309
	<b>\$ 465,298</b>	<b>\$ 7,009</b>	<b>\$ 263</b>	<b>\$ 472,044</b>

<b>2013</b>				
	Beginning Balance	Additions	Retirements	Ending Balance
	(in thousands)			
Land	\$ 480	\$ 1,338		\$ 1,818
Land improvements	15,478	32		15,510
Infrastructure	2,112			2,112
Buildings	491,571	75,987	\$ 8,716	558,842
Construction in progress, net	42,665	(33,265)		9,400
Equipment	7,345	1,827	435	8,737
	559,651	45,919	9,151	596,419
Less accumulated depreciation	116,731	23,517	9,127	131,121
	<b>\$ 442,920</b>	<b>\$ 22,402</b>	<b>\$ 24</b>	<b>\$ 465,298</b>

In 2014, the increase in construction in progress of \$4,570,000 represents the amount of capital expenditures for new projects of \$29,081,000 net of capital assets placed in service of \$24,511,000. In 2013, the decrease in construction in progress of \$33,265,000 represents the amount of capital expenditures for new projects of \$40,906,000 net of capital assets placed in service of \$74,171,000.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 5--Notes Payable to the University of Michigan**

Notes payable to the University of Michigan for debt obligations totaled \$218,005,000 at June 30, 2014 and mature at various dates through fiscal 2042, in accordance with the payment schedule established by the University.

Long-term debt activity for the years ended June 30, 2014 and 2013 is summarized as follows:

<b>2014</b>			
	Beginning Balance	Additions Reductions (in thousands)	Ending Balance
Payable to the University	\$ 228,405	\$ 1,000	\$ 218,005
Less current portion	5,400		5,600
	<u>\$ 223,005</u>		<u>\$ 212,405</u>

<b>2013</b>			
	Beginning Balance	Additions Reductions (in thousands)	Ending Balance
Payable to the University	\$ 231,020	\$ 5,000	\$ 228,405
Less current portion	6,875		5,400
	<u>\$ 224,145</u>		<u>\$ 223,005</u>

ICA borrowed \$1,000,000 in 2014 and \$5,000,000 in 2013. Debt proceeds were used to provide funding for the renovation and expansion of the Crisler Center.

ICA participates in the University's debt stabilization program and is charged interest at a composite fixed rate by the University based on available variable and fixed rate debt instruments. Periodically, the University reviews payments made under the fixed rate schedules as compared to actual interest payments made by the University to outside debt holders and may issue a reimbursement of excess interest paid. Fixed interest rates on debt obligations outstanding at June 30, 2014 and 2013 range from 0.4 to 5.7 percent.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 5--Notes Payable to the University of Michigan--Continued**

In 2014, ICA incurred interest costs totaling \$9,713,000, which were offset by a reimbursement of excess interest payments of \$4,234,000 under the debt stabilization program. In 2013, ICA incurred interest costs totaling \$9,925,000 of which \$417,000 has been capitalized and \$9,508,000 was charged to interest expense.

In 2014, ICA corrected prior period errors related to the determination of interest expense on Notes payable to the University of Michigan, resulting in a reduction of approximately \$1,300,000 to Interest expense and other, net, and an increase of approximately \$3,000,000 to Cash Flows from Capital and Related Financing Activities. These adjustments are not considered material to the financial statements of ICA.

Principal maturities and interest on long-term debt for the next five years and in subsequent five-year periods are as follows:

	Principal (in thousands)	Interest (in thousands)
2015	\$ 5,600	\$ 9,500
2016	5,475	9,280
2017	5,720	9,038
2018	5,605	8,562
2019	6,030	8,329
2020-2024	33,615	37,923
2025-2029	41,845	30,456
2030-2034	51,455	20,870
2035-2039	53,825	8,498
2040-2042	8,835	703
	\$ 218,005	\$ 143,159



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 6--Transactions with Other University of Michigan Units**

Tuition and housing costs paid to other University departments in the form of financial aid amounted to \$17,150,000 and \$15,513,000 for 2014 and 2013, respectively. In addition, ICA paid the University Health System \$437,000 and \$583,000 in 2014 and 2013, respectively, for medical services provided to student athletes.

