

**INTERCOLLEGIATE ATHLETICS
PROGRAM ACCOUNTS OF
OKLAHOMA STATE UNIVERSITY**

June 30, 2009

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OF OKLAHOMA STATE UNIVERSITY

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Audited Financial Statements

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Independent Auditors' Report

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the accompanying statements of net assets of the Intercollegiate Athletics Program Accounts of Oklahoma State University (the "University Athletics Program") as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. We have also audited the financial statements of Cowboy Athletics, Inc., a separately presented component unit, as of December 31, 2008 and 2007 and for the years then ended, which collectively comprise the University Athletics Program's basic financial statements. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the University Athletics Program referred to above do not include the financial information of Cowboy Athletics. Rather a complete set of financial statements of Cowboy Athletics are presented separately.

We conducted our audits 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. The financial statements of Cowboy Athletics were audited in accordance with auditing standards generally accepted in the United States of America, but not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University Athletics Program and the separately presented component unit as of June 30, 2009 and 2008 and the changes in its net assets and, where applicable, cash flows thereof 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 November 20, 2009, on our consideration of the University Athletics Program internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audits.

The accompanying financial statements have been prepared from the separate records maintained by management of Oklahoma State University and may not necessarily be indicative of the conditions that would have existed or the results of operations if the University Athletics Program had been operated as an unaffiliated entity. Portions of certain revenues and expenses represent allocations made from items applicable to Oklahoma State University as a whole.

The University Athletics Program has not presented Management's Discussion and Analysis that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 20, 2009

**Intercollegiate Athletics Program Accounts
of Oklahoma State University**

STATEMENTS OF NET ASSETS
June 30,

| | 2009 | 2008 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 9,330,415 | \$ 4,043,709 |
| Accounts receivable, net of allowances | 1,629,267 | 4,575,166 |
| Prepaid expenses | 826,541 | 472,897 |
| Total current assets | 11,786,223 | 9,091,772 |
| Noncurrent assets | | |
| Cash and cash equivalents | 1,732,334 | 1,467,066 |
| Investments | 5,720 | 22,328 |
| Accounts receivable - Cowboy Athletics | 5,000,000 | 5,000,000 |
| Accounts receivable - student fees | 77,576 | 78,668 |
| Other assets | 226,805 | 226,805 |
| Capital assets, net of accumulated depreciation | 186,457,930 | 190,648,338 |
| Total noncurrent assets | 193,500,365 | 197,443,205 |
| TOTAL ASSETS | 205,286,588 | 206,534,977 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 54,219 | 2,173,694 |
| Due to other University funds and accounts | 117,840 | 88,767 |
| Accrued expenses | 74,293 | 78,547 |
| Accrued interest payable | 1,212,283 | 1,237,072 |
| Deferred revenue | 13,031,943 | 8,706,223 |
| Accrued compensated absences | 145,402 | 114,456 |
| Total current liabilities | 14,635,980 | 12,398,759 |
| Noncurrent liabilities | | |
| Accrued compensated absences | 1,547,945 | 1,402,770 |
| ODFA lease obligation | 182,083 | 305,000 |
| Notes payable | 6,775,000 | 7,340,000 |
| Revenue bonds payable | 54,915,000 | 56,070,000 |
| Total noncurrent liabilities | 63,420,028 | 65,117,770 |
| TOTAL LIABILITIES | 78,056,008 | 77,516,529 |
| NET ASSETS | | |
| Invested in capital assets, net of debt | 124,585,847 | 126,933,338 |
| Unrestricted for: | | |
| Debt Service | 560,370 | 246,467 |
| Capital Projects | 226,805 | 262,239 |
| Unrestricted - other | 1,857,558 | 1,576,404 |
| TOTAL NET ASSETS | \$ 127,230,580 | \$ 129,018,448 |

See notes to financial statements.

Intercollegiate Athletics Program Accounts of Oklahoma State University

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Year Ended June 30,

| | 2009 | 2008 |
|--|----------------|----------------|
| Revenues | | |
| Operating revenues | | |
| Ticket sales | \$ 20,197,401 | \$ 17,528,662 |
| Conference income | 11,709,770 | 9,592,247 |
| Multi-media | 2,500,000 | 2,300,000 |
| Concessions | 633,201 | 461,918 |
| Guarantees | 576,575 | 755,765 |
| Other operating revenues | 4,130,089 | 4,069,992 |
| Student activity fees | 150,000 | 171,000 |
| Total operating revenues | 39,897,036 | 34,879,584 |
| Expenses | | |
| Operating expenses | | |
| Compensation and employee benefits | 19,410,583 | 18,790,296 |
| Travel | 5,173,457 | 4,942,351 |
| Financial aid | 4,743,663 | 4,485,650 |
| Maintenance | 1,132,652 | 1,007,671 |
| Athletics and small equipment purchases | 1,566,982 | 1,066,458 |
| Guarantees | 1,457,324 | 938,631 |
| Insurance | 399,506 | 408,252 |
| Other operating expenses | 9,694,344 | 8,019,775 |
| Telephone | 166,573 | 170,713 |
| Utilities | 1,133,535 | 1,036,987 |
| Depreciation and amortization | 4,804,225 | 5,112,458 |
| Total operating expenses | 49,682,844 | 45,979,242 |
| Operating loss | (9,785,808) | (11,099,658) |
| Nonoperating revenues (expenses) | | |
| Investment income | 29,028 | 44,926 |
| Athletics student fee and use tax | 2,305,697 | 2,363,812 |
| Gifts from OSU Foundation | 8,448,342 | 9,005,644 |
| Interest expense | (2,873,127) | (2,937,137) |
| Net nonoperating revenues | 7,909,940 | 8,477,245 |
| Loss before other revenues, expenses, gains and losses | (1,875,868) | (2,622,413) |
| Capital provided by affiliates | 88,000 | 6,091,949 |
| Loss on disposal of fixed assets | - | (1,223) |
| Net increase (decrease) in net assets | (1,787,868) | 3,468,313 |
| Net assets - beginning of year | 129,018,448 | 125,550,135 |
| Net assets - end of year | \$ 127,230,580 | \$ 129,018,448 |

See notes to financial statements.

Intercollegiate Athletics Program Accounts of Oklahoma State University

STATEMENTS OF CASH FLOWS Year Ended June 30,

| | 2009 | 2008 |
|---|---------------|---------------|
| Cash flows from operating activities | | |
| Ticket sales | \$ 24,573,426 | \$ 18,547,895 |
| Other operating receipts | 22,596,321 | 17,316,351 |
| Payments to employees for salaries and benefits | (19,238,716) | (18,681,103) |
| Payments to suppliers | (27,912,082) | (19,882,281) |
| Net cash provided by (used in) operating activities | 18,949 | (2,699,138) |
| Cash flows from noncapital financing activities | | |
| Gifts | 8,448,342 | 9,005,644 |
| Cash flows from investing activities | | |
| Purchases of investments | (1,536,170) | (831,840) |
| Proceeds from sales of investments | 1,552,778 | 846,072 |
| Interest received on investments | 29,028 | 44,926 |
| Net cash provided by investing activities | 45,636 | 59,158 |
| Cash flows from capital and related financing activities | | |
| Cash paid for capital assets | (525,817) | (603,495) |
| Repayments of capital debt and leases | (1,842,917) | (1,847,917) |
| Interest paid on capital debt and leases | (2,897,916) | (2,960,084) |
| Student fees restricted for capital projects | 2,305,697 | 2,363,812 |
| Capital provided by affiliates | - | 373,410 |
| Net cash used in capital and related financing activities | (2,960,953) | (2,674,274) |
| Net increase in cash and cash equivalents | 5,551,974 | 3,691,390 |
| Cash and cash equivalents, beginning of year | 5,510,775 | 1,819,385 |
| Cash and cash equivalents, end of year | \$ 11,062,749 | \$ 5,510,775 |

Intercollegiate Athletics Program Accounts of Oklahoma State University

STATEMENTS OF CASH FLOWS - CONTINUED Year Ended June 30,

| | 2009 | 2008 |
|---|----------------|-----------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating loss | \$ (9,785,808) | \$ (11,099,658) |
| Adjustments to reconcile operating loss to net cash Provided by (used in) operating activities | | |
| Depreciation and amortization | 4,804,225 | 5,112,458 |
| Changes in assets and liabilities | | |
| Accounts receivable | 2,946,991 | (34,324) |
| Prepaid expenses | (353,644) | 192,860 |
| Accounts Payable | (2,119,475) | 1,983,376 |
| Due to other funds and accounts | 29,073 | 17,971 |
| Accrued payroll | (4,254) | (18,376) |
| Deferred revenue | 4,325,720 | 1,018,986 |
| Compensated absences | 176,121 | 127,569 |
| Net cash provided by (used in) operating activities | \$ 18,949 | \$ (2,699,138) |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS | | |
| Cash and cash equivalents classified as current assets | \$ 9,330,415 | \$ 4,043,709 |
| Cash and cash equivalents classified as noncurrent assets | 1,732,334 | 1,467,066 |
| | \$ 11,062,749 | \$ 5,510,775 |
| NONCASH CAPITAL AND RELATED FINANCING TRANSACTIONS | | |
| Fixed assets acquired by gifts from affiliates | \$ 88,000 | \$ 5,718,539 |
| Change in accounts payable for capital assets | \$ - | \$ (340,972) |

See notes to financial statements.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the intercollegiate athletics department of Oklahoma State University (the "University"). The University is governed by the Board of Regents for the Oklahoma Agricultural and Mechanical Colleges (the "Board of Regents") and is a component unit of the State of Oklahoma (the "State"). For purposes of these financial statements, the intercollegiate athletics department is referred to as the "University Athletics Program".

