

**THE UNIVERSITY OF MICHIGAN**

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**REGENTS COMMUNICATION**

Item for Information

SUBJECT: FY 2009 University of Michigan Department of Athletics Operating Budgets


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For the proposed FY 2009 Operating Budget (described in detail on the following pages), we project an operating surplus of \$10.3 million based on operating revenues of \$90.5 million and operating expenses of \$80.2 million. The budgeted operating surplus in FY 08 will be used to rebuild our operating reserves. Highlights are as follows:

- The budget reflects a seven home-game schedule for football (eight home games were played last year).
- Revenue from sponsorship, licensing, and annual fund gifts (other than Preferred Seat Donations) continue to be budgeted at a conservative level and below the projected results from FY 2008. These revenue sources are typically volatile, and we will strive to achieve results more in line with FY 2008.
- 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 7.7% principally due to compensation, financial aid, 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 08 will be \$14.2 million, \$1.3 million more than budgeted. The favorable outcome is the result of greater than expected revenues from licensing, investment income, gifts, and corporate sponsorship. The accumulation of this year's and prior years operating surpluses have been used to fund our ongoing capital needs. In that regard, for FY 08 we expect to transfer \$13.2 million to our plant fund to fund facility renewal projects (most notably the Michigan Stadium Project).

Respectfully submitted,



William C. Martin  
Donald R. Shepherd Director of Athletics



Jason J. Winters  
Chief Financial Officer, Department of Athletics

June, 2008

**MICHIGAN ATHLETIC DEPARTMENT**  
**FY 2009 Operating Budget**  
*(in thousands)*

	<u>FY 07/08</u>			<u>08/09 over 07/08</u>				
	<u>FY 06/07</u>			<u>FY 08/09</u>	<u>% Change</u>		<u>\$ Change</u>	
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>PROJECTED</u>		<u>BUDGET</u>	<u>Projected</u>	<u>Budget</u>	<u>Projected</u>
<b><u>REVENUES</u></b>								
Spectator admissions	\$ 34,071	\$ 38,360	\$ 38,424	\$ 35,551	-7.3%	-7.5%	\$ (2,809)	\$ (2,873)
Conference distributions	13,467	16,856	17,124	17,419	3.3%	1.7%	563	295
Priority seating and other annual gifts	13,896	13,335	14,490	13,600	2.0%	-6.1%	265	(890)
Corporate sponsorship	5,698	4,925	6,080	9,880	100.6%	-31.8%	4,955	3,800
Licensing royalties	4,444	3,300	4,800	3,800	15.2%	-20.8%	500	(1,000)
Radio	2,000	2,050	2,050	2,100	2.4%	2.4%	50	50
Facilities	1,908	1,909	1,909	1,870	-2.0%	-2.0%	(39)	(39)
Concessions and parking	1,612	1,963	2,182	1,860	-5.2%	-14.8%	(103)	(322)
Other income	1,510	896	1,033	937	4.6%	-9.3%	41	(96)
Investment income	5,320	3,800	4,150	3,444	-9.4%	-17.0%	(356)	(706)
<b><u>CURRENT FUND REVENUES</u></b>	<b><u>\$ 83,926</u></b>	<b><u>\$ 87,394</u></b>	<b><u>\$ 92,242</u></b>	<b><u>\$ 90,461</u></b>	<b>3.5%</b>	<b>-1.9%</b>	<b><u>\$ 3,067</u></b>	<b><u>\$ (1,781)</u></b>
<b><u>EXPENSES</u></b>								
Salaries, wages & benefits	\$ 25,297	\$ 26,845	\$ 28,873	\$ 30,860	15.0%	6.9%	\$ 4,015	\$ 1,987
Financial aid to students	12,558	14,411	14,061	15,129	5.0%	7.6%	718	1,068
Team and game expense	12,033	13,171	13,871	15,005	13.9%	8.2%	1,834	1,134
Facilities expenses	6,971	6,614	7,264	7,093	7.2%	-2.4%	479	(171)
Deferred maintenance fund transfer	4,500	4,500	4,500	4,500	0.0%	0.0%	-	-
Other operating and administrative expenses	6,279	6,368	6,878	6,575	3.3%	-4.4%	207	(303)
Debt service transfer to plant fund	2,133	2,565	2,565	1,029	-59.9%	-59.9%	(1,536)	(1,536)
<b><u>CURRENT FUND EXPENSES</u></b>	<b><u>\$ 69,771</u></b>	<b><u>\$ 74,474</u></b>	<b><u>\$ 78,012</u></b>	<b><u>\$ 80,191</u></b>	<b>7.7%</b>	<b>2.8%</b>	<b><u>\$ 5,717</u></b>	<b><u>\$ 2,179</u></b>
<b><u>NET OPERATING SURPLUS</u></b>	<b><u>14,155</u></b>	<b><u>12,920</u></b>	<b><u>14,230</u></b>	<b><u>10,270</u></b>				
<b><u>Transfers and capital expenditures:</u></b>								
Capital expenditures from current funds and transfers to plant and other funds	(37,767)	(2,984)	(13,184)	(7,700)				
Transfer from quasi-endowment and other funds	13,247	-	(1,402)	-				
<b><u>Net transfers and capital expenditures</u></b>	<b><u>(24,520)</u></b>	<b><u>(2,984)</u></b>	<b><u>(14,586)</u></b>	<b><u>(7,700)</u></b>				
<b><u>INCREASE (DECREASE) IN CURRENT FUND BALANCES</u></b>	<b><u>(10,365)</u></b>	<b><u>9,936</u></b>	<b><u>(356)</u></b>	<b><u>2,570</u></b>				

