

Report on application of certain agreed-upon procedures to assist the  
University in complying with NCAA Constitution 6.2.3.1

**Oklahoma State University**

June 30, 2004

**Independent Accountant's Report on  
Applying Certain Agreed-Upon Procedures to  
Assist the University in Complying with NCAA Constitution 6.2.3.1**

Dr. David J. Schmidly, President  
Oklahoma State University  
107 Whitehurst Hall  
Stillwater, Oklahoma 74078-1015

We have audited the financial statements of Oklahoma State University (the "University") as of and for the year ended June 30, 2004 and have issued our report thereon dated October 8, 2004. Additionally, we have audited the financial statements of the intercollegiate athletics program of the University as of and for the year ended June 30, 2004 and have issued our report thereon dated October 8, 2004. Financial statements comprising the accounts of the Oklahoma State University Foundation (the "Foundation") restricted by donors to intercollegiate athletics activities as of and for the year ended June 30, 2004 were audited by other auditors whose report has been furnished to us.

We have performed the procedures enumerated below which were agreed to by the Board of Regents solely to assist the University in assessing compliance with National Collegiate Athletic Association ("NCAA") Constitution 6.2.3.1 for the year ended June 30, 2004. Management of the University is responsible for compliance with NCAA Constitution 6.2.3.1. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

Statement of Revenues, Expenditures and Other Changes: Agreed-Upon Substantive Procedures

1. In accordance with University policy, all contributions for or on behalf of the intercollegiate athletics department are to be channeled through the Foundation, a separate legal entity from the University. Expenditures by the Foundation for or on behalf of the intercollegiate athletics department are included in the accompanying Statement of Revenues, Expenditures and Other Changes.
2. We obtained the accompanying Intercollegiate Athletics Program Accounts Statement of Revenues, Expenditures and Other Changes for the year ended June 30, 2004 as prepared by management. We recalculated the mathematical accuracy of the amounts on the Statement of

Revenues, Expenditures and Other Changes, agreed the amounts on the Statement to management's worksheets and agreed the amounts on management's worksheets related to the University to the applicable series of accounts in the University's general ledger for the athletics department. We noted no differences between the amounts in the general ledger and the amounts on the worksheets. We reconciled the revenues and expenditures included in the audited financial statements of the Foundation to the amounts reported in the accompanying Statement of Revenues, Expenditures and Other Changes.

3. With respect to football and men's basketball ticket sales, we performed the following procedures:
  - a. We obtained ticket sales reports prepared by the University's athletics ticket office. These reports included details of tickets sold and complimentary tickets, by event, for football and men's basketball. We compared revenues included in the Statement of Revenues, Expenditures and Other Changes with these reports, noting the ticket sales reports exceeded the Statement of Revenues, Expenditures and Other Changes by \$34,216 or 0.5%.
  - b. We obtained details of away game contract revenues for football and men's basketball and agreed those revenues with the football and men's basketball ticket revenues included in the Statement of Revenues, Expenditures and Other Changes.
4. Program sales are included as a component of the intercollegiate athletics department's radio and television rights contract. As such, there were no separate cash receipts from outside service vendors for program sales. We agreed cash receipts from outside service vendors for all concession income greater than \$10,000 to supporting documents, noting no differences.

With respect to concession income, we obtained the intercollegiate athletics department's contract with the Swanson Corporation. We determined the University recorded revenues in accordance with the contract.

5. We tested Big XII Conference distribution revenues as reported on the accompanying Statement of Revenues, Expenditures and Other Changes by agreeing each of the receipts to check copies and to the validated deposit slip, noting agreement of description, date and amount, noting no differences.
6. We tested radio and television rights revenues as reported on the accompanying Statement of Revenues, Expenditures and Other Changes by agreeing the only four receipts of radio and television revenue to the validated deposit slips, noting agreement of description, date and amount, noting no differences. We also agreed amounts received under the radio and television contract to the amounts specified in the contract, noting no differences.
7. The student activity fee revenue allocated to intercollegiate athletics is based on recommendations by the Vice President of Student Services, as approved by the President. The allocation is based on requests received by various organizations, as well as prior years' distributions. We agreed the student activity fees recorded in the accompanying Statement of Revenues, Expenditures and Other Changes to the allocation, as approved by the President, noting no differences.