ICA also reimbursed the University for certain other services received in the years ended June 30, 2014 and 2013 as follows:

	2014	2013
	(in thousands)	
Utilities	\$ 3,790	\$ 3,609
Plant services	2,580	2,244
Security	1,900	1,162
Catering	928	803
Telecommunications	694	639
Business and finance allocation	606	632
Insurance coverage	544	592
Budget administration allocation	505	502
Other	624	574
	<u>\$ 12,171</u>	<u>\$ 10,757</u>

ICA provided the University with a \$1,752,000 and \$1,716,000 allocation from the Big Ten Network distribution received from the Big Ten Conference in 2014 and 2013, respectively. The recurring allocation is derived by a formula-driven agreement based on the annual net Big Ten Network distribution up to a maximum of \$2,000,000. The annual allocation is used by the University primarily to support M-PACT, a financial aid program for non-student-athlete Michigan residents. M-PACT was created to increase the amount of aid students receive in the form of grants and therefore reduce the amount of loans needed by the general student population. Amounts are recorded in the Statement of Revenues, Expenses and Changes in Net Position as Equity transfers to other University departments.

ICA also provided the University \$250,000 received from the NHL Winter Classic held at Michigan Stadium on January 1, 2014.

During 2014, ICA received \$927,000 from the Michigan Matching Initiative for Student Support, which offered an additional incentive for donors to establish or support endowed scholarship funds. Qualifying scholarship endowment gifts were matched at 25 percent.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements—Continued**

**Note 6 -- Transactions with Other University of Michigan Units --Continued**

Certain facilities used by ICA are located on land owned by the University which is not included in these financial statements. The University does not charge ICA rent for the use of this land. In 2014, ICA transferred \$500,000 to the University in conjunction with the acquisition of a parcel of land adjacent to the Stephen M. Ross Athletic Campus.

In 2013, the University transferred \$3,047,000 to ICA as a result of the assignment of Radrick Farms Golf Course ("RFGC") to ICA from another department. Of the total amount transferred, \$2,448,000 represents the net book value of land, buildings and equipment assumed by ICA as a result of the assignment. The remaining \$599,000 transferred represents the accumulated net position of RFGC's current funds at July 1, 2012.

In addition, ICA received an insurance recovery from the University's insurance captive during 2013 in the amount of \$530,000 that is recorded in the Statement of Revenues, Expenses and Changes in Net Position as Other revenues.

**Note 7--Postemployment Benefits**

ICA participates in the University's postemployment benefits plan which provides retiree health and welfare benefits; primarily medical, prescription drug, dental and life insurance coverage, to eligible retirees and their eligible dependents. Substantially all of ICA's permanent employees may become eligible for these benefits if they reach retirement age while working for ICA. For employees retiring on or after January 1, 1987, contributions toward health and welfare benefits are shared between ICA and the retiree and can vary based on date of hire, date of retirement, age and coverage elections.

The University also provides income replacement benefits, retirement savings contributions and health and life insurance benefits to substantially all permanent ICA employees who are enrolled in a University sponsored long-term disability plan and qualify, based on disability status while working for ICA, to receive basic or expanded long-term disability benefits. Contributions toward the expanded long-term disability plan are shared between ICA and employees and vary based on years of service, annual base salary and coverage elections. Contributions toward the basic long-term disability plan are paid entirely by ICA.

These postemployment benefits are provided through single-employer plans administered by the University. The Executive Vice Presidents of the University have the authority to establish and amend benefit provisions of the plans.

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 7--Postemployment Benefits--Continued**

The University's annual other postemployment benefits ("OPEB") expense is actuarially determined in accordance with GASB Statement No. 45. Projections of benefits are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided and announced future changes at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

ICA's annual OPEB expense and liability represents an allocation of ICA's relative share of the University's expense and liability, based on the method in which the retiree benefits are funded. The funding method is based upon a percentage of salary dollars of active employees that qualify for retiree benefits.

