



NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Consolidated Financial Statements

August 31, 2006

(with summarized financial information for 2005)

(With Independent Auditors' Report Thereon)



KPMG LLP
2400 First Indiana Plaza
135 North Pennsylvania Street
Indianapolis, IN 46204-2452

Independent Auditors' Report

The Executive Committee
National Collegiate Athletic Association
Indianapolis, Indiana:

We have audited the accompanying consolidated statement of financial position of the National Collegiate Athletic Association and subsidiary (NCAA) as of August 31, 2006, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the NCAA's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the NCAA's 2005 consolidated financial statements, which were audited by other auditors whose report dated December 2, 2005, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NCAA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the NCAA and subsidiary as of August 31, 2006, and the changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 27, 2006

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION

Consolidated Statement of Financial Position

August 31, 2006

(with comparative financial information as of August 31, 2005)

Assets	2006	2005
Cash and cash equivalents	\$ 6,437,664	6,813,230
Investments	280,997,631	234,649,780
Prepaid expenses	3,323,606	2,593,868
Receivables:		
Accounts receivable	7,756,697	13,946,105
Contributions receivable – other, net	25,000	94,592
Contributions receivable – facilities, net	51,903,581	52,310,764
Total receivables, net	59,685,278	66,351,461
NIT intangible assets	24,020,619	25,695,283
Properties, net	11,780,089	12,888,769
Other assets	2,229,111	1,615,230
Total	\$ <u>388,473,998</u>	<u>350,607,621</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 17,190,345	15,812,261
Distribution payable	14,392,411	17,142,672
Cable television royalties payable	—	1,595,035
Deferred revenue and deposits	6,308,610	6,564,203
Bonds payable, net	34,154,856	12,245,105
NIT payable, net	31,991,230	44,708,884
Accrued lease expense	4,431,249	3,934,807
Total liabilities	108,468,701	102,002,967
Net assets:		
Unrestricted	228,753,520	196,273,948
Temporarily restricted	51,101,777	52,181,504
Permanently restricted	150,000	149,202
Total net assets	280,005,297	248,604,654
Total	\$ <u>388,473,998</u>	<u>350,607,621</u>

See accompanying notes to financial statements.

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION

Consolidated Statement of Activities

Year ended August 31, 2006

(with summarized financial information for the year ended August 31, 2005)

	2006			Total	2005 summarized total
	Unrestricted	Temporarily restricted	Permanently restricted		
Revenues:					
Television and marketing rights fees	\$ 470,766,380	—	—	470,766,380	436,609,819
Championships and NIT tournaments	57,245,273	—	—	57,245,273	47,180,401
Investment income, net	18,735,908	533,171	—	19,269,079	15,230,006
Sales and services	8,038,957	—	—	8,038,957	5,871,622
Contributions – facilities, net	—	2,654,775	—	2,654,775	2,654,775
Contributions – other	—	187,358	798	188,156	193,991
Total revenues	554,786,518	3,375,304	798	558,162,620	507,740,614
Reclassifications:					
Temporarily restricted resources used for occupancy costs	3,553,400	(3,553,400)	—	—	—
Temporarily restricted resources used for program services	901,631	(901,631)	—	—	—
Total reclassifications	4,455,031	(4,455,031)	—	—	—
Expenses:					
Distribution to Division I members	307,614,716	—	—	307,614,716	298,704,544
Division I championships, programs, and NIT tournaments	56,289,210	—	—	56,289,210	44,275,928
Division II championships, distribution and programs	24,276,620	—	—	24,276,620	21,002,625
Division III championships and programs	15,576,207	—	—	15,576,207	12,997,481
Association-wide programs	96,456,546	—	—	96,456,546	94,228,266
Management and general	26,548,678	—	—	26,548,678	25,544,184
Total expenses	526,761,977	—	—	526,761,977	496,753,028
Change in net assets	32,479,572	(1,079,727)	798	31,400,643	10,987,586
Net assets – beginning of year	196,273,948	52,181,504	149,202	248,604,654	237,617,068
Net assets – end of year	\$ 228,753,520	51,101,777	150,000	280,005,297	248,604,654

See accompanying notes to financial statements.

