

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

**Independent Auditor's Report and Financial Statements**

**June 30, 2017 and 2016**

---

# Intercollegiate Athletics Program Accounts of Oklahoma State University

June 30, 2017 and 2016

## Contents

<b>Independent Auditor's Report.....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Financial Statements</b>	
<i>Intercollegiate Athletics Program Accounts</i>	
Statements of Net Position .....	8
Statements of Revenues, Expenses and Changes in Net Position .....	9
Statements of Cash Flows .....	10
<i>Cowboy Athletics, Inc. (A Component Unit of Oklahoma State University)</i>	
Statements of Net Position .....	12
Statements of Revenues, Expenses and Changes in Net Position .....	13
Statements of Cash Flows .....	14
<b>Notes to Financial Statements .....</b>	<b>15</b>
<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....</b>	<b>43</b>
<b>Schedule of Findings and Responses .....</b>	<b>45</b>

## Independent Auditor's Report

Board of Regents for the Oklahoma  
Agricultural & Mechanical Colleges  
Oklahoma State University  
Oklahoma City, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Intercollegiate Athletics Program Accounts (the "University Athletics Program") of Oklahoma State University as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University Athletics Program's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the University Athletics Program and the discretely presented component unit of the University Athletics Program as of June 30, 2017, 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.

### ***Emphasis of Matter***

As discussed in *Note 1*, the financial statements of the University Athletics Program, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Oklahoma State University that is attributable to the transactions of the University Athletics Program. They do not purport to, and do not, present fairly the financial position of Oklahoma State University, as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Prior Year Audited by Other Auditors***

The 2016 financial statements were audited by other auditors and their report thereon, dated October 31, 2016, expressed an unmodified opinion.

### **OTHER MATTERS**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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 27, 2017, on our consideration of the University Athletics Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University Athletics Program's internal control over financial reporting and compliance.

**BKD, LLP**

Springfield, Missouri  
October 27, 2017

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

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2017 and 2016**

#### ***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 2017 and 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, 2017, 2016 and 2015.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>			
<b>Current Assets</b>	\$ 16,025,398	\$ 23,841,874	\$ 19,334,406
<b>Noncurrent Assets</b>	379,392,195	368,070,805	384,091,663
Total assets	<u>395,417,593</u>	<u>391,912,679</u>	<u>403,426,069</u>
<b>Deferred Outflows of Resources</b>	<u>968,586</u>	<u>196,821</u>	<u>81,525</u>
<b>Total Assets and Deferred     Outflows of Resources</b>	<u>\$ 396,386,179</u>	<u>\$ 392,109,500</u>	<u>\$ 403,507,594</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>	\$ 14,617,914	\$ 19,181,832	\$ 19,974,913
<b>Noncurrent Liabilities</b>	78,175,079	80,985,848	84,508,674
	<u>92,792,993</u>	<u>100,167,680</u>	<u>104,483,587</u>
<b>Deferred Inflows of Resources</b>	<u>30,567</u>	<u>261,357</u>	<u>279,230</u>
<b>Net Position</b>			
Net investment in capital assets	301,267,277	286,106,537	294,368,608
Restricted for			
Debt service	2,278,189	2,084,221	1,440,252
Capital projects	(2,376,988)	(2,264,938)	(2,258,794)
Unrestricted	<u>2,394,141</u>	<u>5,754,643</u>	<u>5,194,711</u>
<b>Total Net Position</b>	<u>\$ 303,562,619</u>	<u>\$ 291,680,463</u>	<u>\$ 298,744,777</u>

In fiscal year 2017, total net position increased by \$11,882,156, or 4.1%. This was mainly due to an increase in capital provided by affiliates, specifically the tennis facility and other operating revenues.

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, 2017, 2016 and 2015.

	<b>2017</b>		<b>2016</b>		<b>2015</b>	
<b>Operating Revenue</b>						
Ticket sales	\$ 19,679,074	28%	\$ 22,019,465	33%	\$ 21,126,079	33%
Conference income	34,252,573	48%	32,020,785	48%	26,163,511	41%
Multi-media	6,685,149	9%	5,722,132	9%	5,533,561	9%
Other	10,244,267	15%	6,873,138	10%	11,217,487	17%
Total operating revenues	<u>70,861,063</u>	100%	<u>66,635,520</u>	100%	<u>64,040,638</u>	100%
<b>Operating Expenses</b>						
Compensation and employee benefits	32,210,513	39%	35,915,946	42%	29,037,875	40%
Travel	8,134,054	10%	8,683,816	10%	6,854,617	9%
Financial aid	7,033,947	9%	6,719,370	8%	6,281,956	9%
Other	21,107,886	25%	19,578,764	23%	15,748,927	22%
Utilities	2,652,217	3%	3,851,208	4%	3,523,361	5%
Depreciation and amortization	11,447,736	14%	11,308,977	13%	11,319,492	15%
Total operating expenses	<u>82,586,353</u>	100%	<u>86,058,081</u>	100%	<u>72,766,228</u>	100%
<b>Operating Loss</b>	<u>(11,725,290)</u>		<u>(19,422,561)</u>		<u>(8,725,590)</u>	
<b>Nonoperating Revenue (Expenses)</b>						
Investment income	5,560		8,926		11,141	
Athletics student fee and use tax	3,580,085		3,614,453		3,083,102	
Gifts from OSU Foundation	5,933,886		12,170,594		4,260,863	
Interest expense	(3,186,959)		(3,397,604)		(3,578,104)	
Total nonoperating revenue	<u>6,332,572</u>		<u>12,396,369</u>		<u>3,777,002</u>	
<b>Capital Provided by Affiliates</b>	17,287,674		-		30,876,180	
<b>Loss on Disposal of Capital Assets</b>	<u>(12,800)</u>		<u>(38,122)</u>		<u>(28,372)</u>	
	17,274,874		(38,122)		30,847,808	
<b>Increase (Decrease) in Net Position</b>	<u>11,882,156</u>		<u>(7,064,314)</u>		<u>25,899,220</u>	
<b>Net Position, Beginning of Year</b>	291,680,463		298,744,777		274,505,423	
Cumulative effect of change in accounting principle	<u>-</u>		<u>-</u>		<u>(1,659,866)</u>	
<b>Net Position, Beginning of Year, as Restated</b>	<u>291,680,463</u>		<u>298,744,777</u>		<u>272,845,557</u>	
<b>Net Position, End of Year</b>	<u>\$ 303,562,619</u>		<u>\$ 291,680,463</u>		<u>\$ 298,744,777</u>	

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 2017, capital provided by affiliates consisted entirely of donated capital assets from Cowboy Athletics, Inc.

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, 2017, 2016 and 2015.

