

Senate Reference No. 06-11

To: The Senate

From: University Resources Policy Committee

Date: Dec. 6, 2006

Subj: Miscellaneous information about the athletics budget "for information only"

The attached document prepared by VCFA Branson was discussed by URPC and is submitted in response to Senate directive SD 05-13 for information only.

To: Anne Argast Chair University Resources Policy Committee

From: Walt Branson

Date: October 13, 2006

Subject: Comments on the Budgetary Affairs Subcommittee Resolution

Per your request the following comments pertain to the points made in the Budgetary Affairs Subcommittee (BAS) resolution approved on March 25, 2005. The comments are based on the following interpretations of the terminology used in the document: 1) The “projected budget” means the five year budget plan developed before the transition to Division I. 2) The “operating budget” means the budget created each year as part of the University’s annual operating budget process. 3) The “actual budget” means the actual revenue/expenses reported for a fiscal year at the end of the year. I have paraphrased the BAS statements to include the interpreted terminology.

BAS First “Whereas” - Annual operating budgets and actual revenue/expenses have exceeded the projected budgets for 2000-01, 2001- 02, 2002-03, and 2003-04. See TABLE 1.

Comment – Overall the annual operating budgets and actual revenue/expenses grew faster than was originally anticipated. Caused by the need to increase scholarships and individual sports budgets sooner, this resulted in the differences noted by BAS. However, by 2003-04 the difference from the projection can be almost entirely attributed to greater than expected scholarship expenses and the reporting of in-kind contributions. More detailed explanations on these two items are included in the comments for Fact 4 and Fact 5.

BAS Second “Whereas” - Actual revenue/expenses have exceeded the annual operating budget for 2002-03 and 2003-04. See TABLE 1.

Comment – This has historically been true in nearly every year because of the rapid growth of the department. For departments that generate outside revenue, it is normal for actual expenses to be different than the annual operating budget. In fact, because of transfers and reallocations, it is not uncommon for this to happen in departments that are entirely internally funded. With recent

changes in our athletics budgeting process the actual expenses will be much closer to the annual operating budget.

In 2003-04 the differences between budgeted and actual can be tracked to one reporting change required by the NCAA. Without the reporting change, actual revenues and expenses were less than what had been budgeted. 2003-04 was the first year that we were required to recognize in-kind contributions as both income and expense even though they had not been budgeted. In 2003-04 actual expenses reported exceeded the budget by nearly \$507,000. The amount of in-kind contributions was approximately \$544,000. If the in-kind contribution had not been shown, actual expenses would have been under budget by \$38,000. See Table 1. More detailed comments regarding in-kind contributions are included in Fact 5.

BAS Third “Whereas” - Five attached facts raise questions about funding sources and control

Comment - The five attached facts will be addressed individually as follows.

BAS Fact 1 - Student Fee revenue was 62.29% higher than originally projected. See TABLE 2.

Comment – Athletics receives a prorated share of the student activity/athletics fee paid by students for every credit hour. The Division I projected fee revenue budget was estimated based

on a set of assumptions about the fee rate and enrollment increases. Over time, both the rate and the enrollment increased faster than was anticipated resulting in more fee revenue than was originally projected.

BAS Fact 2 - Contributions are only 75% of original projections or less than 25% with in-kind contributions excluded.

Comment – The original plan, based on community input, was for a “pyramid” of giving by donors. The plan was to create several levels of giving with many individuals giving at the lower levels and a handful of individuals and corporations giving at the higher levels. Once the transition was made to Division I that strategy did not materialize as expected. While contributions to IPFW athletics are a much higher percentage of the revenue than many other

institutions, the donor base continues to be aggressively developed. However, the contributions have ramped-up slower than initially projected.

BAS Fact 3 - Institutional support was not part of projected budget and for 2003-04 was over \$900,000.

Comment – Institutional support is provided by the Chancellor to athletics primarily for scholarships. The sources of the funds are interest income and a variety of other non-general fund revenues that are available for the Chancellor’s discretionary use. When awarded as scholarships, these funds ultimately result in an increased University general fund budget since fees paid with scholarship awards are recorded as general fund revenue. Greater general fund revenue allows for a corresponding increase in the University general fund budget.

While not part of the projected budget, institutional support has historically been part of the annual operating budget and actual revenue. My recollection is that when the Division I projected budget was created, the department believed that institutional support did not need to be a component of the revenue budget. Over time the institutional support has grown as the scholarship budget has grown. See TABLE 3.

BAS Fact 4 - Scholarship expenses in 2003-04 were 34.05% over the projected budget.