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION

Consolidated Statement of Cash Flows

Year ended August 31, 2006

(with comparative financial information for the year ended August 31, 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 31,400,643	10,987,586
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	3,727,182	3,033,748
Change in unrealized gain on investments	(6,323,800)	(4,845,118)
Realized gain on investments	(357,114)	(2,949,282)
Increase in accrued lease expense	496,442	617,750
Loss on disposal of properties	7,457	10,145
Changes in certain assets and liabilities:		
Receivables	8,729,808	(8,425,320)
Prepaid expenses	(729,738)	(622,817)
Other assets	(613,881)	(282,906)
Accounts payable and accrued liabilities	1,378,084	3,383,065
Distribution payable	(2,750,261)	2,576,193
Cable television royalties payable	(1,595,035)	(385,620)
Deferred revenue and deposits	(2,319,218)	(121,735)
NIT payable	(10,042,516)	9,000,000
Net cash provided by operating activities	<u>21,008,053</u>	<u>11,975,689</u>
Cash flows from investing activities:		
Capital expenditures	(916,832)	(1,789,719)
Purchases of investments	(144,463,480)	(403,394,629)
Proceeds from sales of investments	104,796,543	384,293,249
NIT payable	(2,675,138)	—
Net cash used in investing activities	<u>(43,258,907)</u>	<u>(20,891,099)</u>
Cash flows from financing activities:		
NIT payable, net	—	10,013,601
Proceeds from bonds issued	32,525,288	—
Payment to bond escrow agent for refunded bonds	(9,640,000)	—
Payment of bond payable	(1,010,000)	(590,000)
Net cash provided by financing activities	<u>21,875,288</u>	<u>9,423,601</u>
Net increase in cash and cash equivalents	(375,566)	508,191
Cash and cash equivalents:		
Beginning of year	<u>6,813,230</u>	<u>6,305,039</u>
End of year	\$ <u><u>6,437,664</u></u>	\$ <u><u>6,813,230</u></u>
Supplemental disclosures:		
Cash paid for interest	\$ 1,645,138	693,203
Noncash operating and financing activities:		
NIT intangible asset purchase financed through NIT payable	—	25,695,283

See accompanying notes to financial statements.

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

(1) **The Association**

The National Collegiate Athletic Association (the NCAA or the Association) is an unincorporated not-for-profit educational organization founded in 1906. The NCAA is the organization through which the colleges and universities of the nation speak and act on athletics matters at the national level. It is a voluntary association of more than 1,000 institutions, conferences and organizations devoted to the sound administration of intercollegiate athletics in all its phases. Through the NCAA, its members consider any athletics issue that has crossed regional or conference lines and is national in character. The NCAA strives for integrity in intercollegiate athletics and serves as the colleges' national athletics accrediting agency. A basic purpose of the NCAA is to maintain intercollegiate athletics as an integral part of the educational program and the athlete as an integral part of the student body.

The NCAA operates through a governance structure which empowers each division to guide and enhance their ongoing division-specific activities. In Division I, the legislative system is based on conference representation and an eighteen member Board of Directors that approves legislation. The Division II and III presidential boards are known as the Presidents Council; however, legislation in Division II and III is considered through a one-school, one-vote process at the NCAA Annual Convention. The governance structure also includes an Executive Committee composed of sixteen chief executive officers (member institution chief executive officers) that oversee association-wide issues which is charged with ensuring that each division operates consistently with the basic purposes, fundamental policies and general principles of the NCAA. The Executive Committee has representation from all three divisions and oversees the Association's finances.

In September, 2005, the NCAA organized the NIT, LLC, a limited liability company. The NCAA is the sole member of the company. The NIT, LLC was organized as the entity that will administer the NIT Season Tip-Off and the Postseason NIT collegiate basketball events. The financial results of the NIT, LLC are consolidated in the financial statements of the NCAA. All significant intercompany balances and transactions have been eliminated in consolidation.

