

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

June 30, 2007

INTERCOLLEGIATE ATHLETICS PROGRAM ACCOUNTS
OF OKLAHOMA STATE UNIVERSITY

June 30, 2007

Audited Financial Statements

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Independent Auditors' Report

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the accompanying statement of net assets of the Intercollegiate Athletics Program Accounts of Oklahoma State University (the "University Athletics Program") as of June 30, 2007, and the related statement of revenues, expenses and changes in net assets, and cash flows for the year then ended and the separately presented component unit as of December 31, 2006 and 2005 for the years then ended, which collectively comprise the University Athletics Program's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the University Athletics Program as of and for the year ended June 30, 2006 were audited by other auditors whose report dated October 11, 2006 expressed an unqualified opinion on those statements. Cowboy Athletics, Inc. (referred to as "Cowboy Athletics", formerly OSU Cowboy Golf, Inc.), a not-for-profit Oklahoma corporation organized to support the University Athletics Program is a component unit of the University Athletics Program as defined by Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The financial statements of the University Athletics Program referred to above do not include the financial information of Cowboy Athletics. Rather a complete set of financial statements of Cowboy Athletics are presented separately.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University Athletics Program and the separately presented component unit as of June 30, 2007, and December 31, 2006 and 2005 and the changes in its net assets and cash flows for the years ended June 30, 2007 and December 31, 2006 and 2005 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2007, on our consideration of the University Athletics Program internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 11, 2007

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

STATEMENTS OF NET ASSETS

June 30

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 375,652	\$ 2,339,923
Accounts receivable, net of allowances	9,524,922	10,870,509
Prepaid expenses	665,757	515,929
Total current assets	10,566,331	13,726,361
Noncurrent assets		
Cash and cash equivalents	1,443,733	895,453
Investments	36,560	27,682
Accounts receivable - student fees	94,588	95,705
Other assets	230,320	233,835
Capital assets, net of accumulated depreciation	189,777,442	175,376,106
Total noncurrent assets	191,582,643	176,628,781
TOTAL ASSETS	202,148,974	190,355,142
LIABILITIES		
Current liabilities		
Accounts payable	190,318	1,129,627
Due to other University funds and accounts	70,796	3,288,300
Accrued expenses	96,923	742,691
Accrued interest payable	1,260,019	1,280,404
Deferred revenue	7,687,237	7,809,605
Accrued compensated absences	110,888	211,776
Total current liabilities	9,416,181	14,462,403
Noncurrent liabilities		
Accrued compensated absences	1,278,769	985,062
Accounts payable for capital assets	340,972	4,012,412
ODFA lease obligation	497,917	790,834
Notes payable	7,885,000	8,420,000
Revenue bonds payable	57,180,000	58,255,000
Total noncurrent liabilities	67,182,658	72,463,308
TOTAL LIABILITIES	76,598,839	86,925,711
NET ASSETS		
Invested in capital assets, net of debt	124,214,525	107,910,272
Unrestricted for:		
Expendable		
Debt Service	38,448	(316,077)
Capital Projects	117,624	(4,761,915)
Unrestricted - other	1,179,538	597,151
TOTAL NET ASSETS	\$ 125,550,135	\$ 103,429,431

See notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years Ended June 30	
	<u>2007</u>	<u>2006</u>
Revenues		
Operating revenues		
Ticket sales	\$ 16,301,284	\$ 13,538,595
Conference income	7,650,672	6,632,592
Multi-media	2,100,000	2,000,000
Concessions	460,362	419,969
Guarantees	796,710	226,398
Other operating revenues	4,140,127	4,293,985
Student activity fees	212,000	212,000
Total operating revenues	<u>31,661,155</u>	<u>27,323,539</u>
Expenses		
Operating expenses		
Compensation and employee benefits	14,504,870	14,667,673
Travel	4,561,056	3,334,908
Financial aid	3,941,045	3,438,231
Maintenance	1,050,246	1,119,528
Athletics and small equipment purchases	1,146,285	1,400,398
Guarantees	1,206,023	791,103
Insurance	457,560	300,745
Other operating expenses	5,742,772	3,681,286
Telephone	210,301	301,497
Utilities	1,276,033	994,636
Depreciation and amortization	4,238,287	3,507,021
Total operating expenses	<u>38,334,478</u>	<u>33,537,026</u>
Operating loss	<u>(6,673,323)</u>	<u>(6,213,487)</u>
Nonoperating revenues (expenses)		
Investment income	58,947	74,313
Athletics student fee and use tax	2,406,352	2,435,663
Gifts from OSU Foundation	7,615,160	9,342,306
Interest expense	(3,000,740)	(3,058,208)
Net nonoperating revenues	<u>7,079,719</u>	<u>8,794,074</u>
Income before other revenues, expenses, gains and losses	406,396	2,580,587
Capital provided by affiliates	21,714,308	56,532,173
Other additions, net	-	135,487
Net increase in net assets	<u>22,120,704</u>	<u>59,248,247</u>
Net assets - beginning of year	<u>103,429,431</u>	<u>44,181,184</u>
Net assets - end of year	<u>\$ 125,550,135</u>	<u>\$ 103,429,431</u>