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Cash Provided By (Used In)</b>			
Operating activities	\$ (3,938,102)	\$ (11,203,353)	\$ 873,974
Noncapital financing activities	5,933,886	12,170,594	4,260,863
Investing activities	(112,688)	8,926	11,585
Capital and related financing activities	<u>(3,992,895)</u>	<u>(3,337,699)</u>	<u>(5,107,905)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(2,109,799)	(2,361,532)	38,517
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>15,290,134</u>	<u>17,651,666</u>	<u>17,613,149</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 13,180,335</u></u>	<u><u>\$ 15,290,134</u></u>	<u><u>\$ 17,651,666</u></u>

Cash provided by operating activities increased by \$7,265,251 from the fiscal years ended June 30, 2016 to June 30, 2017. This is a result of an increase in other operating revenues and a decrease in compensation. Cash provided by operating activities decreased by \$12,077,327 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 noncapital financing decreased by \$6,236,708, or 51.2% from the fiscal years ended June 30, 2016 to June 30, 2017. There was an increase of \$7,909,731, or 185.6% from the fiscal years ended June 30, 2015 to June 30, 2016. This activity is the direct result of transferring athletic related funds from the Oklahoma State University Foundation to the University Athletics Program as needed.



## ***Economic Outlook***

In fiscal year 2017, the University Athletics Program's key revenue sources were derived from ticket sales, donor contributions and conference income/media rights. Operating expenses declined in fiscal year 2017 mainly due to a decrease in compensation and utilities. The reduction in utilities was the result of direct efforts made to operate facilities more efficiently. This will continue to be a focus as new facilities are built. The University Athletics Program continues to balance its budget and is confident that will continue to do so.

Leadership within the University Athletics Program continues to review and explore methods for reducing expenses when possible while also seeking 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 anticipates increased expenditures in relation to the student athlete experience. Increases are anticipated in team travel, equipment, financial aid, medical, facilities and nutrition. However, the University Athletics Program believes that revenues will be sufficient to cover operating expenses for 2018.

A handwritten signature in cursive script that reads "Jason Lewis". The signature is written in black ink and is positioned above the printed name and title.

Jason Lewis  
Executive Senior Associate  
Athletic Director

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Statements of Net Position

June 30, 2017 and 2016

	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 12,108,591	\$ 14,201,595
Accounts receivable, net of allowances	3,384,691	3,787,947
Accounts receivable - Cowboy Athletics, Inc.	-	5,000,000
Investments	532,116	-
Prepaid expenses	-	852,332
Total current assets	16,025,398	23,841,874
Noncurrent assets		
Cash and cash equivalents	1,071,744	1,088,539
Accounts receivable - student fees, net of allowance	96,161	59,930
Capital assets, net of accumulated depreciation	378,224,290	366,922,336
Total noncurrent assets	379,392,195	368,070,805
Total assets	395,417,593	391,912,679
<b>Deferred Outflows of Resources</b>	968,586	196,821
<b>Liabilities</b>		
Current liabilities		
Accounts payable	280,712	709,843
Due to other University funds and accounts	187,847	229,618
Accrued expenses	109,004	86,464
Accrued interest payable	989,469	1,030,268
Unearned revenue	8,451,854	13,076,164
Accrued compensated absences	167,426	179,073
Retirement liability	532,116	-
Current portion of revenue bonds, notes payable and lease obligations	3,899,486	3,870,402
Total current liabilities	14,617,914	19,181,832
Noncurrent liabilities		
Accrued compensated absences	2,288,480	2,171,546
Pension liability	2,643,190	1,671,403
Revenue bonds payable	53,290,000	56,255,000
Revenue bonds premium payable	174,264	185,883
ODFA master lease program	18,358,584	19,192,667
ODFA premium payable	1,420,561	1,509,349
Total noncurrent liabilities	78,175,079	80,985,848
Total liabilities	92,792,993	100,167,680
<b>Deferred Inflows of Resources</b>	30,567	261,357
<b>Net Position</b>		
Net investment in capital assets	301,267,277	286,106,537
Restricted - expendable		
Debt service	2,278,189	2,084,221
Capital projects	(2,376,988)	(2,264,938)
Unrestricted	2,394,141	5,754,643
Total net position	\$ 303,562,619	\$ 291,680,463

See Notes to Financial Statements

**Intercollegiate Athletics Program Accounts of  
Oklahoma State University**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Revenues</b>		
Ticket sales	\$ 19,679,074	\$ 22,019,465
Conference income	34,252,573	32,020,785
Multi-media	6,685,149	5,722,132
Concessions	875,948	801,269
Guarantees	115,256	503,179
Other operating revenues	9,160,063	5,475,690
Student activity fees	93,000	93,000
Total operating revenues	<u>70,861,063</u>	<u>66,635,520</u>
 <b>Operating Expenses</b>		
Compensation and employee benefits	32,210,513	35,915,946
Travel	8,134,054	8,683,816
Financial aid	7,033,947	6,719,370
Maintenance	3,871,605	2,472,091
Athletics and small equipment purchases	1,796,828	1,731,216
Guarantees	1,535,834	1,674,856
Insurance	738,866	789,828
Other operating expenses	12,984,178	12,724,524
Telephone	180,575	186,249
Utilities	2,652,217	3,851,208
Depreciation and amortization	11,447,736	11,308,977
Total operating expenses	<u>82,586,353</u>	<u>86,058,081</u>
 <b>Operating Loss</b>	<u>(11,725,290)</u>	<u>(19,422,561)</u>
 <b>Nonoperating Revenues (Expenses)</b>		
Investment income	5,560	8,926
Athletics student fee and use tax	3,580,085	3,614,453
Gifts from OSU Foundation	5,933,886	12,170,594
Interest expense	(3,186,959)	(3,397,604)
Net nonoperating revenues	<u>6,332,572</u>	<u>12,396,369</u>
 <b>Loss Before Other Revenues, Expenses, Gains and Losses</b>	(5,392,718)	(7,026,192)
 Capital assets provided by affiliates	17,287,674	-
Loss on disposal of capital assets	(12,800)	(38,122)
 Net increase (decrease) in net position	11,882,156	(7,064,314)
 <b>Net Position, Beginning of Year</b>	<u>291,680,463</u>	<u>298,744,777</u>
 <b>Net Position, End of Year</b>	<u>\$ 303,562,619</u>	<u>\$ 291,680,463</u>

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Statements of Cash Flows June 30, 2017 and 2016