(2) **Summary of Significant Accounting Policies**

(a) ***Basis of Presentation***

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the NCAA's consolidated financial statements for the year ended August 31, 2005, from which the summarized information was derived.

The classification of the NCAA's net assets and its revenues, expenses, gains and losses is based on the existence or absence of donor-imposed restrictions. Net assets are grouped into the following three categories:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Executive Committee.

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

Temporarily Restricted Net Assets – Net assets whose use by the NCAA is subject to donor-imposed stipulations that can be fulfilled by actions of the NCAA pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the NCAA.

(b) Investments

Investments include debt securities having a maturity of more than three months, or intended to be held more than three months, and shares in mutual funds. Investments are stated at fair value based on quoted market prices.

(c) Accounts Receivable

Accounts receivable are amounts due to the NCAA from championships, insurance policies proceeds, and various contractual rights fees.

(d) Contributions Receivable, Other

Legally enforceable grants and pledges, including unconditional promises to give, are reported at their fair market value at the date of the gift, less an allowance for uncollectible amounts, using a discount rate to reflect present value. All contributions receivable are considered to be available for unrestricted use unless specifically restricted by the donor.

(e) Deferred Revenue and Deposits

Deferred revenue is generated by the sale of championship tickets up to a year before the actual event. Once the event occurs, the related revenue will be recognized. Deposits are funds to be returned to applicants who do not receive tickets for the event due to the demand exceeding the supply. Membership dues billed and collected prior to year-end are recorded as deferred revenue.

(f) Revenue Recognition

Revenue related to the CBS and ESPN contracts is recognized when earned pursuant to the corresponding agreement. Membership dues are recognized as revenue in the period earned. All other revenue is recognized when earned.

(g) Intangible Assets

Pursuant to Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets acquired in a business combination between not-for-profit organizations, are accounted for in accordance with Accounting Principles Board (APB) No. 17, *Intangible Assets*, whereby intangible assets acquired by a not-for-profit organization are recognized at the fair value of the intangible, including goodwill, and amortized over a period not to exceed 40 years.

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

(h) Long-Lived Assets

The NCAA identifies and records impairment losses on long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. In accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, recoverability of those assets is determined by comparing the forecasted undiscounted cash flows attributable to such assets to their carrying value. If the carrying value of the assets exceeds the forecasted undiscounted cash flows, then the assets are written down to their fair value. Fair value is determined based on discounted cash flows or appraisal values, depending upon the nature of the assets.

(i) Properties

Properties are recorded at cost. Maintenance and repairs are expensed in the year incurred. Expenditures that result in betterment or extensions of the useful lives of assets are capitalized and depreciated over the remaining lives of such assets. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of their estimated lives or the life of the related lease.

(j) Association-Wide Programs

Association-wide program expenses include costs for student-athlete programs and services, membership educational and promotional programs and services, legal services, and governance committee expenses. Expenditures have been classified as program or management and general based primarily on actual expenditures. Fundraising costs for the NCAA are insignificant due to the nature of its operations.

(k) In-Kind Exchanges

In-kind exchanges for goods and services are reflected as royalties and sales and services revenue and a related expense in the accompanying at their estimated values at date of receipt. In-kind exchanges for which no objective basis is available to measure the value are not reflected in the consolidated financial statements.

(l) Income Taxes

The NCAA is exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Income tax expense is provided for unrelated business income, if any.

(m) Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

(n) Reclassifications

Certain 2005 amounts have been reclassified to conform with the 2006 financial statement presentation.

(3) Cash and Cash Equivalents

Short-term investments with a maturity of less than three months are reported as cash equivalents. Cash and cash equivalents include designated cash of \$1,294,441 and \$1,604,987 as of August 31, 2006 and 2005, respectively. The designated cash consists of compensating balances on deposit with banks for certain NCAA employee benefit plans and the Exceptional Student-Athlete Disability Insurance Program. Money market funds managed by outside investment managers are included in investments.

