Financial statements and report of independent certified public accountants

# Intercollegiate Athletics Program Accounts of Oklahoma State University

June 30, 2016 and 2015

# Contents

# 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") presents its financial statements for fiscal year 2016, with comparative data presented for fiscal year 2015. 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.

***Statements of Net Position***

The following summarizes the University Athletics Program's statements of net position at June 30, 2016, 2015 and 2014.

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | $ 23,841,874 | $ 19,334,406 | $ 18,867,587 |
| Noncurrent assets | 368,070,805 | 384,091,663 | 362,536,024 |
| Total assets | $ 391,912,679 | $ 403,426,069 | $ 381,403,611 |
| DEFERRED OUTFLOWS OF RESOURCES | $ 196,821 | $ 81,525 | $ - |
| LIABILITIES | | | |
| Current liabilities | $ 19,181,832 | $ 19,974,913 | $ 20,734,823 |
| Noncurrent liabilities | 80,985,848 | 84,508,674 | 86,163,365 |
| Total liabilities | $ 100,167,680 | $ 104,483,587 | $ 106,898,188 |
| DEFERRED INFLOWS OF RESOURCES | $ 261,357 | $ 279,230 | $ - |
| NET POSITION | | | |
| Invested in capital assets, net of debt | $ 286,106,537 | $ 294,368,608 | $ 270,206,222 |
| Unrestricted for: | | | |
| Debt service | 2,084,221 | 1,440,252 | 1,445,659 |
| Captial projects | (2,264,938) | (2,258,794) | (2,863,040) |
| Other | 5,754,643 | 5,194,711 | 5,716,582 |
| Total net position | $ 291,680,463 | $ 298,744,777 | $ 274,505,423 |

In fiscal year 2016, total net position decreased by $7,064,314, or 2.4%. This was mainly due to an increase in other operating expenses and employee compensation and benefits.

In fiscal year 2015, total net position increased by $25,899,220, or 9.4%. This increase was primarily due to the receipt of capital assets donated from Cowboy Athletics, Inc.

***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, 2016, 2015 and 2014.

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| OPERATING REVENUES | | | | | | |
| Ticket sales | $ 22,019,465 | 33% | $ 21,126,079 | 33% | $ 23,756,815 | 38% |
| Conference income | 32,020,785 | 48% | 26,163,511 | 41% | 23,915,667 | 39% |
| Multi-media | 5,722,132 | 9% | 5,533,561 | 9% | 4,795,000 | 8% |
| Other | 6,873,138 | 10% | 11,217,487 | 17% | 9,028,713 | 15% |
| Total operating revenues | 66,635,520 | 100% | 64,040,638 | 100% | 61,496,195 | 100% |
| OPERATING EXPENSES | | | | | | |
| Compensation and employee benefits | 35,915,946 | 42% | 29,037,875 | 40% | 27,264,189 | 40% |
| Travel | 8,683,816 | 10% | 6,854,617 | 9% | 6,070,353 | 9% |
| Financial aid | 6,719,370 | 8% | 6,281,956 | 9% | 6,144,250 | 9% |
| Other | 19,578,764 | 23% | 15,748,927 | 22% | 15,811,303 | 23% |
| Utilities | 3,851,208 | 4% | 3,523,361 | 5% | 2,912,217 | 4% |
| Depreciation and amortization | 11,308,977 | 13% | 11,319,492 | 15% | 10,409,074 | 15% |
| Total operating expenses | 86,058,081 | 100% | 72,766,228 | 100% | 68,611,386 | 100% |
| Operating loss | (19,422,561) | | (8,725,590) | | (7,115,191) | |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Investment income | 8,926 | | 11,141 | | 7,757 | |
| Athletics student fee and use tax | 3,614,453 | | 3,083,102 | | 3,013,680 | |
| Gifts from OSU Foundation | 12,170,594 | | 4,260,863 | | 2,558,827 | |
| Interest expense | (3,397,604) | | (3,578,104) | | (3,776,854) | |
| Total nonoperating revenues | 12,396,369 | | 3,777,002 | | 1,803,410 | |
| Capital provided by affiliates | - | | 30,876,180 | | 5,263,782 | |
| Loss on disposal of fixed assets | (38,122) | | (28,372) | | (86,957) | |
| | (38,122) | | 30,847,808 | | 5,176,825 | |
| Change in net position | (7,064,314) | | 25,899,220 | | (134,956) | |
| Net position, beginning of year | 298,744,777 | | 274,505,423 | | 274,640,379 | |
| Cumulative effect of adopting GASB 68 | - | | (1,659,866) | | - | |
| Net position, beginning of year, adjusted | 298,744,777 | | 272,845,557 | | 274,640,379 | |
| Net position, end of year | $ 291,680,463 | | $ 298,744,777 | | $ 274,505,423 | |

***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).

For fiscal year 2016, conference income increased due to football bowl participation but there was a decrease in other operating revenues because of a reduction in guarantees. Travel, compensation and employee benefits increased from the previous year mainly due to bowl participation.

For fiscal year 2015, capital provided by affiliates consisted entirely of donated capital assets 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, 2016, 2015 and 2014.

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Cash provided by (used in) | | | |
| Operating activities | $(11,070,184) | $ 873,974 | $ 7,641,572 |
| Noncapital financing activities | 12,170,594 | 4,260,863 | 2,558,827 |
| Investing activities | 8,926 | 11,585 | 7,757 |
| Capital and related financing activities | (3,470,868) | (5,107,905) | (8,008,631) |
| Net (decrease) increase in cash and cash equivalents | (2,361,532) | 38,517 | 2,199,525 |
| Cash and cash equivalents, beginning of year | 17,651,666 | 17,613,149 | 15,413,624 |
| Cash and cash equivalents, end of year | $ 15,290,134 | $17,651,666 | $17,613,149 |

Cash provided by operating activities decreased by $11,944,158 from the fiscal years ended June 30, 2015 to June 30, 2016. This is a result of an increase in operating expenses with a minimal increase in operating revenues. Cash provided by operating activities decreased by $6,767,598 from the fiscal years ended June 30, 2014 to June 30, 2015. This is a result of a decrease in ticket sales and in increase in employee compensation and benefits.

Cash provided by noncapital financing increased by $7,909,731, or 185.6% from the fiscal years ended June 30, 2015 to June 30, 2016. There was an increase of $1,702,036, or 66.5% from the fiscal years ended June 30, 2014 to June 30, 2015. This activity is the direct result of transferring athletic related funds from the Oklahoma State University Foundation to the University Athletics Program.

### *Economic Outlook*

In fiscal year 2016, the University Athletics Program's key revenue sources were derived from ticket sales, donor seating, suite royalties and conference income/media rights. Expenses continued to grow in the areas of recruiting, financial aid, compensation and employee benefits, and utilities. Despite the continued escalation of expenses, the University Athletics Program continues to balance its budget.

Leadership within the University Athletics Program continues to review and explore new funding opportunities that will increase revenues. These opportunities include strategies to increase season ticket sales, donor seating, suite royalties and private donations; secure beneficial partnerships; and maximize distributions through the NCAA, Big 12 Conference and media rights. The University Athletics Program forecasts continued increases in team and recruiting travel, compensation and employee benefits, student-athlete nutrition, financial aid, utilities, facilities maintenance, marketing and fundraising. However, the University Athletics Program is confident that revenues will be sufficient to cover operating expenses for 2017 and beyond.