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Ticket sales	\$ 15,063,193	\$ 20,651,656
Other operating receipts	51,540,585	42,426,706
Payments to employees for salaries and benefits	(32,113,454)	(36,273,370)
Payments to suppliers	(38,428,426)	(38,008,345)
	(3,938,102)	(11,203,353)
Net cash used in operating activities		
<b>Cash Flows from Noncapital Financing Activities</b>		
Gifts	5,933,886	12,170,594
	5,933,886	12,170,594
Net cash provided by noncapital financing activities		
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(118,248)	-
Interest received on investments	5,560	8,926
	(112,688)	8,926
Net cash (used in) provided by investing activities		
<b>Cash Flows from Capital and Related Financing Activities</b>		
Cash paid for capital assets	(474,816)	(145,827)
Proceeds of capital debt	-	1,686,919
Proceeds from bond refunding	-	20,749,000
Repayments of capital debt and leases	(3,870,406)	(3,741,735)
Payments on bond refunding	-	(21,645,000)
Interest paid on capital debt and leases	(3,227,758)	(3,855,509)
Student fees restricted for capital projects	3,580,085	3,614,453
	(3,992,895)	(3,337,699)
Net cash used in capital and related financing activities		
<b>Decrease in Cash and Cash Equivalents</b>	(2,109,799)	(2,361,532)
<b>Cash and Cash Equivalents, Beginning of Year</b>	15,290,134	17,651,666
<b>Cash and Cash Equivalents, End of Year</b>	\$ 13,180,335	\$ 15,290,134

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Statements of Cash Flows June 30, 2017 and 2016

	2017	2016
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</b>		
Cash and cash equivalents	\$ 12,108,591	\$ 14,201,595
Restricted cash and cash equivalents	1,071,744	1,088,539
Total cash and cash equivalents	\$ 13,180,335	\$ 15,290,134
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (11,725,290)	\$ (19,422,561)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	11,447,736	11,308,977
Changes in operating assets and liabilities		
Accounts receivable	367,025	(2,170,185)
Prepaid expenses	852,332	120,771
Accounts payable	(429,131)	513,375
Due to other funds and accounts	(41,771)	(68,001)
Pension liability	(30,768)	125,499
Retirement liability	118,248	-
Accrued expenses	22,540	(115,822)
Unearned revenue	(4,624,310)	(1,386,973)
Compensated absences	105,287	(108,433)
<b>Net Cash Used in Operating Activities</b>	<b>\$ (3,938,102)</b>	<b>\$ (11,203,353)</b>
<b>Supplemental Cash Flows Information</b>		
Accounts receivable paid with contributions of capital assets	\$ 5,000,000	\$ -
Investments transferred for retirement liability	\$ 413,868	\$ -
Capital assets contributed to the University	\$ 22,287,674	\$ -

**Cowboy Athletics, Inc.**

**Cowboy Athletics, Inc.**  
**(A Component Unit of Oklahoma State University)**  
**Statements of Net Position**  
**December 31, 2016 and 2015**

**Assets**

	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,714,089	\$ 3,860,859
Investments	23,869,676	9,415,640
Interest in Oklahoma State University Foundation		
Pooled Investment Fund	22,679,709	22,305,552
Accounts receivables, net of allowance, 2016 and 2015 – \$0	305,683	570,754
Inventories	326,434	264,052
Derivative instrument	458,704	19,641
Prepaid expenses and other assets	176,204	188,837
Total current assets	51,530,499	36,625,335
<b>Noncurrent Assets</b>		
Restricted investments	2,562,200	2,562,200
Capital assets		
Capital assets being depreciated, net of accumulated depreciation, 2016 – \$8,365,798; 2015 – \$7,897,875	8,173,430	8,462,309
Capital assets not being depreciated	30,623,464	45,707,035
Total noncurrent assets	41,359,094	56,731,544
Total assets	\$ 92,889,593	\$ 93,356,879

## Liabilities

	<b>2016</b>	<b>2015</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 464,162	\$ 785,699
Accrued expenses	11,962,709	9,364,647
Retainage payable	49,682	11,765
Other current liabilities	14,215	28,300
Unearned revenues	223,086	253,599
Long-term debt – current portion	92,610,228	91,479,214
	<hr/>	<hr/>
Total current liabilities	105,324,082	101,923,224
<b>Contribution Payable to Related Party</b>	-	5,000,000
	<hr/>	<hr/>
Total liabilities	105,324,082	106,923,224
	<hr/>	<hr/>
<b>Net Position</b>		
Net investment in capital assets	12,745,141	13,034,022
Restricted expendable		
Capital acquisitions	27,180,644	42,096,353
Restricted nonexpendable	2,562,200	2,562,200
Unrestricted net position	(54,922,474)	(71,258,920)
	<hr/>	<hr/>
Total net position	(12,434,489)	(13,566,345)
	<hr/>	<hr/>
Total liabilities and net position	\$ 92,889,593	\$ 93,356,879
	<hr/>	<hr/>



**Cowboy Athletics, Inc.**  
**(A Component Unit of Oklahoma State University)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>		
Contributions	\$ 2,762,993	\$ 7,270,996
Food and beverage	3,813,031	3,481,606
Golf course rounds	403,932	363,418
Golf course pro shop	521,701	545,973
Golf course lodge	222,475	212,846
Golf course membership	785,165	804,734
Other revenue	269,893	272,140
Investment income	14,892,062	(38,264,275)
Increase (decrease) in fair value of investment in Oklahoma State University Foundation Pooled Investment Fund	874,149	(1,225,758)
Total operating revenues	<u>24,545,401</u>	<u>(26,538,320)</u>
<b>Operating Expenses</b>		
Food and beverage cost of goods sold	2,272,384	2,091,261
Golf course pro shop cost of goods sold	322,015	331,063
Contributions to OSU for budget support	70,000	134,000
Salaries	2,053,944	1,862,432
Depreciation	529,865	550,138
Professional fees	55,929	86,226
Supplies	234,182	234,939
Insurance	296,918	269,498
Repairs and maintenance	291,845	223,276
Payroll and property taxes	168,401	159,769
Equipment rental	114,917	105,804
Utilities	191,617	185,838
Laundry service	29,762	24,725
Credit card processing fees	59,994	62,129
Fuel	15,996	16,213
Other operating expenses	574,328	443,947
Total operating expenses	<u>7,282,097</u>	<u>6,781,258</u>
<b>Operating Income (Loss)</b>	<u>17,263,304</u>	<u>(33,319,578)</u>
<b>Nonoperating Expenses</b>		
Interest expense	3,433,272	3,236,983
Capital contributions to OSU	12,698,176	-
Total nonoperating expenses	<u>16,131,448</u>	<u>3,236,983</u>
<b>Increase (Decrease) in Net Position</b>	1,131,856	(36,556,561)
<b>Net Position, Beginning of Year</b>	<u>(13,566,345)</u>	<u>22,990,216</u>
<b>Net Position, End of Year</b>	<u>\$ (12,434,489)</u>	<u>\$ (13,566,345)</u>