Comment - The NCAA mandates that institutions award a minimum of 50 full time equivalent scholarships to student athletes. In addition institutions may award a maximum of 15 scholarships for men’s basketball and 13 for women’s basketball. Year after year the number of athletic scholarships awarded at IPFW has been slightly over the sum of these or 78.

The scholarship amounts are determined by the “cost of attendance” set by the Financial Aid Office and are used for all awards whether or not the student is an athlete. Increases in the “cost of attendance” are driven by annual changes to the student tuition/fee rate and by input on other costs through student surveys. A higher “cost of attendance” has caused the scholarship expense to increase substantially more than originally projected, even though the number of scholarships has remained essentially the same. See TABLE 4.

BAS Fact 5 – Actual expenses in 2003-04 were 36.92% over the projected budget. See TABLE 1.

Comment – The difference noted is about \$921,000 which was primarily caused by two factors. First, as noted in Fact 4, scholarships were higher than originally anticipated. This accounts for \$268,000 of the difference. Second, the projected and annual operating budgets do not include the in-kind contribution of Orthopedics Northeast (ONE). Although ONE had been providing training services at no cost for years, for the first time in 2003-04 the NCAA required the audit

report to include that in-kind contribution. In-kind gifts are reported with equal offsetting entries to both the income and expense sections of the report. The amount of the in-kind contributions in 2003-04 was \$544,000. When scholarships and in-kind contributions are taken into account the difference between projected and actual becomes a little less than \$109,000.

The difference in projected, budgeted, and actual revenue and expenses reflect growth in the athletic program. University policies, supported by both internal and external audits, provide assurances that athletics budgets are under institutional control.

IPFW DIVISION I FINANCIAL COMPARISONS

1999-00 2000-01 2001-02 2002-03 2003-04

TABLE 1 - Comparison of Projected Budget, Annual Budget, Actual Revenue / Expenses

Projected Division I Budget	\$917,142	\$1,183,127	\$1,768,683	\$2,291,740	\$2,496,161
Annual Operating Budget			\$1,900,822	\$2,509,691	\$2,910,924
Actual Revenue	\$969,638	\$906,657	\$1,925,047	\$3,172,693	\$3,469,108
Actual Expenses	\$1,099,140	\$1,286,935	\$2,098,553	\$3,082,053	\$3,417,631
BAS First "Whereas"					
Annual Budget Over Projected Budget			\$132,139	\$217,951	\$414,763
Actual Revenue Over Projected Budget	\$52,496	-\$276,470	\$156,364	\$880,953	\$972,947
Actual Expenses Over Projected Budget	\$181,998	\$103,808	\$329,870	\$790,313	\$921,470
BAS Second "Whereas"					
Actual Expenses Over Annual Budget			\$197,731	\$572,362	\$506,707
Less - In-kind Contr Included in Actual Exp			n/a	n/a	\$544,625
Actual Exp Under Annual Bud w/o In-kind Contr					<u>-\$37,918</u>
BAS Fact 5					
Actual Expenses Over Projected Budget					\$921,470
Less - Actual Scholarships Over Projected Scholarships					\$268,135
Less - In-kind Contributions Reported					<u>\$544,625</u>
Remaining Difference					<u>\$108,710</u>

TABLE 2 - Comparison of Projected and Actual Fee Revenue

BAS Fact 1					
Actual Fee Revenue	\$523,740	\$601,613	\$695,232	\$925,201	\$1,068,669
Less - Projected Student Fee Revenue	<u>\$523,740</u>	<u>\$585,387</u>	<u>\$608,802</u>	<u>\$633,155</u>	<u>\$658,481</u>
Difference	\$0	\$16,226	\$86,430	\$292,046	\$410,188

TABLE 3 - Comparison of Institutional Support and Scholarship Expenditures

BAS Fact 3					
Actual Institutional Support	\$125,987	\$82,556	\$286,885	\$898,296	\$926,663
Actual Scholarship Expenditures	\$298,982	\$385,160	\$583,904	\$864,549	\$1,055,297

TABLE 4 - Comparison Projected and Actual Scholarships

BAS Fact 4					
Actual Scholarship Expenditures	\$298,982	\$385,160	\$583,904	\$864,549	\$1,055,297
Less - Projected Scholarship Budget	<u>\$298,982</u>	<u>\$380,000</u>	<u>\$500,000</u>	<u>\$756,886</u>	<u>\$787,162</u>
Actual Scholarships Over Proj Scholarships	\$0	\$5,160	\$83,904	\$107,663	\$268,135