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and Director of Intercollegiate Athletics

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# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

## Report on the financial statements

We have audited the accompanying financial statements of the Intercollegiate Athletics Program Accounts of Oklahoma State University (the "University Athletic Program") as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University Athletic 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 opinions on these financial statements based on our audits. 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, 2015 and 2014. The University Athletic 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Athletic 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 Athletic 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 Athletic Program and the separately presented component unit as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with 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 the 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 31, 2016, on our consideration of the University Athletic 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 Athletic Program's internal control over financial reporting and compliance.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 31, 2016

## Intercollegiate Athletics Program Accounts of Oklahoma State University

STATEMENTS OF NET POSITION

June 30,

| | 2016 | 2015 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | **$ 14,201,595** | $ 16,753,566 |
| Accounts receivable, net of allowances | **3,787,947** | 1,607,737 |
| Accounts receivable - Cowboy Athletics | **5,000,000** | - |
| Prepaid expenses | **852,332** | 973,103 |
| Total current assets | **23,841,874** | 19,334,406 |
| Noncurrent assets | | |
| Cash and cash equivalents | **1,088,539** | 898,100 |
| Accounts receivable - Cowboy Athletics | **-** | 5,000,000 |
| Accounts receivable - student fees, net of allowances | **59,930** | 69,955 |
| Capital assets, net of accumulated depreciation | **366,922,336** | 378,123,608 |
| Total noncurrent assets | **368,070,805** | 384,091,663 |
| TOTAL ASSETS | **391,912,679** | 403,426,069 |
| DEFERRED OUTFLOWS OF RESOURCES | **196,821** | 81,525 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | **709,843** | 196,468 |
| Due to other University funds and accounts | **229,618** | 297,619 |
| Accrued expenses | **86,464** | 202,286 |
| Accrued interest payable | **1,030,268** | 1,488,173 |
| Unearned revenue | **13,076,164** | 14,463,137 |
| Accrued compensated absences | **179,073** | 245,612 |
| Current portion of revenue bonds, notes payable, and lease obligations | **3,870,402** | 3,081,618 |
| Total current liabilities | **19,181,832** | 19,974,913 |
| Noncurrent liabilities | | |
| Accrued compensated absences | **2,171,546** | 2,213,440 |
| Pension liability | **1,671,403** | 1,412,735 |
| Revenue bonds payable | **56,255,000** | 80,685,000 |
| Revenue bonds premium payable | **185,883** | 197,499 |
| ODFA master lease program | **19,192,667** | - |
| ODFA premium payable | **1,509,349** | - |
| Total noncurrent liabilities | **80,985,848** | 84,508,674 |
| TOTAL LIABILITIES | **100,167,680** | 104,483,587 |
| DEFERRED INFLOWS OF RESOURCES | **261,357** | 279,230 |
| NET POSITION | | |
| Invested in capital assets, net of debt | **286,106,537** | 294,368,608 |
| Unrestricted for: | | |
| Debt Service | **2,084,221** | 1,440,252 |
| Capital Projects | **(2,264,938)** | (2,258,794) |
| Unrestricted - other | **5,754,643** | 5,194,711 |
| TOTAL NET POSITION | **$ 291,680,463** | $ 298,744,777 |

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,

| | 2016 | 2015 |
|---|---|---|
| Revenues | | |
| Operating revenues | | |
| Ticket sales | **$ 22,019,465** | $ 21,126,079 |
| Conference income | **32,020,785** | 26,163,511 |
| Multi-media | **5,722,132** | 5,533,561 |
| Concessions | **801,269** | 724,569 |
| Guarantees | **503,179** | 3,697,920 |
| Other operating revenues | **5,475,690** | 6,701,998 |
| Student activity fees | **93,000** | 93,000 |
| Total operating revenues | **66,635,520** | 64,040,638 |
| Expenses | | |
| Operating expenses | | |
| Compensation and employee benefits | **35,915,946** | 29,037,875 |
| Travel | **8,683,816** | 6,854,617 |
| Financial aid | **6,719,370** | 6,281,956 |
| Maintenance | **2,472,091** | 1,960,896 |
| Athletics and small equipment purchases | **1,731,216** | 1,893,035 |
| Guarantees | **1,674,856** | 1,266,852 |
| Insurance | **789,828** | 611,900 |
| Other operating expenses | **12,724,524** | 9,835,634 |
| Telephone | **186,249** | 180,610 |
| Utilities | **3,851,208** | 3,523,361 |
| Depreciation and amortization | **11,308,977** | 11,319,492 |
| Total operating expenses | **86,058,081** | 72,766,228 |
| Operating loss | **(19,422,561)** | (8,725,590) |
| Nonoperating revenues (expenses) | | |
| Investment income | **8,926** | 11,141 |
| Athletics student fee and use tax | **3,614,453** | 3,083,102 |
| Gifts from OSU Foundation | **12,170,594** | 4,260,863 |
| Interest expense | **(3,397,604)** | (3,578,104) |
| Net nonoperating revenues | **12,396,369** | 3,777,002 |
| Loss before other revenues, expenses, gains and losses | **(7,026,192)** | (4,948,588) |
| Capital provided by affiliates | **-** | 30,876,180 |
| Loss on disposal of fixed assets | **(38,122)** | (28,372) |
| Net (decrease) increase in net position | **(7,064,314)** | 25,899,220 |
| Net position - beginning of year | **298,744,777** | 274,505,423 |
| Cumulative effect of adopting GASB 68 | **-** | (1,659,866) |
| Net position - beginning of year, adjusted | **298,744,777** | 272,845,557 |
| Net position - end of year | **$ 291,680,463** | $ 298,744,777 |

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,

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities | | |
| Ticket sales | **$ 20,651,656** | $ 20,181,354 |
| Other operating receipts | **42,426,706** | 41,927,144 |
| Payments to employees for salaries and benefits | **(36,140,201)** | (30,463,732) |
| Payments to suppliers | **(38,008,345)** | (30,770,792) |
| Net cash (used) provided by operating activities | **(11,070,184)** | 873,974 |
| Cash flows from noncapital financing activities | | |
| Gifts | **12,170,594** | 4,260,863 |
| Cash flows from investing activities | | |
| Proceeds from sales of investments | **-** | 444 |
| Interest received on investments | **8,926** | 11,141 |
| Net cash provided by investing activities | **8,926** | 11,585 |
| Cash flows from capital and related financing activities | | |
| Cash paid for capital assets | **(145,827)** | (1,736,543) |
| Proceeds of capital debt | **1,686,919** | 247,131 |
| Proceeds from bond refunding | **20,749,000** | - |
| Repayments of capital debt and leases | **(3,741,735)** | (3,041,617) |
| Payments on bond refunding | **(21,645,000)** | - |
| Interest paid on capital debt and leases | **(3,988,678)** | (3,659,978) |
| Student fees restricted for capital projects | **3,614,453** | 3,083,102 |
| Net cash used by capital and related financing activities | **(3,470,868)** | (5,107,905) |
| Net (decrease) increase in cash and cash equivalents | **(2,361,532)** | 38,517 |
| Cash and cash equivalents, beginning of year | **17,651,666** | 17,613,149 |
| Cash and cash equivalents, end of year | **$ 15,290,134** | $ 17,651,666 |

