WASHINGTON STATE UNIVERSITY

Cougar Athletics – FY23 & FY24 Budget Adjustments & Financial Management Oversight

June 9, 2023

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Executive Summary

- FY23 - anticipated $11.5 million budget overage
- FY24 - proposed budget of $83.4 million in expenditures
  - $1.8M increase over FY23 Budget
  - $3.7M reduction to expected FY23 actual expenses
- FY24 - $82.9 million in operating revenues, a 6% increase from FY23 actual (before Pac-12 shortfall)

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Executive Summary

- Multiple factors contributed to the FY23 variance:
  - Expected decrease in the Pac-12 Conference revenue distribution: -$3.5M
  - Revenues falling short of projection: -$2.5M
  - Operational costs exceeding the approved budget: -$5.5M
  - Transitions in the Athletics CFO Role
- Aggressive review of the factors driving the FY23 budget overage is underway along with renewed efforts to improve budget monitoring and accountability measures.

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Pac-12 Conference Revenue Distribution

- The Pac-12 Conference will experience a revenue shortfall due to media partner overpayment and cost overrun of capital project to relocate production operations.
- As a result, Conference revenue distributions for FY23 are expected to decrease by $3.5M per institution.
- The decrease in the Pac-12 Conference revenue distribution is expected to also impact FY24, down $4.0M from the FY24 budgeted planning rate.

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FY23 Budget to Projected Actual

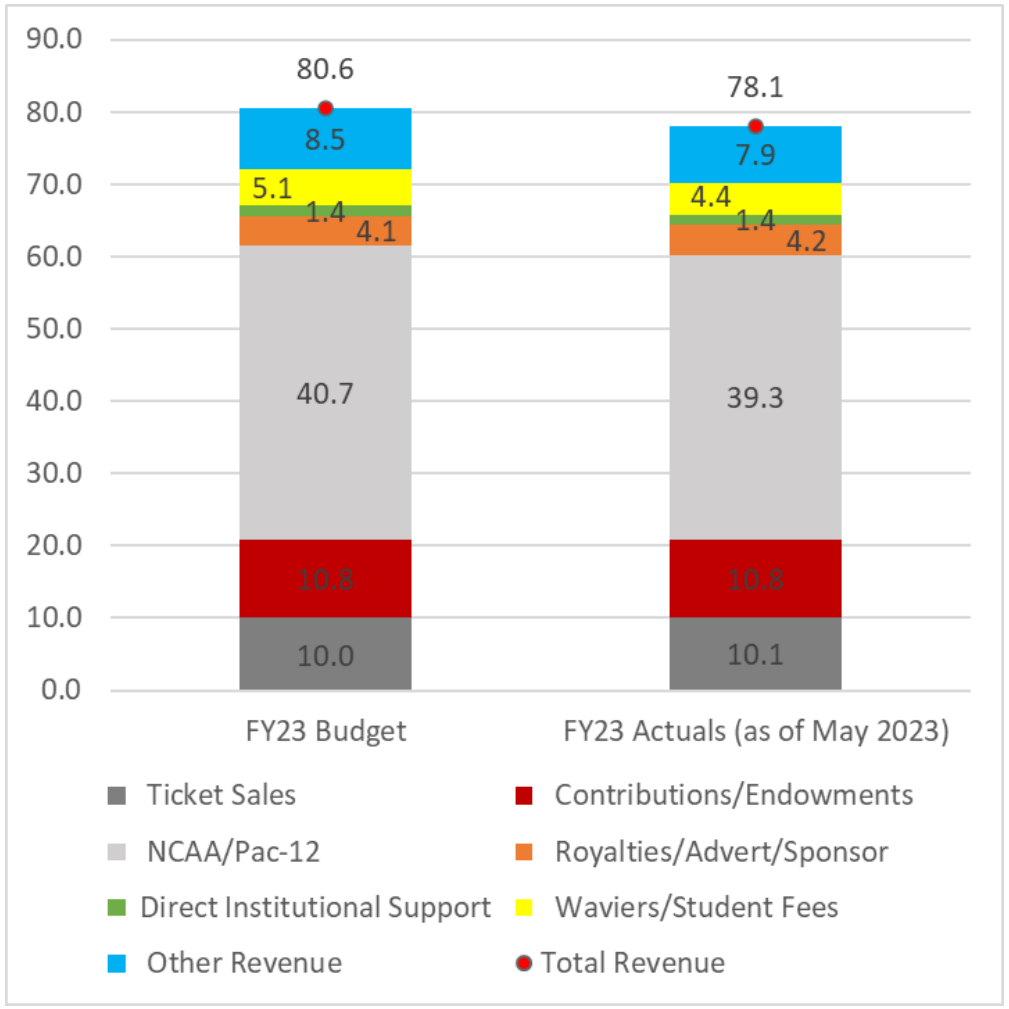
(through May 15, 2023)

