

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
JUNE 30, 2006 AND 2005
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JAMES MOORE & CO., P.L.

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Audit Committee,
The University Athletic Association, Inc.:

We have audited the accompanying basic financial statements of The University Athletic Association, Inc. (the Association), a direct support organization and component unit (for accounting purposes only) of the University of Florida, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2006 and 2005, and its revenues, expenses, and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2006, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Gainesville, Florida
August 30, 2006

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006 AND 2005
(Continued)

Introduction

The University Athletic Association, Inc. (the Association), a not-for-profit corporation, is a Direct Support Organization of the University of Florida (UF). The Association exists to advance UF's teaching, research and service missions through the intercollegiate athletics program.

The Association's goal is to be the nation's finest intercollegiate athletics program, where each coach has challenging and rewarding career opportunities and each student-athlete has every opportunity for athletic and academic success. The Association recognizes its responsibility to UF to operate the Association in an efficient manner using sound business principles within an ethical decision making process.

The tremendous success of the athletic program can be attributed to many factors: outstanding coaches and support staff, extremely talented student-athletes, a great academic institution, a strong recruiting base, university support and a commitment to each sport. The Association's financial strength is also a key component in its success and is a major factor in maintaining or surpassing its current level of achievement in all the Association's endeavors.

Overview of the Financial Statements and Financial Analysis

The Association is pleased to present its financial statements for the fiscal years ended June 30, 2006 and 2005. This Discussion and Analysis is a narrative explanation of the Association's financial condition and operating activities for these years. The overview presented below highlights the significant financial activities that occurred during the past two years and describes changes in financial activity from the prior year. Please read this overview in conjunction with the comparative summaries of net assets and revenues, expenses and changes in net assets and the Association's financial statements which begin on Page 13.

Using these Financial Statements

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Colleges and Universities*.

There are three financial statements presented: the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows.

The Association's net assets are one indicator of the improvement or erosion of its financial health when considered with non-financial facts such as the overall academic and athletic success of the intercollegiate athletic program and the condition of its facilities. This success is evidenced by:

- A men's basketball national title and a runner-up finish by the men's golf team paced the University of Florida athletics program to a fifth-place finish overall in the 2005-2006 Sports Academy Directors' Cup competition. The national all-sports competition award is presented annually by the National Association of Collegiate Directors of Athletics (NACDA), United Sports Academy and USA Today. The finish marks Florida's 23rd consecutive position among the nation's top-10 programs. Florida and UCLA are the only schools to finish in the top 10 in national all-sports rankings every year since 1983-1984.

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- Florida's fifth place finish in the Director's Cup standings was the highest by any school in the Southeastern Conference (SEC) and the first top-five finish by the Gators since 2001-2002.
- The University of Florida men's basketball team set a school record with 33 wins in route to capturing its first national title. The Gators opened the season with a 17-0 mark, the best start in school history and when it was all said and done, the 2005-06 team tied or set 40 Florida, SEC and NCAA individual and team records.
- A total of ten Gator athletic teams finished in top 10 of their respective sports, including six finishes in the top five. Florida won two SEC Championships in 2005-2006, to raise its total to 45 since the 1996-1997 academic year, the most by any conference school during the 10-year span. The Gators won the SEC title in volleyball and women's tennis.
- Florida was also successful away from the athletic arena in 2005-2006, as the Gators had 186 SEC Academic Honor Roll accolades. The total ranks as the second-highest in school history.
- In an era when the NCAA estimates that 70 percent of Division I schools are losing money on intercollegiate athletics, the Association has contributed more than \$35.7 million since 1990 to help fund University of Florida academic endeavors.
- In June 2006, University of Florida Athletic Director Jeremy Foley was named the 2006 Street & Smith's SportsBusiness Journal's National Athletic Director of the Year.
- Over 979,000 fans attended 162 home events in 2005-2006. Four UF teams ranked among the nation's top 10 in attendance.
- UF student-athletes, partnering with 35 schools, 24 civic groups and 18 non-profit organizations, participating in Goodwill Gator activities by volunteering more than 2,900 hours of community service.

Summary of Net Assets

The Statements of Net Assets present the assets, liabilities and net assets of the Association as of the end of the last two fiscal years. A Statement of Net Assets is a point-in-time financial statement. Its purpose is to present to the readers of the financial statements a fiscal snapshot of the Association. The Statements of Net Assets present end-of-the-year data concerning Assets (what the Association owns and how much is owed to the Association by others), Liabilities (what the Association owes to others and has collected from others before the service has been provided), and Net Assets (Assets minus Liabilities). The statements are prepared using the economic resources measurement focus and the accrual basis of accounting, where revenues are recorded when they are earned and expenses are recognized when they are incurred.

From the data presented, readers of the Statements of Net Assets are able to determine the assets available to continue the operations of the Association. They are able to determine how much the Association owes to vendors and lending institutions. Finally, the Statements of Net Assets provide a picture of the net assets and their availability for expenditure by the Association.

Net Assets are divided into three major categories. The first category, "invested in capital assets, net of related debt", presents the Association's equity in property, plant and equipment. The next net asset category is "restricted" net assets. The Association's restricted net assets have constraints placed upon their use by independent donors. The final category is "unrestricted" net assets. Unrestricted assets are available to the Association for any legal use.

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(Continued)

Condensed Summary of Net Assets (thousands of dollars)							
	2006	2005	2005-2006		2004	2005-2004	
			Increase (decrease)	Percent change		Increase (decrease)	Percent change
Assets:							
Current assets	\$ 53,337	\$ 43,582	9,755	22.38%	\$ 40,148	3,434	8.55%
Capital assets, net of depreciation	130,169	125,358	4,811	3.84%	124,002	1,356	1.09%
Other assets	34,763	31,781	2,982	9.38%	30,007	1,774	5.91%
Total assets	218,269	200,721	17,548	8.74%	194,157	6,564	3.38%
Liabilities:							
Long-term debt outstanding	84,915	76,410	8,505	11.13%	77,935	(1,525)	(1.96)%
Other liabilities	54,827	49,996	4,831	9.66%	45,781	4,215	9.21%
Total liabilities	139,742	126,406	13,336	10.55%	123,716	2,690	2.17%
Net assets:							
Invested in capital assets, net of related debt	46,628	49,464	(2,836)	(5.73)%	46,572	2,892	6.21%
Restricted	984	15	969	6,460.00%	354	(339)	(95.76)%
Unrestricted	30,915	24,836	6,079	24.48%	23,515	1,321	5.62%
Total net assets	\$ 78,527	\$ 74,315	4,212	5.67%	\$ 70,441	3,874	5.50%

Highlights

- Total assets of the Association increased by \$17.5 million in 2006 and by \$6.6 million in 2005.
- In 2006, current assets increased \$9.8 million due to a \$10.7 million increase in short term investments, a \$2.0 million decrease in accounts receivable from home football game opponents and a \$1.1 million increase in restricted assets. In 2005, cash and cash equivalents and short term investments decreased by \$2.1 million and accounts receivable from Gator Boosters and home football game opponents increased by \$5.6 million, for a net increase of nearly \$3.5 million.
- The \$4.8 million increase in capital assets in 2006 is primarily due to construction in progress on the baseball project. In 2005, capital assets increased \$1.4 million primarily due to the purchase of a 2002 Beech King Air B200 airplane and the completion of the football stadium expansion.
- Other assets increased by \$3.0 million in 2006 due to an increase in long term investments. In 2005, other assets increased by \$1.8 million, due to an increase of \$2.3 million in long term investments and a \$0.5 million reduction in assets held by the University of Florida Foundation.
- Long term debt outstanding increased by \$8.5 million in 2006 due to the issuance of \$10.0 million in tax-exempt revenue bonds in September and loan repayments totaling \$1.5 million. In 2005, long term debt outstanding decreased by \$1.5 million due to loan repayments.
- Other liabilities increased by \$4.8 million in 2006 due to a \$1.7 million increase in deferred Gator Booster contributions related to the 2006 football season, a \$2.5 million increase in accounts payable and accrued expenses and a \$0.6 million increase in compensated absences and employee longevity incentives payable. In 2005, other liabilities increased by \$4.2 million in 2006 due to an

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(Continued)

increase in deferred Gator Booster contributions related to the 2005 football season and an increase in accounts payable and accrued expenses.