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of the University Athletics Program, as the primary government.

Cowboy Athletics, Inc. ("Athletics") is a not-for-profit Oklahoma corporation organized to support the Oklahoma State University (the "University") athletic organizations and other educational programs associated with the University. Although Athletics is legally a 501(c) (3) not-for-profit organization, it follows pronouncements issued by the GASB, because it is considered a component unit of the University and its activities and operations are closely integrated with the intercollegiate athletic organizations of the University. Further, Athletics operates under a December 31 fiscal year-end. The financial statements of Athletics have been separately presented.

Financial Statement Presentation: As a component unit of the State of Oklahoma, the University (which includes the University Athletics Program) presents its financial statements in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB Statements No. 34 and 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Basis of Accounting: The University Athletics Program's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University Athletics Program has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University Athletics Program has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents: The University Athletics Program considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Investments: The University Athletics Program accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable generally consist of amounts due from students and faculty for athletic tickets, amounts reimbursable from the Oklahoma State University Foundation (the "OSU Foundation") and other amounts related to the operations of the athletics department. Accounts receivable are recorded net of estimated uncollectible amounts.

Noncurrent Cash and Investments: Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds or to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the statements of net assets.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University Athletics Program's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20 to 25 years for land improvements and 5 to 7 years for equipment.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. The University Athletics Program capitalizes interest as a component of capital assets constructed for its own use. In 2009, total interest incurred was \$2,873,127 of which none was capitalized. In 2008, total interest incurred was \$2,937,137 of which none was capitalized.

Deferred Revenue: Deferred revenue consists primarily of amounts received for athletic events and activities prior to the end of the fiscal year but related to the subsequent accounting period.

Compensated Absences: The liability and expense incurred for employee vacation pay are recorded as accrued vacation payable in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net assets.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable and capital lease obligations; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Net Assets: The University Athletics Program's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University Athletics Program's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University Athletics Program is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from the ongoing operations of the University Athletics Program. These resources may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University Athletics Program's policy is to use prudent decision processes to determine which resources will be applied based on availability of funding, donor intent, and returns available from idle funds

Income Taxes: The University is exempt from income taxes under Section 115(1) of the Internal Revenue Code, as amended. As a department of the University, the University Athletics Program is also exempt from income taxes.

Classification of Revenues: The University Athletics Program has classified its revenues as either operating or nonoperating revenues in accordance with the guidelines established by GASB Statement No. 34.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

New Pronouncements: In 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB No. 51 establishes standards of accounting and financial reporting for intangible assets and requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also establishes guidance specific to intangible assets related to amortization. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 and generally are required to be applied retroactively. Management has determined that this Statement will have no effect on the University's Athletics Program's financial condition or results of operations.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

New Pronouncements - Continued:

In 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. Management is evaluating the effect this Statement will have on the University's Athletics Program's financial condition or results of operations.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

At June 30, 2009 and 2008, the carrying amount of the University Athletics Program's cash and cash equivalents was \$11,062,749 and \$5,510,775, respectively. This amount consisted of funds held in operating accounts (\$9,261,780 and \$3,973,704), deposits with trustees related to the various bond indenture agreements (\$1,732,334 and \$1,431,631), unexpended plant funds for capital projects (\$0 and \$35,435) and petty cash and change funds (\$68,635 and \$70,005).

By Oklahoma Statute, the State Treasurer is required to ensure that all state funds are either insured by the Federal Deposit Insurance Corporation ("FDIC"), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. Government obligations. Any deposits with the State Treasurer are pooled with funds of other state agencies, and then in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

The University Athletics Program requires that balances on deposit with financial institutions be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, in the University Athletics Program's name.

Investments

At June 30, 2009 and 2008, the University Athletics Program had investments aggregating \$5,720 and \$22,328, respectively. These investments are held by the trustee bank as required by the bond indenture agreement. The trustee bank purchases and sells investments on behalf of the University. Investments consist of U.S. Government securities at June 30, 2009 and 2008, respectively. All investments are reported at cost, which approximates fair value.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 3 - ACCOUNTS RECEIVABLE

Current accounts receivable consisted of the following at June 30:

| | 2009 | 2008 |
|--------------------------------------|--------------|--------------|
| Athletic tickets | \$ 131,164 | \$ 181,469 |
| Receivables from operations | 1,540,322 | 4,436,068 |
| | 1,671,486 | 4,617,537 |
| Less allowance for doubtful accounts | 42,219 | 42,371 |
| | \$ 1,629,267 | \$ 4,575,166 |

Noncurrent accounts receivable at June 30, 2009 and 2008 includes a contribution receivable from Cowboy Athletics, Inc. (CAI) of \$5,000,000 which is due in 2012. CAI invested the contribution and as a result of a decline in investment values, the University Athletics Program is not certain, as of the date of this report, whether the total amount of this receivable will be collected in 2012. The University Athletics Program is continually monitoring the status of this receivable, through review of the CAI financial statements and discussions with CAI management. If the University Athletics Program determines that this receivable has become impaired to the extent that collection, either in full or in part, is not likely, the University Athletics Program will provide an impairment loss at that time.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Oklahoma State University Foundation

Nature of Relationship - The Oklahoma State University Foundation (the "OSU Foundation") is a not-for-profit corporation formed to promote and foster the educational, benevolent and scientific purposes of the University, and to create a fund to be used for any program, project or enterprise undertaken in the interest of the University, and to promote and foster educational and cultural interests in the State and southern and southwestern regions of the United States.

Description of Operations - The OSU Foundation acts largely as a fund-raising organization: soliciting, receiving, managing and disbursing contributions on behalf of the University. Most of the contributions received are designated by the donors to be used for specific departments, including the University Athletics Program. In these instances, it serves essentially as a conduit, making the funds available as needed.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 4 - RELATED PARTY TRANSACTIONS - CONTINUED

The Oklahoma State University Foundation - Continued

Description of Operations - Continued: Related party transactions and funds held by the OSU Foundation on behalf of the University Athletics Program are as follows during fiscal years:

| | 2009 | 2008 |
|---|---------------|---------------|
| Fund disbursed to or on behalf of the University or University Athletics Program | \$ 34,752,790 | \$ 48,871,398 |
| Net assets held on behalf of or for the benefit of the University or University Athletics Program at June 30 | 38,988,523 | 53,054,767 |

The following table sets forth summary financial information of the Intercollegiate Athletics Accounts of the OSU Foundation as of and for the years ended June 30, as derived from the audited financial statements of the Intercollegiate Athletics Accounts of the OSU Foundation:

| | Year ended June 30, 2009 | | | Total | 2008 Total |
|-------------------------------|--------------------------|---------------------------|---------------------------|---------------|---------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Total revenues | \$ 9,024,421 | \$ 11,561,580 | \$ 100,545 | \$ 20,686,546 | \$ 62,410,151 |
| Total expenses | 34,752,790 | - | - | 34,752,790 | 48,871,398 |
| Change in net assets | (25,728,369) | 11,561,580 | 100,545 | (14,066,244) | 13,538,753 |
| Net assets, beginning of year | 40,268,395 | 9,642,917 | 3,143,455 | 53,054,767 | 39,516,014 |
| Net assets, end of year | \$ 14,540,026 | \$ 21,204,497 | \$ 3,244,000 | \$ 38,988,523 | \$ 53,054,767 |

In March 2005, in connection with the renovation of the football stadium, the OSU Foundation agreed to provide up to \$40,000,000 to assist the University in funding the project. The OSU Foundation and the University have entered into a financing agreement that grants the OSU Foundation a right of offset in current and future pledges received by the OSU Foundation toward the project and other funds held by the OSU Foundation for the benefit of the University Athletics Program. On July 27, 2007, an amendment to the agreement was executed which reduced the total amount available from \$40,000,000 to \$26,162,000 and replaced the previously designated security with a guaranty from a third party guarantor. As funds are drawn down they are reflected as capital provided by affiliates in the Statements of Revenues, Expenses and Changes in Net Assets. For the years ended June 30, 2009 and 2008, the University Athletics Program did not draw down any funds.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 4 - RELATED PARTY TRANSACTIONS - CONTINUED

Cowboy Athletics, Inc.

Nature of Relationship - Athletics is a not-for-profit Oklahoma corporation organized to support the University men's and women's golf teams, other athletic organizations affiliated with the University and other educational programs associated with the University.

Athletics is governed by a seven-member Board of Directors, three of whom serve by virtue of their association with the University. The remaining four members are elected by the members. Although the University Athletics Program does not control the timing or amount of receipts from Athletics, the majority of resources or income thereon that Athletics holds and invests are restricted to the activities of the University Athletics Program by the donors. Because these restricted resources held by Athletics can only be used by, or for the benefit of, the University Athletics Program, Athletics is considered a component unit of the University Athletics Program and is separately presented.

Athletics also operates a golf course ("Karsten Creek") and related facilities in Stillwater, Oklahoma. The golf course is primarily utilized as a teaching and practice facility by the University for the men's and women's golf teams. Use of the course is also open to golf course members and others based on established membership and usage fee schedules.