Athletics Budget - Projected				
	FY22 Actuals	FY23 Budget	FY23 Proj.	Variance
REVENUES:				
Ticket Sales	9.3	10.0	10.1	0.1
Contributions/Endowments	10.7	10.8	10.8	0.0
NCAA/Pac-12	38.7	40.7	39.3	-1.4
Royalties/Advert/Sponsor	4.9	4.1	4.2	0.1
Direct Institutional Support	0.0	1.4	1.4	0.0
Waviers/Student Fees	5.0	5.1	4.4	-0.7
Other Revenue	6.4	8.5	7.9	-0.6
Total Revenue	**75.0**	**80.6**	**78.1**	**-2.5**
EXPENSES:				
Compensation	29.1	29.4	29.7	-0.3
Scholarships	12.2	12.1	12.5	-0.4
Sport Programs	13.6	13.5	15.3	-1.8
Marketing/Fund Raising	1.5	1.9	2.0	-0.1
Debt Payments	10.8	10.0	10.0	0.0
Direct Admin/Dues	3.6	4.5	5.0	-0.5
Other Expense	12.2	10.2	12.6	-2.4
Total Expenses	**83.0**	**81.6**	**87.1**	**-5.5**
Net Income from Operations	**-8.0**	**-1.0**	**-9.0**	**-8.0**
Savings from Bond Proceeds	**10.0**	**1.0**	**1.0**	
Net Income After Financing	**2.0**	**0.0**	**-8.0**	**-8.0**
Pac-12 Shortfall			**-3.5**	

*There may be minor differences in subtotals shown above due to rounding to dollars million

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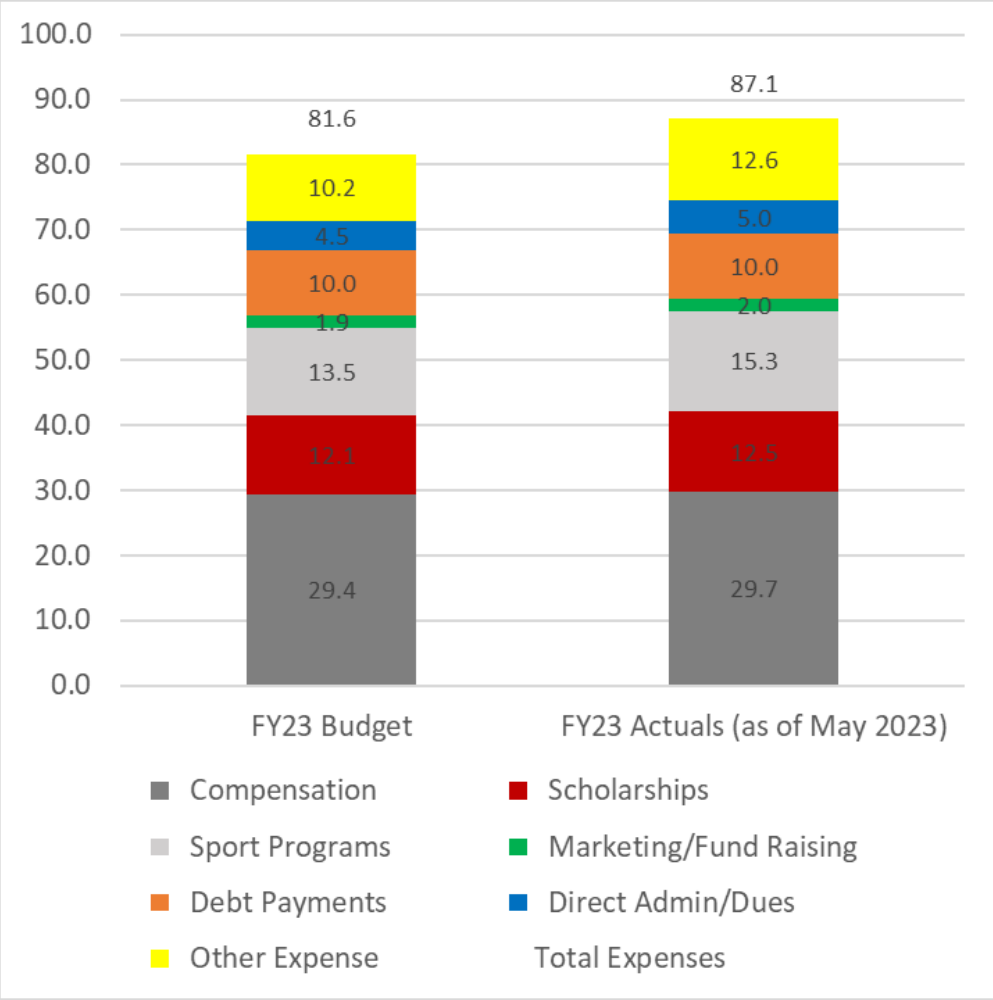
FY23 Revenue Variances