(4) Investments

Investments as of August 31 consist of the following:

	2006	2005
Money market funds	\$ 10,112,661	20,330,387
Pooled equity funds	67,315,080	58,061,449
International mutual funds	38,281,297	7,316,568
U.S. government securities	17,996,753	14,460,783
Government and corporate fixed income funds	107,612,063	118,314,038
Fixed income securities	39,679,777	16,166,555
Investments	\$ 280,997,631	234,649,780

Investment income, consisting primarily of interest income and realized and unrealized gains and losses, was \$19,269,079 and \$15,230,006 for the years ended August 31, 2006 and 2005, respectively.

(5) Accounts Receivable

As of August 31, 2006 and 2005, the NCAA has accounts receivable from championships and various contractual rights fees of \$7,756,697 and \$16,009,730, respectively. Included in accounts receivable as of August 31, 2005 is \$10,354,427 due from the Association's insurance policies related to insurance claims for the period ended August 31, 2005. No insurance receivables were recorded as of August 31, 2006.

(6) Contribution Receivable and Facilities Lease

The NCAA relocated its headquarters from Overland Park, Kansas to White River State Park near downtown Indianapolis, Indiana in July 1999. The NCAA leases its headquarters and related facilities from the Indiana White River State Park Development Commission. The NCAA's lease has a term of 30 years with three 10-year renewal options and requires the NCAA to make annual lease payments in the amount of one dollar. The State of Indiana, City of Indianapolis and other interested parties provided funds for the construction of the NCAA's facilities.

At the inception of the lease, the NCAA recorded temporarily restricted contribution revenue and a corresponding contribution receivable representing the fair value of the total contributed facility lease payments less the corresponding net present value discount. Annual occupancy expense consists of the fair

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

value of the current year contributed lease payment adjusted for the straight line effect of scheduled increases. As of August 31, 2006 and 2005, the related accrued lease expense is \$4,431,249 and \$3,934,807, respectively. An amount equal to occupancy expense is also reclassified from temporarily restricted net assets to unrestricted net assets to reflect the fulfillment of the donor imposed restrictions associated with the original contribution. The net present value discount amortization follows the original contribution and is recorded as temporarily restricted contribution revenue.

Contributions receivable – facilities as of August 31 consists of the following:

	<u>2006</u>	<u>2005</u>
Fair value of remaining lease payments	\$ 192,164,222	195,226,180
Unamortized discount	<u>(140,260,641)</u>	<u>(142,915,416)</u>
Contributions receivable – facilities – net	<u>\$ 51,903,581</u>	<u>52,310,764</u>

Occupancy expense for the years ended August 31 consists of the following:

	<u>2006</u>	<u>2005</u>
Fair value of lease payment	\$ 3,056,958	2,935,650
Accrued lease expense adjustment	<u>496,442</u>	<u>617,750</u>
Occupancy expense	<u>\$ 3,553,400</u>	<u>3,553,400</u>

(7) National Invitation Tournament

In August, 2005, the NCAA and the Metropolitan Intercollegiate Basketball Association (MIBA) agreed to terms under which the NCAA purchased the rights and assets identified in organizing, promoting and administering the preseason and postseason National Invitation Tournaments (NIT). The NCAA agreed to pay MIBA \$56,250,000 over a nine year period pursuant to the terms and conditions of a lawsuit settlement and an asset purchase agreement (the Agreements), including guaranteed minimum profit sharing payments of \$250,000 in each of those nine years. The terms of the Agreements transfer the ownership of the tournaments and settle all litigation matters between the NCAA and MIBA.

Pursuant to a third party valuation, as of August 31, 2005, the value of the intangible assets acquired by the NCAA were \$34,000,000 (before imputed interest of \$8,304,717) resulting in \$22,250,000 (before present value discount of \$3,236,399) of settlement expense in the statement of activities for the year ended August 31, 2005. Imputed interest and present value discount rates were at 6%.