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

Years Ended June 30

	2007	2006
Cash flows from operating activities		
Ticket sales	\$ 16,110,864	\$ 15,342,203
Other operating receipts	13,649,695	6,816,472
Payments to employees for salaries and benefits	(14,957,819)	(13,854,286)
Payments to suppliers	<u>(23,897,962)</u>	<u>(13,142,859)</u>
Net cash used in operating activities	(9,095,222)	(4,838,470)
Cash flows from noncapital financing activities		
Gifts	<u>7,615,160</u>	<u>9,342,306</u>
Net cash provided by noncapital financing activities	7,615,160	9,342,306
Cash flows from investing activities		
Purchases of investments	(1,608,945)	(2,283,307)
Proceeds from sales of investments	1,600,067	2,271,117
Interest received on investments	<u>58,947</u>	<u>74,313</u>
Net cash provided by investing activities	50,069	62,123
Cash flows from capital and related financing activities		
Cash paid for capital assets	(11,602,352)	(41,363,417)
Repayments of capital debt and leases	(1,902,917)	(1,840,833)
Interest paid on capital debt and leases	(3,021,125)	(3,077,893)
Student fees restricted for capital projects	2,406,352	2,435,663
Other capital additions	-	135,487
Capital provided by affiliates	<u>14,134,044</u>	<u>31,307,499</u>
Net cash provided (used) by capital and related financing activities	<u>14,002</u>	<u>(12,403,494)</u>
Net decrease in cash and cash equivalents	(1,415,991)	(7,837,535)
Cash and cash equivalents, beginning of year	<u>3,235,376</u>	<u>11,072,911</u>
Cash and cash equivalents, end of year	<u>\$ 1,819,385</u>	<u>\$ 3,235,376</u>

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

STATEMENTS OF CASH FLOWS--CONTINUED

Years Ended June 30

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (6,673,323)	\$ (6,213,487)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	4,238,287	3,507,021
Changes in assets and liabilities		
Accounts receivable	(1,778,228)	(6,969,893)
Prepaid expenses	(149,828)	(87,675)
Accounts Payable	(939,309)	993,435
Due to other funds and accounts	(3,217,504)	1,313,713
Accrued payroll	(645,768)	664,913
Deferred revenue	(122,368)	1,805,029
Compensated absences	192,819	148,474
Net cash used in operating activities	<u>\$ (9,095,222)</u>	<u>\$ (4,838,470)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and cash equivalents classified as current assets	\$ 375,652	\$ 2,339,923
Cash and cash equivalents classified as noncurrent assets	<u>1,443,733</u>	<u>895,453</u>
	<u>\$ 1,819,385</u>	<u>\$ 3,235,376</u>
NONCASH CAPITAL AND RELATED FINANCING TRANSACTIONS		
Fixed assets acquired by gifts from affiliates	<u>\$ 10,705,196</u>	<u>\$ 23,081,341</u>
Change in accounts payable for capital assets	<u>\$ (3,671,440)</u>	<u>\$ (497,653)</u>

See notes to financial statements.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

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".

Financial Statement Presentation: As a component unit of the State, the University presents its financial statements in accordance with the requirements of Government Accounting Standards Board ("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.