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,

| | 2016 | 2015 |
|---|---|---|
| RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES | | |
| Operating loss | **$ (19,422,561)** | $ (8,725,590) |
| Cumulative effect of adopting GASB 68 | **-** | (1,659,866) |
| Adjustments to reconcile operating to net cash used by operating activities | | |
| Depreciation and amortization | **11,308,977** | 11,319,492 |
| Changes in assets and liabilities | | |
| Accounts receivable | **(2,170,185)** | (949,675) |
| Prepaid expenses | **120,771** | 97,676 |
| Accounts payable | **513,375** | 77,831 |
| Due to other funds and accounts | **(68,001)** | 49,827 |
| Pension liability | **258,668** | 1,412,735 |
| Accrued expenses | **(115,822)** | 45,282 |
| Unearned revenue | **(1,386,973)** | (982,465) |
| Compensated absences | **(108,433)** | 188,727 |
| Net cash (used) provided by operating activities | **$ (11,070,184)** | $ 873,974 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION | | |
| Cash and cash equivalents classified as current assets | **$ 14,201,595** | $ 16,753,566 |
| Cash and cash equivalents classified as noncurrent assets | **1,088,539** | 898,100 |
| | **$ 15,290,134** | $ 17,651,666 |
| NONCASH CAPITAL AND RELATED FINANCING TRANSACTIONS | | |
| Capital assets acquired by gifts from affiliates | **$ -** | $ 30,876,180 |
| Change in accounts payable for capital assets | **$ -** | $ (132,473) |

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, 2016 and 2015

## NOTE 1 - SUMMARY OF SIGNIFICANT 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 University's 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 calendar 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Changes in Accounting Principle

For the year ended June 30, 2015, the University Athletics Program adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. GASB 68 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 and establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. The implementation of GASB 68 resulted in cumulative effect adjustment of $(1,659,866) to the beginning net position on the 2015 Statement of Revenues, Expenses and Changes in Net Position as of July 1, 2014 for the recording of pensions. The effect of retroactive application of GASB 68 was recorded effective July 1, 2014 because this was the earliest date for which restatement was practical based on the actuarial valuation.

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.

Cash Equivalents

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition 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 2016 and 2015, total interest incurred was $3,397,604 and $3,578,104, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Pensions

The fiduciary net position of the Teacher Retirement System of Oklahoma ("OTRS") has been determined on the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from OTRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Comprehensive disclosures are available in the University financial statements.

Net Position

The University Athletics Program's net position is 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

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

Classification of Revenues

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

Use of Estimates

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

New Pronouncements

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective is to improve the usefulness of information about postemployment benefits other than pensions. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New Pronouncements – Continued:

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for periods beginning after December 15, 2015. Earlier application is encouraged.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39. This Statement is effective for periods beginning after June 15, 2016. Earlier application is encouraged.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for periods beginning after December 15, 2016. Earlier application is encouraged.

In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. This Statement is primarily effective for periods beginning after June 15, 2016, with certain exceptions noted in the Statement. Earlier application is encouraged.

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

## NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents
At June 30, 2016 and 2015, the carrying amount of the University Athletics Program's cash and cash equivalents was $15,290,134 and $17,651,666, respectively. This amount consisted of funds held in operating accounts ($17,237,372 and $19,631,143), unexpended plant funds for capital projects ($(2,067,438) and $(2,049,677)) and petty cash and change funds ($120,200 and $70,200).

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.

## NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

| | 2016 | 2015 |
|---|---|---|
| Athletic tickets | $ 110,609 | $ 128,419 |
| Receivable from Cowboy Athletics, Inc. | 5,000,000 | 5,000,000 |
| Receivables from operations | 3,659,082 | 1,500,000 |
| Student fees | 78,186 | 83,684 |
| | 8,847,877 | 6,712,103 |
| Less allowance for doubtful accounts | - | 34,411 |
| | $ 8,847,877 | $ 6,677,692 |

## NOTE 3 - ACCOUNTS RECEIVABLE – CONTINUED

Accounts receivable at June 30, 2016 and 2015 includes a contribution receivable from CAI of $5,000,000 which is due in 2017. As of June 30, 2016, 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:

| | 2016 | 2015 |
|---|---|---|
| Fund collected on behalf of the University or University Athletics Program | $ 29,236,494 | $ 33,398,345 |
| Fund disbursed to or on behalf of the University or University Athletics Program | 22,805,681 | 20,682,361 |
| Net assets held on behalf of or for the benefit of the University or University Athletics Program at June 30 | 123,447,192 | 116,016,379 |

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, the Sherman E. Smith Training Facility, and the Outdoor Practice Fields to the University Athletics Program in June 2015 at a value of $3,856,046, $21,430, $21,908,585, and $5,090,119, 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, 2015. There were no transfers in fiscal year 2016.

Net position of CAI at December 31, 2015 and 2014 was $(13,566,000) and $22,990,000, respectively.

## NOTE 5 - CAPITAL ASSETS

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

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Balance June 30, 2015 | Additions | Transfers | Disposals | Balance June 30, 2016 |
| COST OF CAPITAL ASSETS | | | | | |
| Buildings | $ 413,370,030 | $ - | $ - | $ - | $ 413,370,030 |
| Land improvements | 18,600,041 | 48,824 | 71,000 | - | 18,719,865 |
| Equipment | 4,105,146 | 79,243 | - | (82,317) | 4,102,072 |
| Land | 39,905,945 | - | - | - | 39,905,945 |
| Construction in progress | 1,285,026 | 17,760 | (71,000) | - | 1,231,786 |
| Total cost of capital assets | 477,266,188 | 145,827 | - | (82,317) | 477,329,698 |
| ACCUMULATED DEPRECIATION | | | | | |
| Buildings | (90,288,702) | (9,976,336) | - | - | (100,265,038) |
| Land improvements | (6,047,270) | (972,599) | - | - | (7,019,869) |
| Equipment | (2,806,608) | (360,042) | - | 44,195 | (3,122,455) |
| Total accumulated depreciation | (99,142,580) | (11,308,977) | - | 44,195 | (110,407,362) |
| NET BOOK VALUE | $ 378,123,608 | $ (11,163,150) | $ - | $ (38,122) | $ 366,922,336 |

## NOTE 5 - CAPITAL ASSETS - CONTINUED

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Balance June 30, 2014 | Additions | Transfers | Disposals | Balance June 30, 2015 |
| COST OF CAPITAL ASSETS | | | | | |
| Buildings | $ 386,709,968 | $ 26,286,061 | $ 374,001 | $ - | $ 413,370,030 |
| Land improvements | 15,102,254 | 5,090,118 | 70,767 | (1,663,098) | 18,600,041 |
| Equipment | 3,941,822 | 313,896 | - | (150,572) | 4,105,146 |
| Land | 39,120,766 | 785,179 | - | - | 39,905,945 |
| Construction in progress | 1,724,798 | 4,996 | (444,768) | - | 1,285,026 |
| Total cost of capital assets | 446,599,608 | 32,480,250 | - | (1,813,670) | 477,266,188 |
| ACCUMULATED DEPRECIATION | | | | | |
| Buildings | (80,377,636) | (9,911,066) | - | - | (90,288,702) |
| Land improvements | (6,632,853) | (1,049,143) | - | 1,634,726 | (6,047,270) |
| Equipment | (2,597,897) | (359,283) | - | 150,572 | (2,806,608) |
| Total accumulated depreciation | (89,608,386) | (11,319,492) | - | 1,785,298 | (99,142,580) |
| NET BOOK VALUE | $ 356,991,222 | $ 21,160,758 | $ - | $ (28,372) | $ 378,123,608 |

## NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2016 and 2015 is as follows:

| 2016 | Beginning Balance | Additions | Reductions | Ending Balance | Current Position |
|---|---|---|---|---|---|
| Revenue bonds payable | $ 83,755,000 | $ - | $ (24,540,000) | $ 59,215,000 | $ 2,960,000 |
| ODFA master lease program | - | 20,749,000 | (746,333) | 20,002,667 | 810,000 |
| | 83,755,000 | 20,749,000 | (25,286,333) | 79,217,667 | 3,770,000 |
| Other liabilities | | | | | |
| Revenue bond premium payable | 209,117 | - | (11,617) | 197,500 | 11,617 |
| ODFA premium payable | - | 1,686,919 | (88,785) | 1,598,134 | 88,785 |
| Accrued compensated absences | 2,459,052 | 70,640 | (179,073) | 2,350,619 | 179,073 |
| Pension liability | 1,412,735 | 258,668 | - | 1,671,403 | - |
| | $ 87,835,904 | $ 22,765,227 | $ (25,565,808) | $ 85,035,323 | $ 4,049,475 |

| 2015 | Beginning Balance | Additions | Reductions | Ending Balance | Current Position |
|---|---|---|---|---|---|
| Revenue bonds payable | $ 86,785,000 | $ - | $ (3,030,000) | $ 83,755,000 | $ 3,070,000 |
| ODFA master lease program | - | - | - | - | - |
| | 86,785,000 | - | (3,030,000) | 83,755,000 | 3,070,000 |
| Other liabilities | | | | | |
| Revenue bond premium payable | 220,734 | - | (11,617) | 209,117 | 11,618 |
| Accrued compensated absences | 2,270,325 | 434,339 | (245,612) | 2,459,052 | 245,612 |
| Accounts payable for capital assets | 132,473 | - | (132,473) | - | - |
| Pension liability | - | 1,412,735 | - | 1,412,735 | - |
| | $ 89,408,532 | $ 1,847,074 | $ (3,419,702) | $ 87,835,904 | $ 3,327,230 |

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

Revenue bonds payable at June 30, 2016, consist of the General Revenue Bonds, Series 2010A, 2010B and 2013B. The outstanding balance of the University Athletics Program debt is $59,215,000 and $83,755,000 at June 30, 2016 and 2015 respectively, which mature in varying amounts to August 1, 2039. The General Revenue Bonds, Series 2010 A and B, are part of a project to construct, improve, renovate and enlarge athletic facilities. The proceeds of the General Revenue Bonds, Series 2013B were used to refund outstanding debt as described below.

Principal and interest for the General Revenue Bonds, Series 2010A, Series 2010B and 2013B, 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. The General Revenue Bonds, Series 2010A and Series 2013B are subject to redemption prior to maturity at the option of the Board of Regents on August 1, 2020, and August 1, 2023 respectively. The General Revenue Bonds, Series 2010B are not subject to optional redemption prior to maturity.

There is no reserve requirement for the General Revenue Bonds issues.

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. The refunding resulted in a premium of $232,352 which will be amortized over the 20 year life of the bonds.

Proceeds of the Series 2013B Bonds were used to currently refund the 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 refunded with proceeds of the 2013B Bonds was $15,635,000 plus accrued interest to the October 1, 2013, redemption date.

NOTE 6 - LONG-TERM LIABILITIES – CONTINUED

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 refunded with proceeds of the 2013B Bonds was $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 were redeemed on October 1, 2013.

The ODFA Master Real Property Lease Revenue Bonds, Series 2015A (the "2015A ODFA Bonds") was issued on July 23, 2015 to refund the Athletic Facilities Revenue Bonds Refunding Series 2004 (the "2004 Athletic Bonds"). The refunding escrow deposit of $22,221,443 was wired to the Bank of New York Mellon, as trustee, and the 2004 Athletic Bonds were fully redeemed August 24, 2015. This issue resulted in a premium of $1,686,919 which will be amortized over the life of the bonds. The 2015A ODFA Bonds mature in varying amounts to May 15, 2034.

Refunding of the 2003 OSU Bonds, the 2003 ODFA Bonds, and the 2004 Athletic Bonds was undertaken to achieve debt service savings by reducing the debt payments currently being paid on the three issues.

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

The scheduled maturities of the revenue bonds and ODFA master leases are as follows for the years ending June 30:

| | Bonds | Master Lease | Interest | Total Payments |
|---|---|---|---|---|
| 2017 | $ 2,960,000 | $ 810,000 | $ 3,227,758 | $ 6,997,758 |
| 2018 | 2,965,000 | 834,084 | 3,103,939 | 6,903,023 |
| 2019 | 2,975,000 | 859,000 | 2,975,737 | 6,809,737 |
| 2020 | 2,675,000 | 883,167 | 2,848,306 | 6,406,473 |
| 2021 | 2,780,000 | 909,083 | 2,721,887 | 6,410,970 |
| 2022-2026 | 14,300,000 | 5,066,250 | 11,176,121 | 30,542,371 |
| 2027-2031 | 11,085,000 | 6,301,833 | 7,347,141 | 24,733,974 |
| 2032-2036 | 11,405,000 | 4,339,250 | 3,358,858 | 19,103,108 |
| 2037-2040 | 8,070,000 | - | 746,550 | 8,816,550 |
| | $ 59,215,000 | $20,002,667 | $ 37,506,297 | $ 116,723,964 |

*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, 2016 was $2,805,000.

## 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 Risk Management Division of the Office of Management and Enterprise Services (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 through an insurance broker 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.

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 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, 2014. Beginning January 1, 2015, the University's health care program continued as a self-funded program. BlueCross BlueShield is the third party administrator. The University has employed Lockton Company as a consultant to assist with premium setting, development of plan features, reserve funding, and use of third party stop loss coverage insurance.

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 property acquired to be 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 $30,989 and $62,740 for the years ended June 30, 2016 and 2015, respectively.

## NOTE 9 – RETIREMENT PLANS

The University's full-time academic and nonacademic personnel are covered by various retirement plans depending on their job classification and the employee's choices. The plans available to University personnel include a defined benefit plan, OTRS. Employees of the University Athletics Program, as OTRS members, are required to contribute to the plan at a rate established by the legislature of the State. For the years ended June 30, 2016 and 2015, the contribution rate for the system members of 7.00% is applied to their total compensation. The local employer contribution rate due from the University was 8.55% for the years ended June 30, 2016 and 2015. The University administratively pays these expenses for the University Athletics Program. These costs are included with other fringe benefits.

The fiduciary net position of OTRS has been determined on the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from OTRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Comprehensive disclosures are available in the University financial statements.