- Total net assets increased by \$4.2 million in 2006 and by \$3.9 million in 2005. Unrestricted net assets increased by \$6.1 million and \$1.3 million in 2006 and 2005, respectively.
- In 2006, net assets invested in capital assets, net of related debt decreased by \$2.9 million due to the issuance of \$10.0 million in additional long term debt, payments of \$1.5 million on long term debt, purchases of \$11.4 million in fixed assets and the expensing of \$5.8 million in depreciation. Net assets invested in capital assets, net of related debt increased by \$2.9 million in 2005 due to payments of \$1.5 million on long term debt, purchases of \$7.2 million in fixed assets, including the purchase of a 2002 Beech King Air B200 airplane and the completion of the football stadium expansion and expensing \$5.8 million in depreciation.
- Restricted net assets increased by \$969 thousand in 2006 due to the monthly funding of a debt service interest sinking fund and the receipt of temporarily restricted contributions for future projects. In 2005, restricted net assets decreased by \$339 thousand due to the reduction of assets held by the University of Florida Foundation.

Summary of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets present the revenues and expenses incurred during each year. Revenues and expenses are reported as operating and nonoperating. In general, operating revenues are received for providing goods and services to the Association's various customers and constituencies. Operating expenses are those expenses paid to acquire or produce goods and services provided in return for the operating revenues, and to carry out the mission of the Association. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Nonoperating revenues are revenues received for which goods or services are not provided. The GASB requires that state appropriations, student athletic fees and other revenues which are not payment for services be classified as nonoperating revenues. Because these significant, recurring revenues are budgeted to fund operating expenses, classifying them as nonoperating can cause the reporting of an operating loss. For this reason, the Association believes that income before contributions (which includes nonoperating revenues and expenses) provides the most appropriate measure of its financial results. Nonoperating expenses include interest on capital asset-related debt.

Capital contributions are considered neither operating nor nonoperating and are reported after "Income before contributions". Contributions to the University of Florida include unrestricted gifts for the academic mission of the University, contributions for designated purposes, and costs contributed by the Association for UF projects.

Changes in Total Net Assets as presented on the Statements of Net Assets are based on the activity presented in the Statements of Revenues, Expenses and Changes in Net Assets. The purpose of the Statements of Revenues, Expenses and Changes in Net Assets is to present the operating and nonoperating revenues received by the Association and the operating and nonoperating expenses paid by the Association, and any other revenues, expenses, gains and losses received or spent by the Association.

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)

**Condensed Summary of Revenues, Expenses and
Changes in Net Assets (thousands of dollars)**

	2006-2005				2005-2004		
	2006	2005	Increase (decrease)	Percent change	2004	Increase (decrease)	Percent change
Operating revenues:							
Football	\$ 44,414	\$ 41,487	2,927	7.06%	\$ 41,242	245	0.59%
Men's basketball	5,964	5,629	335	5.95%	5,213	416	7.98%
Other sports	655	703	(48)	(6.83)%	519	184	35.45%
Auxiliaries	11,609	9,765	1,844	18.88%	9,617	148	1.54%
Camps	2,176	1,964	212	10.79%	1,927	37	1.92%
Other operating revenues	7,329	8,156	(827)	(10.14)%	6,424	1,732	26.96%
Total operating revenues	72,147	67,704	4,443	6.56%	64,942	2,762	4.25%
Nonoperating revenues:							
Student fees	2,501	2,417	84	3.48%	2,454	(37)	(1.51)%
Investment income, net	2,642	3,260	(618)	(18.96)%	3,785	(525)	(13.87)%
Sales taxes retained	1,002	884	118	13.35%	812	72	8.87%
Other nonoperating revenues	452	452	0	0.00%	452	0	0.00%
Total nonoperating revenues	6,597	7,013	(416)	(5.93)%	7,503	(490)	(6.53)%
Total revenues	78,744	74,717	4,027	5.39%	72,445	2,272	3.14%
Operating expenses:							
Team expenses	26,969	27,471	(502)	(1.83)%	23,436	4,035	17.22%
Scholarships and support services	15,173	14,074	1,099	7.81%	12,856	1,218	9.47%
General and administrative	17,629	16,116	1,513	9.39%	14,711	1,405	9.55%
Auxiliaries	4,414	4,076	338	8.29%	3,900	176	4.51%
Camps	2,145	1,990	155	7.79%	1,893	97	5.12%
Depreciation and amortization	5,858	5,766	92	1.60%	5,234	532	10.16%
Total operating expenses	72,188	69,493	2,695	3.88%	62,030	7,463	12.03%
Nonoperating expenses	2,583	2,213	370	16.72%	2,055	158	7.69%
Total expenses	74,771	71,706	3,065	4.27%	64,085	7,621	11.89%
Capital contributions from Gator							
Boosters and others	3,646	2,638	1,008	38.21%	3,252	(614)	(18.88)%
Contribution to University of Florida	(3,407)	(1,775)	(1,632)	91.94%	(2,932)	1,157	(39.46)%
Increase in net assets	4,212	3,874	338	8.72%	8,680	(4,806)	(55.37)%
Net assets, end of year	\$ 78,527	\$ 74,315	4,212	5.67%	\$ 70,441	3,874	5.50%

