

THE UNIVERSITY OF MICHIGAN

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REGENTS COMMUNICATION

Item for Information

SUBJECT: FY 2007 University of Michigan Department of Athletics Operating Budgets

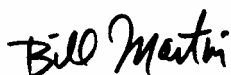
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For the proposed FY 2007 Operating Budget (described in detail on the following pages), we project an operating surplus of \$7.2 million based on operating revenues of \$76.0 million and operating expenses of \$68.8 million. The budgeted operating surplus in FY 07 will be used to fund our capital needs for FY 07, which are budgeted at \$4.8 million. Highlights are as follows:

- The budget reflects a seven home-game schedule for football (consistent with last year).
- The budget reflects expected Preferred Seat Donations of \$9.4 million (second year of full scheduled requirement following a 50% phase-in for FY 05).
- Revenue from sponsorship, licensing, and annual fund gifts (other than Preferred Seat Donations) continue to be budgeted at a conservative level and well below the projected results from FY 2006. These revenue sources are typically volatile, and we will strive to achieve results more in line with FY 2006.
- Included in operating expenses is a \$4.5 million transfer to a deferred maintenance fund established in FY 2003. The deferred maintenance fund is used as a means to provide for major repair and rehabilitation projects for our athletic facilities. We expect to continue to set aside additional funds in future years for this purpose.
- The budget reflects operating expenditure increases of 7.6% principally due to compensation, financial aid, utility costs, team travel, and home game expense increases.

We are also pleased to report that based on preliminary results, we project that the operating surplus for FY 06 will be \$16.2 million, \$6.8 million more than budgeted. The favorable outcome is the result of greater than expected revenues from licensing, investment income (due to higher interest rates), gifts, spectator admissions, and corporate sponsorship.

Respectfully submitted,



William C. Martin  
Donald R. Shepherd Director of Athletics



Jason J. Winters  
Chief Financial Officer, Department of Athletics

July, 2006

**MICHIGAN ATHLETIC DEPARTMENT**  
**FY 2007 Operating Budget**  
*(in thousands)*

	FY 05/06			06/07 over 05/06				
	FY 04/05 ACTUAL	BUDGET	PROJECTED	FY 06/07 BUDGET	% Change		\$ Change	
					Budget	Projected	Budget	Projected
<b>REVENUES</b>								
Spectator admissions	\$ 30,642	\$ 34,574	\$ 35,100	\$ 34,429	-0.4%	-1.9%	\$ (145)	\$ (671)
Conference distributions	10,662	10,532	10,691	10,715	1.7%	0.2%	183	24
Proceeds from priority seating programs	5,285	9,425	9,425	9,425	0.0%	0.0%	-	-
Athletic scholarship fund and other gifts	11,058	2,973	3,600	3,660	23.1%	1.7%	687	60
Corporate sponsorship	5,743	4,810	5,700	5,041	4.8%	-11.6%	231	(659)
Licensing royalties	3,969	2,500	5,304	3,000	20.0%	-43.4%	500	(2,304)
Radio	1,655	1,775	1,900	1,875	5.6%	-1.3%	100	(25)
Facilities	2,063	1,870	1,870	1,850	-1.1%	-1.1%	(20)	(20)
Concessions and parking	1,705	1,779	1,955	1,763	-0.9%	-9.8%	(16)	(192)
Other income	1,519	688	1,015	757	10.0%	-25.4%	69	(258)
Investment income	2,915	2,400	3,800	3,500	45.8%	-7.9%	1,100	(300)
<b>CURRENT FUND REVENUES</b>	<b>\$ 77,216</b>	<b>\$ 73,326</b>	<b>\$ 80,360</b>	<b>\$ 76,015</b>	3.7%	-5.4%	<b>\$ 2,689</b>	<b>\$ (4,345)</b>
<b>EXPENSES</b>								
Salaries, wages & benefits	\$ 21,421	\$ 22,645	\$ 22,645	\$ 24,391	7.7%	7.7%	\$ 1,746	\$ 1,746
Financial aid to students	11,366	12,950	12,100	13,725	6.0%	13.4%	775	1,625
Team and game expense	9,967	10,920	11,068	12,066	10.5%	9.0%	1,146	998
Facilities	5,436	5,312	5,907	5,888	10.8%	-0.3%	576	(19)
Deferred maintenance fund transfer	4,250	4,500	4,500	4,500	0.0%	0.0%	-	-
Other operating and administrative expenses	6,043	5,979	6,208	6,118	2.3%	-1.5%	139	(90)
Debt service transfer to plant fund	1,677	1,677	1,748	2,156	28.6%	23.3%	479	408
<b>CURRENT FUND EXPENSES</b>	<b>\$ 60,160</b>	<b>\$ 63,983</b>	<b>\$ 64,176</b>	<b>\$ 68,844</b>	7.6%	7.3%	<b>\$ 4,861</b>	<b>\$ 4,668</b>
<b>NET OPERATING SURPLUS</b>	<b>17,056</b>	<b>9,343</b>	<b>16,184</b>	<b>7,171</b>				
<b>Transfers and capital expenditures:</b>								
Capital expenditures from current funds and transfers to plant fund	(3,872)	(5,306)	(5,753)	(4,835)				
Transfers to endowment fund	(19)	-	256	(300)				
Other transfers (e.g., to plant fund for ticket transfers)	(7,038)	(300)	(247)	-				
Transfer from quasi-endowment fund	-	-	-	-				
<b>Net transfers and capital expenditures</b>	<b>(10,929)</b>	<b>(5,606)</b>	<b>(5,744)</b>	<b>(5,135)</b>				
<b>INCREASE (DECREASE) IN CURRENT FUND BALANCES</b>	<b>6,127</b>	<b>3,737</b>	<b>10,440</b>	<b>2,036</b>				

