

Financial statements and report of independent
certified public accountants

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

June 30, 2013 and 2012

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Intercollegiate Athletics Program Accounts of Oklahoma State University Management's Discussion and Analysis

Overview of Financial Statements and Financial Analysis

The Intercollegiate Athletics Program Accounts of Oklahoma State University ("University Athletics Program") proudly presents its financial statements for fiscal year 2013, with comparative data presented for fiscal year 2012. There are three financial statements presented: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. This discussion and analysis of the University Athletics Program's financial statements provides an overview of its financial activities for the year.

The statements of net position and the statements of revenues, expenses, and changes in net position report information on the University Athletics Program as a whole and on its activities. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. These two statements report the University Athletics Program's net position and changes in them. The net position – the difference between assets and liabilities - is one way to measure financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the University Athletics Program's financial health is improving or deteriorating.

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 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 operating activities. The second section reflects cash flows from noncapital financing activities. The third section reflects cash flows from investing activities. The fourth section reflects cash flows from capital and related financing activities. The fifth 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 position. 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.

**Intercollegiate Athletics Program Accounts
of Oklahoma State University
Management's Discussion and Analysis**

Statements of Net Position

The following summarizes the University Athletics Program's statements of net position at June 30, 2013, 2012 and 2011.

| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|---|-----------------------|-----------------------|-----------------------|
| ASSETS | | | |
| Current assets | \$ 14,189,275 | \$ 16,962,890 | \$ 18,338,701 |
| Noncurrent assets | <u>372,031,894</u> | <u>363,502,732</u> | <u>367,277,654</u> |
| Total assets | <u>\$ 386,221,169</u> | <u>\$ 380,465,622</u> | <u>\$ 385,616,355</u> |
| LIABILITIES | | | |
| Current liabilities | \$ 18,422,522 | \$ 20,422,794 | \$ 21,037,287 |
| Noncurrent liabilities | <u>94,186,267</u> | <u>91,503,055</u> | <u>89,938,689</u> |
| Total liabilities | <u>\$ 112,608,789</u> | <u>\$ 111,925,849</u> | <u>\$ 110,975,976</u> |
| NET POSITION | | | |
| Invested in capital assets, net of debt | \$ 269,635,684 | \$ 263,436,946 | \$ 269,232,808 |
| Unrestricted for: | | | |
| Debt service | 508,741 | 583,128 | 1,305,072 |
| Capital projects | - | 343,316 | (810,377) |
| Other | <u>3,467,955</u> | <u>4,176,383</u> | <u>4,912,876</u> |
| Total net position | <u>\$ 273,612,380</u> | <u>\$ 268,539,773</u> | <u>\$ 274,640,379</u> |

In fiscal year 2013, total net position increased by \$6,100,606, or 2.3%. The increase was primarily due to the receipt of plant funds from Oklahoma State University and capital assets donated from Cowboy Athletics, Inc.

In fiscal year 2012, total net position decreased by \$5,072,607, or 1.9%. This decrease was the result of an increase in compensation and employee benefits and a decrease in capital provided by affiliates.

**Intercollegiate Athletics Program Accounts
of Oklahoma State University
Management's Discussion and Analysis**

Statements of Revenues, Expenses, and Changes in Net Position

The following summarizes the University Athletics Program's statements of revenues, expenses, and changes in net position for the years ended June 30, 2013, 2012 and 2011.

| | <u>2011</u> | | <u>2012</u> | | <u>2013</u> | |
|---|----------------------|------|----------------------|------|----------------------|------|
| OPERATING REVENUES | | | | | | |
| Ticket sales | \$ 22,672,580 | 49% | \$ 23,082,628 | 40% | \$ 22,927,357 | 41% |
| Conference income | 13,588,418 | 30% | 22,636,969 | 40% | 21,518,842 | 39% |
| Multi-media | 4,311,250 | 9% | 4,295,000 | 8% | 4,545,000 | 8% |
| Other | <u>5,291,359</u> | 12% | <u>7,071,580</u> | 12% | <u>6,515,252</u> | 12% |
| Total operating revenues | <u>45,863,607</u> | 100% | <u>57,086,177</u> | 100% | <u>55,506,451</u> | 100% |
| OPERATING EXPENSES | | | | | | |
| Compensation and employee benefits | 21,561,251 | 37% | 24,959,949 | 39% | 26,092,075 | 40% |
| Travel | 4,731,488 | 8% | 5,840,872 | 9% | 5,749,008 | 9% |
| Financial aid | 5,509,320 | 9% | 5,708,764 | 9% | 5,897,394 | 9% |
| Other | 15,313,608 | 26% | 15,126,283 | 24% | 15,559,348 | 24% |
| Utilities | 1,975,831 | 3% | 2,238,128 | 4% | 2,193,125 | 3% |
| Depreciation and amortization | <u>9,788,789</u> | 17% | <u>9,788,873</u> | 15% | <u>9,962,744</u> | 15% |
| Total operating expenses | <u>58,880,287</u> | 100% | <u>63,662,869</u> | 100% | <u>65,453,694</u> | 100% |
| Operating loss | <u>(13,016,680)</u> | | <u>(6,576,692)</u> | | <u>(9,947,243)</u> | |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Investment income | 44,710 | | 25,077 | | 11,852 | |
| Athletics student fee and use tax | 2,395,812 | | 2,423,359 | | 3,104,181 | |
| Gifts from OSU Foundation | 8,613,500 | | 3,136,636 | | 5,313,000 | |
| Interest expense | <u>(4,159,306)</u> | | <u>(4,080,987)</u> | | <u>(3,998,127)</u> | |
| Total nonoperating revenues (expenses) | <u>6,894,716</u> | | <u>1,504,085</u> | | <u>4,430,906</u> | |
| Capital provided by affiliates | <u>4,445,208</u> | | <u>-</u> | | <u>11,616,943</u> | |
| Change in net position | (1,676,756) | | (5,072,607) | | 6,100,606 | |
| Net position, beginning of year | <u>275,289,136</u> | | <u>273,612,380</u> | | <u>268,539,773</u> | |
| Net position, end of year | <u>\$273,612,380</u> | | <u>\$268,539,773</u> | | <u>\$274,640,379</u> | |

**Intercollegiate Athletics Program Accounts
of Oklahoma State University
Management's Discussion and Analysis**

Statements of Revenues, Expenses, and Changes in Net Position (continued)

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

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

In fiscal year 2012, conference income increased by \$9,048,551, or 66.6%, when compared to fiscal year 2011. This increase resulted from a change to an equal distribution of conference income and a new television agreement.

For fiscal year 2013, capital provided by affiliates consisted of \$5,712,349 from plant funds and \$5,904,594 in donated capital assets from Cowboy Athletics, Inc.

For fiscal year 2011, capital provided by affiliates was primarily capital assets donated from Cowboy Athletics, Inc.

Statements of Cash Flows

The following summarizes the University Athletics Program's statements of cash flows for the years ended June 30, 2013, 2012 and 2011.

| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|----------------------|----------------------|----------------------|
| Cash provided by (used in) | | | |
| Operating activities | \$ 2,762,575 | \$ 3,208,227 | \$ (1,475,578) |
| Noncapital financing activities | 8,613,500 | 3,136,636 | 5,313,000 |
| Investing activities | 49,930 | 25,644 | 11,582 |
| Capital and related financing activities | <u>(4,847,854)</u> | <u>(5,280,749)</u> | <u>(3,837,476)</u> |
| Net increase in cash and cash equivalents | <u>6,578,151</u> | <u>1,089,758</u> | <u>11,528</u> |
| Cash and cash equivalents, beginning of year | 7,734,187 | 14,312,338 | 15,402,096 |
| Cash and cash equivalents, end of year | <u>\$ 14,312,338</u> | <u>\$ 15,402,096</u> | <u>\$ 15,413,624</u> |

Cash provided by operating activities decreased by \$4,683,805, or 146.0%, from the fiscal years ended June 30, 2012 to June 30, 2013. The majority of the decrease is due to an increase in employee compensation and a decrease in ticket sales and conference income.

Intercollegiate Athletics Program Accounts of Oklahoma State University Management's Discussion and Analysis

Statements of Cash Flows (continued)

Cash provided by noncapital financing activities decreased by \$5,476,864, or 63.6%, from the fiscal years ended June 30, 2011 to June 30, 2012, but increased by \$2,176,364, or 69.4%, from the fiscal years ended June 30, 2012 to June 30, 2013. This activity is the direct result transferring athletic related funds from the Oklahoma State University Foundation to the University Athletics Program.

Economic Outlook

In fiscal year 2013, the University Athletics Program's two key revenue sources, ticket sales and conference income, reflected slight decreases compared with fiscal year 2012. As a result, additional funds were transferred from athletic related donations received by the Oklahoma State University Foundation to cover expenses.

The University Athletics Program expects increases in expenses such as compensation and employee benefits, utilities, facilities maintenance and financial aid. However, the University Athletics Program is confident that revenues will be sufficient to cover operating expenses for 2014 and beyond.

Leadership within the University Athletics Program continues to review and explore new funding opportunities that will increase the revenue while continuing to meet its mission as well as serve the advancement of Oklahoma State University. These opportunities will include strategies to increase season ticket sales and private donations, secure beneficial partnerships and maximize distributions through the Big 12 Conference.