Highlights

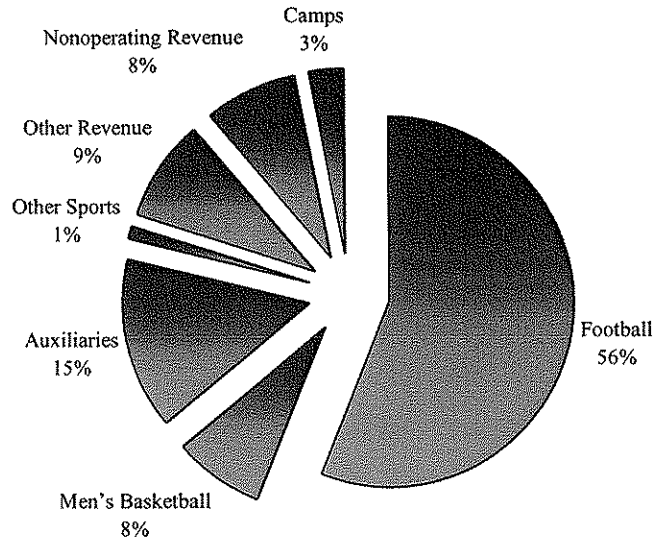
- The Condensed Statements of Revenues, Expenses and Changes in Net Asset present three consecutive years with an increase in Net Assets at the end of each year.
- Football revenues increased by \$2.9 million in 2006 due to a ticket price increase and a contribution increase for the existing luxury seating areas.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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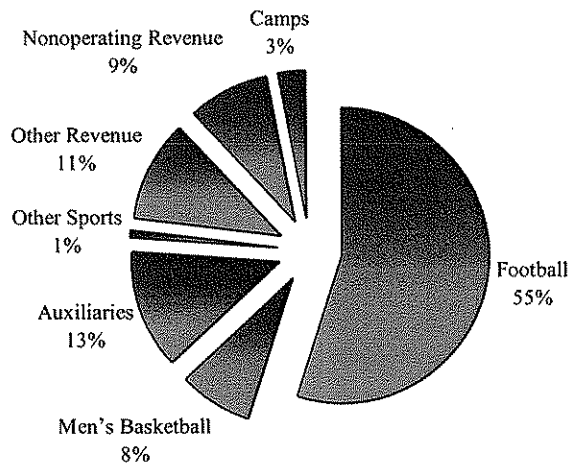
- Men's basketball revenue increased in 2005 due to a ticket price increase.
- Other sports revenue increased in 2005 due to hosting the NCAA Men's Baseball Regionals & Super Regionals.
- Auxiliaries revenue increased in 2006 by \$1.9 million due to increases in licensing, sportshop, golf course, TV and radio rights revenues.
- In 2005, other operating revenues increased by \$1.7 million as result of increased sponsorship revenue and the sale of aircraft.
- Investment income decreased in 2006 and 2005 by \$618 thousand and \$525 thousand, respectively, due to investment performance fluctuations.
- In both 2006 and 2005, sales taxes retained increased due to increases in home game ticket revenue and the local tax rate.
- Operating expenses increased by \$2.7 million in 2006. Scholarship expenses increased primarily due to in-state and out-of-state tuition increases. Administrative and support expenses increased due to increases in utility costs and budgeted salary increases and the related pension and payroll taxes.
- In 2005, operating expenses increased by \$7.5 million. The \$4.0 million increase in team expenses was primarily attributable to the costs associated with the football staff transition. Scholarship increases were the result of increased costs for preseason, postseason and training table meals and in-state and out-of-state tuition. Administrative and support expenses increased due to national and local market salary adjustments, the payment of a one-time bonus for all employees as approved by the State legislature and the related pension and payroll taxes. Additionally, maintenance costs increased due to hurricanes, expiration of new construction warranties in football stadium expansion areas and continued repairs to the concrete structure of the football stadium bowl.
- Capital contributions are major gifts designated by the donors for facility construction, renovations and equipment purchases. In 2006, capital contributions of \$3.6 million included \$1.4 million for the naming of the football stadium Champions club, \$402 thousand designated for the baseball project, \$369 thousand for a future team locker room at the golf course, \$299 thousand for a naming of the football support facility at the practice field, \$275 thousand designated for the football practice field turf project, \$205 thousand for the future football entrance project, \$200 thousand for the naming of the golf course, \$168 thousand for the basketball practice facility, \$158 thousand for the athletic office renovation and \$150 thousand for the naming of the basketball practice courts. Capital contributions in 2005 totaled \$2.6 million and included \$460 thousand for the basketball practice facility, \$230 thousand for the football stadium expansion, \$130 thousand for the athletic office renovation, \$480 thousand for the naming of the track and soccer stadium, \$300 thousand for the football practice field turf project and \$1.0 million for the purchase of a Beech King Air airplane.
- Contributions to the University of Florida (UF) include unrestricted gifts for the academic mission of the University, contributions for designated purposes, and costs incurred by the Association for UF projects. Total contributions were \$3.7 million in 2006 and \$1.8 million in 2005. See Note 9 in the Notes to the Financial Statements for further details on contributions to UF.

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REVENUE 2005-2006

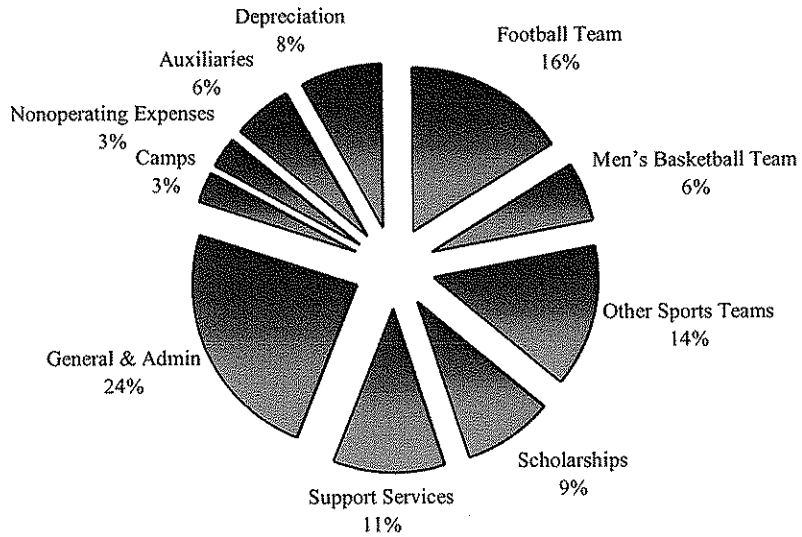


REVENUE 2004-2005

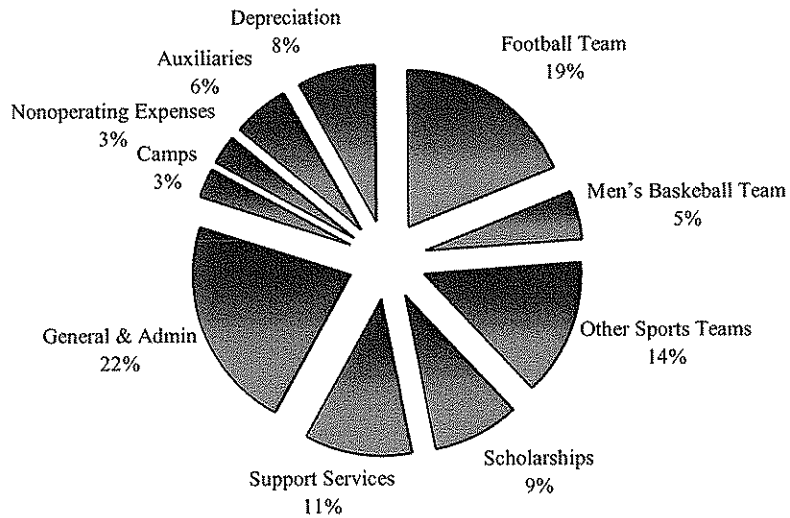


**THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
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EXPENSES 2005-2006



EXPENSES 2004-2005



THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Statement of Cash Flows

The final statements presented include Statements of Cash Flows. The primary purpose of the Statements of Cash Flows is to provide relevant information about the cash receipts and cash payments of the Association during the years shown. The statements classify cash receipts and cash payments as they result from operating, noncapital financing, capital and related financing, or investing activities. The first section, cash flows from operating activities, presents the cash effects of transactions and other events that enter into the determination of the Association's operating income. The second section, cash flows from noncapital financing activities, shows the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes and includes contributions to and from UF and the State of Florida. The next section, cash flows from capital and related financing activities, provides information about cash used for the acquisition and construction of capital and related items and cash received from contributions specifically designated for capital purposes. The fourth section, cash flows from investing activities, details the purchases, proceeds and interest received from investing activities. The final section reconciles the net cash provided (used) by operating activities to the operating income reflected on the Statements of Revenues, Expenses, and Changes in Net Assets.

Condensed Summary of Cash Flows (thousands of dollars)								
		2006-2005		2005-2004				
		2006	2005	Increase (decrease)	Percent change	2004	Increase (decrease)	Percent change
Cash flows from:								
Operating activities	\$	11,095	\$ 1,877	9,218	491.10%	\$ 6,408	(4,531)	(70.71)%
Noncapital financing activities		1,949	2,031	(82)	(4.04)%	817	1,214	148.59%
Capital & related financing activities		(1,839)	(6,938)	5,099	(73.49)%	(10,603)	3,665	(34.57)%
Investing activities		(11,552)	(5,593)	(5,959)	106.54%	(2,111)	(3,482)	164.95%
Net change in cash and cash equiv		(347)	(8,623)	8,276	(95.98)%	(5,489)	(3,134)	57.10%
Cash and cash equivalents, end of year	\$	4,033	\$ 4,380	(347)	(7.92)%	\$ 13,003	(8,623)	(66.32)%

Highlights

- Cash flows from operating activities increased by \$9.2 million in 2006 due to increase cash contributions from Gator Boosters and cash receipts from ticket holders. In 2005, cash flows from operating activities decreased by \$4.5 million due to increased cash payments for scholarships and increased cash payments to suppliers and employees.
- Cash provided by noncapital financing activities decreased by \$82 thousand in 2006 and increased by \$1.2 million in 2005 due to fluctuations in cash contributed to the University of Florida.
- Cash used in capital and related financing activities increased by \$5.1 million in 2006 due to the issuance of additional capital debt and the purchase of capital assets. In 2005, cash used in capital and related financing activities decreased by \$3.7 million due to the completion of the football stadium expansion project.

