



Oregon
University
System

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Memorandum

To: George Pernsteiner, Oregon University System Chancellor
Dr. Richard Lariviere, University of Oregon President

From: Patricia A. Snopkowski, Chief Auditor and Executive Director
Oregon University System Internal Audit Division

Subject: Matthew Knight Arena Pro Forma Review

Date: January 25, 2011

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Background

The Oregon University System (OUS) Internal Audit Division (IAD) performed a fiscal review of the documentation supporting the assumptions of the updated pro forma financial statements for the Matthew Knight Arena.

In November 2007, the University of Oregon (UO) presented to the Oregon State Board of Higher Education (Board) pro forma financial statements in support of their request to build a new basketball arena. Based on the assumptions made in these pro forma financial statements, the Board authorized the Chancellor or designee to seek legislative approval for authorization of \$200 million in Article XI-F(1) bonds to be used in the construction of the arena.

During the February 2008 Special Session, the Oregon Legislature approved Senate Bill 5555, which established \$200 million in Article XI-F(1) bond proceeds for the Department of Higher Education for the arena's construction. The UO Athletic Department (Athletics) will use revenues, grants, and gifts to Athletics, including amounts available in the Legacy Fund, to service the debt on the arena bonds. The Legacy Fund has been expressly established and identified as a source of revenue for Athletics to utilize to meet the bond debt service payments. The Legacy Fund is also expected to provide financial stability and flexibility to Athletics in future years, allowing it to respond to evolving needs.

Senate Bill 5555 requires the submission of a report to the Joint Committee on Ways and Means during the 2011 regular session. This report includes information related to the arena capital construction project and Athletic budget. In addition, in order to obtain approval to access the Legacy Fund for expenditures other than arena debt service, Athletics must provide updated pro forma financial statements for the arena to the UO president.

Objectives and Scope

Sharon Myrand, Senior Auditor, led the engagement. The objectives of the engagement were to determine whether the assumptions used in the arena pro forma financial statements prepared by Athletics and dated December 17, 2010 are reasonable and whether the financial statements demonstrate that the project continues to be self-sustaining.

Our assessment utilized the *Internal Control Integrated Framework* components as published by the Treadway Commission's Committee of Sponsoring Organizations (COSO) located at www.coso.org.

During our engagement we performed the following procedures:

- Interviewed key UO and OUS personnel with responsibilities over Athletic financial reporting, Athletic operational budgets, and preparation of the updated pro forma financial statements for the arena.
- Reviewed the Athletic Department budget, Schedule of Revenues and Expenses, and the updated pro forma financial statements for the arena.
- Performed confirmation of Legacy Fund balances with the UO Foundation.
- Compared the actual and projected amounts in the updated pro forma financial statements to estimates in the original pro forma financial statements for the arena.
- Obtained and reviewed supporting documentation for a judgmentally selected sample of line items from the updated arena pro forma financial statements for completeness, accuracy, and validity.

This engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. The fieldwork took place from November through December 2010 and focused on events and transactions during fiscal year 2010 and fiscal year 2011 to date.

Our test work and conclusions are based upon representations made to us by management, which were verified on a judgmental basis.

Conclusions

Based upon procedures performed and representations by management, the projections in the updated arena pro forma financial statements are reasonable and the project continues to be self-sustaining. The updated pro forma financial statements for the arena support Athletics' ability to service bond debt payments using a combination of their department revenues and the Legacy Fund.

IAD did note variances between the original 2007 pro forma financial statements and the updated pro forma financial statements for the arena. The variances appear to be due to the result of timing differences in the Legacy Fund contributions, the delay in the opening date of the arena, and the substantial growth in Athletics as a whole.

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We thank you and the UO Athletic Department staff for their cooperation and assistance.
If you have any questions, please feel free to contact me at (541) 737-0505.

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