J. Mike Holder
Vice President for Athletic Programs
and Director of Intercollegiate Athletics



Jason Lewis
Executive Senior Associate
Athletic Director



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Report on the financial statements

We have audited the accompanying financial statements of the Intercollegiate Athletics Program Accounts of Oklahoma State University (the "University Athletics Program"), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University Athletics Program's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We have also audited the financial statements of the separately presented component unit Cowboy Athletics, Inc. ("CAI"), a not-for-profit Oklahoma corporation organized to support the University, as of and for the years ended December 31, 2012 and 2011. The University Athletics Program's financial statements referred to above do not include the financial statements of CAI. Rather, a complete set of financial statements of CAI is 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University Athletics Program's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University Athletics Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University Athletics Program and the separately presented component unit as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages i through v be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 30, 2013, on our consideration of the University Athletics Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University Athletics Programs' internal control over financial reporting and compliance.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 30, 2013

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

STATEMENTS OF NET POSITION
June 30,

| | 2013 | 2012 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 12,017,227 | \$ 12,773,328 |
| Accounts receivable, net of allowances | 5,237,827 | 3,164,349 |
| Prepaid expenses | 1,083,647 | 1,025,213 |
| Total current assets | 18,338,701 | 16,962,890 |
| Noncurrent assets | | |
| Cash and cash equivalents | 3,396,397 | 2,628,768 |
| Investments | 444 | 174 |
| Accounts receivable - Cowboy Athletics | 5,000,000 | 5,000,000 |
| Accounts receivable - student fees | 88,005 | 71,844 |
| Capital assets, net of accumulated depreciation | 358,792,808 | 355,801,946 |
| Total noncurrent assets | 367,277,654 | 363,502,732 |
| TOTAL ASSETS | 385,616,355 | 380,465,622 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 115,868 | 180,230 |
| Due to other University funds and accounts | 213,496 | 208,400 |
| Accrued expenses | 183,511 | 120,006 |
| Accrued interest payable | 1,678,787 | 1,715,490 |
| Unearned revenue | 15,878,937 | 15,239,841 |
| Accrued compensated absences | 161,688 | 153,827 |
| Current portion of revenue bonds, notes payable, and lease obligations | 2,805,000 | 2,805,000 |
| Total current liabilities | 21,037,287 | 20,422,794 |
| Noncurrent liabilities | | |
| Accrued compensated absences | 1,948,853 | 1,943,055 |
| Accounts payable for capital assets | 1,234,836 | - |
| Notes payable | 3,700,000 | 4,360,000 |
| Revenue bonds payable | 83,055,000 | 85,200,000 |
| Total noncurrent liabilities | 89,938,689 | 91,503,055 |
| TOTAL LIABILITIES | 110,975,976 | 111,925,849 |
| NET POSITION | | |
| Invested in capital assets, net of debt | 269,232,808 | 263,436,946 |
| Unrestricted for: | | |
| Debt Service | 1,305,072 | 583,128 |
| Capital Projects | (810,377) | 343,316 |
| Unrestricted - other | 4,912,876 | 4,176,383 |
| TOTAL NET POSITION | \$ 274,640,379 | \$ 268,539,773 |

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

Intercollegiate Athletics Program Accounts of Oklahoma State University

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

| | 2013 | 2012 |
|---|-----------------------|-----------------------|
| Revenues | | |
| Operating revenues | | |
| Ticket sales | \$ 22,927,357 | \$ 23,082,628 |
| Conference income | 21,518,842 | 22,636,969 |
| Multi-media | 4,545,000 | 4,295,000 |
| Concessions | 758,593 | 655,878 |
| Guarantees | 348,918 | 390,442 |
| Other operating revenues | 5,305,741 | 5,927,260 |
| Student activity fees | 102,000 | 98,000 |
| Total operating revenues | 55,506,451 | 57,086,177 |
| Expenses | | |
| Operating expenses | | |
| Compensation and employee benefits | 26,092,075 | 24,959,949 |
| Travel | 5,749,008 | 5,840,872 |
| Financial aid | 5,897,394 | 5,708,764 |
| Maintenance | 1,530,214 | 2,049,931 |
| Athletics and small equipment purchases | 1,491,571 | 1,341,736 |
| Guarantees | 1,644,107 | 874,456 |
| Insurance | 690,102 | 572,511 |
| Other operating expenses | 10,039,837 | 10,110,823 |
| Telephone | 163,517 | 176,826 |
| Utilities | 2,193,125 | 2,238,128 |
| Depreciation and amortization | 9,962,744 | 9,788,873 |
| Total operating expenses | 65,453,694 | 63,662,869 |
| Operating loss | (9,947,243) | (6,576,692) |
| Nonoperating revenues (expenses) | | |
| Investment income | 11,852 | 25,077 |
| Athletics student fee and use tax | 3,104,181 | 2,423,359 |
| Gifts from OSU Foundation | 5,313,000 | 3,136,636 |
| Interest expense | (3,998,127) | (4,080,987) |
| Net nonoperating revenues | 4,430,906 | 1,504,085 |
| Loss before other revenues, expenses, gains and losses | (5,516,337) | (5,072,607) |
| Capital provided by affiliates | 11,616,943 | - |
| Net increase (decrease) in net position | 6,100,606 | (5,072,607) |
| Net position - beginning of year | 268,539,773 | 273,612,380 |
| Net position - end of year | \$ 274,640,379 | \$ 268,539,773 |

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

Intercollegiate Athletics Program Accounts of Oklahoma State University

STATEMENTS OF CASH FLOWS Year Ended June 30,

| | 2013 | 2012 |
|---|---------------|---------------|
| Cash flows from operating activities | | |
| Ticket sales | \$ 23,581,552 | \$ 25,005,567 |
| Other operating receipts | 30,474,356 | 32,105,561 |
| Payments to employees for salaries and benefits | (26,007,811) | (24,809,677) |
| Payments to suppliers | (29,523,675) | (29,093,224) |
| Net cash (used) provided by operating activities | (1,475,578) | 3,208,227 |
| Cash flows from noncapital financing activities | | |
| Gifts | 5,313,000 | 3,136,636 |
| Cash flows from investing activities | | |
| Purchases of investments | (1,588,826) | (1,573,889) |
| Proceeds from sales of investments | 1,588,556 | 1,574,456 |
| Interest received on investments | 11,852 | 25,077 |
| Net cash provided by investing activities | 11,582 | 25,644 |
| Cash flows from capital and related financing activities | | |
| Cash paid for capital assets | (101,827) | (875,135) |
| Repayments of capital debt and leases | (2,805,000) | (2,715,000) |
| Interest paid on capital debt and leases | (4,034,830) | (4,113,973) |
| Student fees restricted for capital projects | 3,104,181 | 2,423,359 |
| Net cash used by capital and related financing activities | (3,837,476) | (5,280,749) |
| Net increase in cash and cash equivalents | 11,528 | 1,089,758 |
| Cash and cash equivalents, beginning of year | 15,402,096 | 14,312,338 |
| Cash and cash equivalents, end of year | \$ 15,413,624 | \$ 15,402,096 |

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

Intercollegiate Athletics Program Accounts of Oklahoma State University

STATEMENTS OF CASH FLOWS Year Ended June 30,

| | <u>2013</u> | <u>2012</u> |
|---|-----------------------------|-----------------------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating loss | \$ (9,947,243) | \$ (6,576,692) |
| Adjustments to reconcile operating to net cash used by operating activities | | |
| Depreciation and amortization | 9,962,744 | 9,788,873 |
| Changes in assets and liabilities | | |
| Accounts receivable | (2,089,639) | (1,920,859) |
| Prepaid expenses | (58,434) | (148,141) |
| Accounts payable | (64,362) | 87,836 |
| Due to other funds and accounts | 5,096 | (118,872) |
| Accrued expenses | 63,505 | 10,314 |
| Unearned revenue | 639,096 | 1,945,810 |
| Compensated absences | 13,659 | 139,958 |
| | <u> </u> | <u> </u> |
| Net cash (used) provided by operating activities | <u>\$ (1,475,578)</u> | <u>\$ 3,208,227</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION | | |
| Cash and cash equivalents classified as current assets | \$ 12,017,227 | \$ 12,773,328 |
| Cash and cash equivalents classified as noncurrent assets | <u>3,396,397</u> | <u>2,628,768</u> |
| | <u>\$ 15,413,624</u> | <u>\$ 15,402,096</u> |
| NONCASH CAPITAL AND RELATED FINANCING TRANSACTIONS | | |
| Capital assets acquired by gifts from affiliates | <u>\$ 11,616,943</u> | <u>\$ -</u> |
| Change in accounts payable for capital assets | <u>\$ 1,234,836</u> | <u>\$ -</u> |

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

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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.

The accompanying financial statements have been prepared from the separate records maintained by management of the 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 the University as a whole.

Cowboy Athletics, Inc. (“CAI”) 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 CAI 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. CAI operates under a December 31 fiscal year-end. The financial statements of CAI 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.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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.

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 position.

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 position.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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 years for buildings, 15 to 20 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 2013 and 2012, total interest incurred was \$3,998,127 and \$4,080,987, none of which was capitalized.

Unearned Revenue

Unearned 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 compensated absences in the statements of net position, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

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, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Position

The University Athletics Program's net position 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 position - expendable: Restricted expendable net position includes 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 position: Unrestricted net position represents 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.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New Pronouncements

In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. The provisions of the Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement requires defined benefit pension plans to present two financial statements-a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27*. This Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have certain characteristics. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged.

Management has not yet determined the effect, if any, of adoption of these GASB statements for the financial statements.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

At June 30, 2013 and 2012, the carrying amount of the University Athletics Program's cash and cash equivalents was \$15,413,624 and \$15,402,096, respectively. This amount consisted of funds held in operating accounts (\$11,947,027 and \$12,703,327), deposits with trustees related to the various bond indenture agreements (\$2,971,938 and \$2,285,453), unexpended plant funds for capital projects (\$424,459 and \$343,316) and petty cash and change funds (\$70,200 and \$70,000).

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, 2013 and 2012, the University Athletics Program had investments aggregating \$444 and \$174, 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, 2013 and 2012, respectively. All investments are reported at cost, which approximates fair value.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

| | 2013 | 2012 |
|--|---------------|--------------|
| Athletic tickets | \$ 158,650 | \$ 173,749 |
| Receivable from Cowboy Athletics, Inc. | 5,000,000 | 5,000,000 |
| Receivables from operations | 5,141,225 | 3,052,282 |
| | 10,299,875 | 8,226,031 |
| Less allowance for doubtful accounts | 62,048 | 61,682 |
| | \$ 10,237,827 | \$ 8,164,349 |

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 3 - ACCOUNTS RECEIVABLE - CONTINUED

Accounts receivable at June 30, 2013 and 2012 includes a contribution receivable from CAI of \$5,000,000 which is due in 2017. As of June 30, 2013, the University knows of no impairment that would result in nonpayment of this receivable. 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 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. Related party transactions and funds held by the OSU Foundation on behalf of the University Athletics Program are as follows during fiscal years:

| | 2013 | 2012 |
|--|---------------|---------------|
| Fund collected on behalf of the University or | | |
| University Athletics Program | \$ 27,318,815 | \$ 15,979,810 |
| Fund disbursed to or on behalf of the University or | | |
| University Athletics Program | 26,418,550 | 16,516,466 |
| Net assets held on behalf of or for the benefit of the | | |
| University or University Athletics Program at June 30 | 85,936,301 | 85,936,304 |

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 4 - RELATED PARTY TRANSACTIONS - CONTINUED

Cowboy Athletics, Inc.