**Cowboy Athletics, Inc.**  
**(A Component Unit of Oklahoma State University)**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Contributions received from the Oklahoma State University Foundation	\$ 2,762,993	\$ 7,270,996
Proceeds from Oklahoma State University Foundation Pooled Investment Fund	500,000	-
Payments from members and customers	6,250,755	5,557,562
Payments to suppliers and employees	<u>(7,263,279)</u>	<u>(4,324,930)</u>
Net cash provided by operating activities	<u>2,250,469</u>	<u>8,503,628</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(2,675,342)	(6,540,443)
Proceeds from issuance of capital debt	1,131,014	1,359,687
Principal paid on capital debt and leases	-	(14,030)
Interest paid on capital debt and leases	<u>(852,911)</u>	<u>(3,236,983)</u>
Net cash used in capital and related financing activities	<u>(2,397,239)</u>	<u>(8,431,769)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(146,770)	71,859
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,860,859</u>	<u>3,789,000</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 3,714,089</u>	<u>\$ 3,860,859</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ 17,263,304	\$ (33,319,578)
Depreciation expense	529,865	550,138
Realized and unrealized (gain) loss on investments	(14,454,036)	38,764,916
(Gain) loss on Oklahoma State University Foundation pooled investments	(374,149)	1,225,758
Realized and unrealized gains on derivative instrument	(439,063)	(500,641)
Changes in operating assets and liabilities		
Accounts receivables, net	265,071	(202,754)
Inventories	(62,382)	(49,052)
Prepaid expenses	12,632	41,163
Accounts payable and accrued liabilities	(460,260)	1,914,079
Deferred revenue	<u>(30,513)</u>	<u>79,599</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 2,250,469</u>	<u>\$ 8,503,628</u>
<b>Supplemental Cash Flows Information</b>		
Capital assets contributed to Oklahoma State University	\$ 12,698,176	\$ -
Debt paid with capital asset to Oklahoma State University	\$ 5,000,000	\$ -
Capital assets in accounts payable	\$ 143,370	\$ -

## **Notes to the Financial Statements**

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

## **Notes to the Financial Statements**

### **June 30, 2017 and 2016**

#### **Note 1: Summary of Significant Accounting Policies**

##### ***Nature of Operations***

The accompanying financial statements include the accounts of the intercollegiate athletics department of Oklahoma State University (the “University”) as identified by management. The University is governed by the Board of Regents for the Oklahoma Agricultural and Mechanical Colleges (the “Board of Regents”) and is a member of the Oklahoma State System of Higher Education. For purposes of these financial statements, the intercollegiate athletics department is referred to as the “University Athletics Program.”

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 nor are these financial statements indicative of operations of the University as a whole. Portions of certain revenues and expenses represent allocations determined by management made from items applicable to the University as a whole.

##### ***Component Unit***

Cowboy Athletics, Inc. (CAI) is a legally separate, 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 Governmental Accounting Standards Board (GASB).

Although University Athletics Program does not control the timing or amount of receipts from CAI, the majority of the activities and assets of CAI are to support the University Athletics Program and therefore, CAI is considered a component unit of the University and the University Athletics Program and is discretely presented in the financial statements of the University and the University Athletics Program.

CAI operates under a December 31 calendar year end and no modifications have been made to the statements of the University Athletics Program for these differences.

##### ***Basis of Accounting and Presentation***

The financial statements of the University Athletics Program have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as state appropriations),

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's 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.

### ***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.

### ***Cash Equivalents***

The University Athletics Program considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered cash equivalents.

### ***Investments***

The University Athletics Program accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses and Changes in Net Position. The University Athletics Program is primarily invested in money markets and mutual funds which are carried at fair value. Fair value is determined using quoted market prices.

### ***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. The University determines its allowance by considering a number of factors, including the length of time the accounts receivable are past due, the University's previous loss history and the condition of the general economy and industry as a whole.

### ***Noncurrent Cash and Investments***

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

**Intercollegiate Athletics Program Accounts of  
Oklahoma State University**  
**Notes to the Financial Statements**  
**June 30, 2017 and 2016**

***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 2017 and 2016, total interest incurred was \$3,186,959 and \$3,397,604, respectively, none of which was capitalized.

***Deferred Outflows of Resources***

The University reports increases in net position generated by its defined benefit pension plan that relate to future periods as deferred outflows of resources in a separate section of its statements of net position.

***Unearned Revenue***

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

***Compensated Absences***

The liability and expense incurred for employee vacation pay are recorded as accrued compensated absences in the statements of net position, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

***Noncurrent Liabilities***

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

**Intercollegiate Athletics Program Accounts of  
Oklahoma State University**  
**Notes to the Financial Statements**  
**June 30, 2017 and 2016**

***Cost-Sharing Defined Benefit Pension Plan***

The University participates in a cost-sharing multiple-employer defined benefit pension plan-Teacher Retirement System of Oklahoma (OTRS) (the “Plan”). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, 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.

***Deferred Inflows of Resources***

The University reports decreases in net position generated by its defined benefit pension plan that relate to future periods as deferred inflows of resources in a separate section of its statements of net position.

***Net Position***

The University Athletics Program’s net position is classified as follows:

- Net investment in capital assets: 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 net investment in capital assets.
- 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.

***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 regarding exchange and nonexchange transactions.

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements June 30, 2017 and 2016

### ***Income Taxes***

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income. As a department of the University, the University Athletics Program is also exempt from income taxes.

### ***New Pronouncements***

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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This Statement is effective for periods beginning after June 15, 2018. Earlier application is encouraged.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for periods beginning after December 15, 2018. Earlier application is encouraged.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements, which include a variety of topics including blending component units, goodwill, fair value measurement and application and postemployment benefits. This Statement is effective for periods beginning after June 15, 2017. Earlier application is encouraged.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement improves accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement is effective for periods beginning after June 15, 2017. Earlier application is encouraged.

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement requires recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for periods beginning after December 15, 2019. Earlier application is encouraged.



**Intercollegiate Athletics Program Accounts of  
Oklahoma State University**  
**Notes to the Financial Statements**  
**June 30, 2017 and 2016**

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

***Reclassifications***

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on total net position or the change in net position.

**Note 2: Cash and Cash Equivalents**

At June 30, 2017 and 2016, the carrying amount of the University Athletics Program's cash and cash equivalents was \$13,180,335 and \$15,290,134, respectively, of which all were held within the University's combined cash and cash equivalent except for approximately \$125,000.

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

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

Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the State Treasurer. For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents.

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### Note 3: Accounts Receivable

Accounts receivable consisted of the following at June 30:

	<b>2017</b>	<b>2016</b>
Athletic tickets	\$ 122,504	\$ 110,609
Receivable from Cowboy Athletics, Inc.	-	5,000,000
Receivables from operations	3,291,033	3,659,082
Student fees	96,161	78,186
	3,509,698	8,847,877
Less allowance for doubtful accounts	28,846	-
	\$ 3,480,852	\$ 8,847,877

Accounts receivable at June 30, 2016, included a contribution receivable from CAI of \$5,000,000 which was settled during fiscal year 2017 through the transfer of capital assets from CAI.