Net assets held on behalf of or for the benefit of the University Athletics Program by Athletics at December 31, 2008 and 2007 were \$142,168,000 and \$339,114,000, respectively. Net assets include a gift of \$165,000,000 made directly to Athletics instead of following normal processing through the OSU Foundation due to timing constraints of the gift receipt.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 5 - CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30:

| | 2009 | | | | Balance June 30, 2009 |
|---------------------------------|-----------------------------|-----------------------|-------------|-------------|-----------------------------|
| | Balance June 30, 2008 | Additions | Transfers | Disposals | |
| COST OF CAPITAL ASSETS | | | | | |
| Buildings | \$ 181,605,389 | \$ - | \$ - | \$ - | \$ 181,605,389 |
| Land improvements | 7,980,607 | - | 502,434 | - | 8,483,041 |
| Equipment | 2,615,111 | 115,873 | - | - | 2,730,984 |
| Land | 38,949,764 | 88,000 | - | - | 39,037,764 |
| Construction in progress | 1,092,490 | 409,944 | (502,434) | - | 1,000,000 |
| Total cost of capital assets | 232,243,361 | 613,817 | - | - | 232,857,178 |
| ACCUMULATED DEPRECIATION | | | | | |
| Buildings | (34,314,200) | (4,266,787) | - | - | (38,580,987) |
| Land improvements | (5,392,639) | (361,467) | - | - | (5,754,106) |
| Equipment | (1,888,184) | (175,971) | - | - | (2,064,155) |
| Total accumulated depreciation | (41,595,023) | (4,804,225) | - | - | (46,399,248) |
| NET BOOK VALUE | \$ 190,648,338 | \$ (4,190,408) | \$ - | \$ - | \$ 186,457,930 |

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 5 - CAPITAL ASSETS - CONTINUED

| | 2008 | | | | Balance June 30, 2008 |
|---------------------------------|-----------------------------|--------------------|------------------|-------------------|-----------------------------|
| | Balance June 30, 2007 | Additions | Transfers | Disposals | |
| COST OF CAPITAL ASSETS | | | | | |
| Buildings | \$ 181,231,979 | \$ - | \$ 373,410 | \$ - | \$ 181,605,389 |
| Land improvements | 7,679,464 | 301,143 | - | - | 7,980,607 |
| Equipment | 2,626,238 | 35,014 | - | (46,141) | 2,615,111 |
| Land | 33,770,537 | 5,179,227 | - | - | 38,949,764 |
| Construction in progress | <u>1,000,222</u> | <u>465,678</u> | <u>(373,410)</u> | <u>-</u> | <u>1,092,490</u> |
| Total cost of capital assets | 226,308,440 | 5,981,062 | - | (46,141) | 232,243,361 |
| ACCUMULATED DEPRECIATION | | | | | |
| Buildings | (30,037,902) | (4,276,298) | - | - | (34,314,200) |
| Land improvements | (4,746,778) | (645,861) | - | - | (5,392,639) |
| Equipment | <u>(1,746,318)</u> | <u>(186,784)</u> | <u>-</u> | <u>44,918</u> | <u>(1,888,184)</u> |
| Total accumulated depreciation | <u>(36,530,998)</u> | <u>(5,108,943)</u> | <u>-</u> | <u>44,918</u> | <u>(41,595,023)</u> |
| NET BOOK VALUE | <u>\$ 189,777,442</u> | <u>\$ 872,119</u> | <u>\$ -</u> | <u>\$ (1,223)</u> | <u>\$ 190,648,338</u> |

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2009 and 2008 is as follows:

| | 2009 | | | | |
|-------------------------------------|------------------------------|-------------------|-----------------------|-----------------------|----------------------------|
| | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current portion</u> |
| Revenue bonds payable | \$ 56,070,000 | \$ - | \$ (1,155,000) | \$ 54,915,000 | \$ 1,200,000 |
| Notes payable | 7,340,000 | - | (565,000) | 6,775,000 | 575,000 |
| ODFA lease obligation | 305,000 | - | (122,917) | 182,083 | 127,917 |
| | <u>63,715,000</u> | <u>-</u> | <u>(1,842,917)</u> | <u>61,872,083</u> | <u>1,902,917</u> |
| Other liabilities | | | | | |
| Accrued compensated absences | 1,517,226 | 321,523 | (145,402) | 1,693,347 | 145,402 |
| | <u>1,517,226</u> | <u>321,523</u> | <u>(145,402)</u> | <u>1,693,347</u> | <u>145,402</u> |
| | <u>\$ 65,232,226</u> | <u>\$ 321,523</u> | <u>\$ (1,988,319)</u> | <u>\$ 63,565,430</u> | <u>\$ 2,048,319</u> |
| | | | | | |
| | 2008 | | | | |
| | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current portion</u> |
| Revenue bonds payable | \$ 57,180,000 | \$ - | \$ (1,110,000) | \$ 56,070,000 | \$ 1,155,000 |
| Notes payable | 7,885,000 | - | (545,000) | 7,340,000 | 565,000 |
| ODFA lease obligation | 497,917 | - | (192,917) | 305,000 | 122,917 |
| | <u>65,562,917</u> | <u>-</u> | <u>(1,847,917)</u> | <u>63,715,000</u> | <u>1,842,917</u> |
| Other liabilities | | | | | |
| Accrued compensated absences | 1,389,657 | 242,025 | (114,456) | 1,517,226 | 114,456 |
| Accounts payable for capital assets | 340,972 | - | (340,972) | - | - |
| | <u>1,730,629</u> | <u>242,025</u> | <u>(455,428)</u> | <u>1,517,226</u> | <u>114,456</u> |
| | <u>\$ 67,293,546</u> | <u>\$ 242,025</u> | <u>\$ (2,303,345)</u> | <u>\$ 65,232,226</u> | <u>\$ 1,957,373</u> |

Revenue bonds payable consist of 2.6% to 5% Athletic Facilities Revenue Bonds, Series 1998, 2003, and 2004, with an outstanding balance of \$54,915,000 and \$56,070,000 at June 30, 2009 and 2008, respectively, which mature in varying amounts to August 1, 2034. The Athletic Facilities Revenue Bonds, Series 1998, 2003, and 2004, are part of a project to construct, improve, renovate and enlarge athletic facilities.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

Principal and interest on these revenue bonds are collateralized by a pledge of revenues generated from the use and services of the University Athletics Program, dedicated use taxes, revenues derived from donor or priority seating collected by the OSU Foundation, and a security agreement extended by the OSU Foundation under which certain contributions to the OSU Foundation for athletic facilities have been pledged. The Athletic Facilities Revenue Bonds, Series 1998, 2003, and 2004 are subject to redemption prior to maturity at the option of the Board of Regents on August 1, 2008; August 1, 2013; and, August 1, 2014, respectively.

The University has secured insurance contracts with an insurance company to cover the reserve requirements in the debt agreements.

In August 1998, the University entered into a \$10,865,000 note payable agreement to fund renovations of the Gallagher-Iba Arena and the football stadium. The note is collateralized by a pledge of Section 13 and New College Funds, and is held by the Oklahoma Development Finance Authority (“ODFA”), which issued bonds to fund the renovations. This note also has a subordinate lien on the athletics revenues, subject in all respects to payments on the 1998 bonds. In August 2003, the University refunded the note payable by use of a new note payable agreement in the amount of \$9,430,000. This note is also held by the ODFA and is collateralized by the same pledges. It is payable in annual installments through July 1, 2018. Interest is payable semiannually each January 1 and July 1 at variable annual interest rates ranging from 3% to 4.35%.

The scheduled maturities of the revenue bonds and note payable are as follows for the years ending June 30:

| | <u>Bonds</u> | <u>Note</u> | <u>Total principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|-----------|----------------------|---------------------|----------------------------|----------------------|---------------------------|
| 2010 | 1,200,000 | 575,000 | 1,775,000 | 2,825,721 | 4,600,721 |
| 2011 | 1,240,000 | 595,000 | 1,835,000 | 2,759,753 | 4,594,753 |
| 2012 | 1,295,000 | 610,000 | 1,905,000 | 2,687,883 | 4,592,883 |
| 2013 | 1,355,000 | 635,000 | 1,990,000 | 2,610,114 | 4,600,114 |
| 2014 | 1,325,000 | 660,000 | 1,985,000 | 2,528,148 | 4,513,148 |
| 2015-2019 | 7,590,000 | 3,700,000 | 11,290,000 | 11,254,284 | 22,544,284 |
| 2020-2024 | 9,580,000 | - | 9,580,000 | 8,848,541 | 18,428,541 |
| 2025-2029 | 12,210,000 | - | 12,210,000 | 6,218,074 | 18,428,074 |
| 2030-2034 | 15,520,000 | - | 15,520,000 | 2,912,938 | 18,432,938 |
| 2035 | <u>3,600,000</u> | <u>-</u> | <u>3,600,000</u> | <u>90,000</u> | <u>3,690,000</u> |
| | <u>\$ 54,915,000</u> | <u>\$ 6,775,000</u> | <u>\$ 61,690,000</u> | <u>\$ 42,735,456</u> | <u>\$ 104,425,456</u> |

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

Defeased Revenue Bonds

In August 1998, the University defeased the Athletic System Revenue Bonds of 1996 by placing funds into escrow to provide future debt service payments. The 1996 Athletic bonds have been escrowed to maturity (January 1, 2012) and the principal balance of the defeased 1996 Athletic bonds at June 30, 2009 was \$1,975,000.