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- Cash used in investing activities decreased by \$6 million in 2006 due to increased cash payments for the purchases of investment securities. In 2005, cash used in investing activities decreased by \$3.5 million due to a reduction in cash received from the sales and maturities of investment securities.

Capital Asset and Debt Administration

A major renovation and expansion of the west side of Ben Hill Griffin Stadium was completed in August, 2003. The project was started in May, 2001. The expansion included a new club level, the Champions Club, and additional suites as well as expanded and renovated Bull Gator, Press and President's decks. The total cost of the football stadium expansion was approximately \$55.0 million of which \$5.0 million is being funded from private contributions and \$50.0 million from the 2001 bond issue.

In October, 2001, the Association issued \$57.4 million in tax-exempt revenue bonds. Proceeds of the bond issue were used to retire the outstanding 1994 Capital Improvement Revenue bonds and to pay costs associated with bond issuance and to fund a portion of the new basketball facility. The remaining proceeds were used for the football stadium expansion. Revenue from the Champions Club level and additional suites, which had already been sold, was \$5.5 million per year which exceeds the estimated debt service on the 2001 bonds. A total of \$55.3 million and \$56.0 million was outstanding at June 30, 2006 and 2005, respectively.

In September, 2005, the Association issued \$10.0 million in tax-exempt revenue bonds. Proceeds were used to finance the construction of improvements and the expansion of McKethan Stadium at Perry Field, the construction of a new football equipment storage facility/restroom/training room and renovation and improvements to the Lemerand Athletic Center. The total issue of \$10.0 million was outstanding at June 30, 2006.

The 1990 tax-exempt revenue bonds remain outstanding (\$19.6 million at June 30, 2006 and \$20.4 million at June 30, 2005). The Association's total long term debt as of June 30, 2006 and 2005, was \$84.9 million and \$76.4 million, respectively.

All bonds are secured by the gross revenues of the Association and backed by an irrevocable letter of credit as collateral for their payment. The bond covenants include minimum requirements for net revenues and liquidity. These requirements were met in 2006 and 2005.

For additional information on Capital Assets and Long Term Obligations, see Notes 5 and 6 in the Notes to the Financial Statements.

Economic Outlook

Operating revenues are expected to increase in fiscal year 2006-2007 due to ticket price increases in football and men's basketball, the addition of a Gator Booster club level system in men's basketball and the addition of a twelfth football game to be played at home. The twelfth game will also increase operating expenses. The net revenue from the twelfth game has been reserved to cover the costs of adding an additional women's sport. The remaining revenue increases will allow the Association to continue to operate its programs at the highest level, focusing on student athletes, teams, coaches and staff and maintaining facilities of the highest quality.

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New Women's Sport

The Association's Board of Directors approved the addition of women's lacrosse at their June 14, 2006 meeting. The lacrosse timeline includes the hiring of a coaching staff in the 2007-2008 fiscal year, the completion of facilities in the 2008-2009 fiscal year and competition in the 2009-2010 fiscal year.

Contacting Management

This financial narrative is designed to provide the reader with a general overview of the University Athletic Association, Inc.'s finances and to show the Association's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Association's Business Office at Ben Hill Griffin Stadium, Gainesville, Florida:

The University Athletic Association, Inc.
Attn: Assistant Athletics Director/Controller
PO Box 14485
Gainesville, FL 32604-2485
(352) 375-4683

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current assets		
Cash and cash equivalents	\$ 3,638,674	\$ 4,379,899
Short-term investments	37,901,470	27,183,725
Accounts receivable, net	6,767,880	8,763,790
Inventories	1,011,343	676,004
Prepaid expenses and other current assets	2,911,871	2,578,217
Restricted assets (including \$394,394 of cash and cash equivalents)	1,105,473	-
Total current assets	53,336,711	43,581,635
Noncurrent assets		
Assets held by the University of Florida Foundation, Inc.	21,221	21,221
Investments	34,056,060	31,136,549
Unamortized bond costs	595,951	473,619
Other assets	90,000	150,000
Capital assets, net of accumulated depreciation	130,168,768	125,358,075
Total noncurrent assets	164,932,000	157,139,464
Total assets	218,268,711	200,721,099
 <u>LIABILITIES</u> 		
Current liabilities		
Accounts payable and accrued expenses	10,110,840	7,601,920
Accrued compensated absences	1,947,089	1,685,683
Long-term debt – current portion	765,000	1,495,000
Deferred revenues – current portion	41,865,680	39,072,457
Agency funds payable	119,168	-
Total current liabilities	54,807,777	49,855,060
Noncurrent liabilities		
Longevity incentive payable	596,903	363,694
Deferred revenues	187,340	1,272,693
Long-term debt	84,150,000	74,915,000
Total noncurrent liabilities	84,934,243	76,551,387
Total liabilities	139,742,020	126,406,447
 <u>NET ASSETS</u> 		
Net assets		
Invested in capital assets, net of related debt	46,627,945	49,463,561
Restricted for:		
Capital projects	574,536	-
Debt service	394,394	-
Other purposes	14,727	14,727
	983,657	14,727
Unrestricted	30,915,089	24,836,364
Total net assets	\$ 78,526,691	\$ 74,314,652

The accompanying notes to financial statements
are an integral part of these statements.

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Operating revenues		
Football	\$ 44,414,059	\$ 41,487,149
Men's basketball	5,963,584	5,628,720
Other sports	655,146	703,345
Auxiliaries	11,609,096	9,764,891
Camps	2,176,014	1,964,175
Sponsorships and other	7,328,726	8,155,431
Total operating revenues	72,146,625	67,703,711
Operating expenses		
Football team expenses	12,037,217	13,800,055
Men's basketball team expenses	4,787,528	3,564,438
Other sports team expenses	10,144,190	10,107,134
Scholarships	6,913,881	6,522,916
Support services	8,259,190	7,550,647
General and administrative	17,629,280	16,115,853
Auxiliaries	4,413,983	4,075,361
Camps	2,144,743	1,990,275
Depreciation and amortization	5,858,002	5,765,843
Total operating expenses	72,188,014	69,492,522
Operating loss	(41,389)	(1,788,811)
Nonoperating revenues (expenses)		
Student fees	2,501,292	2,417,063
Investment income, net	2,641,710	3,259,608
Sales taxes retained	1,002,261	884,459
Interest on capital asset related debt	(2,583,111)	(2,213,360)
Other nonoperating revenues	451,805	451,805
Net nonoperating revenues (expenses)	4,013,957	4,799,575
Income before contributions	3,972,568	3,010,764
Capital contributions from Gator Boosters, Inc. and others	3,646,120	2,637,838
Contributions to the University of Florida	(3,406,649)	(1,774,872)
Increase in net assets	4,212,039	3,873,730
Net assets, beginning of year	74,314,652	70,440,922
Net assets, end of year	\$ 78,526,691	\$ 74,314,652

The accompanying notes to financial statements
are an integral part of these statements.