### 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:

	<b>2017</b>	<b>2016</b>
Funds collected on behalf of the University or University Athletics Program	\$ 77,375,812	\$ 29,236,494
Fund disbursed to or on behalf of the University or University Athletics Program	\$ 20,118,187	\$ 22,805,681
Net assets held on behalf of or for the benefit of the University or University Athletics Program at June 30	\$180,704,817	\$123,447,192

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### ***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 the Michael and Anne Greenwood Tennis Center and improvements in Boone Pickens Stadium and Gallagher – Iba Arena to the University Athletics Program in June 2017 at a value of \$17,496,535, \$2,620,052 and \$2,171,087, respectively, as capital asset additions and the forgiveness of a \$5,000,000 accounts receivable from CAI. 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 of \$17,287,674 for the year ended June 30, 2017. There were no transfers in fiscal year 2016.

Net position of CAI at December 31, 2016 and 2015, was \$(12,434,489) and \$(13,566,345), respectively.



**Intercollegiate Athletics Program Accounts of  
Oklahoma State University**  
Notes to the Financial Statements  
June 30, 2017 and 2016

**Note 6: Revenue Bonds & Lease Obligations**

**General Revenue Bonds, Series 2010A, Series 2010B and Series 2013B**

Revenue bonds payable consisted of the following at June 30:

	2017	2016
3.0% - 4.917% General Revenue Bonds, Series 2010A, issued in the original amount of \$39,120,000 and mature in varying annual amounts to August 1, 2039	\$ 33,575,000	\$ 34,350,000
3.25% - 5.01% General Revenue Bonds, Federally Taxable Series 2010B, issued in the original amount of \$13,265,000 and mature in varying annual amounts to August 1, 2023	7,245,000	8,105,000
2.0% - 4.5% General Revenue Bonds, Series 2013B, issued in the original amount of \$19,365,000 and mature in varying annual amounts to August 1, 2033	15,435,000	16,760,000
	\$ 56,255,000	\$ 59,215,000

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 Series 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.

**Intercollegiate Athletics Program Accounts of  
Oklahoma State University  
Notes to the Financial Statements  
June 30, 2017 and 2016**

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 Series 2013B Bonds was \$15,635,000 plus accrued interest to the October 1, 2013, redemption date.

Proceeds of the Series 2013B Bonds were used to currently refund the Oklahoma Development Finance Authority Public Facilities Financing Program Revenue Bonds (Oklahoma State University Athletic Facilities Project) Refunding Series 2003 (the “2003 ODFA Bonds”), in the original amount of \$9,430,000, of which \$3,700,000 were outstanding. Principal of the 2003 ODFA Bonds refunded with proceeds of the Series 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.

***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, 2017, was \$1,650,000.

***ODFA Master Real Property Lease Revenue Bonds, Series 2015A***

	<b>2017</b>	<b>2016</b>
2.00% - 5.00% ODFA Oklahoma State System of Higher Education Master Real Property Lease Revenue Bonds, Series 2015A, allocated to the University in the original amount of \$20,749,000 and mature in varying annual amounts to May 15, 2034	\$ 19,192,667	\$ 20,002,667

**Intercollegiate Athletics Program Accounts of  
Oklahoma State University  
Notes to the Financial Statements  
June 30, 2017 and 2016**

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.

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.

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

	<b>Bonds</b>	<b>Master Lease</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 2,965,000	\$ 834,083	\$ 3,103,939	\$ 6,903,022
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	2,895,000	934,167	2,583,757	6,412,924
2023-2027	13,445,000	5,287,000	10,345,341	29,077,341
2028-2032	11,560,000	6,576,917	6,596,018	24,732,935
2033-2037	10,775,000	2,909,250	2,677,742	16,361,992
2038-2041	6,185,000	-	425,813	6,610,813
	<u>\$ 56,255,000</u>	<u>\$ 19,192,667</u>	<u>\$ 34,278,540</u>	<u>\$ 109,726,207</u>

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### Note 7: Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2017 and 2016, is as follows:

	Beginning Balance	2017		Ending Balance	Current Portion
		Additions	Reductions		
Revenue bonds payable	\$ 59,215,000	\$ -	\$ (2,960,000)	\$ 56,255,000	\$ 2,965,000
ODFA master lease program bonds	20,002,667	-	(810,000)	19,192,667	834,083
	<u>79,217,667</u>	<u>-</u>	<u>(3,770,000)</u>	<u>75,447,667</u>	<u>3,799,083</u>
Other liabilities					
Revenue bond premium payable	197,500	-	(11,618)	185,882	11,618
ODFA premium payable	1,598,134	-	(88,788)	1,509,346	88,785
Accrued compensated absences	2,350,619	272,713	(167,426)	2,455,906	167,426
Pension liability	<u>1,671,403</u>	<u>971,787</u>	<u>-</u>	<u>2,643,190</u>	<u>-</u>
Total other obligations	<u>5,817,656</u>	<u>1,244,500</u>	<u>(267,832)</u>	<u>6,794,324</u>	<u>267,829</u>
Total long-term debt and other obligations	<u>\$ 85,035,323</u>	<u>\$ 1,244,500</u>	<u>\$ (4,037,832)</u>	<u>\$ 82,241,991</u>	<u>\$ 4,066,912</u>
	Beginning Balance	2016		Ending Balance	Current Portion
		Additions	Reductions		
Revenue bonds payable	\$ 83,755,000	\$ -	\$ (24,540,000)	\$ 59,215,000	\$ 2,960,000
ODFA master lease program bonds	-	20,749,000	(746,333)	20,002,667	810,000
	<u>83,755,000</u>	<u>20,749,000</u>	<u>(25,286,333)</u>	<u>79,217,667</u>	<u>3,770,000</u>
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	<u>1,412,735</u>	<u>258,668</u>	<u>-</u>	<u>1,671,403</u>	<u>-</u>
Total other obligations	<u>4,080,904</u>	<u>2,016,227</u>	<u>(279,475)</u>	<u>5,817,656</u>	<u>279,475</u>
Total long-term debt and other obligations	<u>\$ 87,835,904</u>	<u>\$ 22,765,227</u>	<u>\$ (25,565,808)</u>	<u>\$ 85,035,323</u>	<u>\$ 4,049,475</u>



**Intercollegiate Athletics Program Accounts of  
Oklahoma State University**  
**Notes to the Financial Statements**  
**June 30, 2017 and 2016**

**Note 8: 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.

***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

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

## **Notes to the Financial Statements**

### **June 30, 2017 and 2016**

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.

The University has not allocated a portion of these self-funded liabilities to the University Athletics Program.

## **Note 9: Commitments and Contingencies**

### ***Claims and Litigation***

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.

### ***Construction Commitments***

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.