Nature of Relationship - CAI 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.

CAI 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 CAI, the majority of resources or income thereon that CAI holds and invests is restricted to the activities of the University Athletics Program by the donors. Because these restricted resources held by CAI can only be used by, or for the benefit of, the University Athletics Program, CAI is considered a component unit of the University Athletics Program and is separately presented.

CAI 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.

CAI operates OSU Cowboy Dining, L.L.C. which provides dining services for the University's athletic department and other events as approved by management.

CAI operates Cowboy Athletic Facilities, L.L.C. which conducts construction activities for the benefit of the University.

CAI transferred improvements in Boone Pickens Stadium, Gallagher – Iba Arena, and the softball complex to the University Athletics Program in June 2013 at a value of \$1,604,913, \$4,275,871, and \$23,810 respectively. The acquisitions are reflected as capital provided by affiliates in the Statement of Revenues, Expenses and Changes in Net Position of the University Athletics Program for the year ended June 30, 2013.

Net assets of CAI at December 31, 2012 and 2011 were \$12,383,000 and \$(16,470,000), respectively.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 5 - CAPITAL ASSETS

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

| | 2013 | | | | Balance June 30, 2013 |
|---------------------------------|-----------------------------|---------------------|--------------|-------------|-----------------------------|
| | Balance June 30, 2012 | Additions | Transfers | Disposals | |
| COST OF CAPITAL ASSETS | | | | | |
| Buildings | \$ 375,846,418 | \$ 5,904,594 | \$ 1,635,349 | \$ - | \$ 383,386,361 |
| Land improvements | 8,483,041 | - | - | - | 8,483,041 |
| Equipment | 2,590,759 | 211,592 | - | - | 2,802,351 |
| Land | 39,120,766 | - | - | - | 39,120,766 |
| Construction in progress | 491,684 | 6,837,420 | (1,635,349) | - | 5,693,755 |
| Total cost of capital assets | 426,532,668 | 12,953,606 | - | - | 439,486,274 |
| ACCUMULATED DEPRECIATION | | | | | |
| Buildings | (61,727,786) | (9,361,462) | - | - | (71,089,248) |
| Land improvements | (6,888,749) | (378,215) | - | - | (7,266,964) |
| Equipment | (2,114,187) | (223,067) | - | - | (2,337,254) |
| Total accumulated depreciation | (70,730,722) | (9,962,744) | - | - | (80,693,466) |
| NET BOOK VALUE | \$ 355,801,946 | \$ 2,990,862 | \$ - | \$ - | \$ 358,792,808 |

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 5 - CAPITAL ASSETS - CONTINUED

| | 2012 | | | | Balance June 30, 2012 |
|---------------------------------|-----------------------------|-----------------------|-------------|-------------|-----------------------------|
| | Balance June 30, 2011 | Additions | Transfers | Disposals | |
| COST OF CAPITAL ASSETS | | | | | |
| Buildings | \$ 375,708,430 | \$ 137,988 | \$ - | \$ - | \$ 375,846,418 |
| Land improvements | 8,483,041 | - | - | - | 8,483,041 |
| Equipment | 2,428,299 | 162,460 | - | - | 2,590,759 |
| Land | 39,037,764 | 83,002 | - | - | 39,120,766 |
| Construction in progress | - | 491,684 | - | - | 491,684 |
| Total cost of capital assets | 425,657,534 | 875,134 | - | - | 426,532,668 |
| ACCUMULATED DEPRECIATION | | | | | |
| Buildings | (52,508,298) | (9,219,488) | - | - | (61,727,786) |
| Land improvements | (6,510,534) | (378,215) | - | - | (6,888,749) |
| Equipment | (1,923,017) | (191,170) | - | - | (2,114,187) |
| Total accumulated depreciation | (60,941,849) | (9,788,873) | - | - | (70,730,722) |
| NET BOOK VALUE | <u>\$ 364,715,685</u> | <u>\$ (8,913,739)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 355,801,946</u> |

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2013 and 2012 is as follows:

| | 2013 | | | | |
|-------------------------------------|----------------------|---------------------|-----------------------|----------------------|---------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Position |
| Revenue bonds payable | \$ 87,370,000 | \$ - | \$ (2,170,000) | \$ 85,200,000 | \$ 2,145,000 |
| Notes payable | 4,995,000 | - | (635,000) | 4,360,000 | 660,000 |
| | <u>92,365,000</u> | <u>-</u> | <u>(2,805,000)</u> | <u>89,560,000</u> | <u>2,805,000</u> |
| Other liabilities | | | | | |
| Accrued compensated absences | 2,096,882 | 175,347 | (161,688) | 2,110,541 | 161,688 |
| Accounts payable for capital assets | - | 1,234,836 | - | 1,234,836 | - |
| | <u>-</u> | <u>1,234,836</u> | <u>-</u> | <u>1,234,836</u> | <u>-</u> |
| | <u>\$ 94,461,882</u> | <u>\$ 1,410,183</u> | <u>\$ (2,966,688)</u> | <u>\$ 92,905,377</u> | <u>\$ 2,966,688</u> |
| | | | | | |
| | 2012 | | | | |
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Position |
| Revenue bonds payable | \$ 89,475,000 | \$ - | \$ (2,105,000) | \$ 87,370,000 | \$ 2,170,000 |
| Notes payable | 5,605,000 | - | (610,000) | 4,995,000 | 635,000 |
| | <u>95,080,000</u> | <u>-</u> | <u>(2,715,000)</u> | <u>92,365,000</u> | <u>2,805,000</u> |
| Other liabilities | | | | | |
| Accrued compensated absences | 1,956,924 | 293,785 | (153,827) | 2,096,882 | 153,827 |
| | <u>1,956,924</u> | <u>293,785</u> | <u>(153,827)</u> | <u>2,096,882</u> | <u>153,827</u> |
| | <u>\$ 97,036,924</u> | <u>\$ 293,785</u> | <u>\$ (2,868,827)</u> | <u>\$ 94,461,882</u> | <u>\$ 2,958,827</u> |

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

Revenue bonds payable consist of 2.08% to 5.01% Athletic Facilities Revenue Bonds, Series 2003 and 2004, and the General Revenue Bonds, Series 2010 A and B with an outstanding balance of \$85,200,000 and \$87,370,000 at June 30, 2013 and 2012, respectively, which mature in varying amounts to August 1, 2039. The Athletic Facilities Revenue Bonds, Series 2003 and 2004, and the General Revenue Bonds, Series 2010 A and B, are part of a project to construct, improve, renovate and enlarge athletic facilities.

Principal and interest on these 2003 and 2004 revenue bonds are collateralized by a pledge of revenues generated from the use and services of the University Athletics Program, a dedicated Athletics Student Activity Fee, dedicated use tax collections received from the City of Stillwater, 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 2003 and 2004, are subject to redemption prior to maturity at the option of the Board of Regents on 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.

Principal and Interest for the General Revenue Bonds, Series 2010 A and B, are secured by a pledge of the general revenues of the financing system created in fiscal year 2009. General revenues consist of all lawfully available funds excluding: (i) revenues appropriated by the Oklahoma Legislature from tax receipts; (ii) funds whose purpose has been restricted by the donors or grantors thereof to a purpose inconsistent with the payment of obligations; and (iii) funds pledged pursuant to separate bond resolutions to revenue bond issues issued and outstanding prior to the creation of the financing system. While General University revenues are pledged, the payment of these liabilities will be made by the University Athletics Program.

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 was 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 had a subordinate lien on the athletics revenues, subject in all respects to payments on the 1998 bonds. In August 2003, the University refunded the 1998 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 a pledge of Section 13 and New College Funds. 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 3.875% to 4.35%.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

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> |
|-----------|----------------------|---------------------|----------------------------|----------------------|---------------------------|
| 2014 | 2,145,000 | 660,000 | 2,805,000 | 3,949,278 | 6,754,278 |
| 2015 | 2,205,000 | 680,000 | 2,885,000 | 3,855,927 | 6,740,927 |
| 2016 | 2,290,000 | 710,000 | 3,000,000 | 3,753,214 | 6,753,214 |
| 2017 | 2,375,000 | 740,000 | 3,115,000 | 3,640,468 | 6,755,468 |
| 2018 | 2,455,000 | 770,000 | 3,225,000 | 3,516,896 | 6,741,896 |
| 2019-2023 | 13,965,000 | 800,000 | 14,765,000 | 15,670,766 | 30,435,766 |
| 2024-2028 | 17,510,000 | - | 17,510,000 | 11,974,441 | 29,484,441 |
| 2029-2033 | 21,990,000 | - | 21,990,000 | 7,465,200 | 29,455,200 |
| 2034-2038 | 16,050,000 | - | 16,050,000 | 2,355,763 | 18,405,763 |
| 2039-2040 | <u>4,215,000</u> | <u>-</u> | <u>4,215,000</u> | <u>191,813</u> | <u>4,406,813</u> |
| | <u>\$ 85,200,000</u> | <u>\$ 4,360,000</u> | <u>\$ 89,560,000</u> | <u>\$ 56,373,766</u> | <u>\$ 145,933,766</u> |

Defeased Revenue Bonds

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, 2013 was \$5,840,000.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

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 tort, educator's legal liability, property and casualty programs, and fidelity bonding 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 enterprise risk management guidelines for 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 Governmental Tort 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, 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.
- Out-of-state and out-of-country comprehensive general liability, educator's legal liability including employment practices, auto liability, aircraft liability, watercraft liability, leased vehicles, equipment, and fidelity bonds are acquired 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.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 7 - RISK MANAGEMENT - CONTINUED

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, 2013.