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Cash flows from operating activities		
Contributions from Gator Boosters, Inc.	\$ 25,766,590	\$ 19,995,128
Receipts from ticket holders and others	25,578,994	20,948,800
Receipts from the Southeastern Conference	11,429,574	10,911,671
Receipts from rights, royalties, and sponsors	11,071,974	9,920,732
Other receipts	174,617	699,374
Payments to suppliers and others	(31,435,419)	(29,058,050)
Payments to employees	(24,653,175)	(25,059,504)
Payments for scholarships	(6,837,714)	(6,481,711)
Net cash provided by operating activities	11,095,441	1,876,440
Cash flows from noncapital financing activities		
Statutory distributions from the University of Florida and the State of Florida	3,955,358	3,753,327
Contributions to the University of Florida	(2,006,345)	(1,722,003)
Net cash provided by noncapital financing activities	1,949,013	2,031,324
Cash flows from capital and related financing activities		
Purchase of capital assets	(11,254,428)	(7,211,319)
Proceeds from capital debt	10,000,000	-
Capital contributions from Gator Boosters, Inc.	3,706,120	1,676,894
Capital contributions from others	-	1,065,000
Principal paid on bonds	(1,495,000)	(1,525,000)
Interest paid on bonds	(2,604,236)	(2,150,405)
Prepaid bond remarketing fee	(73,500)	(49,962)
Bond cost of issuance	(137,045)	-
Proceeds from sale of capital assets	18,764	1,256,627
Net cash used in capital and related financing activities	(1,839,325)	(6,938,165)
Cash flows from investing activities		
Purchases of investment securities	(60,416,158)	(46,708,867)
Proceeds from sale and maturities of investment securities	46,896,638	39,616,862
Interest and dividends received	1,967,560	1,499,248
Net cash used in investing activities	(11,551,960)	(5,592,757)
Net decrease in cash and cash equivalents	(346,831)	(8,623,158)
Cash and cash equivalents, beginning of year	4,379,899	13,003,057
Cash and cash equivalents, end of year	\$ 4,033,068	\$ 4,379,899

The accompanying notes to financial statements
are an integral part of these statements.

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Continued)

	2006	2005
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (41,389)	\$ (1,788,811)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	5,858,002	5,765,843
Forgiveness of notes receivable	-	42,560
Loss (gain) on disposal of capital assets	704,927	(1,167,408)
Changes in assets and liabilities:		
Accounts receivable	2,015,319	(5,519,677)
Inventories	(335,339)	(163,444)
Prepaid expenses and other current assets	(308,375)	80,500
Agency funds	-	129,460
Assets held by the University of Florida Foundation, Inc.	-	441,016
Accounts payable and accrued expenses	781,852	2,070,720
Accrued compensated absences	261,406	187,705
Deferred revenues	1,707,870	2,851,169
Agency funds payable	119,168	(129,460)
Longevity incentive payable	332,000	(923,733)
Net cash provided by operating activities	\$ 11,095,441	\$ 1,876,440
Supplemental disclosure of noncash activity		
Decrease in investments and longevity incentive payable to reflect earnings on employee directed incentive balances	\$ 16,209	\$ (45,080)

The accompanying notes to financial statements
are an integral part of these statements.

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(1) Summary of Significant Accounting Policies:

The following is a summary of the more significant accounting policies of the University Athletic Association, Inc. (the Association), which affect significant elements of the accompanying basic financial statements.

(a) **Reporting Entity**—The Association is a not-for-profit entity organized in 1929 for the purpose of conducting various intercollegiate athletic programs for and on behalf of the University of Florida. The Association operates for the service and convenience of the University of Florida and is a direct support organization and component unit (for accounting purposes only) of the University of Florida.

(b) **Measurement focus, basis of accounting, and financial statement presentation**—The financial statements of the Association have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

The Association follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

The Association distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses for the Association are those that result from the operation of the University of Florida's intercollegiate athletic programs. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. As required by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, contributions to permanent endowments are not considered operating revenues and are reported after nonoperating revenues and expenses in the accompanying statements of revenues, expenses, and changes in net assets.

(c) **Cash and Cash Equivalents**—Cash and cash equivalents include cash in banks and money market funds available for immediate use.

(d) **Accounts receivable**—Accounts receivable are stated at the amount management expects to collect from balances at year-end. Based on management's assessment of the credit history with organizations and individuals having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial. The Association has no policy requiring collateral or other security to support its accounts receivable.

(e) **Inventories**—Inventories consist of items held for sale at the Gator Sportshop, golf course pro shop and snack bar. Inventory items at the Gator Sportshop and the golf pro shop are recorded at the lower of cost or market using the average cost method. All other inventory items are recorded at the lower of cost or market, as determined by using the first-in, first-out (FIFO) method.

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(1) **Summary of Significant Accounting Policies:** (Continued)

(f) **Capital Assets**—Capital assets purchased with an original cost of \$500 or more are recorded at cost and depreciated utilizing the straight-line method over the estimated useful lives of assets (generally 5 years for permanent equipment and 10 to 15 years for capital improvements, except for improvements to buildings which range from 50 to 60 years). Costs to maintain or repair these assets are expensed as incurred.

(g) **Assets Held by the University of Florida Foundation, Inc.**—Assets held by the University of Florida Foundation, Inc. (the Foundation) consist of pooled investments and real estate. Substantially all investments are stated at fair value.

(h) **Agency Funds**—The Association acts as an agent for the control and distribution of cash from the sale of Gator Growl tickets for the University of Florida. Such amounts are not included in the statements of revenues, expenses and changes in net assets.

(i) **Unamortized Bond Costs**—Unamortized bond costs consist of prepaid bond issuance and remarketing costs. These costs are being amortized utilizing the straight-line method over the term of the bonds or the length of the remarketing period.

(j) **Accrued Compensated Absences**—Eligible employees are entitled to vacation and sick leave with pay. Employees are not limited in the amount of annual and sick leave accrued during the fiscal year. For annual leave, however, only a maximum of 352 hours can be carried forward from one fiscal year to the next or paid upon termination provided the employee has completed six months of continuous service. Any amounts accrued over the maximums convert to sick leave at the end of the year on an hour for hour basis. Additionally, sick leave amounts paid upon termination are limited to the lesser of 480 hours or 1/4 of the employee's sick leave balances for those employees who have completed ten years of continuous service. Vacation pay and sick leave payments are expensed as earned by the employee.

(k) **Deferred Revenues**—Current deferred revenues consist of advance sales of football tickets, related scholarship contributions, and miscellaneous other unearned fees received. The deferred items are recognized as revenue when the related football games are played, when the related scholarship expenses are incurred, and when the service is performed or event occurs for which miscellaneous fees were received.

Additionally, deferred revenues included in other liabilities consist of booster prepayments and advance royalty and sponsorship payments. The royalty and sponsorship amounts are recognized over the life of the agreements, while the booster prepayments will be recognized in the applicable sports season.

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(1) **Summary of Significant Accounting Policies:** (Continued)

(l) **Longevity Incentive Payable**—These balances represent amounts due to various coaches and employees as specified in their employment contracts. Such amounts are accrued based upon schedules included in the respective employment contracts. In some circumstances, the coach or employee's employment contract may require the Association to make specified deposits into an employee directed investment account until such time as the coach or employee has reached the stay period specified in their contract. These investment balances would transfer to the coach or employee at the end of the stay period and are included in investments in the accompanying statements of net assets. In other circumstances, the Association is obligated to pay certain amounts to the coach or employee which are not paid until the end of the stay period. The Association accrues for these amounts ratably over the contract period. No payments are made to the coach or employee until they have reached the stay period specified in their contract.

(m) **Net assets**—Net assets are classified and displayed in three components:

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets.
- Restricted – consists of assets that have constraints placed upon their use either by external donors or creditors or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.
- Unrestricted – consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted net assets are available for use, it is the Association's policy to use restricted resources first, then unrestricted resources as they are needed.

(n) **Restricted Net Assets**—Restricted net assets consist of capital contributions received for specific future capital projects, funds held by the bond trustee for payment of bond interest and funds held by the Foundation which have been restricted as to their use by donors.

(o) **Functional Allocation of Expenses**—The costs of providing various programs and other activities have been summarized by program in the accompanying statements of revenues, expenses, and changes in net assets. However, certain costs categorized as Support Services and General and Administrative are not specifically identifiable with men's and women's programs and are not allocated. As a result, no distinction between men's and women's programs has been made within these expense classifications.

(p) **Income Taxes**—The Association is generally exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

(q) **In-Kind Contributions**—Donations of materials and services are recorded at their fair market value at the date of donation.

(r) **Reclassifications**—In order to facilitate the comparison of financial data, certain June 30, 2005 account balances have been reclassified to conform to the current year reporting format. These reclassifications had no effect on net assets.