In December 2004, the University defeased a portion of the Athletic Facilities Revenue Bonds, Series 1998, by placing funds in an irrevocable trust to provide future debt service payments of the defeased bonds. These bonds have been escrowed to maturity (August 1, 2018) and the principal balance of the defeased 1998 bonds at June 30, 2009 was \$9,255,000.

Oklahoma Development Finance Authority Master Lease Program

In March 2001, the ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2001A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$5,560,000 to Oklahoma State University, of which \$2,255,000 was designated for the University Athletics Program. Of this designation, approximately \$225,000 was applied to debt service reserve funds. In addition, approximately \$25,000 was applied to closing costs which are being amortized over the term of the bonds. Such amounts, net of accumulated amortization, are recorded in other assets at June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, the University Athletics Program has drawn down its entire allotment and there is no receivable remaining.

Future minimum lease payments under the ODFA lease obligation are as follows for the years ending June 30:

| | |
|---|-------------------|
| 2010 | \$ 135,421 |
| 2011 | <u>56,415</u> |
| Total minimum lease payments | 191,836 |
| Less amounts representing interest | <u>9,753</u> |
| Net present value of minimum lease payments | <u>\$ 182,083</u> |

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 7 - RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Oklahoma Statutes require participation of all state agencies in basic general liability, tort claim coverage, educator's legal liability and property and casualty programs provided by the State of Oklahoma Department of Central Services Risk Management Division (the "SRMD"). In addition to these basic policies, the University's Department of Risk and Property Management establishes guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

The University and individual employees are provided sovereign immunity when performing official business within the scope of their employment under the Oklahoma Tort State Claims Act. For risks not protected by sovereign immunity, it is the internal policy of the University's Risk and Property Management department to accept initial risk in the form of retention or deductibles only to the extent that funds are available from the University's general operations or a funded reserve to maintain this risk.

Beyond acceptable retention levels complete risk transfer is practiced by purchasing conventional insurance coverage directly or through the SRMD. These coverages are outlined as follows:

- The buildings and contents are insured for replacement value. Each loss incident is subject to a \$500,000 deductible, of which \$50,000 is the obligation of the University's Athletics Program.
- General liability and tort claim coverages (including comprehensive general liability, auto liability, personal injury liability, aircraft liability, watercraft liability, leased vehicles and equipment) are purchased by the University from the SRMD. To complement coverage provided by State Statute and to meet specific coverage requirements for special grants and/or contracts, additional coverage is purchased based on specific departmental and institutional needs and risks, but the related risks are not considered material to the University as a whole. Claim settlements have not exceeded insurance coverage in each of the past three fiscal years.

Self-Funded Programs

The University's life insurance program was self-funded through December 31, 2003. Effective January 1, 2004, life waivers for disabled employees and their dependents were all that remained in the self-funded plan. Reserves were established at the onset of disability to pay the claims. Effective January 1, 2004, the University's life coverage is handled through an insured plan.

Through June 30, 1999, the University's health care programs were also self-funded. Effective July 1, 1999, the University terminated its self-insurance program, and participated in the State self-insurance program through December 31, 2007. Effective January 1, 2008, the University began participation in an insured program with BlueCross BlueShield of Oklahoma as the provider. The University believes that there is no exposure to pay run-off claims for the previous self-insured program at June 30, 2009.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE 7 - RISK MANAGEMENT - CONTINUED

The University's workers' compensation program is also self-funded and is administered by a third party. The University maintains a cash deposit with the administrator and reimburses the administrator for claims paid and administrative expenses on a monthly basis. Benefits provided are prescribed by State law and include lump-sum payments for rated disabilities, in addition to medical expenses and a portion of salary loss resulting from a job-related injury or illness. The University records a liability for workers' compensation in its financial statements based on annual actuarial valuations.

The University's unemployment compensation insurance program is also self-funded. Unemployment benefits that separated employees receive are determined by Oklahoma Statutes and are administered by the Oklahoma Employment Security Commission ("OESC"). As a reimbursing employer, the University is billed quarterly by the OESC for benefits paid to former employees. The Board of Regents for the Oklahoma Agricultural and Mechanical Colleges requires that the University maintain a minimum of \$700,000 in reserve to cover claims. This minimum cash balance is considered each year during the rate-setting process.

NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, the ultimate resolution of these matters will not have a material adverse effect upon the University's or the University Athletics Program's financial position.

During fiscal year 2006, the Board of Regents approved a campus master plan for the University, which included the creation of an athletic village north of campus. The planned expansion includes approximately 100 acres of privately held property expected to be acquired by arms-length transactions. The land will be used to upgrade, recreate and expand virtually all athletic venues. In June 2009 and 2008, the OSU Foundation, acting as an agent for the University, acquired land for \$88,000 and \$5,719,000. The acquisitions are reflected as capital provided by affiliates in the Statement of Revenues, Expenses and Changes in Net Assets of the University Athletics Program for the year ended June 30, 2009 and 2008.

Independent Auditors' 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

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the financial statements of the Intercollegiate Athletics Program Accounts of Oklahoma State University (the "University Athletics Program") as of and for the year ended June 30, 2009 and the separately presented component unit as of and for the year ended December 31, 2008 which collectively comprise the University Athletics Program's basic financial statements and have issued our report thereon dated November 20, 2009. Cowboy Athletics, Inc. (referred to as "Cowboy Athletics", formerly OSU Cowboy Golf, Inc.), a not-for-profit Oklahoma corporation organized to support the University Athletics Program is a component unit of the University Athletics Program as defined by Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The financial statements of the University Athletics Program referred to above do not include the financial information of Cowboy Athletics. Rather a complete set of financial statements of Cowboy Athletics are presented separately. 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 University Athletics Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University Athletics Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University Athletics Program's internal control over financial reporting

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University Athletics Program'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 Fiscal Affairs Committee and Board of Regents, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 20, 2009

APPENDIX A

Audited Consolidated Financial Statements

COWBOY ATHLETICS, INC.

December 31, 2008

Audited Consolidated Financial Statements

COWBOY ATHLETICS, INC.

December 31, 2008

| | |
|--|----|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 2 |
| Consolidated Statements of Net Assets | 7 |
| Consolidated Statements of Revenues, Expenses, and Changes in Net Assets | 8 |
| Consolidated Statements of Cash Flows..... | 9 |
| Notes to Consolidated Financial Statements..... | 11 |

Independent Auditors' Report

Board of Directors
Cowboy Athletics,, Inc.
Stillwater, Oklahoma

We have audited the accompanying consolidated statements of net assets of Cowboy Athletics, Inc. and its subsidiaries (collectively referred to as "the Corporation"), as of December 31, 2008 and 2007, and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Cole & Reed P.C.

Oklahoma City, Oklahoma
June 18, 2009



COWBOY ATHLETICS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the activities and financial performance of Cowboy Athletics, Inc. (the "Corporation") provides an introduction to the consolidated financial statements as of and for the years ended December 31, 2008 and 2007.

The Corporation (formerly OSU Cowboy Golf, Inc.) began operations in September 2003, and is a non-profit organization under §501(c) (3) of the Internal Revenue Code. The Corporation is considered a component unit of Oklahoma State University.

FINANCIAL HIGHLIGHTS

At December 31, 2008 and 2007, the Corporation's net assets were:

| | December 31, 2008 | December 31, 2007 |
|------------------------------|-----------------------|-----------------------|
| Assets | <u>\$ 226,442,000</u> | <u>\$ 506,631,000</u> |
| Liabilities | <u>\$ 84,274,000</u> | <u>\$ 167,517,000</u> |
| Net assets | | |
| Invested in capital assets | \$ 14,229,000 | \$ 13,698,000 |
| Restricted - | | |
| Expendable for OSU Athletics | 150,705,000 | 287,152,000 |
| Non-expendable | 2,562,000 | 528,000 |
| Unrestricted net assets | <u>(25,328,000)</u> | <u>37,736,000</u> |
| Total net assets | <u>\$ 142,168,000</u> | <u>\$ 339,114,000</u> |

For the year ended December 31, 2008, the Corporation's operating revenues were actually a negative of \$166,432,000, compared to positive revenues of \$134,488,000 in 2007. For the year ended December 31, 2008, the Corporation experienced a decrease in net assets of \$196,946,000, compared to an increase in net assets of \$106,496,000 in 2007.

USING THIS ANNUAL REPORT

The annual report consists of three basic financial statements: the statements of net assets; the statements of revenues, expenses, and changes in net assets; and the statements of cash flows.

The statements of net assets and the statements of revenues, expenses, and changes in net assets report information on the Corporation as a whole and on its activities. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets.

These two statements report the Corporation's net assets and changes in them. The Corporation's net assets - the difference between assets and liabilities - is one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net assets are an indicator of whether its financial health is improving or deteriorating. Numerous other nonfinancial factors, such as the quality of recreational services provided, the preservation of natural resources, and the condition and safety of the facilities are important in assessing the overall financial condition of the Corporation.

These statements include assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The third statement, the statements of cash flows, presents detailed information about the cash activity of the Corporation during the year. The statements are divided into five parts (when applicable). The first part presents operating cash flows and shows the net cash provided by the operating activities of the Corporation. The second section reflects cash flows from capital and related financing activities. The third section reflects cash flows from investing activities. The fourth section reconciles the net cash provided by operating activities to the operating income or loss reflected on the statements of revenues, expenses, and changes in net assets. The statements provide information regarding the entity's ability to generate future net cash flows, its ability to meet its obligations as they come due and its needs for external funding.