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 or changes in net 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 previously privately held property acquired by arms-length transactions. The land is being used to upgrade, recreate and expand virtually all athletic venues.

The University Athletics Program utilizes certain office space and equipment under operating leases which are one year lease agreements that get extended each year. Rent expense under operating leases was \$84,790 and \$91,313 for the years ended June 30, 2013 and 2012, respectively.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE 9 – SUBSEQUENT EVENTS

The University Athletics Program has evaluated events or transactions that occurred subsequent to June 30, 2013 through October 30, 2013, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

The General Revenue Refunding Bonds, Series 2013B in the par amount of \$19,365,000 closed on August 29, 2013. Gross bond proceeds, including discount and premium, totaled \$19,597,352.

Proceeds of the Series 2013B Bonds were used to currently refund the Issuer's Board of Regents for the Oklahoma Agricultural and Mechanical Colleges Oklahoma State University Athletic Facilities Revenue Bonds, Series 2003 (Phase I Football Stadium Renovation Project) (the "2003 OSU Bonds"), in the original amount of \$19,385,000, of which \$15,635,000 were outstanding at June 30, 2013. Principal of the 2003 OSU Bonds to be refunded with proceeds of the 2013B Bonds will be \$15,635,000 plus accrued interest to the October 1, 2013, redemption date.

Proceeds of the Series 2013B Bonds were used to currently refund The Oklahoma Development Finance Authority Public Facilities Financing Program Revenue Bonds (Oklahoma State University Athletic Facilities Project) Refunding Series 2003 (the "2003 ODFA Bonds"), in the original amount of \$9,430,000, of which \$3,700,000 were outstanding. Principal of the 2003 ODFA Bonds to be refunded with proceeds of the 2013B Bonds will be \$3,700,000 plus accrued interest to the October 1, 2013, redemption date.

Upon closing on August 29, 2013, \$19,499,636 was wired to the Bank of New York Mellon, trustee for both the above referenced 2003 issues. The outstanding bonds for both the 2003 OSU Bonds and the 2003 ODFA Bonds are expected to be redeemed on October 1, 2013.

Refunding of the 2003 OSU Bonds and 2003 ODFA Bonds was undertaken to achieve debt service savings by reducing the debt payments currently being paid on the two issues.

DISCRETELY PRESENTED COMPONENT UNIT

Consolidated financial statements and report of
independent certified public accountants

Cowboy Athletics, Inc.

December 31, 2012 and 2011

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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www.GrantThornton.com

Report on the financial statements

We have audited the accompanying consolidated financial statements of Cowboy Athletics, Inc. and its subsidiaries (collectively, the “Company”) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Company’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of Cowboy Athletics, Inc. as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A.4 to the financial statements, the Company adopted new accounting guidance in 2012 related to the accounting for interest costs. Our opinion is not modified with respect to this matter.

Other matters**Required supplementary information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 6, 2013 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Grant Thornton LLP

Oklahoma City, Oklahoma

August 6, 2013

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 "Company") provides an introduction to the consolidated financial statements as of and for the years ended December 31, 2012 and 2011.

The Company (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 Company is considered a component unit of Oklahoma State University.

Financial Highlights

At December 31, 2012, 2011 and 2010, the Company's net position was:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------------------|-----------------------|------------------------|------------------------|
| Assets | \$ <u>121,179,000</u> | \$ <u>85,567,000</u> | \$ <u>82,540,000</u> |
| Liabilities | \$ <u>108,796,000</u> | \$ <u>102,037,000</u> | \$ <u>97,580,000</u> |
| Net position | | | |
| Invested in capital assets | \$ 13,997,000 | \$ 14,297,000 | \$ 14,666,000 |
| Restricted | | | |
| Expendable for OSU Athletics | 30,617,000 | 23,883,000 | 2,280,000 |
| Non-expendable | 2,562,000 | 2,562,000 | 2,562,000 |
| Unrestricted | <u>(34,793,000)</u> | <u>(57,212,000)</u> | <u>(34,548,000)</u> |
| Total net position | \$ <u>12,383,000</u> | \$ <u>(16,470,000)</u> | \$ <u>(15,040,000)</u> |

For the year ended December 31, 2012, the Company's operating revenues were \$44,493,000, compared to positive revenues of \$9,875,000 and \$4,140,000 in 2011 and 2010, respectively. For the year ended December 31, 2012, the Company experienced an increase in net position of \$27,640,000, compared to a decrease in net position of \$1,430,000 and \$37,891,000 in 2011 and 2010, respectively.

Using this Annual Report

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

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

These two statements report the Company's net position and changes in them. The Company's net position - the difference between assets and liabilities - are one way to measure the Company's financial health, or financial position. Over time, increases or decreases in the Company's net position 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 Company.

Cowboy Athletics, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Using this Annual Report - Continued

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 Company 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 Company. 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 position. 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 Position

The following summarizes the Company's statements of net position at December 31, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---------------------------------|----------------|-----------------|-----------------|
| ASSETS | | | |
| Current assets | \$ 72,035,000 | \$ 44,999,000 | \$ 47,013,000 |
| Noncurrent assets | 49,144,000 | 40,568,000 | 35,527,000 |
| Total assets | \$ 121,179,000 | \$ 85,567,000 | \$ 82,540,000 |
| LIABILITIES | | | |
| Current liabilities | \$ 68,214,000 | \$ 69,437,000 | \$ 40,546,000 |
| Noncurrent liabilities | 40,582,000 | 32,600,000 | 57,034,000 |
| Total liabilities | \$ 108,796,000 | \$ 102,037,000 | \$ 97,580,000 |
| NET POSITION | | | |
| Invested in capital assets, net | \$ 13,997,000 | \$ 14,297,000 | \$ 14,666,000 |
| Restricted | | | |
| Expendable for OSU Athletics | 30,617,000 | 23,883,000 | 2,280,000 |
| Non-expendable | 2,562,000 | 2,562,000 | 2,562,000 |
| Unrestricted | (34,793,000) | (57,212,000) | (34,548,000) |
| Total net position | \$ 12,383,000 | \$ (16,470,000) | \$ (15,040,000) |

At December 31, 2012, 2011 and 2010, current assets consisted primarily of cash and cash equivalents, short-term investments and receivables. Noncurrent assets consisted of long-term investments and capital assets, net of accumulated depreciation.

Cowboy Athletics, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Condensed Statements of Revenues, Expenses and Changes in Net Assets

The following summarizes the Company's statements of revenues, expenses, and changes in net position for the years ended December 31, 2012, 2011 and 2010:

| | 2012 | | 2011 | | 2010 | |
|--|----------------------|---------------|------------------------|----------------|------------------------|----------------|
| OPERATING REVENUES | | | | | | |
| Contributions | \$ 31,630,000 | 71.1% | \$ 7,489,000 | 75.8% | \$ 2,856,000 | 69.0% |
| Food and beverage | 2,467,000 | 5.5% | 2,341,000 | 23.7% | 1,970,000 | 47.6% |
| Golf course operations | 1,717,000 | 3.9% | 1,657,000 | 16.8% | 1,593,000 | 38.5% |
| Other revenue | 11,309,000 | 25.4% | 175,000 | 1.8% | 176,000 | 4.2% |
| Investment income | <u>(2,630,000)</u> | <u>(5.9)%</u> | <u>(1,787,000)</u> | <u>(18.1)%</u> | <u>(2,455,000)</u> | <u>(59.3)%</u> |
| Total operating revenues | 44,493,000 | 100.0% | 9,875,000 | 100.0% | 4,140,000 | 100.0% |
| OPERATING EXPENSES | | | | | | |
| Salaries and benefits | 1,744,000 | 25.6% | 1,633,000 | 24.9% | 1,688,000 | 25.1% |
| Life insurance expense | 433,000 | 6.4% | 999,000 | 15.2% | 1,113,000 | 16.5% |
| OSU budgetary contribution | 75,000 | 1.1% | 103,000 | 1.6% | 322,000 | 4.8% |
| Depreciation | 621,000 | 9.1% | 621,000 | 9.4% | 633,000 | 9.4% |
| Other operating expenses | <u>3,937,000</u> | <u>57.8%</u> | <u>3,207,000</u> | <u>48.9%</u> | <u>2,972,000</u> | <u>44.2%</u> |
| Total operating expenses | <u>6,810,000</u> | <u>100.0%</u> | <u>6,563,000</u> | <u>100.0%</u> | <u>6,728,000</u> | <u>100.0%</u> |
| Operating income (loss) | 37,683,000 | | 3,312,000 | | (2,588,000) | |
| NONOPERATING EXPENSES | | | | | | |
| Interest expense | 3,842,000 | | 4,742,000 | | 4,148,000 | |
| Other capital contributions to OSU | <u>6,201,000</u> | | <u>-</u> | | <u>31,155,000</u> | |
| Total nonoperating expenses | <u>10,043,000</u> | | <u>4,742,000</u> | | <u>35,303,000</u> | |
| Change in net position | 27,640,000 | | (1,430,000) | | (37,891,000) | |
| Net position at beginning of year | (16,470,000) | | (15,040,000) | | 22,851,000 | |
| Cumulative effect of change in accounting principle. | <u>1,213,000</u> | | <u>-</u> | | <u>-</u> | |
| Net position at end of year | <u>\$ 12,383,000</u> | | <u>\$ (16,470,000)</u> | | <u>\$ (15,040,000)</u> | |

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

Operating expenses incurred by the Company 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 and capital contributions to OSU.

