

THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Item for Information

EXH	MOTION
	SECTION
	ACTION APPROVED BY THE REGENTS
NOTE:	JUL 21 2005

SUBJECT: FY 2006 University of Michigan Department of Athletics Operating Budgets

For the proposed FY 2006 Operating Budget (described in detail on the following pages), we project an operating surplus of \$9.3 million based on operating revenues of \$73.3 million and operating expenses of \$64.0 million. The budgeted operating surplus in FY 06 will be used to fund our capital needs for FY 06, which are budgeted at \$5.3 million. Highlights are as follows:

- The budget reflects a seven home-game schedule for football (as compared to six last year).
- The budget reflects expected Preferred Seat Donations of \$9.4 million (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 2005. These revenue sources are typically volatile and we will strive to achieve results more in line with FY 2005.
- 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.
- Expenditures other than compensation, financial aid, and facilities (increase due to operating costs for new academic center) are budgeted at essentially flat levels from FY 05.

We are also pleased to report that based on preliminary results, we project that the operating surplus for FY 05 will be \$13.8 million, \$11.4 million more than budgeted. The favorable outcome is the result of greater than expected revenues from gifts (including seat transfer donations of \$6.0 million that are being dedicated to the renewal of our physical plant), admissions, licensing, and corporate sponsorship; offset by an additional \$2.0 million transfer to the deferred maintenance fund.

Respectfully submitted,



William C. Martin
Donald R. Shepherd Director of Athletics



Jason J. Winters
Chief Financial Officer, Department of Athletics

July, 2005

MICHIGAN ATHLETIC DEPARTMENT
FY 2006 Operating Budget
(in thousands)

	FY 04/05			FY 05/06 BUDGET	% Change		\$ Change	
	FY 03/04 ACTUAL	BUDGET	PROJECTED		Budget	Projected	Budget	Projected
REVENUES								
Spectator admissions	\$ 33,561	\$ 29,897	\$ 30,657	\$ 34,574	15.6%	12.8%	\$ 4,677	\$ 3,917
Conference distributions	10,703	10,530	10,625	10,532	0.0%	-0.9%	2	(93)
Proceeds from priority seating program	-	4,500	4,500	9,425	109.4%	109.4%	4,925	4,925
Athletic scholarship fund and other gifts	5,435	2,027	10,927	2,973	46.7%	-72.8%	946	(7,954)
Corporate sponsorship	5,099	4,525	5,500	4,810	6.3%	-12.5%	285	(690)
Licensing royalties	3,915	2,200	3,900	2,500	N/A	N/A	300	(1,400)
Radio	1,710	1,485	1,635	1,775	19.5%	8.6%	290	140
Facilities	1,938	1,900	1,950	1,870	-1.6%	-4.1%	(30)	(80)
Concessions and parking	2,039	1,448	1,823	1,779	22.9%	-2.4%	331	(44)
Other income	1,325	728	1,331	688	-5.5%	-48.3%	(40)	(643)
Investment income	2,211	2,150	2,500	2,400	11.6%	-4.0%	250	(100)
CURRENT FUND REVENUES	\$ 67,936	\$ 61,390	\$ 75,348	\$ 73,326	19.4%	-2.7%	\$ 11,936	\$ (2,022)
EXPENSES								
Salaries, wages & benefits	\$ 20,721	\$ 21,299	\$ 21,299	\$ 22,645	6.3%	6.3%	\$ 1,346	\$ 1,346
Financial aid to students	10,836	12,125	12,125	12,950	6.8%	6.8%	825	825
Team and game expense	10,267	10,787	10,554	10,920	1.2%	3.5%	133	366
Facilities	4,723	4,712	5,342	5,312	12.7%	-0.6%	600	(30)
Deferred maintenance fund transfer	4,250	2,250	4,250	4,500	100.0%	5.9%	2,250	250
Other operating and administrative expenses	5,788	6,183	6,303	5,979	-3.3%	-5.1%	(204)	(324)
Debt service transfer to plant fund	1,680	1,677	1,677	1,677	0.0%	0.0%	-	-
CURRENT FUND EXPENSES	\$ 58,265	\$ 59,033	\$ 61,550	\$ 63,983	8.4%	4.0%	\$ 4,950	\$ 2,433
NET OPERATING SURPLUS	9,671	2,357	13,798	9,343				
Transfers and capital expenditures:								
Capital expenditures from current funds and transfers to plant fund	(3,212)	(3,467)	(4,667)	(5,306)				
Transfers to endowment fund	(76)	(300)	(300)	(300)				
Other transfers (e.g., to plant fund for ticket transfers)	(900)	-	(6,000)	-				
Transfer from quasi-endowment fund	-	-	-	-				
Net transfers and capital expenditures	(4,188)	(3,767)	(10,967)	(5,606)				
INCREASE (DECREASE) IN CURRENT FUND BALANCES	5,483	(1,410)	2,831	3,737				

**University of Michigan Athletic Department
2005 – 2006 Budget Notes and Assumptions
(all dollar amounts in 000's)**

1. **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:

	<u>Actual</u> <u>FY 02</u>	<u>Actual</u> <u>FY 03</u>	<u>Actual</u> <u>FY 04</u>	<u>Projected</u> <u>FY 05</u>	<u>Budget</u> <u>FY 06</u>
Football	\$ 21,815	\$ 27,599	\$ 29,190	\$ 26,200	\$ 30,292
Basketball	2,129	2,243	2,315	2,398	2,327
Hockey	1,429	1,564	1,888	1,892	1,782
Other	279	243	168	167	173
Total	\$ 25,652	\$ 31,649	\$ 33,561	\$ 30,657	\$ 34,574

Increased attendance revenue for football in FY 03, FY 04, and FY 06 is primarily due to a seven home game football schedule in the 2002, 2003 and 2005 football seasons. There was six home games for the 2004 season (FY 05).