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

As of August 31, 2006, the related NIT intangible assets acquired consist of the following:

	<u>Estimated useful lives</u>		
Goodwill	20 years	\$	19,703,283
Trademark	20 years		2,600,000
Noncompete agreement	5 years		2,200,000
ESPN contract	12 years		1,000,000
Participant contracts	5 years		125,000
Madison Square Garden contract	6 years		54,000
Domain name/website	5 years		<u>13,000</u>
		\$	<u>25,695,283</u>
Less: accumulated amortization			<u>(1,674,664)</u>
NIT intangible assets, net		\$	<u><u>24,020,619</u></u>

Amortization expense was \$1,674,664 for the year ended August 31, 2006.

Future cash payments related to the Agreements as of August 31, 2006:

Years ending August 31:		
2007	\$	5,250,000
2008		5,250,000
2009		5,250,000
2010		5,250,000
Thereafter		<u>21,250,000</u>
Total		42,250,000
Imputed interest and present value discount		<u>(10,258,770)</u>
NIT payable, net	\$	<u><u>31,991,230</u></u>

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

(8) Properties

Properties consist of an 89,000 square foot warehouse and distribution facility, tenant finish improvements for the NCAA headquarters conference facilities and furnishings, technology infrastructure and equipment to support the NCAA national office.

Properties according to their specific category as of August 31 are as follows:

	Estimated useful lives	2006	2005
Land		\$ 350,000	350,000
Buildings	30 years	2,977,205	2,977,205
Leasehold improvements	10 – 30 years	9,545,104	9,545,104
Furniture, equipment, and fixtures	3 – 10 years	14,580,467	14,215,799
		<u>27,452,776</u>	<u>27,088,108</u>
Less accumulated depreciation and amortization		<u>(15,672,687)</u>	<u>(14,199,339)</u>
Properties, net		<u>\$ 11,780,089</u>	<u>12,888,769</u>

Depreciation expense was \$2,018,055 and \$3,033,748 for the years ended August 31, 2006 and 2005, respectively.

(9) Commitments and Contingencies

The NCAA acts as the governing body for college athletics. In the course of carrying out its responsibilities, the NCAA is the target of litigation from student-athletes, coaches, universities and the general public. In addition, decisions made by the NCAA to enforce legislation and rules, as well as eligibility determination for student-athletes, are often challenged by the affected parties through lawsuits. These lawsuits range from seeking to overturn NCAA committee and legislative decisions to seeking monetary damages and reimbursement of legal fees.

The NCAA and its legal counsel are defending against lawsuits and claims arising in the normal course of its day-to-day activities. The NCAA does not believe the ultimate resolution of these matters will result in material losses or have a material adverse effect on the financial position, change in net assets or cash flows of the NCAA. The NCAA has incurred attorney's fees in the process of defending against such matters, which are recorded in the accompanying consolidated financial statements.

(10) Bonds Payable

On November 1, 2005, the NCAA issued tax exempt bonds of \$31,750,000 with fixed interest rates ranging from 3.00% to 5.00% with maturities ranging from 2006 to 2025. The bonds were issued at a premium of \$775,288. Interest is payable on May 1 and November 1 of each year. Proceeds from the bond issue were used to advance refund a portion of the Series 1999 revenue bonds and fund certain costs associated with the acquisition and settlement of the NIT. Bond issue costs of \$254,938, less \$11,432

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

accumulated amortization, are included in other assets in the accompanying consolidated statement of financial position.

On August 15, 1999, the NCAA issued \$15,355,000 face, tax exempt, fixed rate bonds with interest rates ranging from 3.70% to 5.70% with maturities ranging from 2000 to 2014. The bonds were issued at a \$107,904 discount. Interest is payable on May 1 and November 1 of each year. Proceeds from the bond issue were used to finance the construction and equipping of a warehouse and distribution facility and certain improvements, furnishings and equipment for the NCAA's headquarters in Indianapolis, Indiana and to pay costs of issuance of the Series 1999 Bond. On November 1, 2005, \$9,640,000 of the outstanding bonds were legally defeased through refinancing in the 2005 Series bond issue and have been removed from the statement of financial position. As of August 31, 2006, \$146,676 in unamortized bond issuance costs and \$67,743 in unamortized discount were written off. Remaining bond issue costs of \$86,956, less \$76,659 accumulated amortization (\$71,470 as of August 31, 2005), are included in other assets in the accompanying consolidated statement of financial position.