Cowboy Athletics, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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 Company's cash flows for the years ended December 31, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|------------------------------|---------------------|---------------------|---------------------|
| Cash provided by (used in) | | | |
| Operating activities | \$ 13,794,000 | \$ 6,466,000 | \$ (846,000) |
| Capital financing activities | (14,687,000) | (6,857,000) | (375,000) |
| Investing activities | 7,000 | 12,000 | 28,000 |
| | <u>(886,000)</u> | <u>(379,000)</u> | <u>(1,193,000)</u> |
| Net change in cash | | | |
| | <u>3,873,000</u> | <u>4,252,000</u> | <u>5,445,000</u> |
| Cash at beginning of year | | | |
| | <u>3,873,000</u> | <u>4,252,000</u> | <u>5,445,000</u> |
| Cash at end of year | <u>\$ 2,987,000</u> | <u>\$ 3,873,000</u> | <u>\$ 4,252,000</u> |

Capital Assets and Debt Administration

Capital assets at December 31, 2012, 2011 and 2010

At December 31, 2012, 2011 and 2010, the Company had \$46,582,000, \$37,575,000 and \$31,538,000, respectively, invested in capital assets, net of accumulated depreciation of \$6,498,000, \$5,881,000 and \$5,260,000, respectively. Depreciation charges totaled \$621,000, \$621,000, and \$633,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

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

Outstanding debt at December 31, 2012, 2011 and 2010

At December 31, 2012, 2011 and 2010, the Company had \$96,421,000, \$92,712,000 and \$89,089,000, respectively, in debt outstanding, of which \$60,888,000, \$60,112,000 and \$37,055,000, respectively, was considered current and \$35,533,000, \$32,600,000 and \$52,034,000, respectively, was considered noncurrent. More detailed information about the Company's outstanding debt is presented in Note E of the financial statements.

Cowboy Athletics, Inc.

CONSOLIDATED STATEMENTS OF NET POSITION

December 31,

| ASSETS | <u>2012</u> | <u>2011</u> |
|---|------------------------------|-----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,987,000 | \$ 3,873,000 |
| Investments | 36,046,000 | 38,714,000 |
| Restricted investments | 1,443,000 | 1,759,000 |
| Derivative instrument | 445,000 | 98,000 |
| Receivables, net | 212,000 | 284,000 |
| Contribution receivable | 19,434,000 | - |
| Life insurance receivable | 11,248,000 | - |
| Inventories | 159,000 | 134,000 |
| Prepaid and other | <u>61,000</u> | <u>137,000</u> |
| Total current assets | 72,035,000 | 44,999,000 |
| NONCURRENT ASSETS | | |
| Restricted investments | 2,562,000 | 2,562,000 |
| Cash surrender value of cancelled life insurance policies | - | 431,000 |
| Capital assets | | |
| Capital assets being depreciated, net | 9,660,000 | 10,026,000 |
| Capital assets not being depreciated | <u>36,922,000</u> | <u>27,549,000</u> |
| | 46,582,000 | 37,575,000 |
| Total noncurrent assets | 49,144,000 | 40,568,000 |
| Total assets | \$ <u>121,179,000</u> | \$ <u>85,567,000</u> |

The accompanying notes are an integral part of these statements.

Cowboy Athletics, Inc.

CONSOLIDATED STATEMENTS OF NET POSITION - CONTINUED

December 31,

| | 2012 | 2011 |
|---|----------------------|-----------------|
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 2,392,000 | \$ 1,065,000 |
| Accrued expenses | 4,016,000 | 2,892,000 |
| Retainage payable | 629,000 | 132,000 |
| Other current liabilities | 18,000 | 17,000 |
| Unearned revenues | 271,000 | 219,000 |
| Contribution payable to related party | - | 5,000,000 |
| Current portion of long-term debt | 60,888,000 | 60,112,000 |
| Total current liabilities | 68,214,000 | 69,437,000 |
| NONCURRENT LIABILITIES | | |
| Contribution payable to related party | 5,000,000 | - |
| Long-term debt, net of current portion | 35,533,000 | 32,600,000 |
| Other long-term liabilities | 49,000 | - |
| Total noncurrent liabilities | 40,582,000 | 32,600,000 |
| Total liabilities | 108,796,000 | 102,037,000 |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 13,997,000 | 14,297,000 |
| Restricted | | |
| Expendable for OSU Athletics | 30,617,000 | 23,883,000 |
| Non-expendable | 2,562,000 | 2,562,000 |
| Unrestricted net position | (34,793,000) | (57,212,000) |
| Total net position | \$ 12,383,000 | \$ (16,470,000) |

The accompanying notes are an integral part of these statements.

Cowboy Athletics, Inc.

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year ended December 31,

| | 2012 | 2011 |
|---|---------------|-----------------|
| OPERATING REVENUES | | |
| Contributions | \$ 31,630,000 | \$ 7,489,000 |
| Food and beverage | 2,467,000 | 2,341,000 |
| Golf course rounds | 485,000 | 345,000 |
| Golf course pro shop | 414,000 | 466,000 |
| Golf course lodge | 149,000 | 129,000 |
| Golf course membership | 668,000 | 707,000 |
| Golf instruction | 1,000 | 10,000 |
| Life insurance proceeds | 11,248,000 | - |
| Other revenue | 61,000 | 175,000 |
| Interest and dividends | 7,000 | 12,000 |
| Realized and unrealized losses | (2,637,000) | (1,799,000) |
| Total operating revenues | 44,493,000 | 9,875,000 |
| OPERATING EXPENSES | | |
| Food and beverage cost of goods sold | 1,689,000 | 1,319,000 |
| Golf course proshop cost of goods sold | 232,000 | 267,000 |
| Life insurance expense | 433,000 | 999,000 |
| Contributions to OSU for budget support | 75,000 | 103,000 |
| Salaries | 1,744,000 | 1,633,000 |
| Depreciation | 621,000 | 621,000 |
| Professional fees | 532,000 | 79,000 |
| Supplies | 227,000 | 160,000 |
| Insurance | 203,000 | 204,000 |
| Repairs and maintenance | 229,000 | 242,000 |
| Payroll and property taxes | 139,000 | 152,000 |
| Equipment rental | 113,000 | 114,000 |
| Utilities | 193,000 | 188,000 |
| Laundry service | 42,000 | 51,000 |
| Credit card processing fees | 49,000 | 49,000 |
| Fuel | 23,000 | 25,000 |
| Other operating expenses | 266,000 | 357,000 |
| Total operating expenses | 6,810,000 | 6,563,000 |
| Net operating income | 37,683,000 | 3,312,000 |
| NONOPERATING EXPENSES | | |
| Interest expense | 3,842,000 | 4,742,000 |
| Capital contributions to OSU | 6,201,000 | - |
| Nonoperating expenses | 10,043,000 | 4,742,000 |
| CHANGE IN NET POSITION | 27,640,000 | (1,430,000) |
| NET POSITION AT BEGINNING OF PERIOD | (16,470,000) | (15,040,000) |
| Cumulative effect of change in accounting principle | 1,213,000 | - |
| NET POSITION AT END OF PERIOD | \$ 12,383,000 | \$ (16,470,000) |

The accompanying notes are an integral part of these statements.

Cowboy Athletics, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

| | 2012 | 2011 |
|---|---------------|--------------|
| Cash flows from operating activities | | |
| Cash contributions received from the OSU Foundation and others | \$ 12,196,000 | \$ 7,412,000 |
| Cash received from members and customers | 4,370,000 | 4,054,000 |
| Cash paid to suppliers and employees | (2,772,000) | (5,000,000) |
| Net cash provided by operating activities | 13,794,000 | 6,466,000 |
| Cash flows from investing activities | | |
| Cash received from investment income | 7,000 | 12,000 |
| Net cash provided by investing activities | 7,000 | 12,000 |
| Cash flows from capital and related financing activities | | |
| Payment for acquisition of capital assets | (14,547,000) | (6,658,000) |
| Interest paid on debt | (3,842,000) | (3,822,000) |
| Acquisition of debt | 62,573,000 | 14,522,000 |
| Repayment of debt and capital lease | (58,871,000) | (10,899,000) |
| Net cash used in capital and related financing activities | (14,687,000) | (6,857,000) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (886,000) | (379,000) |
| Cash and cash equivalents at beginning of year | 3,873,000 | 4,252,000 |
| Cash and cash equivalents at end of year | \$ 2,987,000 | \$ 3,873,000 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 37,683,000 | \$ 3,312,000 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation expense | 621,000 | 621,000 |
| Realized and unrealized losses on investments | 2,637,000 | 1,799,000 |
| Interest and dividends received | (7,000) | (12,000) |
| Noncash contribution | (19,434,000) | - |
| Investment contribution | - | (77,000) |
| Loss on disposition of capital assets | 1,000 | - |
| Changes in assets and liabilities: | | |
| Receivables, net and life insurance receivable | (11,176,000) | (71,000) |
| Inventory | (25,000) | (8,000) |
| Prepaid and other assets | 76,000 | (8,000) |
| Cash surrender value of cancelled life insurance policies | 431,000 | 996,000 |
| Accounts payable, accrued expenses, retainage payable and other current liabilities | 2,935,000 | (38,000) |
| Unearned revenues | 52,000 | (48,000) |
| Net cash provided by operating activities | \$ 13,794,000 | \$ 6,466,000 |

The accompanying notes are an integral part of these statements.

Cowboy Athletics, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

| | <u>2012</u> | <u>2011</u> |
|--|-----------------------|-------------|
| NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS | | |
| Fixed assets acquired by incurring capital lease obligations | \$ <u>70,000</u> | \$ <u>-</u> |
| Fixed assets contributed to Oklahoma State University | \$ <u>(6,201,000)</u> | \$ <u>-</u> |
| Cumulative effect of change in accounting principle | \$ <u>1,213,000</u> | \$ <u>-</u> |

The accompanying notes are an integral part of these statements.

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

Cowboy Athletics, Inc. is a not-for-profit Oklahoma Company organized to support the Oklahoma State University (the "University") athletic organizations and other educational programs associated with the University. The Company changed its name from OSU Cowboy Golf, Inc. effective May 9, 2006 and is the sole member or shareholder of the following 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's 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. Golf Spirit, Inc. is a not-for-profit Oklahoma Company organized for the benefit of OSU Cowboy Golf, L.L.C.

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

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 company organized to provide financial oversight of its wholly owned subsidiary, Cowboy Land Development, Inc. ("Land"). Land is a company organized to acquire, develop and sell real estate surrounding Karsten Creek. OSUF Holding Company and Land do not have any assets or activity at December 31, 2012 and 2011 and the years then ended.

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

2. 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 Company. The Company has no component units. The Company is a component unit of the University, and its financial statements are discretely presented in the financial statements of the University.