CONDENSED STATEMENTS OF NET ASSETS

| | | December 31, | |
|---------------------------------|--|----------------|----------------|
| | | 2008 | 2007 |
| ASSETS | | | |
| Current assets | | \$ 26,581,000 | \$ 59,735,000 |
| Noncurrent assets | | 199,861,000 | 446,896,000 |
| Total Assets | | 226,442,000 | 506,631,000 |
| LIABILITIES | | | |
| Current liabilities | | 20,908,000 | 36,603,000 |
| Noncurrent liabilities | | 63,366,000 | 130,914,000 |
| Total Liabilities | | 84,274,000 | 167,517,000 |
| NET ASSETS | | | |
| Invested in capital assets, net | | 14,229,000 | 13,698,000 |
| Restricted | | | |
| Expendable for OSU Athletics | | 150,705,000 | 287,152,000 |
| Non-expendable | | 2,562,000 | 528,000 |
| Unrestricted | | (25,328,000) | 37,736,000 |
| Total Net Assets | | \$ 142,168,000 | \$ 339,114,000 |

At December 31, 2008 and 2007, current assets consisted primarily of cash and cash equivalents, short-term investments, and related party receivables. Noncurrent assets consisted of long-term investments, cash surrender value of life insurance policies, and capital assets, net of accumulated depreciation.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The following summarizes the Corporation's statements of revenues, expenses, and changes in net assets for the years ended December 31, 2008 and 2007:

| | 2008 | | 2007 | |
|---------------------------------|-----------------------|---------------|-----------------------|---------------|
| OPERATING REVENUES | | | | |
| Contributions | \$ 91,750,000 | -55.1% | \$ 37,846,000 | 28.1% |
| Food and beverage | 1,527,000 | -0.9% | 1,380,000 | 1.0% |
| Golf course operations | 2,027,000 | -1.2% | 2,504,000 | 1.9% |
| Investment income | <u>(261,736,000)</u> | 157.3% | <u>92,758,000</u> | 69.0% |
| Total Operating Revenues | <u>(166,432,000)</u> | <u>100.0%</u> | <u>134,488,000</u> | <u>100.0%</u> |
| OPERATING EXPENSES | | | | |
| Salaries and benefits | 1,438,000 | 5.6% | 1,492,000 | 5.9% |
| Life insurance expense | 12,905,000 | 50.0% | 15,352,000 | 60.7% |
| OSU budget support | 6,366,000 | 24.7% | - | 0.0% |
| Depreciation | 598,000 | 2.3% | 603,000 | 2.4% |
| Other operating expenses | <u>4,492,000</u> | 17.4% | <u>7,836,000</u> | 31.0% |
| Total Operating Expenses | <u>25,799,000</u> | <u>100.0%</u> | <u>25,283,000</u> | <u>100.0%</u> |
| Operating Income (loss) | (192,231,000) | | 109,205,000 | |
| NET NONOPERATING EXPENSES | <u>4,715,000</u> | | <u>2,709,000</u> | |
| Change in net assets | (196,946,000) | | 106,496,000 | |
| Net Assets at Beginning of Year | <u>339,114,000</u> | | <u>232,618,000</u> | |
| Net Assets at End of Year | <u>\$ 142,168,000</u> | | <u>\$ 339,114,000</u> | |

Operating revenues administered by the Corporation for the current period are listed with their respective percentages (as a percentage of total operating revenues).

Operating expenses incurred by the Corporation for the current period are listed with their respective percentages (as a percentage of total operating expenses).

Nonoperating expenses are primarily comprised of interest expense.

CONDENSED STATEMENTS OF CASH FLOWS

The primary purpose of the statements of cash flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future cash flows, ability to meet obligations as they come due, and needs for external financing. The following summarizes the Corporation's cash flows for the years ended December 31, 2008 and 2007:

| | <u>2008</u> | <u>2007</u> |
|------------------------------|----------------------------|--------------------------|
| Cash Provided (Used) By | | |
| Operating activities | \$ 62,467,000 | \$ 20,177,000 |
| Capital financing activities | (162,304,000) | 21,704,000 |
| Investing activities | <u>106,775,000</u> | <u>(39,307,000)</u> |
| Net change in cash | 6,938,000 | 2,574,000 |
| Cash at Beginning of Year | <u>585,000</u> | <u>(1,989,000)</u> |
| Cash at End of Year | <u><u>\$ 7,523,000</u></u> | <u><u>\$ 585,000</u></u> |

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets at December 31, 2008 and 2007

At December 31, 2008 and 2007, the Corporation had \$191,588,000 and \$114,724,000, respectively, invested in capital assets, net of accumulated depreciation of \$4,009,000 and \$3,411,000, respectively. Depreciation charges totaled \$598,000 and \$603,000 for the years ended December 31, 2008 and 2007, respectively.

More detailed information about the Corporation's capital assets is presented in Note C to the financial statements.

Outstanding Debt at December 31, 2008 and 2007

At December 31, 2008 and 2007, the Corporation had \$68,273,000 and \$146,651,000, respectively, in debt outstanding, of which \$9,907,000 and \$20,737,000, respectively, was considered current and \$58,366,000 and \$125,914,000, respectively, was considered noncurrent.

More detailed information about the Corporation's outstanding debt is presented in Note D of the financial statements.

CONSOLIDATED STATEMENTS OF NET ASSETS

COWBOY ATHLETICS, INC.

| | December 31 | |
|---|-----------------------|-----------------------|
| | 2008 | 2007 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 7,523,000 | \$ 585,000 |
| Investments | 17,094,000 | 54,230,000 |
| Restricted investments | 1,517,000 | 4,641,000 |
| Receivables, net | 149,000 | 180,000 |
| Inventories | 249,000 | 88,000 |
| Prepaid and other | 49,000 | 11,000 |
| TOTAL CURRENT ASSETS | <u>26,581,000</u> | <u>59,735,000</u> |
| NONCURRENT ASSETS | | |
| Restricted investments | 2,562,000 | 330,876,000 |
| Cash surrender value of life insurance policies | 5,711,000 | 1,296,000 |
| Capital assets | | |
| Capital assets being depreciated, net | 9,409,000 | 9,767,000 |
| Capital assets not being depreciated | 182,179,000 | 104,957,000 |
| | <u>191,588,000</u> | <u>114,724,000</u> |
| TOTAL NONCURRENT ASSETS | <u>199,861,000</u> | <u>446,896,000</u> |
| TOTAL ASSETS | <u>226,442,000</u> | <u>506,631,000</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 3,656,000 | 4,818,000 |
| Accrued expenses | 255,000 | 1,999,000 |
| Retainage payable | 6,657,000 | 3,525,000 |
| Other current liabilities | 141,000 | 5,281,000 |
| Unearned revenues | 292,000 | 243,000 |
| Current portion of long-term debt | 9,907,000 | 20,737,000 |
| TOTAL CURRENT LIABILITIES | <u>20,908,000</u> | <u>36,603,000</u> |
| NONCURRENT LIABILITIES | | |
| Contribution payable to related party | 5,000,000 | 5,000,000 |
| Long-term debt, net of current portion | 58,366,000 | 125,914,000 |
| TOTAL LIABILITIES | <u>84,274,000</u> | <u>167,517,000</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 14,229,000 | 13,698,000 |
| Restricted | | |
| Expendable for OSU Athletics | 150,705,000 | 287,152,000 |
| Non-expendable | 2,562,000 | 528,000 |
| Unrestricted net assets | (25,328,000) | 37,736,000 |
| TOTAL NET ASSETS | <u>\$ 142,168,000</u> | <u>\$ 339,114,000</u> |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

COWBOY ATHLETICS, INC.

| | Year Ended December 31, | |
|---|----------------------------|-----------------------|
| | 2008 | 2007 |
| OPERATING REVENUES | | |
| Contributions | | |
| Unrestricted | \$ 85,616,000 | \$ 33,578,000 |
| Restricted: expendable | 4,100,000 | 3,740,000 |
| Restricted: non-expendable | 2,034,000 | 528,000 |
| Food and beverage | 1,527,000 | 1,380,000 |
| Golf course rounds | 469,000 | 559,000 |
| Golf course pro shop | 294,000 | 315,000 |
| Golf course lodge | 180,000 | 189,000 |
| Golf course membership | 857,000 | 1,006,000 |
| Other golf course revenue | 227,000 | 435,000 |
| Interest and dividends | 64,000 | 6,000 |
| Realized and unrealized gains (losses) | <u>(261,800,000)</u> | <u>92,752,000</u> |
| TOTAL OPERATING REVENUES | <u>(166,432,000)</u> | <u>134,488,000</u> |
| OPERATING EXPENSES | | |
| Food and beverage cost of goods sold | 1,190,000 | 1,108,000 |
| Golf course proshop cost of goods sold | 191,000 | 232,000 |
| Life insurance premiums | 12,905,000 | 15,352,000 |
| Contributions to OSU for budget support | 6,366,000 | - |
| Other contributions | 1,690,000 | 4,203,000 |
| Salaries | 1,438,000 | 1,492,000 |
| Depreciation | 598,000 | 603,000 |
| Professional fees | 206,000 | 588,000 |
| Supplies | 217,000 | 139,000 |
| Insurance | 180,000 | 175,000 |
| Repairs and maintenance | 188,000 | 235,000 |
| Payroll, property, and sales taxes | 133,000 | 184,000 |
| Equipment rental | 113,000 | 131,000 |
| Utilities | 159,000 | 141,000 |
| Credit card processing fees | 49,000 | 56,000 |
| Fuel | 26,000 | 20,000 |
| Other operating expenses | 150,000 | 624,000 |
| TOTAL OPERATING EXPENSES | <u>25,799,000</u> | <u>25,283,000</u> |
| NET OPERATING INCOME (LOSS) | <u>(192,231,000)</u> | <u>109,205,000</u> |
| NONOPERATING EXPENSES | | |
| Interest expense | 4,715,000 | 2,709,000 |
| NONOPERATING EXPENSES | <u>4,715,000</u> | <u>2,709,000</u> |
| CHANGE IN NET ASSETS | (196,946,000) | 106,496,000 |
| NET ASSETS AT BEGINNING OF PERIOD | <u>339,114,000</u> | <u>232,618,000</u> |
| NET ASSETS AT END OF PERIOD | <u>\$ 142,168,000</u> | <u>\$ 339,114,000</u> |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