Component Unit: Cowboy Athletics, Inc. ("Athletics") is a private nonprofit organization that reports under Financial Accounting Standards Board ("FASB") standards, including FASB Statement No. 117, *Financial Reporting for Not-For-Profit Organization*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Further, Athletics operates under a December 31 fiscal year-end. No modifications have been made to Athletics' financial information, which is separately presented, for these differences.

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 assets.

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

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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

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

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

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. The University Athletics Program capitalizes interest as a component of capital assets constructed for its own use. In 2007, total interest incurred was \$3,000,740 of which none was capitalized. In 2006, total interest incurred was \$4,284,121 of which \$1,225,913 was capitalized.

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Net Assets - continued:

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

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University Athletics Program's policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

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.

Reclassifications: Certain reclassifications have been made to the 2006 financial statements to conform with the 2007 presentation.

New Pronouncements: In 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2006, with earlier application encouraged. Management has determined that this Statement has no material impact on the University Athletics Program's financial condition or results of operations.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

New Pronouncements - continued:

In 2006, GASB issues Statement No.48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB No. 48 establishes criteria to ascertain whether the proceeds received should be reported as revenue or as a liability when governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006. Management has not yet determined the effect this statement will have on the University's Athletics Program's financial condition or results of operations.

In 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB No. 49 establishes standards for accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement does not apply to landfill closure and postclosure care obligations within the scope of GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning assets can be restated. Management has not yet determined the effect this Statement will have on the University's Athletics Program's financial condition or results of operations.

In 2007, GASB issued Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*. GASB No. 50 establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB). The reporting changes required by this Statement amend applicable note disclosure and required supplementary information requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, with early implementation encouraged. Management has determined that this Statement has no impact on the University's Athletics Program's financial condition or results of operations.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

New Pronouncements - continued:

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

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

At June 30, 2007 and 2006, the carrying amount of the University Athletics Program's cash and cash equivalents was \$1,819,385 and \$3,235,376, respectively. This amount consisted of funds held in operating accounts (\$305,651 and \$2,274,923), deposits with trustees related to the various bond indenture agreements (\$1,215,457 and \$895,453), unexpended plant funds for capital projects which will be reimbursed from the Foundation (\$228,277 and \$(3,108,270)) and petty cash and change funds (\$70,000 and \$65,000). Unexpended plant funds for capital projects which will be reimbursed from the Foundation of \$(3,108,270) were reflected as due to other University funds and accounts in the Statement of Net Assets at June 30, 2006.

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 banks or invested as the State Treasurer may determine.

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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments

At June 30, 2007 and 2006, the University Athletics Program had investments aggregating \$36,560 and \$27,682, 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, 2007 and 2006, respectively. All investments are reported at cost, which approximates fair value.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	2007	2006
Athletic tickets	\$ 181,716	\$ 113,664
Oklahoma State University Foundation	31,500	-
Cowboy Athletics, Inc.	6,250,000	8,124,932
Receivables from operations	<u>3,101,725</u>	<u>2,675,794</u>
	9,564,941	10,914,390
Less allowance for doubtful accounts	<u>40,019</u>	<u>43,881</u>
	<u>\$ 9,524,922</u>	<u>\$ 10,870,509</u>

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 4 - RELATED PARTY TRANSACTIONS

The Oklahoma State University Foundation

Nature of Relationship - The Oklahoma State University Foundation (the "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 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 Foundation on behalf of the University Athletics Program are as follows during fiscal years:

	2007	2006
Funds disbursed to or on behalf of the University or University Athletics Program	\$29,740,343	\$44,623,488
Net assets held on behalf of or for the benefit of the University or University Athletics Program at June 30	39,516,014	33,330,931

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 4 - RELATED PARTY TRANSACTIONS - CONTINUED

The Oklahoma State University Foundation - Continued

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

	Year ended June 30, 2007			Total	2006 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Total revenues	\$30,586,219	\$5,076,851	\$262,356	\$35,925,426	\$51,430,154
Total expenditures	<u>29,740,343</u>	-	-	<u>29,740,343</u>	<u>44,623,488</u>
Change in net assets	845,876	5,222,441	262,356	6,330,673	6,806,666
Net assets, beginning of year	<u>12,086,846</u>	<u>19,011,345</u>	<u>2,232,740</u>	<u>33,330,931</u>	<u>26,524,265</u>
Net assets, end of year	<u>\$12,932,722</u>	<u>\$24,088,196</u>	<u>\$2,495,096</u>	<u>\$39,516,014</u>	<u>\$33,330,931</u>