3. Basis of Accounting

For financial reporting purposes, the Company is considered a special purpose government engaged only in business-type activities. Accordingly, the Company'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.

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

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

3. Basis of Accounting - continued

Although the Company is legally a 501(c)(3) not-for-profit organization, the Company 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 Company has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Company has elected to not apply FASB pronouncements issued after the applicable date.

4. Change in Accounting Principle

For the year ended December 31, 2012, the Company adopted the provisions of GASB Statement No. 62 "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*" (GASB 62). GASB 62 incorporates certain accounting and financial reporting guidance that is included in pronouncements of the Financial Accounting Standards Board Statements and Interpretations and Accounting Principles Board opinions issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements for all state and local governments. Retroactive application of GASB 62 resulted in an approximate \$1,213,000 cumulative effect for the capitalization of interest as it relates to the construction of capital assets. This change is presented on the 2012 Consolidated Statement of Revenues, Expenses and Change in Net Position.

The following is the pro forma effects of retroactive application of the adoption of GASB 62 on the 2011 financial statements:

| | |
|---|------------------------|
| Pro forma effect of change in accounting principle | |
| Change in net position as originally reported | \$ (1,430,000) |
| Pro forma effect of adoption of GASB 62 | <u>336,000</u> |
| Pro forma change in net position | \$ <u>(1,094,000)</u> |
| Net position at beginning of period, as originally reported | \$(15,040,000) |
| Pro forma effect of adoption of GASB 62 | <u>877,000</u> |
| Pro forma net position at beginning of period | \$ <u>(14,163,000)</u> |
| Net position at end of period, as originally reported | \$(16,470,000) |
| Pro forma effect of adoption of GASB 62 | <u>1,213,000</u> |
| Pro forma net position at end of period | \$ <u>(15,257,000)</u> |

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

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

5. 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.

6. Revenue Recognition

The Company's revenues consist primarily of contributions from the private sector, including individuals and Companies, 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 Company, 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 Company at which time the Company recognizes contribution revenue. Other contributions are recorded when received or when a donor has announced an intention to give, and the Company believes that collection is probable. Green fees are recognized when earned. Food, beverage, and pro shop 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 position.

7. Tax Status

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

8. Cash and Cash Equivalents

The Company 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.

9. Investments

Through an investment manager that is also on the board of directors, the Company primarily invests in limited partnerships to promote growth of the Company's investments. Investments in the limited partnerships are reported at fair value in the consolidated statements of net position. Changes in the fair value of these investments are reported as investment income in the consolidated statements of revenues, expenses, and changes in net position. The Company also maintains investments in equity securities, which are recorded at fair value. Investments are classified as current or noncurrent based on the expected purpose for which they will be used. Investments that are externally restricted to make debt service payments or to purchase or construct capital assets are classified as noncurrent assets in the statements of net assets. See further discussion of these investments at Note B.

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

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

10. Derivative Instruments

The Company invests in investment derivative instruments, primarily commodity futures contracts, which are recorded at fair market value based on quoted market prices in the consolidated statements of net position. Changes in fair value of these instruments are reported as investment income in the consolidated statements of revenues, expenses, and changes in net position.

11. Inventories

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

12. 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 Company'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.

Costs incurred during construction of long-lived assets are recorded as construction in process and are not depreciated until placed in service. With the implementation of GASB 62, the Company allocates and capitalizes interest for other constructed assets by applying the cost of borrowing rate to qualifying assets. The Company capitalized approximately \$642,000 to construction work in progress for 2012. The cumulative effect of the retroactive application of GASB 62 resulted in an increase of approximately \$1,213,000 of capitalized interest. In 2012 and 2011, total interest incurred was \$4,500,000 and \$4,767,000. In 2012, \$285,000 of capitalized interest was contributed to the University with completed capital contributions while no such transfers occurred in 2011.

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.

13. Cash Surrender Value of Cancelled Life Insurance Policies

Based upon the representations made by certain life insurance agents generally regarding a charitable endowment program funded with life insurance, the Company purchased universal life insurance policies in 2007 from a life insurance company on twenty-seven participating donors naming the Company as the beneficiary of the insurance policies which had initial death benefits of \$10,000,000 per policy. The insurance company issued individual contracts for each insured when the policies were purchased. Thereafter the Company timely elected to cancel the subject life insurance contracts pursuant to the terms of such contracts but the insurance company refused such cancellations and has instead continued to provide the Company with annual statements of values for these cancelled life insurance contracts. During 2010, the Company initiated litigation with the provider of these policies and certain of its agents seeking equitable and monetary relief, including having these policies voided and premiums refunded. The insurer has sued the Company and one of its board members regarding such cancellations also seeking equitable and monetary relief. No additional premiums were paid during 2011 or 2010. During March 2012, a judge dismissed the case, but the Company appealed that decision, and in April 2013, the appeal was dismissed. Given the pendency of this litigation at December 31, 2011 and the insurance company's continued refusal to cancel the life insurance contracts, the

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

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

13. Cash Surrender Value of Cancelled Life Insurance Policies - Continued

cash surrender values of these policies as of December 31, 2011 was reported as provided by the policy provider as is consistent with the treatment in prior periods. Cash surrender values of the life insurance policies represents the value of funds ostensibly available to the Company if the policies had not been cancelled previously. Under such circumstances and according to the life insurance company, such values at December 31, 2012 and 2011 were \$0 and \$431,000, respectively. The cash surrender value reported by the life insurer at December 31, 2011 is attributable to one policy. As a result of the dismissal of the case in 2013, the Company recorded a receivable for the life insurance proceeds of a covered donor who passed away in December 2012 for approximately \$11,200,000. The receivable was collected in May 2013.

14. Net Assets

The Company's net position is classified as follows:

Invested in capital assets, net of related debt: This represents the Company'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 position - expendable.

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

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

Unrestricted net position: Unrestricted net position represents resources that 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 Company'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.

15. Classification of Revenues

The Company has classified its revenues as either operating or nonoperating revenues. Operating revenues include transactions that constitute the Company'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, 2012 and 2011, the Company had no nonoperating revenues.

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

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

16. Risk Management

The Company 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.

17. New Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

NOTE B - DEPOSITS AND INVESTMENTS

1. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company has cash and cash equivalents on deposit in financial institutions of \$1,924,000 and \$2,669,000 at December 31, 2012 and 2011, respectively, that are fully insured by the Federal Depository Insurance Company ("FDIC").

At December 31, 2012 and 2011, the Company has cash and cash equivalents on deposit with a financial institution of \$1,062,000 and \$1,202,000, 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.

At December 31, 2012 and 2011, the Company had the following investments:

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Energy equity fund limited partnerships | \$ 21,261,000 | \$ 24,436,000 |
| Energy fund limited partnerships | 5,538,000 | 4,991,000 |
| Equity securities | 3,227,000 | 4,157,000 |
| Money market fund | <u>10,025,000</u> | <u>9,451,000</u> |
| | <u>\$ 40,051,000</u> | <u>\$ 43,035,000</u> |

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE B - DEPOSITS AND INVESTMENTS - CONTINUED

2. Interest Rate Risk

The Company 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, 2012 and 2011, the Company is not invested in any instruments with stated maturities.

3. Credit Risk

The Company's investments are primarily managed by BP Capital, owned by one of the Board members. In accordance with the Company's conflict of interest policy, BP Capital does not charge the Company a management fee for its investment advisory services. The Company'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 Company's initial investment in the partnerships, adjusted for a portion of the partnerships' investment performance allocated to the Company, 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 Company'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 Company'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, 2012 and 2011.

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE C - DERIVATIVE INSTRUMENTS

The Company has entered into various commodity futures contracts which are considered investment derivative instruments. Following is a summary of the open commodity futures contracts at December 31, 2012.

| Description | Number of Open Contracts | Average Purchase Price Per Unit | Fair Market Value Per Unit at December 31, 2012 | Change in Fair Value during 2012 | Fair Market Value at December 31, 2012 |
|----------------------------------|--------------------------------|--|--|--|---|
| January 2015 NYM Nat Gas | 1 | \$ 6.09 | \$ 4.41 | \$ (3,000) | \$ (17,000) |
| February 2015 NYM Nat Gas | 1 | 6.07 | 4.38 | (3,000) | (17,000) |
| March 2015 NYM Nat Gas | 1 | 5.99 | 4.30 | (3,000) | (17,000) |
| April 2015 NYM Nat Gas | 1 | 5.74 | 4.07 | (4,000) | (17,000) |
| May 2015 NYM Nat Gas | 1 | 5.75 | 4.08 | (4,000) | (17,000) |
| June 2015 NYM Nat Gas | 1 | 5.80 | 4.10 | (4,000) | (17,000) |
| July 2015 NYM Nat Gas | 1 | 5.82 | 4.14 | (4,000) | (17,000) |
| August 2015 NYM Nat Gas | 1 | 5.86 | 4.15 | (4,000) | (17,000) |
| September 2015 NYM Nat Gas | 1 | 5.87 | 4.16 | (4,000) | (17,000) |
| October 2015 NYM Nat Gas | 1 | 5.94 | 4.19 | (4,000) | (17,000) |
| November 2015 NYM Nat Gas | 1 | 6.07 | 4.28 | (4,000) | (18,000) |
| December 2015 NYM Nat Gas | 1 | 6.28 | 4.48 | (4,000) | (18,000) |
| February 2013 IPE BRENT Crude | 80 | 106.47 | 111.11 | 371,000 | 371,000 |
| February 2013 IPE BRENT Crude | 40 | 107.88 | 111.11 | 129,000 | 129,000 |
| February 2013 IPE BRENT Crude | 40 | 107.34 | 111.11 | 151,000 | 151,000 |
| Total | | | | \$ 606,000 | \$ 445,000 |

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE C - DERIVATIVE INSTRUMENTS - CONTINUED

Following is a summary of the open commodity futures contracts at December 31, 2011.