- Revenues are expected to miss budget levels by $2.5M.
- Positive Variances:
  - Ticket sales +$.1M
  - Royalties and sponsorships +$.1M
- Negative Variances:
  - $1.4M shortfall in Pac-12 and NCAA distributions (on top of the impact of the Pac-12 media in the prior slide).
  - $0.7M decline in student sport pass, fees, and waivers from decreased enrollment.
  - $0.6M shortfall in other revenue related to parking, facility fees, and bowl revenue

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FY23 Expense Variances



- Expense expected to exceed budgeted levels by $5.5M.
  - Compensation exceeded budget by $0.3M due to student wages, overtime pay, and increases to contractual employees.
  - Financial Aid was $0.4M over budget due to a larger than anticipated amount of medical and degree completion aid awarded.
  - Team expenses (travel, recruiting, student-athlete meals, and medical expenses) and Other Expenses exceeded budget by $4.8M.

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Remediation Efforts for FY23

- Since early May, Athletics has implemented the following steps to help mitigate the shortfall:
  - Current and future vacant positions will remain frozen until further review and start dates will be delayed.
  - Non-essential travel and purchases are halted. All pending expenses are under review by a Sport Administrator or Deputy AD.
  - All new professional development is paused. Moving forward, a revised professional development and travel policy will be implemented.
  - All expenses/purchases must receive advance approval by a Sport Administrator or Deputy AD. All procurement card transactions/receipts must be reconciled in Workday within one week of the incurred expense.

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FY24 Budget

Washington State University									
REVENUES:	**FY19**	**FY20**	**FY21**	**FY22**	**FY23 (as of 5/25)**	**FY24**	**FY25**	**FY26**	**FY27**
Ticket Sales	9.5	8.6	0.0	9.3	10.1	10.1	10.3	10.3	10.8
Contributions/Endowments	12.4	10.7	8.5	10.7	10.8	11.1	11.7	12.0	12.2
NCAA/Pac-12	34.2	34.7	22.5	38.7	39.3	42.1	45.9	47.7	49.0
Royalties/Advert/Sponsor	4.6	4.3	3.4	4.9	4.2	4.3	4.5	4.0	4.1
Institutional Support	0.0	0.0	0.0	0.0	1.4	2.4	2.5	2.6	2.6
Waivers/Student Fees	5.2	5.2	4.8	5.0	4.4	4.3	4.5	4.6	4.6
Other Revenue	5.8	6.6	0.8	6.4	7.9	8.7	8.3	8.3	8.5
Total Revenue	**71.7**	**70.1**	**40.0**	**75.0**	**78.1**	**83.0**	**87.7**	**89.5**	**91.8**
EXPENSES:									
Compensation	27.7	28.5	25.6	29.1	29.7	30.3	31.1	32.1	33.0
Scholarships	11.0	10.5	11.4	12.2	12.5	12.9	13.5	14.0	14.4
Sport Programs	11.4	10.7	7.4	13.2	15.3	12.7	14.2	14.7	15.2
Marketing/Fund Raising	1.8	1.3	1.2	1.5	2.0	1.8	2.0	2.1	2.1
Debt Payments	9.2	9.2	10.0	10.8	10.0	10.0	11.0	10.3	10.3
Direct Admin/Dues	4.7	4.6	4.6	3.6	5.0	4.6	4.7	5.0	5.1
Other Expense	10.3	12.5	4.8	12.6	12.6	11.1	11.2	11.3	11.7
Total Expenses	**76.1**	**77.3**	**65.0**	**83.0**	**87.1**	**83.4**	**87.7**	**89.5**	**91.8**
Net Income from Operations	**(4.4)**	**(7.2)**	**(25.0)**	**(8.0)**	**(9.0)**	**(0.4)**	**0.0**	**0.0**	**0.0**
Proceeds from Financing/Savings from Debt Refinance			**35.6**	**10.0**	**1.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net Income After Financing	**(4.6)**	**(7.1)**	**10.6**	**2.0**	**(8.0)**	**(0.4)**	**0.0**	**0.0**	**0.0**