In August 2003, the Foundation secured a \$16,000,000 loan from a bank to assist in the renovation of the football stadium. In conjunction with this loan, the Foundation and the University have entered into a financing agreement that grants the Foundation a right of offset of current and future pledges received by the Foundation toward the project and other funds held by the Foundation for the benefit of the University Athletics Program, with certain limitations regarding seating revenue. For the years ended June 30, 2007 and 2006, the University Athletics Program received \$0 and \$2,000,000, respectively, which is reflected as capital provided by affiliates in the Statement of Revenues, Expenses and Changes in Net Assets. As of June 30, 2007 and 2006, \$16,000,000 and \$15,000,000, respectively, of funds held by the Foundation for the benefit of the University Athletics Program has been used by the Foundation to pay down the note.

In March 2005, in connection with the renovation of the football stadium, the Foundation agreed to provide up to \$40,000,000 to assist the University in funding the project. The Foundation and the University have entered into a financing agreement that grants the Foundation a right of offset in current and future pledges received by the Foundation toward the project and other funds held by the Foundation for the benefit of the University Athletics Program. For the year ended June 30, 2007 and 2006, the University Athletics Program had received \$4,477,000 and \$21,685,000 which is reflected as capital provided by affiliates in the Statement of Revenues, Expenses and Changes in Net Assets.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 4 - RELATED PARTY TRANSACTIONS - CONTINUED

Cowboy Athletics, Inc.

Nature of Relationship – Cowboy Athletics, Inc. (“Athletics”) is a not-for-profit Oklahoma corporation organized to support the University men’s and women’s golf teams, other athletic organizations affiliated with the University and other educational programs associated with the University.

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

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

Net assets held on behalf of or for the benefit of the University Athletics Program by Athletics at December 31, 2006 and 2005 were \$232,618,000 and \$178,363,000, respectively. Net assets include a gift of \$165,000,000 made directly to Athletics instead of following normal processing through the Foundation due to timing constraints of the gift receipt.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 5 – CAPITAL ASSETS

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

	2007				Balance June 30, 2007
	Balance June 30, 2006	Additions	Transfers	Disposals	
COST OF CAPITAL ASSETS					
Buildings	\$ 127,292,495	\$ -	\$ 53,939,484	\$ -	\$ 181,231,979
Land improvements	7,641,664	-	37,800	-	7,679,464
Equipment	2,305,435	341,299	-	(20,496)	2,626,238
Land	23,065,341	10,705,196	-	-	33,770,537
Construction in progress	47,387,893	7,589,613	(53,977,284)	-	1,000,222
Total cost of capital assets	207,692,828	18,636,108	-	(20,496)	226,308,440
ACCUMULATED DEPRECIATION					
Buildings	(26,448,496)	(3,589,406)	-	-	(30,037,902)
Land improvements	(4,402,240)	(344,538)	-	-	(4,746,778)
Equipment	(1,465,986)	\$ (300,828)	\$ -	\$ 20,496	\$ (1,746,318)
Total accumulated depreciation	(32,316,722)	(4,234,772)	-	20,496	(36,530,998)
NET BOOK VALUE	\$ 175,376,106	\$ 14,401,336	\$ -	\$ -	\$ 189,777,442
	Balance June 30, 2006	Additions	Transfers	Disposals	Balance June 30, 2007
COST OF CAPITAL ASSETS					
Buildings	\$ 124,174,117	\$ -	\$ 3,118,378	\$ -	\$ 127,292,495
Land improvements	7,553,632	16,000	72,032	-	7,641,664
Equipment	1,762,622	550,263	-	(7,450)	2,305,435
Land	-	23,065,341	-	-	23,065,341
Construction in progress	10,262,802	40,315,501	(3,190,410)	-	47,387,893
Total cost of capital assets	143,753,173	63,947,105	-	(7,450)	207,692,828
ACCUMULATED DEPRECIATION					
Buildings	(23,538,526)	(2,909,970)	-	-	(26,448,496)
Land improvements	(4,060,818)	(341,422)	-	-	(4,402,240)
Equipment	(1,221,322)	(252,114)	-	7,450	(1,465,986)
Total accumulated depreciation	(28,820,666)	(3,503,506)	-	7,450	(32,316,722)
NET BOOK VALUE	\$ 114,932,507	\$ 60,443,599	\$ -	\$ -	\$ 175,376,106