**University of Michigan Athletic Department  
2006 – 2007 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:

	<b>Actual FY 03</b>	<b>Actual FY 04</b>	<b>Actual FY 05</b>	<b>Projected FY 06</b>	<b>Budget FY 07</b>
Football	\$ 27,599	\$ 29,190	\$ 26,266	\$ 30,446	\$ 29,934
Basketball	2,243	2,315	2,271	2,405	2,315
Hockey	1,564	1,888	1,873	2,083	2,000
Other	<u>243</u>	<u>168</u>	<u>232</u>	<u>166</u>	<u>180</u>
Total	\$ 31,649	\$ 33,561	\$ 30,642	\$ 35,100	\$ 34,429

*Memo:*

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

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

	<b>Actual FY 03</b>	<b>Actual FY 04</b>	<b>Actual FY 05</b>	<b>Projected FY 06</b>	<b>Budget FY 07</b>
Television (football and basketball)	\$ 5,745	\$ 6,122	\$ 6,258	\$ 6,142	\$ 6,287
Football Bowl games	1,848	1,993	1,721	1,907	1,726
NCAA basketball based distributions	2,085	2,257	2,306	2,302	2,352
Other miscellaneous	<u>406</u>	<u>331</u>	<u>377</u>	<u>340</u>	<u>350</u>
	\$ 10,084	\$ 10,703	\$ 10,662	\$ 10,691	\$ 10,715

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  
2006 – 2007 Budget Notes and Assumptions  
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6. **Compensation expense:** The athletic department has approximately 239 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 03</u>	<u>Actual FY 04</u>	<u>Actual FY 05</u>	<u>Projected FY 06</u>	<u>Budget FY 07</u>
Coaches and team staff	\$ 7,623	\$ 8,326	\$ 8,444	\$ 8,973	\$ 10,007
Compliance, sports information, and other administration	2,312	2,349	2,390	2,589	2,852
Athletic medicine, conditioning, academic support	1,928	2,059	2,134	2,365	2,373
Facilities	1,993	2,132	2,308	2,306	2,397
Sports marketing, development & studio operations	795	951	1,011	861	819
Ticket and business office	626	635	688	703	766
Fringe benefits	3,709	4,269	4,446	4,848	5,177
Total	\$ 18,986	\$ 20,721	\$ 21,421	\$ 22,645	\$ 24,391