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(2) Cash and Investments:

A. Cash and Cash Equivalents:

The amounts reported as cash and cash equivalents include cash on hand, cash in bank demand accounts, cash held at the University of Florida and money market funds. Cash and cash equivalents at June 30, 2006 and 2005, were as follows:

	2006	2005
Money market funds	\$ 3,469,048	\$ 2,766,315
Cash in bank demand accounts	(2,751,643)	(1,742,223)
Cash held at the University of Florida	2,870,869	3,285,657
Cash on hand	50,400	70,150
Restricted cash in bank demand accounts	394,394	-
Cash and cash equivalents	\$ 4,033,068	\$ 4,379,899

Cash in bank demand accounts is held in a regional and a national bank. Bank account balances for these bank demand accounts as of June 30, 2006 and 2005, were \$679,029 and \$1,234,408, respectively. Deposits are uncollateralized and are insured up to \$100,000 by the Federal Deposit Insurance Corporation. Money market funds are uninsured and collateralized by securities held by the institution, not in the Association's name. For deposits, custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a policy for custodial credit risk.

B. Investments:

The Association follows the provisions of GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires that government entities report investments at fair value, except that money market investments that have a remaining maturity at the time of purchase of one year or less, may be reported at amortized cost provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. For purposes of GASB Statement No. 31, money market investments are defined as short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations.

Short-term investments are comprised of mutual funds and an investment account with the State of Florida Division of Treasury and are reported at fair value. Other investments include equity securities and open-end mutual fund investments that are reported at fair value as determined by quoted market prices or the mutual fund's current share price. The classification of investments between short-term and long-term is based on management's anticipated cash flow needs. However, the needs of the organization may require the sale or retention of investment balances which differ from the classifications reflected in the accompanying statements of net assets.

The Association's corporate investment policy divides the Association's assets into two portfolios, the long-term portfolio and the short-term portfolio. The policy states that the short-term portfolio invests in cash and equivalents and the long-term portfolio invests in a diversified portfolio of commingled and/or mutual funds in the following classes: Domestic Large Cap Equity, Domestic Small Cap Equity, International Equity and Fixed Income.

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(2) **Cash and Investments:** (Continued)

As of June 30, 2006 and 2005, the Association had the following investments:

	<u>2006</u>	<u>2005</u>
Short term investments:		
Investment account held with the State of Florida Division of Treasury	\$ 37,901,470	\$ 27,183,725
Restricted short term investments:		
Investment account held with the State of Florida Division of Treasury	711,079	-
Investments:		
Domestic equity mutual funds	18,073,000	16,852,456
International equity mutual funds	7,221,762	4,867,260
Debt securities mutual fund	8,326,395	9,148,139
Employee directed investments	434,903	268,694
Subtotal	<u>34,056,060</u>	<u>31,136,549</u>
Total investments	<u>\$ 72,668,609</u>	<u>\$ 58,320,274</u>

The Association's short term investments includes a pooled investment with the State of Florida Division of Treasury's Treasury Investment Pool. The Treasury Investment Pool is rated by Standard and Poors. The current rating at June 30, 2006 and 2005, was AA-f. The effective weighted average duration to maturity of the Treasury Investment Pool was 2.72 and 2.22 years at June 30, 2006 and 2005, respectively.

The Association's long term investments include an investment in a bond mutual fund, the PIMCO Total Return Fund Institutional Class. As of June 30, 2006 and 2005, this fund was unrated, however, the underlying investments in this fund had an average credit quality rating of AAA and a weighted average duration to maturity of 5.3 and 4.05 years, respectively. Long term investments also include employee directed investments. Several coaches have a longevity plan built into their employment contract, whereby a specified amount is deposited into an investment account of their choice.

The Association does not have a policy for credit risk or interest rate risk associated with its investment.

C. Restricted Assets:

The Association's restricted assets include cash and cash equivalents for the accrued interest on the 1990, 2001 and 2005 series bonds due October 2006, as well as a construction trust fund held in a short term investment account with the State of Florida Division of Treasury. They are included in both the cash and cash equivalents and short term investments schedules.

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(3) Accounts Receivable:

Accounts receivable at June 30, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
Ticket accounts receivable	\$ 220,482	\$ 2,159,359
Due from Gator Boosters, Inc.	5,096,832	5,763,805
Due from SEC and NCAA	57,592	177,187
Royalties and sponsorships	1,258,460	144,183
Other receivables	200,226	592,612
Total accounts receivable	<u>6,833,592</u>	<u>8,837,146</u>
Less allowance for doubtful accounts	<u>(65,712)</u>	<u>(73,356)</u>
Total accounts receivable, net	<u>\$ 6,767,880</u>	<u>\$ 8,763,790</u>

(4) Accounts Payable and Accrued Expenses:

Accounts payable and accrued expenses consist of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Vendors	\$ 5,610,313	\$ 4,152,984
Salaries and benefits	3,527,417	2,804,123
Accrued interest	683,157	469,348
Gator Boosters, Inc.	256,913	112,900
Other	33,040	62,565
Total accounts payable and accrued expenses	<u>\$ 10,110,840</u>	<u>\$ 7,601,920</u>

(5) Capital Assets:

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 567,039	\$ -	\$ -	\$ 567,039
Construction in progress	1,536,640	10,228,670	(1,222,435)	10,542,875
Total capital assets not being depreciated	<u>2,103,679</u>	<u>10,228,670</u>	<u>(1,222,435)</u>	<u>11,109,914</u>
Capital assets being depreciated:				
Buildings and improvements	5,843,381	-	-	5,843,381
Furniture and equipment	21,075,394	1,066,312	(3,119,094)	19,022,612
Leasehold improvements	137,224,703	1,340,073	(1,598,170)	136,966,606
Total capital assets being depreciated	<u>164,143,478</u>	<u>2,406,385</u>	<u>(4,717,264)</u>	<u>161,832,599</u>

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(5) **Capital Assets:** (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings and improvements	1,623,051	233,616	-	1,856,667
Furniture and equipment	11,631,766	1,580,394	(3,094,192)	10,117,968
Leasehold improvements	27,634,265	4,043,992	(879,147)	30,799,110
Total accumulated depreciation	<u>40,889,082</u>	<u>5,858,002</u>	<u>(3,973,339)</u>	<u>42,773,745</u>
Total capital assets being depreciated, net	123,254,396	(3,451,617)	(743,925)	119,058,854
Capital assets, net	<u>\$125,358,075</u>	<u>\$ 6,777,053</u>	<u>\$ (1,966,360)</u>	<u>\$130,168,768</u>

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 567,039	\$ -	\$ -	\$ 567,039
Construction in progress	1,899,668	1,981,864	(2,344,892)	1,536,640
Total capital assets not being depreciated	<u>2,466,707</u>	<u>1,981,864</u>	<u>(2,344,892)</u>	<u>2,103,679</u>
Capital assets being depreciated:				
Buildings and improvements	5,843,381	-	-	5,843,381
Furniture and equipment	17,959,541	4,251,010	(1,135,157)	21,075,394
Leasehold improvements	133,901,366	3,323,337	-	137,224,703
Total capital assets being depreciated	<u>157,704,288</u>	<u>7,574,347</u>	<u>(1,135,157)</u>	<u>164,143,478</u>

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(5) **Capital Assets:** (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings and improvements	1,389,435	233,616	-	1,623,051
Furniture and equipment	11,128,027	1,549,677	(1,045,938)	11,631,766
Leasehold improvements	23,651,715	3,982,550	-	27,634,265
Total accumulated depreciation	<u>36,169,177</u>	<u>5,765,843</u>	<u>(1,045,938)</u>	<u>40,889,082</u>
Total capital assets being depreciated, net	121,535,111	1,808,504	(89,219)	123,254,396
Capital assets, net	<u>\$124,001,818</u>	<u>\$ 3,790,368</u>	<u>\$ (2,434,111)</u>	<u>\$125,358,075</u>

At June 30, 2006, the Association has commitments to provide for additional capital improvement projects approximating \$5,885,000.