### ***Lease Agreements***

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 \$13,105 and \$30,989 for the years ended June 30, 2017 and 2016, respectively.

**Intercollegiate Athletics Program Accounts of  
Oklahoma State University**  
**Notes to the Financial Statements**  
**June 30, 2017 and 2016**

**Note 10: 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 (the "Plan"). 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, 2017 and 2016, 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, 2017 and 2016. The University administratively pays these expenses for the University Athletics Program. These costs are included with other fringe benefits.

The fiduciary net position of the Plan 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 the Plan'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.

Additional information about the plan can be obtained from the audited financial statements of the University.

**Note 11: Subsequent Events**

The University Athletics Program has evaluated events or transactions that occurred subsequent to June 30, 2017, through October 27, 2017, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.

**Notes to Financial Statements –  
Cowboy Athletics, Inc.**

**Intercollegiate Athletics Program Accounts of  
Oklahoma State University**  
Notes to the Financial Statements  
June 30, 2017 and 2016

**Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc.**

***Investments***

At December 31, 2016 and 2015, the Organization had the following investments:

	<b>2016</b>	<b>2015</b>
Energy equity fund limited partnerships	\$ 17,132,661	\$ 7,156,785
Energy fund limited partnerships	1,580,049	591,285
Equity securities	340,303	426,506
Money market funds held as collateral for derivative instruments	7,333,503	3,757,904
Money market funds	45,360	45,360
	<u>\$ 26,431,876</u>	<u>\$ 11,977,840</u>

**Interest Rate Risk**

The Organization 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, 2016 and 2015, the Organization is not invested in any instruments with stated maturities.

**Credit Risk**

The Organization's investments are primarily managed by BP Capital, a private investment firm, owned by a member of the Board of Directors. In accordance with the Organization's conflict of interest policy, BP Capital does not charge the Organization a management fee for its investment advisory services. Credit risk is the risk that the issuer or other counter party to an investment will not fulfill its obligations. The Organization's investments are not restricted to an investment asset allocation policy.

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

The investments in limited partnerships are recorded at the Organization's initial investment in the partnerships, adjusted for a portion of the partnerships' investment performance allocated to the Organization, 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.

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc. (Continued)

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 Organization's lack of diversification in investments significantly increases the risk that, in the event of a prolonged downturn in the energy equities or commodities markets, the Organization's investments and their return on investments could be significantly affected. These limited partnerships have received an unmodified opinion report from their independent auditors for the years ended December 31, 2016 and 2015.

#### ***Interest in Oklahoma State University Foundation Pooled Investment Fund***

The Organization has transferred assets to the Oklahoma State University Foundation for investment in the Pooled Investment Fund of the Foundation. The Oklahoma State University Foundation manages these investments through a comingled external investment pool which consists of marketable securities including the fixed income investments, mutual funds, bonds and commodities and nonmarketable securities such as closely held stock and other alternative investments. Invested funds can be distributed to the Organization at its discretion. The fair value of the assets included in the statements of net position was \$22,679,709 and \$22,305,552 at December 31, 2016 and 2015, respectively. The fair value of the Organization's position in the pool is the same as the value of the pool shares.

#### ***Derivative Instruments***

The Organization 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, 2016.

Description	Number of Contracts	Average Purchase Price Per Unit	Fair Market Value Per Unit at December 31, 2016	Change in Fair Value During 2016	Fair Market Value at December 31, 2016
February 2017 NYM CRUDE	360	\$ 53.43	\$ 53.72	-	\$ 105,571
March 2017 NYM CRUDE	145	54.48	54.66	-	26,222
March 2017 ICE BRENT	365	55.95	56.82	-	318,803
April 2017 ICE BRENT	140	57.43	57.49	-	8,108
				<u>\$ -</u>	<u>\$ 458,704</u>

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc. (Continued)

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	-	\$ 17,433
February 2016 NY LT Crude	23	37.01	37.04	-	(578)
February 2016 NYM NYHRBRULSD	27	112.01	112.39	-	4,309
February 2016 NYM NYHRBRULSD	23	111.10	112.39	-	12,461
April 2016 NYM NYHRBRULSD	27	116.62	116.73	-	(1,248)
April 2016 NYM NYHRBRULSD	23	115.41	116.73	-	(12,736)
				<u>\$ -</u>	<u>\$ 19,641</u>

Investment income, including unrealized gains and losses, related to investment derivative instruments totaled \$3,572,000 and \$(14,585,000) for the years ended December 31, 2016 and 2015, respectively.

#### **Credit Risk**

The Organization's derivative instruments are managed by a member of the Board of Directors through an account with INTL FCStone Financial, Inc., a regulated Futures Commission Merchant. Prior to September 2016, the account was held by Rosenthal Collins Group, LLC, a regulated Futures Commission Merchant. In accordance with the Organization's conflict of interest policy, the Organization is not charged a management fee for the investment asset allocation policy. The Organization'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.

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc. (Continued)

#### Capital Assets

Capital asset activity for the years ended December 31, 2016 and 2015, includes the following:

	2016			Ending Balance
	Beginning Balance	Additions	Disposals	
Nondepreciable capital assets				
Land	\$ 2,119,821	\$ -	\$ -	\$ 2,119,821
Nondepreciable golf course improvements	2,441,575	-	-	2,441,575
Construction in progress - projects to be transferred to the University	41,135,325	2,614,605	(17,698,176)	26,051,754
Construction in progress - ongoing operations	10,314	-	-	10,314
Total nondepreciable capital assets	<u>45,707,035</u>	<u>2,614,605</u>	<u>(17,698,176)</u>	<u>30,623,464</u>
Depreciable capital assets				
Buildings	9,471,089	60,103	-	9,531,192
Depreciable golf course improvements	3,778,909	41,898	-	3,820,807
Furniture and equipment	933,708	43,162	-	976,870
Golf course equipment	2,176,479	97,360	(63,480)	2,210,359
Total depreciable capital assets	<u>16,360,185</u>	<u>242,523</u>	<u>(63,480)</u>	<u>16,539,228</u>
Less accumulated depreciation				
Buildings	2,682,606	272,578	-	2,955,184
Depreciable golf course improvements	2,691,632	109,941	-	2,801,573
Furniture and equipment	733,002	56,335	-	789,337
Golf course equipment	1,790,634	91,011	(61,941)	1,819,704
Total accumulated depreciation	<u>7,897,874</u>	<u>529,865</u>	<u>(61,941)</u>	<u>8,365,798</u>
Total depreciable capital assets, net	<u>8,462,311</u>	<u>(287,342)</u>	<u>(1,539)</u>	<u>8,173,430</u>
Net capital assets	<u>\$ 54,169,346</u>	<u>\$ 2,327,263</u>	<u>\$(17,699,715)</u>	<u>\$ 38,796,894</u>



# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc. (Continued)