8. With respect to general and administrative revenues, we performed the following procedures:
  - a. We agreed all "trade-out" revenues greater than \$2,000 per the trade-out report to supporting ticket trade agreements, noting no differences. Of the items tested, three agreements were noted in which the supplier's declared value was less than the face amount of the tickets. The aggregate difference was \$14,965. We noted that general and administrative revenues relating to "trade-out" agreements consist of the estimated value attributed to parking privileges and the balance of "trade-out" revenues is recorded as ticket sales. We further noted that "trade-out" revenues are recorded at the University's estimated value of the goods and services provided and not at the supplier's declared value.
  - b. We tested royalty income by agreeing the amount of the largest receipt to a letter from the University's Associate Vice President and Controller, authorizing the transfer of royalty income to the intercollegiate athletics department.
  - c. We agreed the two largest men's basketball tournament revenues (included in ticket sales in the accompanying Statement of Revenues, Expenditures and Other Changes) to the validated deposit slips, noting the description, date and amount agreed with the listing of year-to-date transactions, without exception.
9. We judgmentally selected five intercollegiate athletics department employees. We agreed amounts paid per the payroll register to actual payments per the payroll warrant listing generated by the University from data provided by the State of Oklahoma. We recomputed the amounts paid based on authorized pay rates included in the personnel files and in the approved University budget, noting no differences.
10. To test films and travel expenses, we performed the following procedures:
  - a. We obtained the detail of films expense included in the general ledger. We agreed the three largest expenditures to the supporting invoice, noting agreement of amount and description.
  - b. We agreed all team travel expenditures for football and basketball greater than \$2,000 to the invoice supporting the expenditures, noting no differences. We noted travel dates were within three days of the dates of the scheduled events. We agreed all recruiting travel expenses greater than \$2,000 to the invoice supporting the expenditure, noting no differences.
11. We tested four intercollegiate athletics department investments in plant additions, including the construction-in-progress accounts, in connection with our audit of the general University as of June 30, 2004. That testing consisted of agreeing the additions to invoice support, noting no differences.
12. We obtained the general ledger detail of entertainment expenses and vouched all expenditures greater than \$2,000 to related invoice support, noting agreement of description, date and amount.

13. We agreed receipts of \$146,591 and disbursements of \$1,323,962 of gifts in kind on behalf of the intercollegiate athletics department to the audited financial statements of the Foundation's intercollegiate athletics program accounts.
14. We obtained the 2003-2004 fiscal year budget results for the University's intercollegiate athletics department and calculated that actual revenues exceeded budgeted revenues by approximately \$4,267,000 or 16%. Actual expenditures exceeded budgeted expenditures by approximately \$3,740,000 or 14%.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the accompanying Statement of Revenues, Expenditures and Other Changes or other specified elements, accounts or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

#### Internal Control: Policies and Procedures Related to Intercollegiate Athletics - Agreed-Upon Procedures

We have performed the procedures enumerated below which were agreed to by the Board of Regents solely to assist you in evaluating the internal accounting control and management control procedures of the University in compliance with NCAA Constitution 6.2.3.1. Our procedures included tests of compliance with such internal accounting control and management control procedures in place during the period from July 1, 2003 through June 30, 2004. Our procedures were performed solely to assist you in determining compliance with NCAA Constitution 6.2.3.1. The procedures we performed, and the results of these procedures, are summarized as follows:

15. We obtained an organizational chart of the intercollegiate athletics department along with the University's policies and procedures manual. We obtained documentation of accounting systems and procedures. We also made certain inquiries of management regarding control consciousness, competence of personnel and protection of records and equipment. We noted that expenditures of the intercollegiate athletics department are subject to University policies, procedures and internal control techniques. We tested those overall techniques, including items selected from the intercollegiate athletics program, to the extent considered necessary for purposes of expressing an opinion on the financial statements of the University and its intercollegiate athletics program.
16. We toured the football equipment rooms at Lewis Field with the equipment manager to determine the controls in place to protect the football equipment. In addition, we observed the inventory records maintained by the equipment manager.
17. In our discussions with athletics department personnel, we determined that the intercollegiate athletics department regularly trades tickets for goods or services. In addition, we understand that all athletics department ticket trades must be approved by the Coordinator of Athletic Gifts.
18. We inquired of the Assistant Athletics Director regarding controls in place to ensure intercollegiate athletics financial aid is awarded in accordance with institutional and NCAA guidelines. We judgmentally selected five student files and noted the financial aid agreements

were properly authorized and executed and financial aid amounts were properly computed and applied to the student accounts.

We inquired of the Assistant Athletics Director and the Coordinator for Athletic Eligibility regarding the controls in place to ensure that intercollegiate athletics financial aid recipients are academically eligible. We obtained the documentation used to monitor academic progress, including reports filed with the NCAA reporting academic eligibility and student financial assistance and student transcripts. We judgmentally selected five student files, noting they contained transcripts and other academic status reports. No exceptions to the control procedures identified were noted.

19. Through discussions with athletics department personnel, we determined that the financial control over booster organizations (the "Posse Clubs") is with the Foundation in that they are subject to the Foundation's internal accounting control policies and procedures.