COWBOY ATHLETICS, INC.

| | Year Ended December 31, | |
|---|----------------------------|---------------------|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash contributions received from the OSU Foundation and others | \$ 91,750,000 | \$ 37,759,000 |
| Cash received from members and guests | 3,634,000 | 4,040,000 |
| Cash received from investment income | 63,000 | - |
| Cash paid to suppliers and employees | (15,660,000) | (4,974,000) |
| Cash paid for life insurance policies | (17,320,000) | (16,648,000) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>62,467,000</u> | <u>20,177,000</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Payment for acquisition of capital assets | (77,462,000) | (77,500,000) |
| Interest paid on capital debt | (6,464,000) | (1,222,000) |
| Acquisition of capital debt | 96,279,000 | 100,457,000 |
| Repayment of capital debt | (174,657,000) | (31,000) |
| NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(162,304,000)</u> | <u>21,704,000</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (25,613,000) | (39,307,000) |
| Proceeds from sale of investments | 132,388,000 | - |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | <u>106,775,000</u> | <u>(39,307,000)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 6,938,000 | 2,574,000 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>585,000</u> | <u>(1,989,000)</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 7,523,000</u> | <u>\$ 585,000</u> |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS--Continued

COWBOY ATHLETICS, INC.

| | Year Ended December 31, | |
|---|----------------------------|----------------------|
| | 2008 | 2007 |
| | <u>2008</u> | <u>2007</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ (192,231,000) | \$ 109,205,000 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | |
| Depreciation expense | 598,000 | 603,000 |
| Realized and unrealized (gains) losses on investments | 261,800,000 | (92,752,000) |
| Loss on disposal of fixed assets | - | 311,000 |
| Changes in assets and liabilities | | |
| Accounts receivable | 31,000 | 159,000 |
| Inventory | (161,000) | 13,000 |
| Prepaid and other assets | (38,000) | 15,000 |
| Cash surrender value of life insurance policies | (4,415,000) | (1,296,000) |
| Accounts payable, accrued expenses, and other current liabilities | (3,166,000) | 3,918,000 |
| Unearned revenues | 49,000 | 1,000 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 62,467,000</u> | <u>\$ 20,177,000</u> |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE A--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Cowboy Athletics, Inc. is a not-for-profit Oklahoma corporation organized to support the Oklahoma State University (the "University") athletic organizations and other educational programs associated with the University. The Corporation changed its name from OSU Cowboy Golf, Inc. effective May 9, 2006 and is the sole member of four wholly owned subsidiaries: OSU Cowboy Golf, L.L.C., OSU Cowboy Dining, L.L.C., Cowboy Athletic Facilities, L.L.C., and Oklahoma State University Foundation Holding Company, Inc. Cowboy Athletics, Inc. is governed by a Board of Directors, and is a component unit of the University.

OSU Cowboy Golf, L.L.C. ("Golf") is a not-for-profit Oklahoma limited liability company organized to operate a golf course ("Karsten Creek") and related facilities in Stillwater, Oklahoma. The golf course is primarily utilized as a teaching and practice facility by the University. Use of the course is also open to golf course members and others based on established membership and usage fee schedules.

OSU Cowboy Dining, L.L.C. ("Dining") is a not-for-profit Oklahoma limited liability company which is organized to provide dining services for Karsten Creek, the University's athletic department and other events as approved by management. Cowboy Spirit, Inc. is a not-for-profit Oklahoma corporation organized for the benefit of OSU Cowboy Dining, L.L.C. of whom it is a wholly owned subsidiary.

Cowboy Athletic Facilities, L.L.C. ("Facilities") is a not-for-profit Oklahoma limited liability company organized to conduct construction activities for the benefit of the University.

Oklahoma State University Foundation Holding Company, Inc. ("OSUF Holding Company") is a for-profit Oklahoma corporation organized to provide financial oversight of its wholly owned subsidiary, Cowboy Land Development, Inc. ("Land"). Land is a corporation organized to acquire, develop and sell real estate surrounding Karsten Creek.

Cowboy Athletics, Inc., and its subsidiaries are hereafter collectively referred to as the "Corporation".

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, includes the consolidated accounts of the Corporation. The Corporation has no component units. The Corporation is a component unit of the University, and its financial statements are discretely presented in the financial statements of the University.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE A--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--
Continued

Basis of Accounting: For financial reporting purposes, the Corporation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Corporation's consolidated financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant internal activity has been eliminated.

Although the Corporation is legally a 501(c) (3) not-for-profit organization, the Corporation follows pronouncements issued by the GASB, because it is considered a component unit of the University and its activities and operations are closely integrated with the intercollegiate athletic organizations of the University. The Corporation has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Corporation has elected to not apply FASB pronouncements issued after the applicable date.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosed contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

Revenue Recognition: The Corporation's revenues consist primarily of contributions from the private sector, including individuals and corporations, green fees, pro shop sales, food and beverage sales, and membership fees. Under the terms of an agreement between the University, OSU Foundation ("Foundation") and the Corporation, all charitable gifts made for use by the University's Department of Intercollegiate Athletics will continue to be received, processed and administered by the Foundation. Upon the written direction of the Vice President for Athletic Programs and Director of Intercollegiate Athletics, such contributions may be transferred to the Corporation at which time the Corporation recognizes contribution revenue. Other contributions are recorded when received or when a donor has announced an intention to give, and the Corporation believes that collection is probable. Green fees are recognized when earned. Pro shop sales, and food and beverage sales, are recorded when a sale is made - essentially on the cash basis. Membership fees are assessed on a calendar year basis, are non-refundable and are recognized in the year for which they apply. Membership fees received prior to the year for which they apply are recorded as unearned revenues in the consolidated statements of net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE A--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--
Continued

Tax Status: The Corporation, as a non-profit organization, is excluded from federal income taxes under Section 501(a) of the Internal Revenue Code.

Cash and Cash Equivalents: The Corporation considers all demand deposit accounts to be cash or cash equivalents. Investments with original maturities of 90 days or less are also considered to be cash equivalents; however, other similar investments which are maintained in investment accounts are considered investments.

Investments: Through an investment manager that is also on the board of directors, the Corporation primarily invests in limited partnerships to promote growth of the Corporation's investments. Investments in the limited partnerships are reported at fair value in the consolidated statements of net assets. Changes in the fair value of these investments are reported as investment income in the consolidated statements of revenues, expenses, and changes in net assets. The Corporation also maintains investments in equity securities, which are recorded at fair value. Investments are classified as current or noncurrent based on management's intent of selling such investments during the year following the consolidated statements of net assets date and the expected purpose for which they will be used. Investments that management expects may be sold in the year following the consolidated statements of net assets date are presented as current investments. Investments which are expected to be used to fund capital assets or held for permanent endowment are presented as noncurrent investments. See further discussion of these investments at Note B.

Inventories: Inventories are stated at the lower of cost (first in, first out method) or market (net realizable sales value).

Capital Assets, Net: Capital assets are recorded at cost at the date of acquisition, or fair market value at the contribution date if donated. The Corporation's capitalization policy includes all items with a unit cost of \$750 or more, and an estimated useful life of greater than one year. Renovations to building, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5-40 years for buildings and improvements and 3-10 years for furniture, fixtures, and equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE A--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--
Continued

Cash Surrender Value of Life Insurance Policies: The Corporation has purchased universal-life insurance policies on twenty-eight participating donors naming the Corporation as the beneficiary of the insurance policies which had initial death benefits of \$10,000,000 per policy which adjusts throughout the year and as premiums are paid. The insurance company issued individual certificates for each insured when the policies were purchased. Cash surrender values of the life insurance policies representing the value of funds available to the Corporation had they terminated the policies at December 31, 2008 and 2007 was \$5,711,000 and \$1,296,000, respectively, which is presented in the consolidated statements of net assets. Premiums paid for these life insurance policies during 2008 and 2007 was \$17,319,000 and \$16,648,000, respectively.

Net Assets: The Corporation's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Corporation's total investment in capital assets, net of outstanding debt obligations related to those capital assets. Construction in progress which is to be contributed to the University upon completion based on donors' restrictions is included in restricted net assets - expendable.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the Corporation is legally or contractually obligated to spend resources in accordance with restrictions imposed by donors.

Restricted net assets - non-expendable: Restricted non-expendable net assets include resources in which the Corporation is legally or contractually obligated to maintain in perpetuity. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on any related investments for general or specific purposes.