(6) **Long-Term Obligations:**

Changes in long-term obligations for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Accrued compensated absences	\$ 1,685,683	\$ 433,731	\$ (172,325)	\$ 1,947,089	\$ 1,947,089
Longevity incentive payable	373,694	521,209	(173,000)	721,903	125,000
Deferred revenues	40,345,150	41,865,680	(40,157,810)	42,053,020	41,865,680
Long-term debt	76,410,000	10,000,000	(1,495,000)	84,915,000	765,000
Total long-term liabilities	<u>\$118,814,527</u>	<u>\$52,820,620</u>	<u>\$ (41,998,135)</u>	<u>\$129,637,012</u>	<u>\$ 44,702,769</u>

Change in long-term obligations for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Accrued compensated absences	\$ 1,497,978	\$ 422,659	\$ (234,954)	\$ 1,685,683	\$ 1,685,683
Longevity incentive payable	1,252,347	1,033,355	(1,912,008)	373,694	10,000
Deferred revenues	37,454,925	39,414,150	(36,523,925)	40,345,150	39,072,457
Long-term debt	77,935,000	-	(1,525,000)	76,410,000	1,495,000
Total long-term liabilities	<u>\$118,140,250</u>	<u>\$40,870,164</u>	<u>\$ (40,195,887)</u>	<u>\$118,814,527</u>	<u>\$ 42,263,140</u>

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(6) **Long-Term Obligations:** (Continued)

A. Long-term Debt

In February 1990, the Association issued \$10,715,000 in tax-exempt revenue bonds. Proceeds of \$10,559,000 were used to retire the outstanding 1982 and 1985 Stadium Revenue Bonds and pay accrued interest and costs associated with issuance. In December 1990, the Association issued an additional \$17,300,000 in tax-exempt revenue bonds. Proceeds of the December 1990 issue were used to finance the construction cost of the North End Zone, and pay accrued interest and costs associated with issuance. Initially, the 1990 Bonds bore an interest at the Daily Rate.

In August 1994, an additional \$5,000,000 in tax-exempt revenue bonds was issued by the Association. Proceeds of the 1994 issuance were used to finance the construction of a volleyball practice gymnasium and to renovate the athletic field house. Both the 1990 and 1994 Series bonds were scheduled to mature in the year 2020 and were secured by the gross revenues of the Association.

In October 2001, the Association issued \$57,400,000 in tax-exempt revenue bonds. Proceeds of \$4,688,193 were used to retire the outstanding 1994 Capital Improvement Revenue Bonds and pay costs associated with issuance. The remaining proceeds are being used to finance the construction cost of the Basketball Practice Facility and the expansion of Ben Hill Griffin, Jr. Stadium. Construction of the Basketball Practice Facility was completed in 2002 and construction on the stadium was completed in 2004. The 2001 Series Athletic Program Revenue Bonds mature in the year 2031 and initially bore an interest at the Multiannual Rate.

In September 2005, the Association issued \$10,000,000 in tax-exempt revenue bonds. Proceeds were used to finance the construction of improvements and the expansion of McKethan Stadium at Perry Field, the construction of a new football equipment storage facility/restroom/training room and the renovation and improvements to the Lemerand Athletic Center (collectively, the "2005 Project"). Construction on the 2005 Project was in process at June 30, 2006 and scheduled for completion in November, 2006. Initially, the 2005 Bonds bear interest at the Multiannual Rate. The initial Multiannual Rate Period was 9/1/05 through 10/1/08 and the initial Multiannual Rate is 3.30%.

Also in September 2005, the Association redeemed \$800,000 of the Series 1990 Capital Improvement Revenue Bonds and converted all the remaining, outstanding 1990 Bonds (\$19,600,000) to bear interest at the Multiannual Rate.

In October 2005, the Association converted a portion (\$11,705,000) of the 2001 Bonds to the Daily Rate (as specified by the remarketing agent).

At June 30, 2006 and 2005, the 1990 Bonds bear interest based upon the following schedule:

<u>June 30, 2006</u>			<u>June 30, 2005</u>		
<u>Outstanding Amount</u>	<u>Term</u>	<u>Interest Rate</u>	<u>Outstanding Amount</u>	<u>Term</u>	<u>Interest Rate</u>
\$ 9,600,000	9/1/05 – 10/1/09	3.40%	\$ 20,400,000	Daily Rate	Variable
10,000,000	9/1/05 – 10/1/10	3.50%	-		
<u>\$ 19,600,000</u>			<u>\$ 20,400,000</u>		

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(6) **Long-Term Obligations:** (Continued)

At June 30, 2006 and 2005, the 2001 Bonds bear interest based upon the following schedule:

June 30, 2006			June 30, 2005		
Outstanding Amount	Term	Interest Rate	Outstanding Amount	Term	Interest Rate
\$ 11,705,000	Daily Rate	Variable	\$ 12,400,000	10/1/02 – 10/1/05	2.20%
14,335,000	10/1/03 – 10/1/08	2.80%	14,335,000	10/1/03 – 10/1/08	2.80%
14,275,000	10/1/04 – 10/1/09	3.00%	14,275,000	10/1/04 – 10/1/09	3.00%
15,000,000	10/1/01 – 10/1/06	3.50%	15,000,000	10/1/01 – 10/1/06	3.50%
<u>\$ 55,315,000</u>			<u>\$ 56,010,000</u>		

The Daily Rate at June 30, 2006 and 2005 was 4.05% and 2.53%, respectively.

Debt service requirements at June 30, 2006, were as follows:

Year Ended June 30,	2005 Bonds		2001 Bonds		1990 Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ -	\$ 330,000	\$ 765,000	\$1,592,970	\$ -	\$ 676,200
2008	-	330,000	735,000	1,571,364	-	676,200
2009	2,400,000	270,600	710,000	1,550,521	-	676,200
2010	600,000	235,950	790,000	1,528,114	4,000,000	572,700
2011	600,000	216,150	770,000	1,505,561	1,200,000	507,150
2012 – 2016	3,000,000	783,750	3,895,000	7,183,300	7,000,000	1,854,376
2017 – 2021	3,400,000	278,850	3,775,000	6,634,618	7,400,000	464,026
2022 – 2026	-	-	17,485,000	5,027,062	-	-
2027 – 2031	-	-	21,520,000	2,169,696	-	-
2032	-	-	4,870,000	35,429	-	-
	<u>\$ 10,000</u>	<u>\$ 2,445,300</u>	<u>\$55,315,000</u>	<u>\$28,798,635</u>	<u>\$19,600,000</u>	<u>\$ 5,426,852</u>

The Association is subject to certain general and financial covenants related to the Bond agreements (the Agreements). The original financial covenants in the 1990 & 1994 bonds required the Association to generate net revenues, as defined in the Agreements, equal to at least the three year rolling average of the Bonds' principal and interest requirements.

The covenants changed for all issues with the issuance of the 2001 Bonds and the subsequent issuance of the 2005 Bonds. The first financial covenant requires the Association to maintain a Net Revenues to Debt Service ratio, as defined in the Agreements, of greater than 1.1:1, tested annually at the end of each fiscal year. The Association's ratio of net revenues to required principal and interest was 2.19 and 2.61 in 2006 and 2005, respectively. The second financial covenant requires the Association to maintain unrestricted cash, marketable securities and investments in an amount greater than twenty-five percent (25%) of its total indebtedness measured at the end of the fiscal year. At June 30, 2006, the required amount of liquidity was \$21,228,750 and the actual amount was in excess of \$75,500,000. At June 30, 2005, the required amount of liquidity was \$19,102,500 and the actual amount was in excess of \$62,700,000.

In conjunction with the Agreements, the Association entered into an irrevocable letter of credit agreement with the insurer of the bonds as collateral for their payment. The irrevocable letter of credit has been

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(6) **Long-Term Obligations:** (Continued)

amended and restated with each bond issue. The current letter of credit agreement was dated September 1, 2005 and was issued in an initial amount not to exceed \$86,722,930 ("Stated Amount"), of which an amount not to exceed \$85,610,000 ("Principal Component") may be drawn upon with respect to the payment of the unpaid principal and an amount not to exceed \$1,112,930 ("Interest Component") may be drawn upon with respect to the payment of interest. The Interest Component is an amount equal to 39 days of interest on the bonds' outstanding principal at a rate of 12%, computed on the basis of a 360-day year. The balance on the letter of credit at June 30, 2006, was \$86,018,895. The current letter of credit expires on October 15, 2010. The Association pays a fee in order to retain the letter of credit equal to 0.18% of the outstanding letter of credit balance. The fee is paid in arrears on the first day of each quarterly period.