## NOTE 10 – SUBSEQUENT EVENTS

The University Athletics Program has evaluated events or transactions that occurred subsequent to June 30, 2016 through October 31, 2016, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

# COMPONENT UNIT

# Consolidated financial statements and report of independent certified public accountants

## Cowboy Athletics, Inc.

December 31, 2015 and 2014

# Contents

# 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, 2015 and 2014.

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, 2015, 2014 and 2013, the Company's net position was:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Assets | $ 93,359,000 | $ 127,055,000 | $ 137,464,000 |
| Liabilities | $ 106,925,000 | $ 104,065,000 | $ 101,582,000 |
| Net position | | | |
| Invested in capital assets | $ 13,034,000 | $ 13,444,000 | $ 13,940,000 |
| Restricted | | | |
| Expendable for OSU Athletics | 40,618,000 | 37,561,000 | 53,140,000 |
| Non-expendable | 2,562,000 | 2,562,000 | 2,562,000 |
| Unrestricted | (69,780,000) | (30,577,000) | (33,760,000) |
| Total net position | $ (13,566,000) | $ 22,990,000 | $ 35,882,000 |

For the year ended December 31, 2015, the Company's operating revenues were $(26,538,000), compared to operating revenues of $29,267,000 and $34,976,000 in 2014 and 2013, respectively. For the years ended December 31, 2015, 2014 and 2013, the Company experienced a decrease in net position of $36,556,000, a decrease in net position of $12,892,000 and an increase in net position of $23,499,000, 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.

### *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, 2015, 2014 and 2013:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | $ 36,628,000 | $ 76,314,000 | $ 69,362,000 |
| Noncurrent assets | 56,731,000 | 50,741,000 | 68,102,000 |
| Total assets | $ 93,359,000 | $ 127,055,000 | $ 137,464,000 |
| LIABILITIES | | | |
| Current liabilities | $ 101,920,000 | $ 82,426,000 | $ 78,004,000 |
| Noncurrent liabilities | 5,005,000 | 21,639,000 | 23,578,000 |
| Total liabilities | $ 106,925,000 | $ 104,065,000 | $ 101,582,000 |
| NET POSITION | | | |
| Invested in capital assets | $ 13,034,000 | $ 13,444,000 | $ 13,940,000 |
| Restricted | | | |
| Expendable for OSU Athletics | 40,618,000 | 37,561,000 | 53,140,000 |
| Non-expendable | 2,562,000 | 2,562,000 | 2,562,000 |
| Unrestricted | (69,780,000) | (30,577,000) | (33,760,000) |
| Total net position | $ (13,566,000) | $ 22,990,000 | $ 35,882,000 |

At December 31, 2015, 2014 and 2013, 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, 2015, 2014 and 2013:

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| OPERATING REVENUES | | | | | | |
| Contributions | $ 7,270,000 | -27.4% | $ 24,737,000 | 84.5% | $ 24,619,000 | 70.5% |
| Food and beverage | 3,482,000 | -13.1% | 2,815,000 | 9.6% | 2,462,000 | 7.0% |
| Golf course operations | 1,927,000 | -7.3% | 1,926,000 | 6.6% | 1,795,000 | 5.1% |
| Other revenue | 273,000 | -1.0% | 332,000 | 1.1% | 180,000 | 0.5% |
| Investment (loss) income | (38,265,000) | 144.1% | (543,000) | -1.8% | 5,920,000 | 16.9% |
| Decrease in fair value of beneficial interest in funds held by others | (1,225,000) | 4.7% | - | 0.0% | - | 0.0% |
| Total operating revenues | (26,538,000) | 100.0% | 29,267,000 | 100.0% | 34,976,000 | 100.0% |
| OPERATING EXPENSES | | | | | | |
| Salaries and benefits | 1,862,000 | 27.5% | 1,746,000 | 28.7% | 1,683,000 | 27.1% |
| Life insurance expense | 2,000 | 0.0% | 2,000 | 0.0% | 13,000 | 0.2% |
| OSU budgetary contribution | 134,000 | 2.0% | 100,000 | 1.7% | 75,000 | 1.2% |
| Depreciation | 550,000 | 8.1% | 624,000 | 10.3% | 624,000 | 10.0% |
| Other operating expenses | 4,230,000 | 64.50% | 3,607,000 | 59.30% | 3,821,000 | 61.50% |
| Total operating expenses | 6,778,000 | 102.1% | 6,079,000 | 100.0% | 6,216,000 | 100.0% |
| Operating (loss) income | (33,316,000) | | 23,188,000 | | 28,760,000 | |
| NONOPERATING EXPENSES | | | | | | |
| Interest expense | 3,240,000 | | 2,865,000 | | 3,155,000 | |
| Other capital contributions to OSU | - | | 33,215,000 | | 2,106,000 | |
| Total nonoperating expenses | 3,240,000 | | 36,080,000 | | 5,261,000 | |
| Change in net position | (36,556,000) | | (12,892,000) | | 23,499,000 | |
| Net position at beginning of year | 22,990,000 | | 35,882,000 | | 12,383,000 | |
| Net position at end of year | $ (13,566,000) | | $ 22,990,000 | | $ 35,882,000 | |

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).

Non-operating 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:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Cash provided by (used in) | | | |
| Operating activities | $ 8,506,000 | $ 22,553,000 | $ 32,848,000 |
| Investing activities | - | (4,396,000) | 7,000 |
| Capital financing activities | (8,434,000) | (17,867,000) | (32,343,000) |
| Net change in cash | 72,000 | 290,000 | 512,000 |
| Cash at beginning of year | 3,789,000 | 3,499,000 | 2,987,000 |
| Cash at end of year | $ 3,861,000 | $ 3,789,000 | $ 3,499,000 |

### *Capital Assets and Debt Administration*

Capital assets at December 31, 2015, 2014 and 2013

At December 31, 2015, 2014 and 2013, the Company had $54,169,000, $48,179,000 and $65,540,000, respectively, invested in capital assets, net of accumulated depreciation of $7,898,000, $7,587,000 and $6,968,000, respectively. Depreciation charges totaled $550,000, $624,000 and $624,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

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

Outstanding debt at December 31, 2015, 2014 and 2013

At December 31, 2015, 2014 and 2013, the Company had $91,480,000, $90,120,000 and $88,708,000, respectively, in debt outstanding, of which $91,480,000, $73,501,000 and $70,167,000, respectively, was considered current and $0, $16,619,000 and $18,541,000, respectively, was considered noncurrent. More detailed information about the Company's outstanding debt is presented in Note E of the financial statements.

Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
Cowboy Athletics, Inc.

**Report on the financial statements**

We have audited the accompanying consolidated financial statements of Cowboy Athletics, Inc. and its subsidiaries (collectively, the "Company"), which comprise the consolidated statements of net position as of December 31, 2015 and 2014, and the related consolidated statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 financial position of Cowboy Athletics, Inc. and its subsidiaries as of December 31, 2015 and 2014, and the changes in their financial position and their cash flows for the years then ended in accordance with 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 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 11, 2016 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 11, 2016

# Cowboy Athletics, Inc.

CONSOLIDATED STATEMENTS OF NET POSITION

December 31,

| | 2015 | 2014 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | **$ 3,861,000** | $ 3,789,000 |
| Investments | **9,415,000** | 46,087,000 |
| Restricted investments | **-** | 2,094,000 |
| Beneficial interest in funds held by others | **22,306,000** | - |
| Receivables, net | **571,000** | 368,000 |
| Contribution receivable | **-** | 23,531,000 |
| Inventories | **265,000** | 215,000 |
| Derivative instrument | **20,000** | - |
| Prepaid and other | **190,000** | 230,000 |
| Total current assets | **36,628,000** | 76,314,000 |
| NONCURRENT ASSETS | | |
| Restricted investments | **2,562,000** | 2,562,000 |
| Capital assets | | |
| Capital assets being depreciated, net | **8,462,000** | 8,872,000 |
| Capital assets not being depreciated | **45,707,000** | 39,307,000 |
| | **54,169,000** | 48,179,000 |
| Total noncurrent assets | **56,731,000** | 50,741,000 |
| Total assets | **$ 93,359,000** | $ 127,055,000 |

The accompanying notes are an integral part of these statements.