Unrestricted net assets: Unrestricted net assets represent resources that may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of Revenues: The Corporation has classified its revenues as either operating or nonoperating revenues. Operating revenues include transactions that constitute the Corporation's principal ongoing operations, such as contributions to support University athletics, investment income, membership fees, and green fees. Nonoperating revenues consist of other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. At December 31, 2008 and 2007, the Corporation had no nonoperating revenues.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE A--ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--
Continued

Risk Management: The Corporation manages its exposure to various risks of loss through the purchase of commercial insurance coverage, including commercial property, comprehensive general liability, environmental impairment liability, automobile liability, workers' compensation, employer's liability and liquor liability.

Reclassifications: Certain amounts in the 2007 financial statements have been reclassified to conform to the financial statement presentation used in 2008.

NOTE B--DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation has cash and cash equivalents on deposit in financial institutions of \$1,389,000 and \$346,000 at December 31, 2008 and 2007, respectively, that are fully insured by the Federal Depository Insurance Corporation ("FDIC"). At December 31, 2008 and 2007, the Corporation has cash and cash equivalents on deposit with a financial institution of \$1,181,000 and \$72,000, respectively, which are in excess of FDIC limits. The financial institution has collateralized the deposits with a pool of securities held in the financial institution's name. Additionally, the Corporation has deposits in repurchase agreements of \$4,997,000 and \$266,000 at December 31, 2008 and 2007, respectively, which are not insured by the FDIC but are secured by the respective financial institution with securities of the United States Government.

At December 31, 2008 and 2007, the Corporation had the following investments:

| | <u>2008</u> | <u>2007</u> |
|---|----------------------|-----------------------|
| Energy equity fund limited partnerships | \$ 17,706,000 | \$ 377,396,000 |
| Energy fund limited partnership | 278,000 | 12,199,000 |
| Equity securities | 3,146,000 | 127,000 |
| Money market fund | 43,000 | 25,000 |
| | <u>\$ 21,173,000</u> | <u>\$ 389,747,000</u> |

Interest Rate Risk: The Corporation does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2008, the Corporation is not invested in any instruments with stated maturities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Credit Risk: The Corporation's investments are primarily managed by BP Capital, owned by one of the Board members. In accordance with the Corporation's conflict of interest policy, BP Capital does not charge the Corporation a management fee for its investment advisory services. The Corporation's investments are not restricted to an investment asset allocation policy.

Investments in money market funds and publicly traded equity securities are recorded at fair value, as determined by quoted market prices.

The investments in the limited partnerships are recorded at the Corporation's initial investment in the partnerships, adjusted for a portion of the partnerships' investment performance allocated to the Corporation, as reported by the investment manager. Investments held in these partnerships are not evidenced by securities that exist in physical or book entry form. The objective of the energy equity fund limited partnerships is to achieve capital appreciation through investments in securities of, or related to companies engaged in the energy, energy-dependent, and natural resources industries and energy-related commodities. The objective of the energy fund limited partnership is to engage in speculative trading of energy and energy-related commodities, futures contracts, swaps, options on futures contracts and physical commodities, spot (cash) commodities, and any rights pertaining thereto and interests therein approved by the Commodities Futures Trading Commission ("CFTC") for investment in customer funds.

The Corporation's lack of diversification in investments significantly increases the risk that, in the event of a prolonged downturn in the energy equities or commodity markets, the Corporation's investments and their return on investments could be significantly affected. These limited partnerships have received an unqualified report from their independent auditors for the years ended December 31, 2008 and 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE C--CAPITAL ASSETS, NET

Capital asset activity for the year ended December 31, 2008 was as follows:

| | Beginning Balance | Additions | Deductions | Transfers | Ending Balance |
|--|-----------------------|----------------------|-------------|-------------|-----------------------|
| Non-Depreciable Assets: | | | | | |
| Land | \$ 1,372,000 | \$ 274,000 | \$ - | \$ - | \$ 1,646,000 |
| Non-depreciable golf course equipment | 2,442,000 | - | - | - | 2,442,000 |
| Construction in process | 101,143,000 | 76,948,000 | - | - | 178,091,000 |
| | <u>104,957,000</u> | <u>77,222,000</u> | <u>-</u> | <u>-</u> | <u>182,179,000</u> |
| Total non-depreciable assets | | | | | |
| Capital Assets being Depreciated: | | | | | |
| Buildings | 7,338,000 | 21,000 | - | - | 7,359,000 |
| Depreciable golf course improvements | 3,541,000 | 4,000 | - | - | 3,545,000 |
| Furniture & equipment | 650,000 | 20,000 | - | - | 670,000 |
| Real estate development | - | 128,000 | - | - | 128,000 |
| Golf course equipment | 1,649,000 | 67,000 | - | - | 1,716,000 |
| | <u>13,178,000</u> | <u>240,000</u> | <u>-</u> | <u>-</u> | <u>13,418,000</u> |
| Total capital assets being depreciated | | | | | |
| Less accumulated depreciation | | | | | |
| Buildings | 654,000 | 204,000 | - | - | 858,000 |
| Depreciable golf course improvements | 1,559,000 | 138,000 | - | - | 1,697,000 |
| Furniture & equipment | 344,000 | 74,000 | - | - | 418,000 |
| Golf course equipment | 854,000 | 182,000 | - | - | 1,036,000 |
| | <u>3,411,000</u> | <u>598,000</u> | <u>-</u> | <u>-</u> | <u>4,009,000</u> |
| Total accumulated depreciation | | | | | |
| Net depreciable assets | <u>9,767,000</u> | <u>(358,000)</u> | <u>-</u> | <u>-</u> | <u>9,409,000</u> |
| Capital assets, net | <u>\$ 114,724,000</u> | <u>\$ 76,864,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 191,588,000</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE C--CAPITAL ASSETS, NET--Continued

Capital asset activity for the year ended December 31, 2007 was as follows:

| | Beginning Balance | Additions | Deductions | Transfers | Ending Balance |
|--|----------------------|----------------------|---------------------|-------------|-----------------------|
| Non-Depreciable Assets: | | | | | |
| Land | \$ 1,372,000 | \$ - | \$ - | \$ - | \$ 1,372,000 |
| Non-depreciable golf course equipment | 2,745,000 | - | (303,000) | - | 2,442,000 |
| Construction in process | 23,712,000 | 77,431,000 | - | - | 101,143,000 |
| | <u>27,829,000</u> | <u>77,431,000</u> | <u>(303,000)</u> | <u>-</u> | <u>104,957,000</u> |
| Total non-depreciable assets | | | | | |
| Capital Assets being Depreciated: | | | | | |
| Buildings | 7,330,000 | 8,000 | - | - | 7,338,000 |
| Depreciable golf course improvements | 3,762,000 | - | (221,000) | - | 3,541,000 |
| Furniture & equipment | 619,000 | 31,000 | - | - | 650,000 |
| Golf course equipment | 1,637,000 | 30,000 | (18,000) | - | 1,649,000 |
| | <u>13,348,000</u> | <u>69,000</u> | <u>(239,000)</u> | <u>-</u> | <u>13,178,000</u> |
| Total capital assets being depreciated | | | | | |
| Less accumulated depreciation | | | | | |
| Buildings | 452,000 | 202,000 | - | - | 654,000 |
| Depreciable golf course improvements | 1,642,000 | 138,000 | (221,000) | - | 1,559,000 |
| Furniture & equipment | 273,000 | 71,000 | - | - | 344,000 |
| Golf course equipment | 672,000 | 192,000 | (10,000) | - | 854,000 |
| | <u>3,039,000</u> | <u>603,000</u> | <u>(231,000)</u> | <u>-</u> | <u>3,411,000</u> |
| Total accumulated depreciation | | | | | |
| | <u>10,309,000</u> | <u>(534,000)</u> | <u>(8,000)</u> | <u>-</u> | <u>9,767,000</u> |
| Net depreciable assets | | | | | |
| Capital assets, net | <u>\$ 38,138,000</u> | <u>\$ 76,897,000</u> | <u>\$ (311,000)</u> | <u>\$ -</u> | <u>\$ 114,724,000</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE D--LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2008 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|-----------------------------|-----------------------|----------------------|-------------------------|----------------------|-----------------------------------|
| Long-term liabilities | | | | | |
| Credit agreement | \$ 117,255,000 | \$ 47,514,000 | \$ (164,769,000) | \$ - | \$ - |
| Promissory note | 20,710,000 | 33,771,000 | (4,603,000) | 49,878,000 | 9,878,000 |
| Promissory note | 8,500,000 | - | - | 8,500,000 | - |
| Loan agreement | - | 5,259,000 | (5,259,000) | - | - |
| Note payable | - | 9,735,000 | - | 9,735,000 | - |
| Note payable | <u>186,000</u> | <u>-</u> | <u>(26,000)</u> | <u>160,000</u> | <u>29,000</u> |
| Total long-term liabilities | <u>\$ 146,651,000</u> | <u>\$ 96,279,000</u> | <u>\$ (174,657,000)</u> | <u>\$ 68,273,000</u> | <u>\$ 9,907,000</u> |

Long-term liability activity for the year ended December 31, 2007 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|-----------------------------|----------------------|-----------------------|--------------------|-----------------------|-----------------------------------|
| Long-term liabilities | | | | | |
| Credit agreement | \$ 37,508,000 | \$ 79,747,000 | \$ - | \$ 117,255,000 | \$ - |
| Promissory note | - | 20,710,000 | - | 20,710,000 | 20,710,000 |
| Promissory note | 8,500,000 | - | - | 8,500,000 | - |
| Note payable | <u>217,000</u> | <u>-</u> | <u>(31,000)</u> | <u>186,000</u> | <u>27,000</u> |
| Total long-term liabilities | <u>\$ 46,225,000</u> | <u>\$ 100,457,000</u> | <u>\$ (31,000)</u> | <u>\$ 146,651,000</u> | <u>\$ 20,737,000</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE D--LONG-TERM LIABILITIES--Continued

The Corporation purchased a parcel of land adjacent to the golf course from an individual for \$350,000. The purchase agreement required a \$25,000 down payment with the remaining \$325,000 to be paid in annual payments, including interest, of approximately \$41,000 through January 1, 2012. The note bears interest at a rate of 5% through January 1, 2008, increasing to 8% thereafter. The note payable balance as of December 31, 2008 and 2007 was \$160,000 and \$186,000, respectively. The note is secured by the land and related improvements. The purchase agreement also provided the seller would maintain a life tenancy interest in the property and its related improvements. The seller is responsible for all repairs, maintenance, and insurance for the property during the life tenancy interest.