B. Deferred Revenues

Changes in current deferred revenues for June 30, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 39,072,457	\$ 35,290,288
Additions:		
Advance football ticket sales	14,865,005	14,313,673
Unearned booster contributions	25,454,136	23,706,201
Unearned other income	1,546,539	1,052,583
Total additions	<u>41,865,680</u>	<u>39,072,457</u>
Deductions:		
Earned football revenue	(14,313,673)	(11,701,931)
Earned booster contributions	(23,706,201)	(21,929,342)
Earned other income	(1,052,583)	(1,659,015)
Total deductions	<u>(39,072,457)</u>	<u>(35,290,288)</u>
Balance, end of year	<u>\$ 41,865,680</u>	<u>\$ 39,072,457</u>

Changes in long term deferred revenues for June 30, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 1,272,693	\$ 2,164,637
Additions:		
Unearned booster contributions	-	341,693
Total additions	-	<u>341,693</u>
Deductions:		
Booster contributions reclassified to current	(154,353)	(302,637)
Sponsorships recognized	(160,000)	(160,000)
Royalties recognized	(771,000)	(771,000)
Total deductions	<u>(1,085,353)</u>	<u>(1,233,637)</u>
Balance, end of year	<u>\$ 187,340</u>	<u>\$ 1,272,693</u>

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(7) Pension Plan:

In 1979, the Association established The University Athletic Association, Inc. Employees' Money Purchase Pension Plan and Trust, a defined contribution pension plan covering substantially all full-time employees. Total pension expense for the plan was \$1,604,177 and \$1,653,977 (net of forfeitures of \$200,175 and \$211,264, respectively) for the years ended June 30, 2006 and 2005, respectively. Contributions are made by the Association to the pension plan based on 12% of an eligible employee's earnings. During the years ended June 30, 2006 and 2005, total payroll for employees covered under the plan was \$15,078,930 and \$15,594,106, which represented approximately 72% and 69% of total payroll for the years ended June 30, 2006 and 2005, respectively.

(8) Related-Party Transactions:

Gator Boosters, Inc. receives contributions from the general public and remits the majority of these funds (less their operating expenses) to the Association. Contributions of \$27,116,732 and \$23,277,639 were recognized from Gator Boosters, Inc., for the years ended June 30, 2006 and 2005, respectively, and have been included in the accompanying statements of revenues, expenses, and changes in net assets. Additionally, in 2004, the Association contracted to provide accounting and other support services to Gator Boosters. The Association recognized contract revenue in the amount of \$53,000 and \$50,000 for the year ended June 30, 2006 and 2005, respectively.

Gator Boosters, Inc. recognizes contribution expense for amounts remitted to the Association in the year in which such amounts are remitted. The Association, however, does not recognize these amounts as revenue until the year in which the related athletic event is held or the year when the related scholarship expenses are incurred. A reconciliation of contribution revenues from Gator Boosters, Inc. as recognized in the accompanying statements of revenues, expenses, and changes in net assets to contributions expense as reflected in the financial statements of Gator Boosters, Inc. for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Contributions to the Association, as reported in the financial statements of Gator Boosters, Inc.	\$ 28,473,414	\$ 25,036,177
Recognition of prior year amounts received from Gator Boosters, Inc. that were previously deferred	23,327,742	21,569,204
Deferral of amounts received from Gator Boosters, Inc. in the current year	(24,684,424)	(23,327,742)
Contributions from Gator Boosters, Inc., as recognized in the accompanying statements of revenues, expenses, and changes in net assets	<u>\$ 27,116,732</u>	<u>\$ 23,277,639</u>

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(9) Contributions to the University of Florida:

Contributions to the University of Florida for the years ended June 30, 2006 and 2005, consisted of gifts for the following purposes:

	<u>2006</u>	<u>2005</u>
Opportunity scholarship program	\$ 1,100,000	\$ -
Logo profits	1,326,665	1,026,361
Parking facilities	200,000	200,000
Broward teaching center (strategic plan support)	200,000	200,000
Registrar and financial aid positions	158,856	127,686
Salaries	134,628	63,325
AIM scholarship program grant	200,000	-
Library	50,000	75,000
General scholarships	3,166	11,166
Council for Economic Outreach	33,334	33,334
Band trip	-	38,000
Costs incurred on behalf of University of Florida projects	-	-
Total contributions to University of the Florida	<u>\$ 3,406,649</u>	<u>\$ 1,774,872</u>

The Association has committed to contribute \$250,000 for 2007 and 2008, for parking facilities usage for athletic events. In 2001, the Association agreed to contribute \$33,334 per year for five years for the Council for Economic Outreach. In 2006, the Association agreed to continue to contribute \$33,334 per year for an additional five years for the Council for Economic Outreach. The final contribution will be made during fiscal year 2010.

(10) Operating Leases:

The Association leases various equipment and facilities under operating leases. Total rent expense for the years ended June 30, 2006 and 2005, was \$605,649 and \$576,953, respectively. Included in rent expense for the years ended June 30, 2006 and 2005, was \$546,884 and \$519,733, respectively, in rent paid to the University of Florida for rental of the O'Connell Center and recreational sports fields. In addition, the Association has a long-term lease between the Association and the University of Florida Board of Trustees for the lease of various other athletic facilities on the University campus. There are no rental payments due under the lease.

Future minimum lease payments under noncancelable operating lease agreements for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 280,917
2008	224,299
2009	-
2010	-
2011	-
	<u>\$ 505,216</u>

THE UNIVERSITY ATHLETIC ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(11) Commitments Under Employment Contracts:

The Association has entered into employment contracts with certain employees expiring in years through 2014 that provide for a minimum annual salary. At June 30, 2006, the total commitment for all contracts for each of the next five years and in the aggregate is as follows:

Year Ending June 30,	Amount
2007	\$ 7,175,709
2008	6,021,806
2009	5,032,768
2010	2,919,865
2011	2,905,178
2012 – 2014	2,842,301
	\$ 26,897,627

(12) Contingency:

The Association is the only remaining defendant in a wrongful death lawsuit filed by the parents of a former University of Florida football student athlete. The case has been mediated and the Association was unsuccessful in resolving the case with the family. The case is set for trial in December 2006. Outside counsel for the Association has advised that at this stage in the proceedings, they cannot offer an opinion as to the probable outcome. The Association believes the suit is without merit and is vigorously defending its position.

(13) Risk Management:

The Association purchased conventional commercial insurance coverage for potential exposures in the areas of property, workers' compensation, automobile liability and physical damage, and other general liability exposures. This insurance was purchased from various independent carriers and is designed to insure against such risks and minimize the Association's financial exposure. The Association also participates with the employees in the purchase of group health, dental and life insurance for its employees and their families.

The Association has also purchased commercial insurance to cover injuries to student athletes received during practice or play. This policy requires a \$10,000 deductible per athlete per incident. Any amounts paid by the athletes' private insurance carriers can be applied to the Association's deductible. Total athlete medical expenses were \$462,600 and \$512,666 for the years ended June 30, 2006 and 2005, respectively. Estimated liabilities relating to unpaid and incurred but not reported claims were considered immaterial, and therefore have not been reported in the accompanying financial statements.

The Association is not involved in any risk pools with other governmental entities.

JAMES MOORE & CO., P.L.

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors,
The University Athletic Association, Inc.:

We have audited the financial statements of the The University Athletic Association, Inc. (the Association) as of and for the year ended June 30, 2006, and have issued our report thereon, dated August 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors and management of the Association, and the board of trustees and management of the University of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Gainesville, Florida
August 30, 2006