We were not engaged to, and did not, conduct a study and evaluation of the system of internal controls of the University or its intercollegiate athletics program, the objective of which would be the expression of an opinion on the system of internal accounting controls of the University or its intercollegiate athletics program in effect during the period from July 1, 2003 through June 30, 2004. Accordingly, we do not express such an opinion. Had we performed additional procedures, or had we made a study and evaluation of the system of internal accounting controls, other matters might have come to our attention that would have been reported to you. This report relates only to the procedures specified above and does not extend to any financial statements of the University or its intercollegiate athletics program.

This report is intended solely for the specified user listed above and is not intended to be and should not be used by anyone other than the specified user.

*Grant Thornton LLP*

Oklahoma City, Oklahoma  
October 8, 2004

# Intercollegiate Athletics Program Accounts of Oklahoma State University and the Oklahoma State University Foundation

## STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES

Year ended June 30, 2004

	Football	Men's basketball	Women's basketball	Men's olympic sports	Women's olympic sports	Nonprogram specific	Total
<b>Operating revenues</b>							
Ticket sales	\$ 6,094,044	\$3,933,051	\$ 86,871	\$ 368,585	\$ 65,334	\$ -	\$10,547,885
Big XII Conference distributions	5,949,343	2,377,680	8,544	125,203	56,931	689,841	9,207,542
Radio and television rights	-	-	-	-	-	1,710,000	1,710,000
Concessions	196,594	102,794	14,432	26,914	3,176	20,137	364,047
General and administrative	241,195	106,657	7,800	183,349	9,853	2,845,593	3,394,447
Surcharge fees	1,368,433	382,774	63,006	211,401	64,648	-	2,090,262
Student activity fees	-	-	-	-	-	210,910	210,910
Gifts	2,788,917	1,105,617	35,475	1,361,528	236,441	9,682,090	15,210,068
Investment income	16,107	19,036	2,733	83,189	13,853	61,500	196,418
Securities	9,803	5,782	100	369,532	20,951	633,242	1,039,410
Land, goods and services	6,365	1,530	3,849	14,879	94,035	25,932	146,590
Promises to give	-	-	-	(45,630)	-	2,830,103	2,784,473
Total revenue	16,670,801	8,034,921	222,810	2,698,950	565,222	18,709,348	46,902,052
<b>Expenditures and mandatory transfers</b>							
Salaries	3,446,704	1,868,204	609,687	1,336,282	1,005,688	4,204,031	12,470,596
Films	3,006	1,169	653	414	1,291	5,610	12,143
Travel	1,272,221	636,090	237,180	893,541	644,168	324,626	4,007,826
Financial aid	863,329	173,754	171,943	394,789	534,476	707,098	2,845,389
Maintenance	36,169	8,898	5,558	16,785	18,783	452,038	538,231
Equipment purchases	403,856	22,421	22,939	132,230	241,368	11,525,345	12,348,159
Guarantees	575,000	256,500	37,650	15,900	-	-	885,050
Insurance	2,523	1,391	338	183	1,047	289,219	294,701
Entertainment	125,253	-	3,603	(1,556)	(539)	110,903	237,664
General and administrative	1,478,804	1,203,731	217,510	336,619	267,033	4,622,599	8,126,296
Telephone	31,641	18,332	10,005	28,583	35,916	164,543	289,020
Other	6,365	1,530	3,849	1,151,371	167,517	55,228	1,385,860
Mandatory transfers of principal and interest	-	-	-	-	-	1,892,226	1,892,226
Total expenditures and mandatory transfers	8,244,871	4,192,020	1,320,915	4,305,141	2,916,748	24,353,466	45,333,161
<b>Other changes</b>							
Nonmandatory transfers to unexpended plant fund	-	-	-	-	-	-	-
Excess (deficiency) of revenue and other changes over expenditures and mandatory transfers	<u>\$ 8,425,930</u>	<u>\$3,842,901</u>	<u>\$(1,098,105)</u>	<u>\$(1,606,191)</u>	<u>\$(2,351,526)</u>	<u>\$(5,644,118)</u>	<u>\$ 1,568,891</u>

The accompanying notes are an integral part of this statement.