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 03</u>	<u>Actual FY 04</u>	<u>Actual FY 05</u>	<u>Projected FY 06</u>	<u>Budget FY 07</u>
Team travel expenses	\$ 2,814	\$ 3,169	\$ 3,223	\$ 3,211	\$ 3,742
Equipment	1,697	1,730	1,759	1,771	1,865
Home game, hosted events, & officials	1,499	1,548	1,539	1,886	2,064
Training and medical expenses	801	665	599	794	852
Recruiting	791	835	892	913	992
Vacation board	432	456	528	681	677
Post season expenses, net	498	519	340	554	600
Booster & "special account" expenses	344	646	408	430	394
Other sport program expenses	655	699	679	828	880
Total	\$ 9,531	\$ 10,267	\$ 9,967	\$ 11,068	\$ 12,066

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>Actual FY 05</u>	<u>Projected FY 06</u>	<u>Budget FY 07</u>
Repairs & maintenance	\$ 1,495	\$ 1,780	\$ 1,844	\$ 2,015	\$ 2,113	\$ 2,069
Utilities	1,591	1,663	1,683	1,862	2,282	2,350
Supplies & equipment	672	616	551	931	762	742
Other facility expenses	589	559	645	628	750	727
Total	\$ 4,347	\$ 4,618	\$ 4,723	\$ 5,436	\$ 5,907	\$ 5,888

**University of Michigan Athletic Department  
2006 – 2007 Budget Notes and Assumptions  
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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:

	<b>Actual FY 03</b>	<b>Actual FY 04</b>	<b>Actual FY 05</b>	<b>Projected FY 06</b>	<b>Budget FY 07</b>
Beginning balance	\$ -	\$ 1,415	\$ 2,064	\$ 2,499	\$ 6,177
Transfers	2,250	4,250	4,250	4,500	4,500
Uses	(835)	(3,601)	(3,815)	(822)	(2,813)
Ending balance	\$ 1,415	\$ 2,064	\$ 2,499	\$ 6,177	\$ 7,864

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

	<b>Actual FY 03</b>	<b>Actual FY 04</b>	<b>Actual FY 05</b>	<b>Projected FY 06</b>	<b>Budget FY 07</b>
Corporate sponsor and development expenses, including television production costs	\$ 1,871	\$ 1,748	\$ 1,677	\$ 1,788	\$ 1,928
Postage, equipment & ticket expenses	851	921	914	1,206	945
University re-charges	739	850	868	799	705
Insurance	398	548	556	462	424
Telephone	443	339	276	315	327
Publications & printing	349	396	366	365	361
Professional travel	246	267	255	308	343
Band expenses, excluding post-season expenses	161	163	160	169	220
Big 10 conference and other dues	96	97	100	100	100
Provision for basketball penalties	580	(209)		-	-
Other expenses	616	668	871	696	765
Total	\$ 6,350	\$ 5,788	\$ 6,043	\$ 6,208	\$ 6,118

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

	<b>FY 2007 Budget</b>			<b>Scheduled Balance</b>	
	<b>Interest</b>	<b>Principal</b>	<b>Total Debt Service</b>	<b>June, 2006</b>	<b>June, 2007</b>
Canham Natatorium	\$ 68	\$ 775	\$ 843	\$ 1,580	\$ 805
Stadium expansion	61	675	736	1,380	705
Gymnastics practice facility	15	415	430	905	490
Stadium concrete	146	182	328	-	7,818
Hartwig renovation	75	80	155	-	3,420
Rowing facility	44	50	94	415	365
Total	\$ 409	\$ 2,177	2,586	\$ 4,280	\$ 13,603
Less amounts collected on pledges in Plant Fund			(430)		
Net debt service - Operating Fund			\$ 2,156		

13. **Transfers to Plant Fund for capital expenditures:** Capital expenditures and estimated plant fund transfers are budgeted at \$4.8 million and consist of various renovation projects.