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2007 and 2006

NOTE 6 – LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2007 and 2006 is as follows:

	2007				
	Beginning balance	Additions	Reductions	Ending Balance	Current portion
Revenue bonds payable	\$ 58,255,000	\$ -	\$ (1,075,000)	\$ 57,180,000	\$ 1,110,000
Notes payable	8,420,000	-	(535,000)	7,885,000	545,000
ODFA lease obligation	790,834	-	(292,917)	497,917	192,917
	67,465,834	-	(1,902,917)	65,562,917	1,847,917
Other liabilities					
Accrued compensated absences	1,196,838	303,707	(110,888)	1,389,657	110,888
Accounts payable for capital assets	4,012,412	340,972	(4,012,412)	340,972	340,972
	5,209,250	644,679	(4,123,300)	1,730,629	451,860
	<u>\$ 72,675,084</u>	<u>\$ 644,679</u>	<u>\$ (6,026,217)</u>	<u>\$ 67,293,546</u>	<u>\$ 2,299,777</u>
	2006				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Revenue bonds payable	\$ 59,285,000	\$ -	\$ (1,030,000)	\$ 58,225,000	\$ 1,075,000
Notes payable	8,945,000	-	(525,000)	8,420,000	535,000
ODFA lease obligation	1,076,667	-	(285,833)	790,834	292,917
	69,306,667	-	(1,840,833)	67,465,834	1,902,917
Other liabilities					
Accrued compensated absences	1,048,364	360,250	(211,776)	1,196,838	211,776
Accounts payable for capital assets	4,510,065	4,012,412	(4,510,065)	4,012,412	4,012,412
	5,558,429	4,372,662	(4,721,841)	5,209,250	4,224,188
	<u>\$ 74,865,096</u>	<u>\$ 4,372,662</u>	<u>\$ (6,562,674)</u>	<u>\$ 72,675,084</u>	<u>\$ 6,127,105</u>

Revenue bonds payable consist of 2% to 5% Athletic Facilities Revenue Bonds, Series 1998, 2003, and 2004, with an outstanding balance of \$57,180,000 and \$58,255,000 at June 30, 2007 and 2006, respectively, which mature in varying amounts to August 1, 2034. The Athletic Facilities Revenue Bonds, Series 1998, 2003, and 2004, are part of a project to construct, improve, renovate and enlarge athletic facilities.

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2007 and 2006

NOTE 6 – LONG-TERM LIABILITIES – CONTINUED

Principal and interest on these revenue bonds are collateralized by a pledge of revenues generated from the use and services of the University Athletics Program, dedicated use taxes, revenues derived from donor or priority seating collected by the Foundation, and a security agreement extended by the Foundation under which certain contributions to the Foundation for athletic facilities have been pledged. These bonds are callable at the option of the Board of Regents.

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

In August 1998, the University entered into a \$10,865,000 note payable agreement to fund renovations of the Gallagher-Iba Arena and the football stadium. The note is collateralized by a pledge of Section 13 and New College Funds, and is held by the Oklahoma Development Finance Authority (“ODFA”), which issued bonds to fund the renovations. This note also has a subordinate lien on the athletics revenues, subject in all respects to payments on the 1998 bonds. In August 2003, the University refunded the note payable by use of a new note payable agreement in the amount of \$9,430,000. This note is also held by the ODFA and is collateralized by the same pledges. It is payable in annual installments through July 1, 2018. Interest is payable semiannually each January 1 and July 1 at variable annual interest rates ranging from 2.5% to 4.35%.