Changes in the total reported liability for ICA's postemployment benefits obligations for the years ended June 30, 2014 and 2013 are summarized as follows:

<b>2014</b>			
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	\$ 16,346	\$ 688	\$ 17,034
Postemployment benefits expense	912	134	1,046
Payments of current premiums and claims	(529)	(119)	(648)
Balance, end of year	16,729	703	17,432
Less current portion	584	64	648
	<u>\$ 16,145</u>	<u>\$ 639</u>	<u>\$ 16,784</u>

<b>2013</b>			
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	\$ 15,873	\$ 534	\$ 16,407
Postemployment benefits expense	1,035	256	1,291
Payments of current premiums and claims	(562)	(102)	(664)
Balance, end of year	16,346	688	17,034
Less current portion	626	130	756
	<u>\$ 15,720</u>	<u>\$ 558</u>	<u>\$ 16,278</u>

ICA has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. ICA's obligations for postemployment benefits at June 30, 2014 and 2013 as a percentage of covered payroll of \$37,663,000 and \$33,524,000 were 46 and 51 percent, respectively.



INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

Notes to Financial Statements--Continued

**Note 7--Postemployment Benefits--Continued**

The University's OPEB liability was calculated using the projected unit credit method. Significant actuarial methods and assumptions used in the valuation for the years ended June 30, 2014 and 2013 are as follows:

	<b>2014</b>	
	<u>Retiree Health and Welfare</u>	<u>Long-term Disability</u>
Discount Rate	6.08%	7.88%
Immediate/Ultimate Administrative Trend Rate	0.0%/3.0%	0.0%/3.0%
Immediate/Ultimate Medical Trend Rate	6.0%-8.0%/5.0%	6.0%-8.0%/5.0%
Immediate/Ultimate Rx Trend Rate	7.0%/5.0%	7.0%/5.0%
Expected Retirement Age (Faculty/Staff/Union)	66/62/61	Not Applicable
Mortality/Termination Table	RP-2000 Generational	2005 SOA Life Waiver (Modified)
	<b>2013</b>	
	<u>Retiree Health and Welfare</u>	<u>Long-term Disability</u>
Discount Rate	6.08%	7.88%
Immediate/Ultimate Administrative Trend Rate	0.0%/3.0%	0.0%/3.0%
Immediate/Ultimate Medical Trend Rate	6.0%-8.0%/5.0%	6.0%-8.0%/5.0%
Immediate/Ultimate Rx Trend Rate	7.0%/5.0%	7.0%/5.0%
Expected Retirement Age (Faculty/Staff/Union)	66/62/61	Not Applicable
Mortality/Termination Table	RP-2000 Generational	2005 SOA Life Waiver (Modified)

INTERCOLLEGIATE ATHLETICS  
OF THE UNIVERSITY OF MICHIGAN

**Notes to Financial Statements--Continued**

**Note 8--Retirement Plan**

ICA participates in the University's retirement plan, a defined contribution retirement plan through the Teachers Insurance and Annuity Association - College Retirement Equities Fund ("TIAA-CREF") and Fidelity Management Trust Company ("FMTC") mutual funds, for all qualified employees. All staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA-CREF, or accounts with FMTC, and are fully vested.

Eligible employees generally contribute 5 percent of their pay and ICA generally contributes an amount equal to 10 percent of employees' pay to the plan. ICA's contribution commences after an employee has completed one year of employment. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by ICA contributions. Contributions and covered payroll under the plan (excluding participant's additional contributions) for the three years ended June 30, 2014 are summarized as follows:

	2014	2013	2012
		(in thousands)	
ICA contributions	\$ 2,333	\$ 2,005	\$ 1,688
Employee contributions	\$ 1,212	\$ 1,046	\$ 873
Payroll covered under plan	\$ 37,663	\$ 33,524	\$ 30,253
Total payroll	\$ 41,201	\$ 36,916	\$ 33,150

**Note 9--Commitments and Contingencies**

ICA's commitments to complete construction in progress and other authorized acquisitions of property, plant and equipment amounted to \$17,103,000 as of June 30, 2014, which will be funded with cash on hand, gifts and future borrowings.