Principal payments as of August 31, 2006, due over the next five years are as follows:

	Series 2005 principal amount	Series 1999 principal amount	Total
Years ending August 31:			
2007	\$ 800,000	650,000	1,450,000
2008	825,000	685,000	1,510,000
2009	850,000	720,000	1,570,000
2010	1,630,000	—	1,630,000
2011	1,700,000	—	1,700,000
Thereafter	25,560,000	—	25,560,000
	31,365,000	2,055,000	33,420,000
Unamortized premium/discount, net			734,856
Total			\$ 34,154,856

(11) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments (SFAS 107)*, requires disclosure of the fair value of financial assets and liabilities for which it is practicable to estimate. Fair value is defined in SFAS 107 as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The NCAA believes the carrying amounts of its financial instruments (excluding long-term debt) approximate their fair values due to the relatively short maturity of these instruments. The fair value of long-term debt approximates the carrying value based on an estimate using the NCAA's current borrowing rate for similar types of borrowing arrangements.

(12) Distribution of Revenues

In August 1990, the NCAA Executive Committee approved a plan to distribute revenues to member institutions for the year ended August 31, 1991, and each year thereafter. For Division I members, the plan

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

consists of a basketball fund distribution based on historical performance in the Division I Men's Basketball Championship, a broad-based distribution based on Division I sports sponsored and athletics grants-in-aid, an academic enhancement fund for academic programs for student-athletes, a student-athlete opportunity fund, a conference grant program and a special assistance fund for student-athletes to be used for emergency situations. For Division II members, the plan consists of a basketball fund distribution based on historical performance in the Division II Men's and Women's Basketball Championship, sports sponsorship, and an equal distribution among all active members.

The distribution payable of \$14,392,411 and \$17,142,672 as of August 31, 2006 and 2005, respectively, primarily consists of payments that were made in late August that remained outstanding at the end of each fiscal year.

(13) Cable Television Royalties Payable

The NCAA has represented the interests of the membership before the Copyright Royalty Tribunal (the Tribunal) regarding rights fees for cable television broadcasts of collegiate sporting events since 1978. The NCAA acts as the collection agent for any cable television broadcast fees that relate directly to NCAA members or the NCAA. As a result, a liability is recorded for fees received from the Tribunal that will ultimately be disbursed to members. Although claims are filed each year for the previous calendar year, royalties are distributed to claimants only when any and all controversies are resolved with the claimants. As of August 31, 2005, the NCAA has recorded in the accompanying consolidated financial statements satellite cable television rights fee obligations to member institutions in the amount of \$1,595,035. No cable television rights fee obligations were recorded as of August 31, 2006.

Amounts will be distributed after all legal claims have been resolved. Several years may pass before the copyright office determines through administrative proceedings among the claimants that an allocation should be distributed. For the fiscal year ended August 31, 2006, \$3,717,826 was distributed for royalties for the years 2000-2003. For the fiscal year ended August 31, 2005, \$2,001,585 was distributed for royalties for the years 1998-2001.

(14) Television and Marketing Rights Fees

On November 18, 1999, the NCAA entered into an agreement (the agreement) with CBS that provides CBS exclusive television broadcast rights for the National Collegiate Division I Men's Basketball Championship along with other championship and marketing rights effective from fiscal 2003 and continuing through fiscal 2013. The agreement is for 11 years, with the NCAA having an option to renegotiate after eight years. The rights fees include: telecast rights, including over-the-air cable, satellite, digital and home video, marketing rights, championships publication program rights, radio rights, internet rights, fan festival rights, and selected licensing rights. The contract also includes year-round promotion of the NCAA and its championships.