# Intercollegiate Athletics Program Accounts of Oklahoma State University and the Oklahoma State University Foundation

## STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES

Year ended June 30, 2003

	<u>Football</u>	<u>Men's basketball</u>	<u>Women's basketball</u>	<u>Men's olympic sports</u>	<u>Women's olympic sports</u>	<u>Nonprogram specific</u>	<u>Total</u>
<b>Operating revenues</b>							
Ticket sales	\$ 6,754,498	\$3,986,942	\$ 84,515	\$ 562,358	\$ 59,895	\$ -	\$11,448,208
Big XII Conference distributions	4,021,710	1,621,384	11,262	39,026	46,689	493,121	6,233,192
Radio and television rights	-	-	-	-	-	1,670,000	1,670,000
Concessions	221,538	97,833	12,860	23,750	3,276	35,401	394,658
General and administrative	-	64,875	-	14,857	25,334	2,417,287	2,522,353
Surcharge fees	1,308,239	389,746	67,529	212,499	64,555	-	2,042,568
Student activity fees	-	-	-	-	-	210,910	210,910
Gifts	2,115,068	906,321	39,394	1,440,944	102,279	9,758,553	14,362,559
Investment income	(821)	(834)	(143)	(13,806)	(852)	37,487	21,031
Securities	7,450	4,500	-	38,803	5,000	193,281	249,034
Land, goods and services	3,301	7,631	1,651	4,925	86,227	18,054	121,789
Promises to give	-	-	-	1,065	-	2,363,653	2,364,718
<b>Total revenue</b>	<b>14,430,983</b>	<b>7,078,398</b>	<b>217,068</b>	<b>2,324,421</b>	<b>392,403</b>	<b>17,197,747</b>	<b>41,641,020</b>
<b>Expenditures and mandatory transfers</b>							
Salaries	2,296,335	686,682	557,420	877,393	794,143	4,187,512	9,399,485
Films	2,129	675	811	2,465	1,647	15,637	23,364
Travel	1,073,713	393,327	249,214	905,372	691,877	334,858	3,648,361
Financial aid	807,735	156,678	130,877	386,277	559,781	436,877	2,478,225
Maintenance	43,928	1,296	4,716	12,494	5,806	546,059	614,299
Equipment purchases	408,312	32,360	30,373	148,427	371,740	2,039,961	3,031,173
Guarantees	590,000	157,500	30,848	13,871	1,700	-	793,919
Insurance	2,214	329	186	565	512	314,932	318,738
Entertainment	132,537	-	3,574	6,166	8,645	128,882	279,804
General and administrative	1,756,590	1,626,800	234,166	997,430	352,398	3,903,248	8,870,632
Telephone	32,569	23,306	12,998	27,620	28,236	164,572	289,301
Other	3,301	7,631	1,651	4,925	86,227	8,054	111,789
Mandatory transfers of principal and interest	-	-	-	-	-	1,172,330	1,172,330
<b>Total expenditures and mandatory transfers</b>	<b>7,149,363</b>	<b>3,086,584</b>	<b>1,256,834</b>	<b>3,383,005</b>	<b>2,902,712</b>	<b>13,252,922</b>	<b>31,031,420</b>
<b>Other changes</b>							
Nonmandatory transfers to unexpended plant fund	-	-	-	-	-	-	-
<b>Excess (deficiency) of revenue and other changes over expenditures and mandatory transfers</b>	<b>\$ 7,281,620</b>	<b>\$3,991,814</b>	<b>\$(1,039,766)</b>	<b>\$(1,058,584)</b>	<b>\$(2,510,309)</b>	<b>\$ 3,944,825</b>	<b>\$10,609,600</b>

The accompanying notes are an integral part of this statement.

# Intercollegiate Athletics Program Accounts of Oklahoma State University and the Oklahoma State University Foundation

## NOTES TO STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES

June 30, 2004 and 2003

### NOTE A - BASIS OF PRESENTATION

The accompanying Statements of Revenues, Expenditures and Other Changes have been prepared on the accrual basis of accounting and is presented in a manner which intends to report all activity of the Oklahoma State University (the "University") intercollegiate athletics program, including activity reported by the Oklahoma State University Foundation (the "Foundation") related to intercollegiate athletics. Unrestricted revenues are recorded when earned and expenditures are recorded when incurred. Restricted revenues are reported when expended rather than when received. The revenues and expenditures have been classified on a basis consistent with the account structure of the University.

The Foundation accounts for contributions received and made in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*. Gift revenue for fiscal years 2004 and 2003 includes \$2,784,473 and \$2,364,718, respectively, of unconditional promises to give received by the Foundation.

The Foundation accounts for investments held in accordance with the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*. Investment income revenue for fiscal years 2004 and 2003 includes a \$345,195 and \$(53,733), respectively, gain (loss) in net realized and unrealized losses on investments.

### NOTE B - OUTSIDE BOOSTER ORGANIZATIONS

Several booster organizations, known as Posse Clubs, have been established on behalf of the University's intercollegiate athletics program. These organizations are under the financial control of the Foundation in that they are subject to the Foundation's internal accounting control policies and procedures. Activity of the Posse Clubs is included in the accompanying Statement of Revenues, Expenditures and Other Changes to the extent it is included in the accounts of the Foundation.