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

	<u>Actual</u> <u>FY 02</u>	<u>Actual</u> <u>FY 03</u>	<u>Actual</u> <u>FY 04</u>	<u>Projected</u> <u>FY 05</u>	<u>Budget</u> <u>FY 06</u>
Television (football and basketball)	\$ 5,647	\$ 5,745	\$ 6,122	\$ 6,210	\$ 6,118
Football Bowl games	1,437	1,848	1,993	1,741	1,841
NCAA basketball based distributions	1,494	2,085	2,257	2,306	2,223
Other miscellaneous	350	406	331	368	350
	\$ 8,928	\$ 10,084	\$ 10,703	\$ 10,625	\$ 10,532

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
2005 – 2006 Budget Notes and Assumptions
(all dollar amounts in 000's)**

6. **Compensation expense:** The athletic department has approximately 236 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 FY 02</u>	<u>Actual FY 03</u>	<u>Actual FY 04</u>	<u>Projected FY 05</u>	<u>Budget FY 06</u>
Coaches and team staff	\$ 7,099	\$ 7,623	\$ 8,326	\$ 8,564	\$ 8,973
Compliance, sports information, and other administration	2,141	2,312	2,349	2,443	2,589
Athletic medicine, conditioning, academic support	1,870	1,928	2,059	2,203	2,265
Facilities	1,930	1,993	2,132	2,266	2,306
Sports marketing, development & studio operations	791	795	951	981	961
Ticket and business office	615	626	635	638	703
Fringe benefits	3,435	3,709	4,269	4,204	4,848
Total	\$ 17,881	\$ 18,986	\$ 20,721	\$ 21,299	\$ 22,645

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 FY 02</u>	<u>Actual FY 03</u>	<u>Actual FY 04</u>	<u>Projected FY 05</u>	<u>Budget FY 06</u>
Team travel expenses	\$ 3,035	\$ 2,814	\$ 3,169	\$ 3,099	\$ 3,211
Equipment	1,709	1,697	1,730	1,735	1,753
Home game, hosted events, & officials	1,352	1,499	1,548	1,767	1,886
Training and medical expenses	725	801	665	843	794
Recruiting	801	791	835	890	913
Vacation board	406	432	456	502	681
Post season expenses, net	413	498	519	620	604
Booster & "special account" expenses	244	344	646	363	310
Other sport program expenses	676	655	699	735	768
Total	\$ 9,361	\$ 9,531	\$ 10,267	\$ 10,554	\$ 10,920

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 FY 02</u>	<u>Actual FY 03</u>	<u>Actual FY 04</u>	<u>Projected FY 05</u>	<u>Budget FY 06</u>
Repairs & maintenance	\$ 1,495	\$ 1,780	\$ 1,844	\$ 1,968	\$ 1,913
Utilities	1,591	1,663	1,683	1,790	2,002
Supplies & equipment	672	616	551	943	742
Other facility expenses	589	559	645	641	655
Total	\$ 4,347	\$ 4,618	\$ 4,723	\$ 5,342	\$ 5,312

**University of Michigan Athletic Department
2005 – 2006 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 02	Actual FY 03	Actual FY 04	Projected FY 05	Budget FY 06
Beginning balance	-	\$ -	\$ 1,415	\$ 2,064	\$ 2,498
Transfers	-	2,250	4,250	4,250	4,500
Uses	-	(835)	(3,601)	(3,816)	(3,750)
Ending balance	-	\$ 1,415	\$ 2,064	\$ 2,498	\$ 3,248

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

	Actual FY 02	Actual FY 03	Actual FY 04	Projected FY 05	Budget FY 06
Corporate sponsor and development expenses, including television production costs	\$ 1,950	\$ 1,871	\$ 1,748	\$ 1,676	\$ 1,788
University re-charges	869	739	850	868	790
Postage, office equipment & supplies	428	646	670	661	700
Insurance	293	398	548	556	462
Telephone	508	443	339	429	345
Publications & printing	402	349	396	378	365
Professional travel	245	246	267	298	308
Band expenses, excluding post-season expenses	151	161	163	165	169
Big 10 conference and other dues	95	96	97	100	100
Provision for basketball penalties	-	580	(209)	-	-
Other expenses	1,151	821	919	1,172	952
Total	\$ 6,092	\$ 6,350	\$ 5,788	\$ 6,303	\$ 5,979

12. **Debt service:** Debt service and associated debt (also see note 13) is summarized as follows:

	FY 2006 Budget				
	Total Debt		Scheduled Balance		
	Interest	Principal	Service	June, 2005	June, 2006
Canham Natatorium	\$ 161	\$ 685	\$ 846	\$ 2,325	\$ 1,640
Stadium expansion	142	595	737	2,030	1,435
Gymnastics practice facility	68	480	548	930	450
Rowing facility	49	45	94	950	905
Total	\$ 420	\$ 1,805	2,225	\$ 6,235	\$ 4,430
Less amounts collected on pledges in Plant Fund			(548)		
Net debt service - Operating Fund			\$ 1,677		

13. **Transfers to Plant Fund for capital expenditures:** Capital expenditures and estimated plant fund transfers are budgeted at \$5.3 million and consist of various renovation projects. Construction of the new Academic Center is scheduled for completion in FY 2006 and capital gifts are anticipated to exceed the construction cost of the building. Additional debt of \$7 million is scheduled in the Plant Fund to finance the capital gifts pledged over time.