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

The rights fee for this package is a guaranteed minimum of \$6.0 billion over the 11-year contract. Pursuant to the agreement, for the year ended August 31, 2006, the NCAA received \$453,000,000 (\$420,000,000 for the year ended August 31, 2005). The NCAA will receive future television broadcast payments as follows:

Fiscal year ending August 31:	
2007	490,000,000
2008	529,000,000
2009	571,000,000
2010	617,000,000
2011	657,000,000
2012	710,000,000
2013	764,000,000
	<u>\$ 4,338,000,000</u>

On June 29, 2001, the NCAA entered into an agreement with ESPN (the ESPN agreement) that provides ESPN exclusive television broadcast rights for the Division I Women's Basketball championship along with broadcast rights to other NCAA championships, excluding those to which rights have been granted to CBS. The contract is effective from fiscal year 2003 and continues through fiscal year 2013. The ESPN agreement is for 11 years, with the NCAA having an option to renegotiate after eight years.

The rights fee for this package is on a fixed, nonrefundable basis for the sum of \$163 million over the 11-year contract. Pursuant to the ESPN agreement, for the years ended August 31, 2006 and 2005, the NCAA received \$13,000,000 and \$12,000,000, respectively.

The NCAA will receive future television broadcast payments as follows:

Fiscal year ending August 31:	
2007	13,800,000
2008	14,800,000
2009	15,800,000
2010	16,800,000
2011	17,900,000
2012	18,800,000
2013	19,100,000
	<u>\$ 117,000,000</u>

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

(15) Net Assets

As of August 31, the NCAA has permanently restricted net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the NCAA as follows:

	2006	2005
NCAA Leadership Conference	\$ 100,000	100,000
Usher Scholarships	50,000	49,202
Total permanently restricted net assets	\$ 150,000	149,202

As of August 31, the NCAA has temporarily restricted net assets whose use by the NCAA is subject to donor-imposed stipulations that can be fulfilled by actions of the NCAA pursuant to those stipulations or that expire by the passage of time as follows:

	2006	2005
Facility lease	\$ 47,477,332	48,375,957
Student-athlete programs and services	3,624,445	3,805,547
Total temporarily restricted net assets	\$ 51,101,777	52,181,504

The NCAA Executive Committee has designated certain unrestricted net assets to fund future strategic and operational initiatives. While designated for specific purposes, these designations may be modified at the discretion of the NCAA Executive Committee.

As of August 31, unrestricted net assets include the following designations:

	2006	2005
Association-wide operating reserve	\$ 63,000,000	58,000,000
Quasi-endowment reserve	122,723,616	95,996,281
Division II reserve	17,561,614	18,566,634
Division III reserve	12,088,266	11,158,073
Furniture and equipment	3,482,238	3,595,388
Office building improvement reserve	3,395,739	3,500,000
Centennial and championships anniversaries reserve	591,014	2,957,572
Available for operations	5,911,033	2,500,000
Total unrestricted net assets	\$ 228,753,520	196,273,948

(16) Pension Plan and Employee Benefits

The NCAA has defined contribution plans, which include the pension trust plan, the 403(b) savings plan and the 401(a) qualified savings plan. Employees become eligible for participation in the pension trust plan and the 401(a) qualified savings plans beginning in the quarter after the employee completes six months of service.

NATIONAL COLLEGIATE ATHLETIC ASSOCIATION AND SUBSIDIARY

Notes to Financial Statements

August 31, 2006

(with summarized financial information for 2005)

The NCAA provides, through the pension trust plan, a bi-weekly contribution to each employee's pension account at a rate of 10% of their salary. The NCAA's 401(a) qualified savings plan is based on matching provisions from the employee's 403(b) savings plan program. The NCAA will provide matching contributions to the plan on the employee's behalf in an amount equal to 100% of the first 3% of compensation contributed to the 403(b) savings plan and 50% of the next 2% of contribution contributed to the 403(b) savings plan. A participant becomes eligible for the matching contribution only if the participant makes a deferral contribution in the 403(b) savings plan. For the year ended August 31, 2006, the NCAA contributed \$709,086 to the 401(a) qualified savings plan and \$2,042,352 to the pension trust plan, for total contributions of \$2,751,438 compared to total contributions of \$2,535,813 for the year ended August 31, 2005.