| Description | Number of Open Contracts | Average Purchase Price Per Unit | Fair Market Value Per Unit at December 31, 2011 | Change in Fair Value during 2011 | Fair Market Value at December 31, 2011 |
|----------------------------------|--------------------------------|--|--|--|---|
| February 2012 NY Lt Crude | 94 | \$ 100.08 | \$ 98.83 | \$ 118,000 | \$ 118,000 |
| January 2015 NYM Nat Gas | 1 | 6.09 | 4.73 | (14,000) | (14,000) |
| February 2015 NYM Nat Gas | 1 | 6.07 | 4.71 | (14,000) | (14,000) |
| March 2015 NYM Nat Gas | 1 | 5.99 | 4.62 | (14,000) | (14,000) |
| April 2015 NYM Nat Gas | 1 | 5.74 | 4.44 | (13,000) | (13,000) |
| May 2015 NYM Nat Gas | 1 | 5.75 | 4.45 | (13,000) | (13,000) |
| June 2015 NYM Nat Gas | 1 | 5.80 | 4.48 | (13,000) | (13,000) |
| July 2015 NYM Nat Gas | 1 | 5.82 | 4.52 | (13,000) | (13,000) |
| August 2015 NYM Nat Gas | 1 | 5.86 | 4.54 | (13,000) | (13,000) |
| September 2015 NYM Nat Gas | 1 | 5.87 | 4.54 | (13,000) | (13,000) |
| October 2015 NYM Nat Gas | 1 | 5.94 | 4.58 | (14,000) | (14,000) |
| November 2015 NYM Nat Gas | 1 | 6.07 | 4.67 | (14,000) | (14,000) |
| December 2015 NYM Nat Gas | 1 | 6.28 | 4.88 | (14,000) | (14,000) |
| February 2012 IPE BRENT Crude | 98 | 108.36 | 107.38 | 96,000 | 96,000 |
| March 2012 IPE BRENT Crude | 80 | 107.00 | 106.87 | (10,000) | (10,000) |
| March 2012 ICE WTI LSCRD | 80 | 99.70 | 99.00 | 56,000 | 56,000 |
| Total | | | | \$ 98,000 | \$ 98,000 |

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE C - DERIVATIVE INSTRUMENTS - CONTINUED

Investment income, including unrealized gains and losses, related to investment derivative instruments totaled \$922,000 and \$536,000 for the years ended December 31, 2012 and 2011, respectively.

1. Credit Risk

The Company's derivative instruments are managed by one of the Board members through an account with Rosenthal Collins Group LLC, a regulated Futures Commission Merchant. In accordance with the Company's conflict of interest policy, the Company is not charged a management fee for the investment advisory services received. The Company's investments are not restricted to an investment asset allocation policy. The Company's investment in commodity futures contracts is speculative and changes in the fair market value of such investments may fluctuate significantly, and may do so in the near term.

NOTE D - CAPITAL ASSETS, NET

Capital asset activity for the year ended December 31, 2012 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Transfers</u> | <u>Ending Balance</u> |
|--|------------------------------|----------------------|-----------------------|------------------|---------------------------|
| Non-depreciable assets: | | | | | |
| Land | \$ 1,895,000 | \$ - | \$ - | \$ - | \$ 1,895,000 |
| Non-depreciable golf course equipment | 2,442,000 | - | - | - | 2,442,000 |
| Construction in process - projects to be transferred to the University | 23,202,000 | 15,574,000 | (6,201,000) | - | 32,575,000 |
| Construction in process - ongoing operations | <u>10,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,000</u> |
| Total non-depreciable assets | <u>27,549,000</u> | <u>15,574,000</u> | <u>(6,201,000)</u> | <u>-</u> | <u>36,922,000</u> |
| Capital assets being depreciated: | | | | | |
| Buildings | 9,417,000 | 15,000 | - | - | 9,432,000 |
| Depreciable golf course improvements | 3,619,000 | 97,000 | - | - | 3,716,000 |
| Furniture and equipment | 966,000 | 53,000 | (5,000) | - | 1,014,000 |
| Golf course equipment | <u>1,905,000</u> | <u>91,000</u> | <u>-</u> | <u>-</u> | <u>1,996,000</u> |
| Total capital assets being depreciated | 15,907,000 | 256,000 | (5,000) | - | 16,158,000 |
| Less accumulated depreciation: | | | | | |
| Buildings | 1,604,000 | 270,000 | - | - | 1,874,000 |
| Depreciable golf course improvements | 2,122,000 | 146,000 | - | - | 2,268,000 |
| Furniture and equipment | 640,000 | 81,000 | (4,000) | - | 717,000 |
| Golf course equipment | <u>1,515,000</u> | <u>124,000</u> | <u>-</u> | <u>-</u> | <u>1,639,000</u> |
| Total accumulated depreciation | <u>5,881,000</u> | <u>621,000</u> | <u>(4,000)</u> | <u>-</u> | <u>6,498,000</u> |
| Net depreciable assets | <u>10,026,000</u> | <u>(365,000)</u> | <u>(1,000)</u> | <u>-</u> | <u>9,660,000</u> |
| Capital assets, net | <u>\$ 37,575,000</u> | <u>\$ 15,209,000</u> | <u>\$ (6,202,000)</u> | <u>\$ -</u> | <u>\$ 46,582,000</u> |

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE D - CAPITAL ASSETS, NET - CONTINUED

Capital asset activity for the year ended December 31, 2011 was as follows:

| | Beginning Balance | Additions | Deductions | Transfers | Ending Balance |
|--|----------------------|---------------------|-------------|-------------|----------------------|
| Non-depreciable assets: | | | | | |
| Land | \$ 1,895,000 | \$ - | \$ - | \$ - | \$ 1,895,000 |
| Non-depreciable golf course equipment | 2,442,000 | - | - | - | 2,442,000 |
| Construction in process - projects to be transferred to the University | 16,771,000 | 6,431,000 | - | - | 23,202,000 |
| Construction in process - ongoing operations | 10,000 | - | - | - | 10,000 |
| Total non-depreciable assets | <u>21,118,000</u> | <u>6,431,000</u> | <u>-</u> | <u>-</u> | <u>27,549,000</u> |
| Capital assets being depreciated: | | | | | |
| Buildings | 9,345,000 | 72,000 | - | - | 9,417,000 |
| Depreciable golf course improvements | 3,578,000 | 41,000 | - | - | 3,619,000 |
| Furniture and equipment | 919,000 | 47,000 | - | - | 966,000 |
| Golf course equipment | 1,838,000 | 67,000 | - | - | 1,905,000 |
| Total capital assets being depreciated | 15,680,000 | 227,000 | - | - | 15,907,000 |
| Less accumulated depreciation: | | | | | |
| Buildings | 1,338,000 | 266,000 | - | - | 1,604,000 |
| Depreciable golf course improvements | 1,978,000 | 144,000 | - | - | 2,122,000 |
| Furniture and equipment | 562,000 | 78,000 | - | - | 640,000 |
| Golf course equipment | 1,382,000 | 133,000 | - | - | 1,515,000 |
| Total accumulated depreciation | <u>5,260,000</u> | <u>621,000</u> | <u>-</u> | <u>-</u> | <u>5,881,000</u> |
| Net depreciable assets | <u>10,420,000</u> | <u>(394,000)</u> | <u>-</u> | <u>-</u> | <u>10,026,000</u> |
| Capital assets, net | <u>\$ 31,538,000</u> | <u>\$ 6,037,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 37,575,000</u> |

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE E - LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2012 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|-----------------------------|----------------------|---------------|-----------------|-------------------|-----------------------------------|
| Long-term debt | | | | | |
| Promissory note | \$ 26,667,000 | \$ - | \$ (26,667,000) | \$ - | \$ - |
| Promissory note | 8,500,000 | - | (8,500,000) | - | - |
| Note payable | 40,678,000 | 10,606,000 | - | 51,284,000 | 51,284,000 |
| Note payable | 16,800,000 | - | (16,800,000) | - | - |
| Note payable | 67,000 | - | (67,000) | - | - |
| Note payable | - | 51,967,000 | (6,830,000) | 45,137,000 | 9,604,000 |
| | 92,712,000 | 62,573,000 | (58,864,000) | 96,421,000 | 60,888,000 |
| Total long-term debt | | | | | |
| Other liabilities | | | | | |
| Contributions payable | 5,000,000 | - | - | 5,000,000 | - |
| Other long-term liabilities | - | 70,000 | (7,000) | 63,000 | 14,000 |
| | - | 70,000 | (7,000) | 63,000 | 14,000 |
| Total long-term liabilities | \$ 97,712,000 | \$ 62,643,000 | \$ (58,871,000) | \$ 101,484,000 | \$ 60,902,000 |

Long-term liability activity for the year ended December 31, 2011 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|-----------------------------|----------------------|---------------|-----------------|-------------------|-----------------------------------|
| Long-term debt | | | | | |
| Promissory note | \$ 33,333,000 | \$ - | \$ (6,666,000) | \$ 26,667,000 | \$ 6,667,000 |
| Promissory note | 8,500,000 | - | - | 8,500,000 | 8,500,000 |
| Note payable | 26,156,000 | 14,522,000 | - | 40,678,000 | 40,678,000 |
| Note payable | 21,000,000 | - | (4,200,000) | 16,800,000 | 4,200,000 |
| Note payable | 100,000 | - | (33,000) | 67,000 | 67,000 |
| | 89,089,000 | 14,522,000 | (10,899,000) | 92,712,000 | 60,112,000 |
| Total long-term debt | | | | | |
| Other liabilities | | | | | |
| Contributions payable | 5,000,000 | - | - | 5,000,000 | 5,000,000 |
| | 5,000,000 | - | - | 5,000,000 | 5,000,000 |
| Total long-term liabilities | \$ 94,089,000 | \$ 14,522,000 | \$ (10,899,000) | \$ 97,712,000 | \$ 65,112,000 |

In October 2007, the Company 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. In January 2012, the promissory note was refinanced with another financial institution. At December 31, 2012 and 2011, the outstanding principal was \$0 and \$26,667,000, respectively.

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE E - LONG-TERM LIABILITIES - CONTINUED

In January 2006, the Company entered into an \$8,500,000 promissory note with a financial institution. The note had an original maturity of January 4, 2007, but was re-financed to a maturity date of January 4, 2012. In January 2012, the promissory note was refinanced with another financial institution. At December 31, 2012 and 2011, the outstanding principal on the note was \$0 and \$8,500,000, respectively.