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

	<u>Bonds</u>	<u>Note</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total payments</u>
2008	\$ 1,110,000	\$ 545,000	\$ 1,655,000	\$ 2,939,910	\$ 4,594,910
2009	1,155,000	565,000	1,720,000	2,885,459	4,605,459
2010	1,200,000	575,000	1,775,000	2,825,721	4,600,721
2011	1,240,000	595,000	1,835,000	2,759,753	4,594,753
2012	1,295,000	610,000	1,905,000	2,687,884	4,592,884
2013-2017	7,035,000	3,425,000	10,460,000	12,188,783	22,648,783
2018-2022	8,700,000	1,570,000	10,270,000	9,796,799	20,066,799
2023-2027	11,095,000	-	11,095,000	7,332,591	18,427,591
2028-2032	14,070,000	-	14,070,000	4,355,675	18,425,675
2033-2036	<u>10,280,000</u>	<u>-</u>	<u>10,280,000</u>	<u>788,250</u>	<u>11,068,250</u>
	<u>\$57,180,000</u>	<u>\$7,885,000</u>	<u>\$65,065,000</u>	<u>\$48,560,825</u>	<u>\$113,625,825</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

Defeased Revenue Bonds

In August 1998, the University defeased the Athletic System Revenue Bonds of 1996 by placing funds into escrow to provide future debt service payments. The 1996 Athletic bonds have been escrowed to maturity (January 1, 2012) and the principal balance of the defeased 1996 Athletic bonds at June 30, 2007 was \$3,125,000.

In December 2004, the University defeased a portion of the Athletic Facilities Revenue Bonds, Series 1998, by placing funds in an irrevocable trust to provide future debt service payments of the defeased bonds. These bonds have been escrowed to maturity (August 1, 2018) and the principal balance of the defeased 1998 bonds at June 30, 2007 was \$10,645,000.

Oklahoma Development Finance Authority Master Lease Program

In March 2001, the ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2001A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$5,560,000 to Oklahoma State University, of which \$2,255,000 was designated for the University Athletics Program. Of this designation, approximately \$225,000 was applied to debt service reserve funds. In addition, approximately \$25,000 was applied to closing costs which are being amortized over the term of the bonds. Such amounts, net of accumulated amortization, are recorded in other assets at June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, the University Athletics Program has drawn down its entire allotment and there is no receivable remaining.

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

2008	\$213,091
2009	135,374
2010	135,421
2011	<u>56,415</u>
Total minimum lease payments	540,301
Less amounts representing interest	<u>42,384</u>
Net present value of minimum lease payments	<u>\$497,917</u>

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 7 - RISK MANAGEMENT

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

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

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

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

Intercollegiate Athletics Program Accounts of Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2007 and 2006

NOTE 7 - RISK MANAGEMENT - CONTINUED

Self-Funded Programs

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

Through June 30, 1999, the University's health care programs were also self-funded. Effective July 1, 1999, the University terminated its self-insurance program, and is now participating in the State of Oklahoma self-insurance program. The University believes that there is no exposure to pay run-off claims for the previous self-insured program at June 30, 2007.

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

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

NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES

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

During fiscal year 2006, the Board of Regents approved a campus master plan for the University, which included the creation of an athletic village north of campus. The planned expansion includes approximately 100 acres of privately held property expected to be acquired by arms-length transactions. The land will be used to upgrade, recreate and expand virtually all athletic venues. In June 2007 and 2006, the Foundation, acting as an agent for the University, acquired land for \$10,705,000 and \$23,081,000. The acquisitions are reflected as capital provided by affiliates in the Statement of Revenues, Expenses and Changes in Net Assets of the University Athletics Program for the year ended June 30, 2007 and 2006.

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the financial statements of the Intercollegiate Athletics Program Accounts of Oklahoma State University (the "University Athletics Program") as of and for the year ended June 30, 2007 and the separately presented component unit as of and for the year ended December 31, 2006 which collectively comprise the University Athletics Program's basic financial statements and have issued our report thereon dated October 11, 2007. Cowboy Athletics, Inc. (referred to as "Cowboy Athletics", formerly OSU Cowboy Golf, Inc.), a not-for-profit Oklahoma corporation organized to support the University Athletics Program is a component unit of the University Athletics Program as defined by Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The financial statements of the University Athletics Program referred to above do not include the financial information of Cowboy Athletics. Rather a complete set of financial statements of Cowboy Athletics are presented separately. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered University Athletics Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University Athletics Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University Athletics Program's internal control over financial reporting

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Fiscal Affairs Committee and Board of Regents, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 11, 2007