# Cowboy Athletics, Inc.

CONSOLIDATED STATEMENTS OF NET POSITION - CONTINUED

December 31,

| | 2015 | 2014 |
|---|---|---|
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | **$ 786,000** | $ 908,000 |
| Accrued expenses | **9,365,000** | 7,230,000 |
| Retainage payable | **11,000** | 109,000 |
| Other current liabilities | **24,000** | 23,000 |
| Unearned revenues | **254,000** | 174,000 |
| Derivative instrument | **-** | 481,000 |
| Current portion of long-term debt | **91,480,000** | 73,501,000 |
| Total current liabilities | **101,920,000** | 82,426,000 |
| NONCURRENT LIABILITIES | | |
| Contribution payable to related party | **5,000,000** | 5,000,000 |
| Long-term debt, net of current portion | **-** | 16,619,000 |
| Other long-term liabilities | **5,000** | 20,000 |
| Total noncurrent liabilities | **5,005,000** | 21,639,000 |
| Total liabilities | **106,925,000** | 104,065,000 |
| NET POSITION | | |
| Invested in capital assets | **13,034,000** | 13,444,000 |
| Restricted | | |
| Expendable for OSU Athletics | **40,618,000** | 37,561,000 |
| Non-expendable | **2,562,000** | 2,562,000 |
| Unrestricted net position | **(69,780,000)** | (30,577,000) |
| Total net position | **$ (13,566,000)** | $ 22,990,000 |

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,

| | 2015 | 2014 |
|---|---|---|
| OPERATING REVENUES | | |
| Contributions | $ 7,270,000 | $ 24,737,000 |
| Food and beverage | 3,482,000 | 2,815,000 |
| Golf course rounds | 363,000 | 450,000 |
| Golf course pro shop | 546,000 | 527,000 |
| Golf course lodge | 213,000 | 186,000 |
| Golf course membership | 805,000 | 763,000 |
| Other revenue | 273,000 | 332,000 |
| Interest and dividends | - | 4,000 |
| Realized and unrealized losses | (38,265,000) | (547,000) |
| Decrease in fair value of beneficial interest in funds held by others | (1,225,000) | - |
| Total operating revenues | (26,538,000) | 29,267,000 |
| OPERATING EXPENSES | | |
| Food and beverage cost of goods sold | 2,091,000 | 1,898,000 |
| Golf course proshop cost of goods sold | 331,000 | 321,000 |
| Life insurance expense | 2,000 | 2,000 |
| Contributions to OSU for budget support | 134,000 | 100,000 |
| Salaries | 1,862,000 | 1,746,000 |
| Depreciation | 550,000 | 624,000 |
| Professional fees | 86,000 | 42,000 |
| Supplies | 235,000 | 127,000 |
| Insurance | 267,000 | 243,000 |
| Repairs and maintenance | 224,000 | 194,000 |
| Payroll and property taxes | 160,000 | 155,000 |
| Equipment rental | 106,000 | 104,000 |
| Utilities | 186,000 | 192,000 |
| Laundry service | 25,000 | 30,000 |
| Credit card processing fees | 62,000 | 62,000 |
| Fuel | 16,000 | 24,000 |
| Other operating expenses | 441,000 | 215,000 |
| Total operating expenses | 6,778,000 | 6,079,000 |
| Net operating (loss) income | (33,316,000) | 23,188,000 |
| NONOPERATING EXPENSES | | |
| Interest expense | 3,240,000 | 2,865,000 |
| Capital contributions to OSU | - | 33,215,000 |
| Nonoperating expenses | 3,240,000 | 36,080,000 |
| CHANGE IN NET POSITION | (36,556,000) | (12,892,000) |
| NET POSITION AT BEGINNING OF PERIOD | 22,990,000 | 35,882,000 |
| NET POSITION AT END OF PERIOD | $ (13,566,000) | $ 22,990,000 |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash contributions received from the OSU Foundation and others | $ | **7,270,000** | $ | 24,659,000 |
| Cash received from members and customers | | **5,559,000** | | 2,410,000 |
| Cash paid to suppliers and employees | | **(4,323,000)** | | (4,516,000) |
| Net cash provided by operating activities | | **8,506,000** | | 22,553,000 |
| **Cash flows from investing activities** | | | | |
| Purchase of investments | | **-** | | (4,400,000) |
| Investment income | | **-** | | 4,000 |
| Net cash provided by (used in) investing activities | | **-** | | (4,396,000) |
| **Cash flows from capital and related financing activities** | | | | |
| Payment for acquisition of capital assets | | **(6,540,000)** | | (15,727,000) |
| Proceeds on disposition of capital assets | | **-** | | 1,000 |
| Interest paid on debt | | **(3,240,000)** | | (3,538,000) |
| Acquisition of debt | | **1,360,000** | | 8,826,000 |
| Repayment of debt | | **(14,000)** | | (7,429,000) |
| Net cash used in capital and related financing activities | | **(8,434,000)** | | (17,867,000) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | | **72,000** | | 290,000 |
| Cash and cash equivalents at beginning of year | | **3,789,000** | | 3,499,000 |
| Cash and cash equivalents at end of year | **$** | **3,861,000** | $ | 3,789,000 |
| RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | | |
| Operating (loss) income | **$** | **(33,316,000)** | $ | 23,188,000 |
| Adjustments to reconcile operating (loss) income to net cash provided by operating activities: | | | | |
| Depreciation expense | | **550,000** | | 624,000 |
| Realized and unrealized losses on investments | | **38,265,000** | | 547,000 |
| Change in value of beneficial interest | | **1,225,000** | | |
| Interest and dividends received | | **-** | | (4,000) |
| Noncash contribution | | **-** | | (78,000) |
| Loss (gain) on disposition of capital assets | | **-** | | (1,000) |
| Changes in assets and liabilities: | | | | |
| Receivables | | **(203,000)** | | (2,717,000) |
| Inventory | | **(50,000)** | | 20,000 |
| Prepaid and other assets | | **40,000** | | (49,000) |
| Accounts payable, accrued expenses, retainage payable and other current liabilities | | **1,915,000** | | 968,000 |
| Unearned revenues | | **80,000** | | 55,000 |
| Net cash provided by operating activities | **$** | **8,506,000** | $ | 22,553,000 |
| NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS | | | | |
| Capital assets contributed to Oklahoma State University | **$** | **-** | $ | (33,215,000) |

The accompanying notes are an integral part of these statements.

# Cowboy Athletics, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 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, 2015 and 2014 and the years then ended.

Cowboy Athletics, Inc., and it 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.

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

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.

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. Therefore, the financial statements of the Company have been presented consistent with the University's financial statements rather than in accordance with the provisions of the Financial Accounting Standards Board ("FASB") Statement No. 117, *Financial Statements of Not-for-Profit Organizations*.

4. 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.

5. 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.

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

6. Tax Status

The Company, as a non-profit organization, is excluded from federal income taxes under Section 501(a) of the Internal Revenue Code. There were no unrelated business income taxes incurred in either 2015 or 2014.

The Company's subsidiary OSUF Holding Company is a for-profit organization. OSUF Holding Company did not have any assets or activity at December 31, 2015 or 2014, accordingly no provision for taxes has been made in the accompanying financial statements. Accordingly, no provision for taxes has been made in the accompanying financial statements.

7. 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.