The Company has entered into various demand promissory notes with Mr. T. Boone Pickens which have an aggregate outstanding balance of \$51,284,000 and \$40,678,000 at December 31, 2012 and 2011, respectively. These notes have a maturity date of the earlier to occur of demand for payment or various dates from February 28, 2013 to March 31, 2013. In February and March of 2013, Mr. T. Boone Pickens renewed all the demand promissory notes with a maturity date of December 31, 2013. All notes bear interest at the Plains Capital Bank stated prime rate (3.25% at December 31, 2012) and are not collateralized.

In 2010, the Company entered into an agreement to assume a note from the Foundation of \$26,000,000 on behalf of OSU, to mature May 2015. In January 2012, the promissory note was refinanced with another financial institution. The note payable balance was \$0 and \$16,800,000 as of December 31, 2012 and 2011, respectively.

The Company purchased a parcel of land adjacent to the golf course from an individual for \$350,000. In January 2012, the promissory note was paid off. The note payable balance as of December 31, 2012 and 2011 was \$0 and \$67,000, respectively.

In January 2012, the Company refinanced all remaining outstanding debt instruments, with the exception of the promissory notes with Mr. T. Boone Pickens, with one note payable with Interbank for \$51,967,000 to mature on January 1, 2017. Payments, including accrued interest on outstanding principal amounts are payable quarterly 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 6% (6% at December 31, 2012). The note is collateralized by any funds owned by the Company and held by the Foundation as part of the agency agreement between the two parties which is recorded as a contribution receivable of \$19,434,000 at December 31, 2012 in the consolidated statements of net position, investment securities, and certain capital assets.

In June 2007, the Company and the University entered into an agreement for the Company to receive and hold a \$5,000,000 contribution until no later than June 2012 at which time the \$5,000,000 would be transferred to the University. In June 2012, the Company and the University amended the agreement to defer payment of the contribution until June 2017. This amount is recorded as a contribution payable in the accompanying consolidated statements of net assets.

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE E - LONG-TERM LIABILITIES - CONTINUED

As of December 31, 2012, debt service requirements of the long-term liabilities, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate interest payments will vary.

| Year ending December 31: | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------|----------------------|----------------------|-----------------------|
| 2013 | \$ 60,888,000 | \$ 7,828,000 | \$ 68,716,000 |
| 2014 | 10,201,000 | 1,932,000 | 12,133,000 |
| 2015 | 10,836,000 | 1,297,000 | 12,133,000 |
| 2016 | 11,508,000 | 624,000 | 12,132,000 |
| 2017 | <u>2,988,000</u> | <u>46,000</u> | <u>3,034,000</u> |
| | <u>\$ 96,421,000</u> | <u>\$ 11,727,000</u> | <u>\$ 108,148,000</u> |

NOTE F - RELATED PARTY TRANSACTIONS

In 2012, the Company paid \$16,800,000 to pay off a note payable with the Foundation. In 2011, \$4,200,000 was repaid on the note (see Note E).

The Company entered into various demand promissory notes with Mr. T. Boone Pickens, a member of the Company's Board of Directors, in 2012 and 2011 which have an outstanding balance of \$51,284,000 and \$40,678,000 as of December 31, 2012 and 2011, respectively (see Note E).

As discussed in Note E, at December 31, 2012 and 2011, the Company has recorded a contribution payable to the University totaling \$5,000,000 for use in the University's athletic department.

The Company contributed \$6,201,000 of capital assets to the University in 2012. No capital assets were contributed to the University in 2011.

As discussed in Note E, the Company has recorded a contribution receivable from the Foundation at December 31, 2012 as part of the agency agreement between both parties due to the new debt agreement the Company has with Interbank. This receivable consists of donations on football and basketball season tickets and the cash is held by the Foundation indefinitely until the Company requests the funds for operations. Management has determined that substantially all of the donations received relate to athletic events occurring prior to December 31, 2012, and, as such, the revenue associated with the receivable has been recognized in the accompanying 2012 statements of revenues, expenses and changes in net position.

Cowboy Athletics, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE G - COMMITMENTS AND CONTINGENCIES

The Company leases certain equipment under operating leases expiring at various dates through 2013. Rent expense for the years ended December 31, 2012 and 2011 was approximately \$113,000 and \$114,000, respectively. At December 31, 2012, future minimum lease payments for these leases are as follows:

| | |
|--------------------------|-----------|
| Year ending December 31: | |
| 2013 | \$ 34,000 |

At December 31, 2012, Facilities had significant construction in process on several projects which will be contributed or sold to the University upon completion. Approximately \$32,575,000 has been spent on projects still in progress at December 31, 2012 and is included in capital assets in the accompanying statements of net position. Management's estimated cost to complete these projects is approximately \$8,185,000.

The Company sponsors a 401(k) defined contributions plan for the benefit of eligible employees as defined by the plan. Pursuant to the plan provisions, employee contributions can be made to the plan up to the maximum amount allowable by law. The Company matches employee contributions up to 4% of the respective employee's salary. Employer contributions vest immediately. The Company paid \$20,000 and \$27,000 in contributions to the plan for the year ended December 31, 2012 and 2011, respectively. In October 2012, the board elected to terminate the 401(k) plan effective January 1, 2013 and replace it with a simple IRA plan with a maximum employer contribution of 3% to eligible employees.

The Company is a party to various matters of litigation. Management believes that the ultimate outcome of the matters will not have a material adverse effect on the Company's financial position or results of operations.

NOTE H - GOING CONCERN CONSIDERATIONS

Going concern considerations for the Company primarily relate to its ability to meet debt payment obligations as they become due. At December 31, 2012, the Company's long-term liabilities from Note E totaled \$101,484,000 as compared to its unrestricted cash and cash equivalents and investments of \$39,033,000. The Company's current maturities of long-term liabilities is \$60,902,000, including \$51,284,000 due to Mr. T. Boone Pickens who renewed the promissory notes due to him with no principal or interest due until the earlier of demand for payment or December 31, 2013 (see Note E). Mr. T. Boone Pickens provided a letter of intent to not exercise the demand for payment on the promissory notes during 2013 and fully intends to extend the maturity dates of the promissory notes. As such, management believes the Company will continue as a going concern and has the ability to meet its debt obligations as they become due.

NOTE I - SUBSEQUENT EVENTS

The Company has evaluated events and transactions that occurred subsequent to December 31, 2012 through August 6, 2013, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

During 2013, the Company along with other entities was brought into a lawsuit by the University and an insurance company for problems from the renovations on the west end of Boone Pickens Stadium. The litigation is in the early stages and the outcome is undeterminable at this time.



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT
AUDITING STANDARDS**

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Board of Directors
Cowboy Athletics, Inc.

We have audited, 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 consolidated financial statements of Cowboy Athletics, Inc. (the “Company”) as of and for the year ended December 31, 2012, and the related notes to the consolidated financial statements, which collectively comprise the Company’s basic financial statements, and have issued our report thereon dated August 6, 2013. As discussed in Note A.4 to the financial statements, the Company adopted new accounting guidance in 2012 related to the accounting for interest costs.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Company’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Company’s internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company’s financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Company’s internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our consideration of internal control was also not designed to identify all deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2012-1 and 2012-2 that we consider to be significant deficiencies in the Company's internal control.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from 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*.

Company's response to findings

The Company's response to our findings, which is described in the accompanying schedule of findings and responses was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the Company's response.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Oklahoma City, Oklahoma
August 6, 2013

Cowboy Athletics, Inc.

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended December 31, 2012

Finding 2012-1

Criteria:

An objective of an effective internal control system is to ensure accurate and reliable information through proper review and approval. An entity's internal control process should be designed to provide reasonable assurance concerning the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. A deficiency in internal control 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 and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Condition:

Due to the limited number of people working for the Company, many of the critical accounting duties are combined resulting in a lack of segregation of duties. Presently, the Controller performs the majority of the accounting functions, including the ability to create and post journal entries and prepare reconciliations which are not subject to a detailed level of review and approval. While financial statement review and analysis is performed by the management team, it does not operate at the same level of precision as a journal entry review.

Recommendation:

We recommend the Company implement controls to ensure a review of reconciliations and journal entries posted by the Controller or perform an equivalent level of documented financial statement analysis.

View of Responsible Official(s):

Management will evaluate current internal controls during the upcoming year related to reconciliations and journal entries or documented financial statement analysis. Management will seek new or improved cost effective controls to implement that will mitigate or eliminate the risk associated with the lack of segregation of duties.

Cowboy Athletics, Inc.

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

For the year ended December 31, 2012

Finding 2012-2

Criteria:

An entity's internal control process should be designed to provide reasonable assurance concerning the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. A deficiency in internal control 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 and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Condition:

During our audit, we noted that the Company did not review or evaluate the accounting impact of the required adoption of new GASB statements. As a result, an audit adjustment was required to record the effect of the adoption of certain GASB statements effective in 2012.

Recommendation:

We recommend that the Company consider implementation of a technical training and continuing education program to ensure accounting personnel have access to appropriate technical resources and have the ability to stay abreast of technical developments. In addition, as new GASB statements are released, accounting personnel should read and review to determine whether or not the statement applies to the Company, the effective dates for required adoption and the impact of implementation.

View of Responsible Official(s):

Management will ensure that the Controller has access to the appropriate technical resources related to technical developments and new GASB statements. Updates regarding new accounting pronouncements will be required as a part of the Controller's continuing education program. The Controller will also be required to read and review new GASB statements as they are released to evaluate the impact on the Company's financial statements.



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT
AUDITING STANDARDS**

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Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited, 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 the Intercollegiate Athletics Program Accounts of Oklahoma State University (the “University Athletics Program”) as of and for the year ended June 30, 2013, and the separately presented component unit as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the University Athletics Program’s basic financial statements, and have issued our report thereon dated October 30, 2013.

Cowboy Athletics, Inc. (“CAI”), 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 CAI. Rather, a complete set of financial statements of CAI are presented separately.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the University Athletics Program’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the University Athletics Program’s internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University Athletic Program's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the University Athletics Program's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the University Athletics Program's financial statements are free from 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*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University Athletics Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University Athletics Program's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 30, 2013