Pac-12 Shortfall	**(3.5)**	**(4.0)**

* General Revenue Bond had $1M payment for FY2023 (FY23 total Athletics debt service of $11M). In 2021, WSU borrowed $37.8M, of which $1.9M was capitalized interest to cover payments in FY22 and FY23, for net bond proceeds of $35.6M.
**There may be minor differences in subtotals shown above due to rounding to dollars million

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Improve Budget Monitoring and Financial Accountability Measures



An aggressive review of the factors driving the FY23 budget overage is underway.

Moving forward, several operational changes and a series of new budget monitoring and financial accountability measures will be implemented.

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Implement New Executive Oversight

- Athletics Director (AD) and the Executive Vice President for Finance and Administration (EVPFA), and staff will conduct monthly budget-to-actual reviews for the full Athletics budget including all revenues and expenses at the department level. This Athletics Financial Oversight meeting will include a member of the Board of Regents and a member of Faculty Senate.

- In follow-up, the President, AD and EVPFA will meet monthly to review budget-to-actual summary and discuss any variance and corrective adjustments required to maintain balanced budget.

- WSU Administration will resume budget-to-actual reporting at each Board meeting.

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Stabilize Athletics Financial Operations

- AD and EVPFA will review and revise the Athletics AFO position description:
  - Athletics AFO will report directly to the AD
  - Athletics AFO will have a dotted line report to the EVPFA
- Begin search for new Athletics AFO.
- Finance and Administration will continue to be involved in the search process.
- Once the new Athletics AFO is in place, the Assistant VP for Business and Financial Services will provide 12-18 month onboarding and training assistance.
- Athletics will create a Budget and Finance Manager position to report to the Athletics AFO.

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Provide Interim Support for Athletics Financial Management

- Designate the Assistant VP for Business and Financial Services as Interim Athletics Area Finance Manager (AFO), effective June 12, 2023.
- In the interim capacity, the Assistant VP for Business and Financial Services will attend weekly Athletics executive meetings and other major initiatives and project meetings.
- Athletics Business Office Staff will report to Assistant VP for Business and Financial Services during the interim and through the onboarding of the new Athletics AFO.
- Assistant VP for Business and Financial Services will have weekly one-on-one update meetings with the AD.

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Strengthen Financial Management

- Conduct a review of cost center and program structure in Workday to identify opportunities to streamline reporting to align with responsible unit leaders within the Athletics organization.

- Document and train responsible individuals on departmental procedures and processes for expense approval and budget oversight.

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Strengthen Financial Management

- Implement a formal budgetary approval process to ensure that new or expected revenues are not expended or committed prior to being officially authorized for use via signed memo by the AD and Athletics AFO and transferred to the appropriate budget.
- Review approval levels for hiring, compensation, operating, and capital expenses to ensure that approvals are obtained at the proper level of the organization.
- Ensure that the athletics business office completes a monthly reconciliation of purchasing card activity and travel expenditures.