8. 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.

9. 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.

10. Inventories

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

11. 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.

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

11. Capital Assets, Net - Continued

Costs incurred during construction of long-lived assets are recorded as construction in process and are not depreciated until placed in service. The Company allocates and capitalizes interest for other constructed assets by applying the cost of borrowing rate to qualifying assets. The Company capitalized approximately $239,000 and $673,000 to construction work in progress for 2015 and 2014, respectively. In 2015 and 2014, total interest incurred was approximately $3,479,000 and $3,538,000. In 2015 and 2014, $0 and $2,106,000 of capitalized interest was contributed to the University with completed capital contributions.

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.

12. Net Assets

The Company's net position is classified as follows:

*Invested in capital assets*: This represents the Company's total investment in capital assets, net of outstanding debt obligations related to those capital assets, if applicable. 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.

13. 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, 2015 and 2014, the Company had no nonoperating revenues.

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

14. 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.

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 $2,554,000 and $2,347,000 at December 31, 2015 and 2014, respectively, that are fully insured by the Federal Depository Insurance Company ("FDIC").

At December 31, 2015 and 2014, the Company has cash and cash equivalents on deposit with a financial institution of $1,304,000 and $1,439,000, 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, 2015 and 2014, the Company had the following investments:

| | 2015 | 2014 |
|---|---|---|
| Energy equity fund limited partnerships | $ 7,157,000 | $ 21,927,000 |
| Energy fund limited partnerships | 591,000 | 8,280,000 |
| Equity securities | 427,000 | 1,647,000 |
| Money market fund | 3,802,000 | 18,889,000 |
| | $ 11,977,000 | $ 50,743,000 |

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, 2015 and 2014, 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.

## NOTE B - DEPOSITS AND INVESTMENTS - CONTINUED

3. Credit Risk - Continued

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, 2015 and 2014.

## 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, 2015.

| Description | Number of Contracts | Average Purchase Price Per Unit | Fair Market Value Per unit at December 31, 2015 | Change in Fair Value During 2015 | Fair Market Value at December 31, 2015 |
|---|---|---|---|---|---|
| February 2016 NY LT Crude | 27 | $ 37.69 | $ 37.04 | $ - | $ 18,000 |
| February 2016 NY LT Crude | 23 | 37.01 | 37.04 | - | (1,000) |
| February 2016 NYM NYHRBRULSD | 27 | 112.01 | 112.39 | - | 4,000 |
| February 2016 NYM NYHRBRULSD | 23 | 111.10 | 112.39 | - | 13,000 |
| April 2016 NYM NYHRBRULSD | 27 | 116.62 | 116.73 | - | (1,000) |
| April 2016 NYM NYHRBRULSD | 23 | 115.41 | 116.73 | - | (13,000) |
| Total | | | | $ - | $ 20,000 |

Following is a summary of the open commodity futures contracts at December 31, 2014.

| Description | Number of Contracts | Average Purchase Price Per Unit | Fair Market Value Per unit at December 31, 2014 | Change in Fair Value During 2014 | Fair Market Value at December 31, 2014 |
|---|---|---|---|---|---|
| December 2016 NYM Nat Gas | 46 | 4.37 | 3.72 | (249,000) | (298,000) |
| December 2016 NYM Nat Gas | 24 | 4.48 | 3.72 | - | (183,000) |
| Total | | | | $ (249,000) | $ (481,000) |

## NOTE C - DERIVATIVE INSTRUMENTS - CONTINUED

Investment income, including unrealized gains and (losses), related to investment derivative instruments totaled ($14,585,000) and $799,000 for the years ended December 31, 2015 and 2014, 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, 2015 was as follows:

| | Beginning Balance | Additions | Deductions | Transfers | Ending Balance |
|---|---|---|---|---|---|
| Non-depreciable assets: | | | | | |
| Land | $ 2,120,000 | $ - | $ - | $ - | $ 2,120,000 |
| Non-depreciable golf course equipment | 2,442,000 | - | - | - | 2,442,000 |
| Construction in process - projects to be transferred to the University | 34,735,000 | 6,400,000 | - | - | 41,135,000 |
| Construction in process - ongoing operations | 10,000 | - | - | - | 10,000 |
| Total non-depreciable assets | 39,307,000 | 6,400,000 | - | - | 45,707,000 |
| Capital assets being depreciated: | | | | | |
| Buildings | 9,463,000 | 9,000 | - | - | 9,472,000 |
| Depreciable golf course improvements | 3,765,000 | 15,000 | - | - | 3,780,000 |
| Furniture and equipment | 1,059,000 | 46,000 | (173,000) | - | 932,000 |
| Golf course equipment | 2,172,000 | 70,000 | (66,000) | - | 2,176,000 |
| Total capital assets being depreciated | 16,459,000 - | 140,000 | (239,000) - | - | 16,360,000 |
| Less accumulated depreciation: | | | | | |
| Buildings | 2,413,000 | 271,000 | - | - | 2,684,000 |
| Depreciable golf course improvements | 2,571,000 | 117,000 | - | - | 2,688,000 |
| Furniture and equipment | 843,000 | 64,000 | (173,000) | - | 734,000 |
| Golf course equipment | 1,760,000 | 98,000 | (66,000) | - | 1,792,000 |
| Total accumulated depreciation | 7,587,000 | 550,000 | (239,000) | - | 7,898,000 |
| Net depreciable assets | 8,872,000 | (410,000) | - | - | 8,462,000 |
| Capital assets, net | $ 48,179,000 | $ 5,990,000 | $ - | $ - | $ 54,169,000 |

# Cowboy Athletics, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

### NOTE D - CAPITAL ASSETS, NET - CONTINUED

Capital asset activity for the year ended December 31, 2014 was as follows:

| | Beginning Balance | Additions | Deductions | Transfers | Ending Balance |
|---|---|---|---|---|---|
| Non-depreciable assets: | | | | | |
| Land | $ 2,120,000 | $ - | $ - | $ - | $ 2,120,000 |
| Non-depreciable golf course equipment | 2,442,000 | - | - | - | 2,442,000 |
| Construction in process - projects to be transferred to the University | 51,591,000 | 16,283,000 | (33,139,000) | - | 34,735,000 |
| Construction in process - ongoing operations | 10,000 | - | - | - | 10,000 |
| Total non-depreciable assets | 56,163,000 | 16,283,000 | (33,139,000) | - | 39,307,000 |
| Capital assets being depreciated: | | | | | |
| Buildings | 9,441,000 | 22,000 | - | - | 9,463,000 |
| Depreciable golf course improvements | 3,737,000 | 28,000 | - | - | 3,765,000 |
| Furniture and equipment | 1,037,000 | 25,000 | (3,000) | - | 1,059,000 |
| Golf course equipment | 2,130,000 | 44,000 | (2,000) | - | 2,172,000 |
| Total capital assets being depreciated | 16,345,000 | 119,000 | (5,000) | - | 16,459,000 |
| Less accumulated depreciation: | | | | | |
| Buildings | 2,144,000 | 269,000 | - | - | 2,413,000 |
| Depreciable golf course improvements | 2,419,000 | 152,000 | - | - | 2,571,000 |
| Furniture and equipment | 781,000 | 65,000 | (3,000) | - | 843,000 |
| Golf course equipment | 1,624,000 | 138,000 | (2,000) | - | 1,760,000 |
| Total accumulated depreciation | 6,968,000 | 624,000 | (5,000) | - | 7,587,000 |
| Net depreciable assets | 9,377,000 | (505,000) | - | - | 8,872,000 |
| Capital assets, net | $ 65,540,000 | $ 15,778,000 | $ (33,139,000) | $ - | $ 48,179,000 |