In January 2006, the Corporation entered into an \$8,500,000 promissory note with a financial institution. The note had an original maturity of January 4, 2007, but has been re-financed to a maturity date of January 4, 2012. At December 31, 2008 and 2007, the outstanding principal on the note is \$8,500,000 each year. Accrued interest on outstanding principal amounts are payable quarterly with unpaid principal and interest accrued due at maturity. The note bears interest at the Wall Street Journal prime rate minus one percent (2.25% at December 31, 2008) and is personally guaranteed by a related party. The outstanding principal on this promissory note is reflected in the accompanying statements of net assets as noncurrent long-term debt in accordance with the maturity of the renewed promissory note dated January 4, 2012.

In October 2007, the Corporation entered into a \$50,000,000 promissory note with a financial institution which matured in March 2009 at which time \$40,000,000 was renewed for repayment to begin in 2010 with final maturity in March 2015. At December 31, 2008 and 2007, the outstanding principal on the note was \$49,878,000 and \$20,710,000, respectively. Accrued interest on outstanding principal amounts under the renewed note are payable monthly with unpaid principal and interest accrued due at maturity. The note bears interest at the greater of the Wall Street Journal prime rate plus one percent or six percent (6.00% at December 31, 2008) and is personally guaranteed by a related party and proceeds from the life insurance policies. As a result of the renewal in 2009, \$40,000,000 of the outstanding balance at December 31, 2008 has been reflected in the accompanying statements of net assets as noncurrent long-term debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE D--LONG-TERM LIABILITIES--Continued

Effective January 17, 2007, the Corporation entered into a credit agreement with a financial institution under which the Corporation may receive loans or letters of credit up to \$200,000,000. Accrued interest on outstanding principal amounts are payable quarterly with unpaid principal and accrued interest due at maturity. The credit agreement incurred interest at the one-month LIBOR plus 0.60% and was secured by the Corporation's energy equity fund limited partnership investment. The Corporation was charged an up-front fee of \$100,000 for this credit agreement and incurred a non-use fee equal to 0.075% per annum of the daily excess of the commitment amount over the total outstanding principal. The Corporation entered into various interest rate swap agreements converting portions of the outstanding principle of the credit agreement from a variable interest rate to a synthetic fixed interest rate (see Note E). This credit agreement was repaid in 2008 and the interest rate swap agreements were closed out.

In August 2008, the Corporation entered into a loan agreement with a financial institution which provides a revolving line of credit to the Corporation up to \$12,000,000 subject to a borrowing base which is collateralized by securities as further discussed in the related Pledge Agreement. The loan agreement bears interest at the BBA Libor daily floating rate plus nine tenths (0.9) percentage points and expires in September 2009. Accrued interest on outstanding principal amounts are payable monthly with unpaid principal and interest due at maturity. Additionally, a non-use fee equal to 0.075% per annum of the daily excess of the commitment amount over the total outstanding principal is charged. There was no outstanding principal balance at December 31, 2008.

In December 2008, the Corporation entered into a promissory note with the Foundation to borrow funds up to \$38,000,000 which matures in December 2010. At December 31, 2008, the outstanding principal on the note was \$9,735,000. Accrued interest on outstanding principal amounts under the note is payable quarterly with unpaid principal and interest accrued due at maturity. The note bears interest at seven and one-tenth percent (7.1%) per annum through June 30, 2010. Beginning July 1, 2010, all principal sums outstanding under the note will bear interest at an annual rate equal to the greater of seven and one-tenth percent (7.1%) or the Wall Street Journal prime rate plus two percent. This note is secured by current and future pledges received by the Foundation toward the West End Zone, specified investment securities, revenues derived from the lease, sale or rent of suites in the West End Zone, and mortgages on various real estate holdings of the Corporation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE D--LONG-TERM LIABILITIES--Continued

As of December 31, 2008, debt service requirements of the long-term debt, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate interest payments will vary.

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|----------------------|---------------------|----------------------|
| Years Ending December 31: | | | |
| 2009 | \$ 9,907,000 | \$ 2,851,000 | \$ 12,758,000 |
| 2010 | 16,433,000 | 2,302,000 | 18,735,000 |
| 2011 | 6,700,000 | 1,899,000 | 8,599,000 |
| 2012 | 15,234,000 | 1,305,000 | 16,539,000 |
| 2013 | 6,667,000 | 900,000 | 7,567,000 |
| 2014-2015 | <u>13,332,000</u> | <u>600,000</u> | <u>13,932,000</u> |
| | <u>\$ 68,273,000</u> | <u>\$ 9,857,000</u> | <u>\$ 78,130,000</u> |

NOTE E--INTEREST RATE SWAPS

Objective of the interest rate swaps: As a means to lower its borrowing costs, when compared against fixed-rate bonds, the Corporation entered into three interest rate swaps in connection with its credit agreement long-term debt which carried a variable interest rate. The intention of the swaps was to effectively change the Corporation's variable interest rate on portions of the credit agreement to a synthetic fixed rate on the respective notional amounts of the credit agreement covered by the swaps.

Terms: The terms of the various interest rate swaps are detailed in the table below. On all three of the interest rate swaps, the Corporation received a variable interest rate similar to that of the credit agreement of the one-month LIBOR plus 0.60%.

| <u>Notional Amount of Swap</u> | <u>Maturity Date</u> | <u>Fixed Rate Paid by the Corporation</u> | <u>Fair Market Value of Swap at December 31, 2008</u> |
|------------------------------------|--------------------------|---|---|
| \$ 30,000,000 | August 1, 2010 | 5.78% | \$ - |
| 30,000,000 | August 1, 2010 | 5.70% | - |
| 30,000,000 | August 1, 2010 | 5.28% | - |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE E--INTEREST RATE SWAPS--Continued

As a result of terminating the swap agreements before their scheduled maturity dates, the Corporation included a termination payment equal to the fair market value of the swap agreements of \$4,680,000 which is included in interest expense in the accompanying consolidated statements of revenues, expenses, and changes in net assets.

NOTE F--RELATED PARTY TRANSACTIONS

At December 31, 2008 and 2007, the Corporation has a payable to the Foundation of \$130,000 and \$5,270,000, respectively, to reimburse the Foundation for payments related to on-going property acquisitions for the University's athletic department. Additionally, the Corporation entered into a note payable with the Foundation during 2008 which has an outstanding balance of \$9,735,000 at December 31, 2008 (see Note D).

At December 31, 2008 and 2007, the Corporation has recorded a contribution payable to the University for use in the University's athletic department totaling \$5,000,000 each year.

All of the above balances are reflected in the accompanying consolidated statements of net assets.

NOTE G--COMMITMENTS

At December 31, 2008, Facilities had significant construction in process on several projects which will be contributed or sold to the University upon completion. Approximately \$178,091,000 has been spent on these projects as of December 31, 2008 and is included in capital assets in the accompanying statements of net assets. Management's estimated cost to complete these projects is approximately \$85,000,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COWBOY ATHLETICS, INC.

December 31, 2008

NOTE H--GOING CONCERN CONSIDERATIONS

Going concern considerations for the Corporation primarily relate to its ability to meet debt payment obligations as they become due. At December 31, 2008, the Corporation's total long-term debt is \$68,273,000 as compared to its unrestricted cash, cash equivalents and investments of \$24,617,000 at December, 31, 2008. Management has been actively addressing this going concern with successful renegotiations of existing long-term debt, the acquisition of a \$35,000,000 life insurance policy, and the possibility of bonding portions of the West End Zone construction project by OSU.

In March 2009, management received a \$10,000,000 contribution to pay-down a portion of their \$50,000,000 promissory note and renewed the remaining \$40,000,000 over a long-term pay-off schedule with the first payment due in March 2010 and annual principal payments of \$6,667,000 through 2015 plus accrued interest. This note continues to be personally guaranteed by a related party and proceeds from the life insurance policies.

In February 2009, ownership of a \$35,000,000 life insurance policy was transferred to the Corporation. The cash surrender value of this policy is approximately \$10,000,000 and the Corporation is the beneficiary.

The Corporation also has a \$38,000,000 promissory note with the Oklahoma State University Foundation to complete construction of the West End Zone. As mentioned above, management has been negotiating with OSU about a possible bonding of a portion of the West End Zone construction project. The amount bonded will be approximately \$38,000,000.

Based upon these actions, management believes the Corporation will continue as a going concern and has the ability to meet its debt obligations as they come due.