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Proposed Calendar
Athletics Financial Oversight

	FY2023	FY2024
May 2023	Budget variance to actual identified Athletics CFO resigns	
	AVP for Finance & Administration begins work on FY23 actual and FY24 budget projection	
	Jon Haarlow appointed Interim Athletics CFO Search for new Athletics CFO begins with revised title and reporting	
June 2023		
	Board of Regents - Action Item - FY23 Budget Forecast Board of Regents - Action Item - Year End Transfers for FY2023	Board of Regents - Action Item - FY24 Budget Proposal
		Create new budget-to-actual reporting and dashboards Review Workday structure and alignment of budget responsibilities Review approval authority for hiring, compensation, operating and capital expenditures
	AD, EVPFA, Athletics CFO and Athletics Staff - Budget-to-Actual Review	
	President, AD and EVPFA Meet	President, AD and EVPFA Meet

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Proposed Calendar
Athletics Financial Oversight - Continued

July 2023		
	Fiscal Year End Closeout	Refine and implement new budget-to-actual reporting and dashboards Begin documentation and training of policies and processes Develop and implement formal budgetary approval and documentation process
		EVPFA and Athletics CFO Meet
	AD, EVPFA, Athletics CFO and Athletics Staff - Budget-to-Actual Review	Athletics Financial Oversight Meeting - Budget-to-Actual Review
	President, AD and EVPFA Meet	President, AD and EVPFA Meet
August 2023		
	Fiscal Year End Closeout complete	Complete documentation and training of policies and processes
	Begin NCAA AUP Work	Athletics Financial Oversight Meeting - Budget-to-Actual Review
	President, AD and EVPFA Meet	President, AD and EVPFA Meet
September 2023		
		EVPFA and Athletics CFO Meet
	Board of Regents - Information Item - FY23 Year End Actual	Board of Regents - Information Item - FY24 Budget-to-Actual
	Continue NCAA AUP Work	Athletics Financial Oversight Meeting - Budget-to-Actual Review
	President, AD and EVPFA Meet	President, AD and EVPFA Meet
October 2023		
	Equity in Athletics Disclosure Act (EADA) Reporting due to Department of Education - October 15, 2023	Athletics Financial Oversight Meeting - Budget-to-Actual Review
	Complete NCAA AUP Work	President, AD and EVPFA Meet

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Proposed Calendar
Athletics Financial Oversight - Continued

November 2023		
		EVPFA and Athletics CFO Meet
	Board of Regents - Information Item - FY23 Year End Actual (if necessary)	Board of Regents - Information Item - FY24 Budget-to-Actual
		Board of Regents - Information Item - Multi Year Budget Planning
		Athletics Financial Oversight Meeting - Budget-to-Actual Review
		President, AD and EVPFA Meet
December 2023		
		Begin preliminary work on FY25 budget development
		Athletics Financial Oversight Meeting - Budget-to-Actual Review
		President, AD and EVPFA Meet
January 2024	Complete Athletics Financial Statements	
		EVPFA and Athletics CFO Meet
		Board of Regents - Information Item - FY24 Budget-to-Actual
		FY25 budget development continues
		Athletics Financial Oversight Meeting - Budget-to-Actual Review
	NCAA Annual Report Due - January 15, 2024	President, AD and EVPFA Meet

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Proposed Calendar
Athletics Financial Oversight - Continued

February 2024		FY25 budget development continues Athletics Financial Oversight Meeting - Budget-to-Actual Review President, AD and EVPFA Meet
March 2024		EVPFA and Athletics CFO Meet Board of Regents - Information Item - FY24 Budget-to-Actual FY25 budget development continues Athletics Financial Oversight Meeting - Budget-to-Actual Review President, AD and EVPFA Meet
April 2024		Complete Board of Regents material for FY25 Budget Proposal Athletics Financial Oversight Meeting - Budget-to-Actual Review President, AD and EVPFA Meet
May 2024		EVPFA and Athletics CFO Meet Board of Regents - Information Item - FY24 Budget-to-Actual Board of Regents - Action Item(s) - FY24 Year End Board of Regents - Action Item(s) - FY25 Budget Proposal Athletics Financial Oversight Meeting - Budget-to-Actual Review President, AD and EVPFA Meet
June 2024		Athletics Financial Oversight Meeting - Budget-to-Actual Review President, AD and EVPFA Meet