	Beginning Balance	2015		Ending Balance
		Additions	Disposals	
Nondepreciable capital assets				
Land	\$ 2,119,821	\$ -	\$ -	\$ 2,119,821
Nondepreciable golf course improvements	2,441,575	-	-	2,441,575
Construction in progress - projects to be transferred to the University	34,734,881	6,400,444	-	41,135,325
Construction in progress - ongoing operations	10,314	-	-	10,314
<b>Total nondepreciable capital assets</b>	<b>39,306,591</b>	<b>6,400,444</b>	<b>-</b>	<b>45,707,035</b>
Depreciable capital assets				
Buildings	9,462,229	8,860	-	9,471,089
Depreciable golf course improvements	3,764,108	14,800	-	3,778,908
Furniture and equipment	1,060,501	46,394	(173,187)	933,708
Golf course equipment	2,172,667	70,062	(66,250)	2,176,479
<b>Total depreciable capital assets</b>	<b>16,459,505</b>	<b>140,116</b>	<b>(239,437)</b>	<b>16,360,184</b>
Less accumulated depreciation				
Buildings	2,411,620	270,987		2,682,607
Depreciable golf course improvements	2,574,466	117,166	-	2,691,632
Furniture and equipment	841,943	64,246	(173,187)	733,002
Golf course equipment	1,759,145	97,739	(66,250)	1,790,634
<b>Total accumulated depreciation</b>	<b>7,587,174</b>	<b>550,138</b>	<b>(239,437)</b>	<b>7,897,875</b>
<b>Total depreciable capital assets, net</b>	<b>8,872,331</b>	<b>(410,022)</b>	<b>-</b>	<b>8,462,309</b>
<b>Net capital assets</b>	<b>\$ 48,178,922</b>	<b>\$ 5,990,422</b>	<b>\$ -</b>	<b>\$ 54,169,344</b>

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc. (Continued)

#### *Long-Term Obligations*

The following is a summary of long-term obligation transactions for the Organization for the years ended December 31, 2016 and 2015:

	Beginning Balance	2016		Ending Balance	Current Portion
		Additions	Deductions		
<b>Long-Term Debt</b>					
Notes payable – Pickens					
Note payable (A)	\$ 10,530,089	\$ -	\$ -	\$ 10,530,089	\$ 10,530,089
Note payable (B)	12,215,731	-	-	12,215,731	12,215,731
Note payable (C)	50,192,201	1,131,014	-	51,323,215	51,323,215
Note payable – Interbank note payable (D)	18,541,193	-	-	18,541,193	18,541,193
Total notes payable	<u>91,479,214</u>	<u>1,131,014</u>	<u>-</u>	<u>92,610,228</u>	<u>92,610,228</u>
Other liabilities					
Contributions payable	<u>5,000,000</u>	<u>-</u>	<u>(5,000,000)</u>	<u>-</u>	<u>-</u>
Total other noncurrent liabilities	<u>5,000,000</u>	<u>-</u>	<u>(5,000,000)</u>	<u>-</u>	<u>-</u>
Total long-term obligations	<u>\$ 96,479,214</u>	<u>\$ 1,131,014</u>	<u>\$ (5,000,000)</u>	<u>\$ 92,610,228</u>	<u>\$ 92,610,228</u>
	Beginning Balance	2015		Ending Balance	Current Portion
<b>Long-Term Debt</b>					
Notes payable – Pickens					
Note payable (A)	\$ 10,530,089	\$ -	\$ -	\$ 10,530,089	\$ 10,530,089
Note payable (B)	12,215,731	-	-	12,215,731	12,215,731
Note payable (C)	48,832,514	1,359,687	-	50,192,201	50,192,201
Note payable – Interbank note payable (D)	18,541,193	-	-	18,541,193	18,541,193
Total notes payable	<u>90,119,527</u>	<u>1,359,687</u>	<u>-</u>	<u>91,479,214</u>	<u>91,479,214</u>
Other liabilities					
Contributions payable	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>5,000,000</u>	<u>-</u>
Total other noncurrent liabilities	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>5,000,000</u>	<u>-</u>
Total long-term obligations	<u>\$ 95,119,527</u>	<u>\$ 1,359,687</u>	<u>\$ -</u>	<u>\$ 96,479,214</u>	<u>\$ 91,479,214</u>

**Intercollegiate Athletics Program Accounts of  
Oklahoma State University  
Notes to the Financial Statements  
June 30, 2017 and 2016**

**Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc.  
(Continued)**

***Notes Payable – T. Boone Pickens***

The Organization has entered into notes payable with Mr. T. Boone Pickens, a director of the Organization. All notes bear interest at the “Prime Rate” as announced by Plains Capital Bank, which was 3.75% and 3.50% at December 31, 2016 and 2015, respectively. Notes are due at the earlier of the stated maturity date or demand for payment and are not collateralized. In accordance with the commitment, the payee has indicated that he will not exercise his demand clause and intends to extend the maturity of the note payable until at least July 31, 2018.

*Note Payable (A)*

Original promissory note dated April 9, 2010, and subsequently renewed on March 31, 2011, 2013, 2014, 2015 and 2016, with a current maturity of March 31, 2017. Outstanding accrued interest on the note payable was \$2,045,747 and \$1,674,958 as of December 31, 2016 and 2015, respectively, which is included in accrued expenses on the statements of net position.

On March 31, 2017, the note was renewed to mature on March 31, 2018, and in accordance with the commitment, the payee has indicated that he will not exercise his demand clause and intends to extend the maturity of the note payable until at least July 31, 2018.

*Note Payable (B)*

Original promissory note dated March 26, 2010, and subsequently renewed on February 28, 2013, 2014, 2015 and February 29, 2016, with a current maturity of February 28, 2017. Outstanding accrued interest on the note payable was \$2,721,211 and \$2,291,067 as of December 31, 2016 and 2015, respectively, which is included in accrued expenses on the statements of net position.

On February 28, 2017, the note was renewed to mature on February 28, 2018, and in accordance with the commitment, the payee has indicated that he will not exercise his demand clause and intends to extend the maturity of the note payable until at least July 31, 2018.

*Note Payable (C)*

Multiple advance promissory note dated March 31, 2011, and subsequently renewed on March 31, 2013, 2014, 2015 and 2016, with a current maturity of March 31, 2017. Outstanding accrued interest on the note payable was \$7,095,827 and \$5,313,319 as of December 31, 2016 and 2015, respectively, which is included in accrued expenses on the statements of net position.

On March 31, 2017, the note was renewed to mature on March 31, 2018, with a maximum advance of \$60 million.