**University of Michigan Athletic Department  
2008 – 2009 Budget Notes and Assumptions  
(all dollar amounts in 000's)**

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

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

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

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

	<b>Actual FY 05</b>	<b>Actual FY 06</b>	<b>Actual FY 07</b>	<b>Projected FY 08</b>	<b>Budget FY 09</b>
Football	\$ 26,266	\$ 30,570	\$ 29,819	\$ 34,390	\$ 31,570
Basketball	2,271	2,354	2,104	1,931	1,895
Hockey	1,873	2,141	1,985	1,905	1,857
Other	<u>232</u>	<u>205</u>	<u>163</u>	<u>198</u>	<u>229</u>
Total	\$ 30,642	\$ 35,270	\$ 34,071	\$ 38,424	\$ 35,551

*Memo:*

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

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

	<b>Actual FY 05</b>	<b>Actual FY 06</b>	<b>Actual FY 07</b>	<b>Projected FY 08</b>	<b>Budget FY 09</b>
Television (football and basketball)	\$ 6,258	\$ 6,143	\$ 8,801	\$ 12,288	\$ 12,660
Football Bowl games	1,721	1,917	1,947	2,000	1,747
NCAA basketball based distributions	2,306	2,275	2,319	2,436	2,612
Other miscellaneous	<u>377</u>	<u>340</u>	<u>400</u>	<u>400</u>	<u>400</u>
	\$ 10,662	\$ 10,675	\$ 13,467	\$ 17,124	\$ 17,419

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  
2008 – 2009 Budget Notes and Assumptions  
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6. **Compensation expense:** The athletic department has approximately 245 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 05</u>	<u>Actual FY 06</u>	<u>Actual FY 07</u>	<u>Projected FY 08</u>	<u>Budget FY 09</u>
Coaches and team staff	\$ 8,444	\$ 8,980	\$ 11,234	\$ 13,316	\$ 13,870
Compliance, sports information, and other administration	2,390	2,575	2,808	2,978	3,568
Athletic medicine, conditioning, academic support	2,134	2,316	2,498	2,771	2,809
Facilities	2,308	2,404	2,537	2,563	2,697
Sports marketing, development & studio operations	1,011	853	784	869	960
Ticket and business office	688	733	773	786	801
Fringe benefits	4,446	4,939	4,664	5,590	6,155
Total	\$ 21,421	\$ 22,800	\$ 25,298	\$ 28,873	\$ 30,860

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 05</u>	<u>Actual FY 06</u>	<u>Actual FY 07</u>	<u>Projected FY 08</u>	<u>Budget FY 09</u>
Team travel expenses	\$ 3,223	\$ 3,329	\$ 4,015	\$ 4,156	\$ 4,555
Equipment	1,759	1,814	1,822	2,348	2,490
Home game, hosted events, & officials	1,539	1,722	1,996	2,520	2,687
Training and medical expenses	599	828	810	836	868
Recruiting	892	993	949	1,182	1,281
Vacation board	528	521	560	686	766
Post season expenses, net	340	520	463	600	600
Booster & "special account" expenses	408	503	554	543	601
Other sport program expenses	679	823	863	1,001	1,157
Total	\$ 9,967	\$ 11,053	\$ 12,032	\$ 13,872	\$ 15,005

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 05</u>	<u>Actual FY 06</u>	<u>Actual FY 07</u>	<u>Projected FY 08</u>	<u>Budget FY 09</u>
Repairs & maintenance	\$ 2,015	\$ 2,237	\$ 2,655	\$ 2,705	\$ 2,313
Utilities	1,862	2,340	2,577	2,783	3,064
Supplies & equipment	931	804	702	909	979
Other facility expenses	628	749	743	867	737
Total	\$ 5,436	\$ 6,130	\$ 6,677	\$ 7,264	\$ 7,093

**University of Michigan Athletic Department  
2008 – 2009 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.

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

	<u>Actual</u> <u>FY 05</u>	<u>Actual</u> <u>FY 06</u>	<u>Actual</u> <u>FY 07</u>	<u>Projected</u> <u>FY 08</u>	<u>Budget</u> <u>FY 09</u>
Corporate sponsor and development expenses, including television production costs	\$ 1,677	\$ 1,806	\$ 1,917	\$ 1,862	\$ 2,089
Postage, equipment & ticket expenses	914	1,131	1,104	1,147	1,010
University re-charges	868	802	736	730	736
Insurance	556	462	292	329	428
Telephone	276	290	340	395	361
Publications & printing	366	366	335	383	383
Professional travel	255	298	297	388	390
Band expenses, excluding post-season expenses	160	164	219	229	236
Big 10 conference and other dues	100	98	98	100	105
Other expenses	871	739	952	1,315	837
Total	\$ 6,043	\$ 6,156	\$ 6,290	\$ 6,878	\$ 6,575

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

	<u>FY 2009 Budget</u>			<u>Scheduled Balance</u>	
	<u>Interest</u>	<u>Principal</u>	<u>Total Debt</u>	<u>June, 2008</u>	<u>June, 2009</u>
			<u>Service</u>		
Ross Academic Center	32	2,100	2,132	2,100	-
Stadium concrete	330	145	475	7,605	7,460
Hartwig renovation	147	60	207	3,190	3,130
Softball renovation	182	75	257	4,145	4,070
Rowing facility	40	50	90	805	755
Total	\$ 731	\$ 2,430	3,161	\$ 17,845	\$ 15,415
Less amounts collected on pledges in Plant Fund			(2,132)		
Net debt service - Operating Fund			\$ 1,029		

13. **Transfers to Plant Fund for capital expenditures:** Capital expenditures and estimated plant fund transfers are budgeted at \$7.7 million for fiscal year 2009 and consist of various renovation projects.