## NOTE E - LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2015 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Long-term debt | | | | | |
| Note payable | $ 71,578,000 | $ 1,360,000 | $ - | $ 72,938,000 | $ 72,938,000 |
| Note payable | 18,542,000 | - | - | 18,542,000 | 18,542,000 |
| Total long-term debt | 90,120,000 | 1,360,000 | - | 91,480,000 | 91,480,000 |
| Other liabilities | | | | | |
| Contributions payable | 5,000,000 | - | - | 5,000,000 | - |
| Other long-term liabilities | 34,000 | - | (14,000) | 20,000 | 15,000 |
| Total long-term liabilities | $ 95,154,000 | $ 1,360,000 | $ (14,000) | $ 96,500,000 | $ 91,495,000 |

Long-term liability activity for the year ended December 31, 2014 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Long-term debt | | | | | |
| Note payable | $ 62,752,000 | $ 8,826,000 | $ - | $ 71,578,000 | $ 71,578,000 |
| Note payable | 25,956,000 | - | (7,414,000) | 18,542,000 | 1,923,000 |
| Total long-term debt | 88,708,000 | 8,826,000 | (7,414,000) | 90,120,000 | 73,501,000 |
| Other liabilities | | | | | |
| Contributions payable | 5,000,000 | - | - | 5,000,000 | - |
| Other long-term liabilities | 49,000 | - | (15,000) | 34,000 | 14,000 |
| Total long-term liabilities | $ 93,757,000 | $ 8,826,000 | $ (7,429,000) | $ 95,154,000 | $ 73,515,000 |

## NOTE E - LONG-TERM LIABILITIES - CONTINUED

The Company has entered into various demand promissory notes with Mr. T. Boone Pickens which have an aggregate outstanding balance of $72,938,000 and $71,578,000 at December 31, 2015 and 2014, respectively. These notes had a maturity date of the earlier to occur of demand for payment or various dates from February 28, 2016 to March 31, 2016. In February and March of 2016, Mr. T. Boone Pickens renewed all the demand promissory notes with maturity dates of various dates from February 28, 2017 to March 31, 2017. All notes bear interest at the Plains Capital Bank stated prime rate (3.25% at December 31, 2015) and are not collateralized.

In January 2012, the Company executed a note payable with Interbank for $51,967,000 to mature on January 1, 2017. The note was amended in August 2015 to change the principal payment schedule and maturity to December 31, 2016. The outstanding balance of the note payable at December 31, 2015 and 2014 was $18,542,000. Under the terms of the amended agreement, payments of accrued interest only are payable quarterly with unpaid principal and any 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, 2015). 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 beneficial interest in funds held by others of $22,306,000 and a contribution receivable of $23,531,000 at December 31, 2015 and 2014, respectively, in the consolidated statements of net position.

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 position.

As of December 31, 2015, 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.

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending December 31: | | | |
| 2016 | $ 91,480,000 | $ 10,413,000 | $ 101,893,000 |

## NOTE F - RELATED PARTY TRANSACTIONS

The Company entered into various demand promissory notes with Mr. T. Boone Pickens, a member of the Company's Board of Directors, in 2015 and 2014 which have an outstanding balance of $72,938,000 and $71,578,000 as of December 31, 2015 and 2014, respectively (see Note E).

As discussed in Note E, at December 31, 2015 and 2014, the Company has recorded a contribution payable to the University totaling $5,000,000 for use in the University's athletic department.

## NOTE F - RELATED PARTY TRANSACTIONS - CONTINUED

The Company contributed $0 and $33,215,000 of capital assets to the University in 2015 and 2014, respectively.

As discussed in Note E, the Company has recorded a contribution receivable from the Foundation at December 31, 2014 as part of the agency agreement between both parties due to the debt agreement the Company has with Interbank. This balance consisted of donations on football and basketball season tickets and the cash was 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, 2014, and, as such, the revenue associated with the receivable has been recognized in the 2014 statement of revenues, expenses and changes in net position. During 2015, the funds held by the Foundation were invested in the OSU Foundation's Pooled Investment Fund under the existing agency agreement. At December 31, 2015, the Company has recorded a beneficial interest in funds held by others of $22,306,000 in the consolidated statements of net position. There are no withdrawal restrictions on the fund, and the Company is allocated a percentage of gains and losses each quarter based on the total fund performance.

## NOTE G - COMMITMENTS AND CONTINGENCIES

The Company leases certain equipment under operating leases expiring at various dates through 2017. Rent expense for the years ended December 31, 2015 and 2014 was approximately $106,000 and $104,000, respectively. At December 31, 2015, future minimum lease payments for these leases are as follows:

| | | |
|---|---|---|
| Year ending December 31: | | |
| 2016 | $ | 95,000 |
| 2017 | | 43,000 |

At December 31, 2015, Facilities had significant construction in process on several projects which will be contributed to the University upon completion. Approximately $41,135,000 has been spent on projects still in progress at December 31, 2015 and is included in capital assets in the accompanying statements of net position. Management's estimated cost to complete these projects is approximately $1,565,000.

The Company offers a simple IRA plan to eligible employees. Pursuant to the plan provisions, employee contributions can be made to the plan up to maximum amount allowable by law. The Company matches employee contributions up to 3% of the respective employee's salary. Employer contributions vest immediately. The Company paid $27,000 and $23,000 in contributions to the simple IRA plan in 2015 and 2014, respectively.

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 Entity primarily relate to its ability to meet debt payment obligations as they become due. At December 31, 2015, the Entity's long-term liabilities totaled $96,500,000 as compared to its unrestricted cash and cash equivalents, investments, and beneficial interest in assets held by others of $35,582,000. The Entity's current maturities of long-term liabilities is $91,495,000, including $72,938,000 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 various dates from February 28, 2017 to March 31, 2017 (see Note E). Mr. T. Boone Pickens provided a letter of intent to not exercise the demand for payment on the promissory notes during 2016 and such letter also indicated that he fully intends to extend the maturity dates of the promissory notes. The Entity's current maturities of long-term liabilities also include a note payable held by InterBank with a December 31, 2015 balance of $18,542,000 and a maturity date of December 31, 2016. The Entity has funds held by the OSU Foundation as collateral against the InterBank loan of $22,306,000 as of December 31, 2015, that are due on demand by CAI and are available to pay down the InterBank balance. As such, management believes the Entity 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, 2015 through August 11, 2016, the date these financial statements were available to be issued, for potential recognition or disclosure in these 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 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") which comprise the consolidated statement of net position as of December 31, 2015, and the related consolidated statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 11, 2016.

**Internal control over financial reporting**

In planning and performing our audit of the consolidated 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. A significant deficiency is a deficiency, or a 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.

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 or significant deficiencies. 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.

Grant Thornton

### Compliance and other matters

As part of obtaining reasonable assurance about whether the Company's consolidated 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 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 11, 2016

## 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 Intercollegiate Athletics Program Accounts of Oklahoma State University (the "University Athletics Program") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise University Athletics Program's basic financial statements, and have issued our report thereon dated October 31, 2016.

**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 Athletics Program's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a 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.

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 or significant deficiencies. 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.

Grant Thornton

**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 31, 2016