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### **Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc. (Continued)**

#### ***Note Payable – Interbank***

On January 17, 2012, the Organization executed a note payable with Interbank a financial institution which shares a common director with the Organization. The note was amended September 9, 2016, to change the principal payment schedule and maturity to December 31, 2016, and amended on December 28, 2016, to change the principal payment schedule and maturity to February 28, 2017. Under the terms of the amended agreements, 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 plus one percent or 6%. The applicable rate at December 31, 2016 and 2015, was 6.00%. The note is collateralized by any funds owned by the Organization and held by OSUF as part of the agency agreement between two parties which is recorded as interest in assets held by Oklahoma State University Foundation of \$22,679,709 and \$22,305,552 at December 31, 2016 and 2015, respectively, in the statements of net position.

On February 28, 2017, the note was renewed to mature on December 31, 2017, however, the outstanding principal and interest were paid in full by the Organization on April 18, 2017.

#### ***Disclosures About Fair Value of Assets and Liabilities***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc. (Continued)

#### *Recurring Measurements*

The following tables present the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	2016			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Money market funds	\$ 7,378,863	\$ 7,378,863	\$ -	\$ -
Equity securities	340,303	340,303	-	-
Total investments by fair value level	<u>7,719,166</u>			
Investments measured at the net asset value (NAV) (A)				
Energy equity fund limited partnerships	17,132,661			
Energy fund limited partnerships	<u>1,580,049</u>			
Total investments measured at the net asset value (NAV)	<u>18,712,710</u>			
Total investments measured	<u>\$ 26,431,876</u>			
Interest in assets at Oklahoma State University Foundation	<u>\$ 22,679,709</u>	<u>\$ -</u>	<u>\$ 22,679,709</u>	<u>\$ -</u>
Investment derivative instruments				
Futures contracts	<u>\$ 458,704</u>	<u>\$ 458,704</u>	<u>\$ -</u>	<u>\$ -</u>

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc. (Continued)

	2015			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Money market funds	\$ 3,803,264	\$ 3,803,264	\$ -	\$ -
Equity securities	426,506	426,506	-	-
Total investments by fair value level	<u>4,229,770</u>			
Investments measured at the net asset value (NAV) (A)				
Energy equity fund limited partnerships	7,156,785			
Energy fund limited partnerships	591,285			
Total investments measured at the net asset value (NAV)	<u>7,748,070</u>			
Total investments	<u>\$ 11,977,840</u>			
Interest in assets at Oklahoma State University Foundation	<u>\$ 22,305,552</u>	<u>\$ -</u>	<u>\$ 22,305,552</u>	<u>\$ -</u>
Investment derivative instruments				
Futures contracts	<u>\$ 19,641</u>	<u>\$ 19,641</u>	<u>\$ -</u>	<u>\$ -</u>

(A) Certain investments that are measured using the net assets value per share (or equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliations of the fair value hierarchy to the amounts presented in the statements of net position.

### **Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

# Intercollegiate Athletics Program Accounts of Oklahoma State University

## Notes to the Financial Statements

June 30, 2017 and 2016

### **Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc. (Continued)**

The valuation method for investments measured at the net asset value (NAV) include the Organization's investment in energy equity fund limited partnerships and energy fund limited partnerships which are engaged in the 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. The Organization has no redemption restrictions in these investments.

#### ***Interest in Oklahoma State University Foundation Pooled Investment Fund***

Fair value is estimated at the Organization's proportionate interest in the investments of the Pooled Investment Fund held by Oklahoma State University Foundation. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

#### ***Investment Derivative Instruments***

This category includes investments in various commodity futures contracts. These derivatives are exchange traded on the Chicago Mercantile Exchange. Due to the active pricing of these commodities, these investments are classified within Level 1 of the hierarchy.

#### ***Related Party Transactions - Oklahoma State University***

The Organization contributed capital assets of \$17,698,176 to the University in 2016 in exchange for the forgiveness of a \$5 million amount payable. No capital assets were contributed in 2015.

#### ***Board of Directors***

The Organization's investments are primarily managed by BP Capital, a private investment firm, owned by a member of the Board of Directors as discussed in *Note 2*. The Organization has notes payable to a member of the Board of Directors and a financial institution of which a member of the Board of Directors is affiliated as discussed in *Note 7*. Interest expense on these notes payable was approximately \$3.4 million and \$3.2 million for the years ended December 31, 2016 and 2015, respectively.

#### ***Construction Commitments***

At December 31, 2016, Facilities had significant construction in process on several projects which will be contributed to the University upon completion. Approximately \$26.1 million has been spent on projects still in progress, of which approximately \$23.0 million represents projects awaiting additional funding at December 31, 2017, and is included in capital assets not being depreciated in the accompanying statements of net position. Management's estimated cost to complete these projects currently in progress is approximately \$16.3 million.

**Intercollegiate Athletics Program Accounts of  
Oklahoma State University**  
**Notes to the Financial Statements**  
**June 30, 2017 and 2016**

**Note 12: Discretely Presented Component Unit – Cowboy Athletics, Inc.  
(Continued)**

***Liquidity***

At December 31, 2016, the Organization's notes payable exceeded \$97.5 million, which exceeds its cash, investments and interest in funds held by others by approximately \$47.3 million. The Organization's notes payable balance includes approximately \$74 million due to Mr. T. Boone Pickens, which subsequent to the most recent renewal are due in February and March 2018. Mr. Pickens, a member of the Board of Directors of the Organization, has provided a letter indicating his intent to extend the maturities on these notes payable until at least July 31, 2018, and indicated his intent to not exercise the demand for payment on the promissory notes through the same date. At December 31, 2016, the Organization also had a note payable to Interbank in the amount of approximately \$18.5 million which was paid in full by the Organization in April 2017. As such, management believes the Organization has the ability to meet its debt obligations as they become due.

***Subsequent Events***

The Organization renewed certain notes payable with a Board member and paid in full debt obligations with Interbank subsequent to year end. The funds used to pay off these obligations were withdrawn from the Organization's assets at the Oklahoma State University Foundation.



**Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards**

Board of Regents of the Oklahoma  
Agricultural & Mechanical Colleges  
Oklahoma State University  
Oklahoma City, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and discretely presented component unit of the Intercollegiate Athletics Program Accounts of Oklahoma State University, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University Athletics Program’s basic financial statements and have issued our report thereon dated October 27, 2017, which contained an emphasis matter indicating the financial statements are not representative of Oklahoma State University as a whole.

***Internal Control Over Financial Reporting***

Management of the University Athletics Program is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the University Athletics Program’s internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University Athletics Program’s internal control. 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 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.

Board of Regents  
Oklahoma State University

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 internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

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

We noted certain matters that we reported to the University's management in a separate letter dated October 27, 2017.

### ***Purpose of this Report***

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 entity'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 communication is not suitable for any other purpose.

**BKD, LLP**

Springfield, Missouri  
October 27, 2017

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

**Schedule of Findings and Responses**

**June 30, 2017**

**Reference  
Number**

**Finding**

---

No matters are reportable.