

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DISTRICT OF COLUMBIA

**SPORTS AND ENTERTAINMENT
COMMISSION**

**Financial Statements, Management's
Discussion and Analysis, and
Independent Auditors' Report
Fiscal Years Ended September 30, 2006
And September 30, 2005**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



April 4, 2007

The Honorable Adrian M. Fenty
Mayor of the District of Columbia
Mayor's Correspondence Unit, Suite 221
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Vincent C. Gray
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

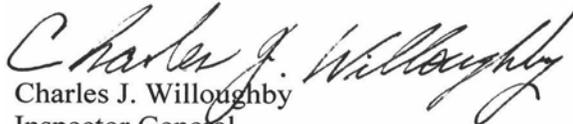
Dear Mayor Fenty and Chairman Gray:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2006, Bert Smith and Company (Bert Smith) submitted the enclosed final report on the District of Columbia Sports and Entertainment Commission (Commission).

Bert Smith opined that the financial statements present fairly, in all material respects, the financial position of the Commission for the years ended September 30, 2006, and 2005, in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Accounting Standards*, Bert Smith also has issued its report on consideration of the Commission's internal control over financial reporting and on its tests of the Commission's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

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Mayor Fenty and Chairman Gray
FY 2006 and 2005 Sports and Entertainment Commission
Financial Statements, Management's Discussion and
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OIG No. 07-1-13SC – Final Report
April 4, 2007
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**DISTRICT OF COLUMBIA
SPORTS AND ENTERTAINMENT COMMISSION
FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITORS' REPORT THEREON)
SEPTEMBER 30, 2006 AND 2005**

DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION

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SEPTEMBER 30, 2006 AND 2005

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of
the Council of the Government of the District of Columbia and
Sports and Entertainment Commission Board of Directors
Washington, D.C.

We have audited the accompanying statements of net assets of the District of Columbia Sports and Entertainment Commission (the Commission), a component unit of the District of Columbia, as of September 30, 2006 and 2005, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

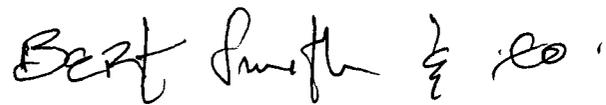
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of September 30, 2006 and 2005 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2006 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Commission's financial statements taken as a whole. The supplemental information in schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Commission. The schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "Bert Smith" followed by a fraction "1/2" and a circled "10".

December 21, 2006
Washington D.C.

DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006

This Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of the District of Columbia Sports and Entertainment Commission (Commission) for the fiscal year ended September 30, 2006. This discussion and analysis should be read in conjunction with the basic financial statements and the notes to the basic financial statements, which follow this discussion on pages 13 through 21.

OVERVIEW OF THE FINANCIAL STATEMENTS — The Commission's financial statements provide an overview of the Commission's activities and operations in a manner similar to that of a private-sector business. The statements provide information about the Commission's financial position, which assists in assessing the Commission's economic condition at the end of the fiscal year 2006. These statements are prepared using the accrual basis of accounting, which is the method used by most businesses. The statements account for all revenues and expenses connected with fiscal year 2006 even if the cash involved in the transactions has not been received or paid out.

This discussion and analysis are intended to serve as an introduction to the Commission's financial statements.

The Commission's basic financial statements are comprised of four components:

- Statement of Net Assets – The statement of net assets presents all of the Commission's assets, liabilities, with the difference reported as net assets. Over time, increases or decreases in the Commission's net assets may serve as a useful indicator of whether the Commission's financial position is improving or deteriorating.
- Statement of Revenues, Expenses and Change in Net Assets – The statement of activities presents information showing how the Commission's net assets have changed during the fiscal year. All changes in net assets are reported as soon as the event underlying the change occurs without respect to the timing of the related cash flows. Accordingly, the revenues and expenses reported in this statement for certain items will result in cash flow in future periods (e.g. accounts receivable and accrued liabilities).
- Statement of Cash Flows – The cash flow statement presents information on sources and uses of cash for operations, financing, and investing activities.
- Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the Commission's financial statements.

COMMISSION HIGHLIGHTS— During fiscal year 2006, the Commission operated the RFK Stadium for two major league tenants: major league baseball—the Washington Nationals, and major league soccer—DC United. The Washington Nationals played 84 games and DC United played 20. Also, during fiscal year 2006, the Commission continued predevelopment activity for the District’s new baseball stadium, as well as held its groundbreaking event for construction of the new stadium on May 4, 2006.

The District of Columbia government provided about \$106 million for new stadium expenditures during fiscal year 2006, and \$1.5 million for RFK Renovation activity, that was not completed in fiscal year 2005.

FINANCIAL HIGHLIGHTS —

- Net assets decreased by \$2.8 million to \$32.7, primarily as a result of the decrease in the change in fund net assets.
- Operating revenues and operating expenses decreased by \$5.8 million to \$13 million and \$4.1 million to \$17 million, respectively, primarily as a result of the transfer of various event services to the Washington Nationals.
- Current assets increased by \$11.3 million to \$24 million, primarily as a result of cash on hand of \$15 million held for New Stadium expenses, and the \$4 million reduction of cash on hand held for RFK Renovation
- Current liabilities also increased by \$10.1 million as a result of a \$10 million increase in new stadium payables at the end of the fiscal year.
- Unrestricted assets increased by \$1.25 million to \$1.27 million in part as a result of the increase in unrestricted cash.

REPORTING THE COMMISSION AS A WHOLE — The DC Sports and Entertainment Commission’s mission is to promote the District as a venue for sports and entertainment activities. The Commission operates and manages Robert F. Kennedy Memorial Stadium (the Stadium) and the non-military functions of the DC National Guard Armory (the Armory). The funds required to operate and maintain these facilities and to support the Commission’s general operations are derived from revenues generated from events held at the Stadium and the Armory. The Commission also is responsible for managing the construction of the new baseball stadium.

THE COMMISSION’S OVERALL FINANCIAL ANALYSIS — The Summary Statement of Net Assets below shows a significant increase in both current assets and current liabilities for the fiscal year ended September 30, 2006.

- The change in current assets is primarily due to (1) an increase in restricted new stadium cash of approximately \$15.7 million for the new stadium expenditures, (2) an increase in cash and cash equivalents of \$.7 million and (3) a decrease near \$4.4 million in the RFK restricted cash.
- The change in current liabilities is primarily due to an increase in new stadium payables for vendors related to the construction of the new stadium of \$10.8 million.

The Commission also had a \$4.1 million decrease in capital assets, largely as a result of depreciation expense. In Fiscal Year 2005, the Commission had a large investment in capital assets (\$21 million) related to the renovation of the RFK Stadium. Only partial depreciation expense was recorded for these assets in 2005. In Fiscal Year 2006, a full year of depreciation expense was recorded on the books. Also, in 2006, the Commission made additional renovations to the RFK Stadium totaling \$770,241.

The \$4.1 million decrease in capital assets was offset by the increase in restricted net assets of about \$523,000—the balance available for RFK renovation expenditures—, and unrestricted net assets of \$1,270,000 along with the \$390,000 decrease related to Kenilworth expenditures. These offsets resulted in a net decrease of \$2,800,000 in total net assets.

SUMMARY STATEMENT OF NET ASSETS

(in thousands)

	2006	2005	Variance
Assets			
Current Assets	\$ 24,026	\$ 12,737	\$ 11,289
Capital Assets, net	26,890	31,072	(4,182)
Noncurrent Assets	4,651	4,435	216
Total Assets	\$ 55,567	\$ 48,244	\$ 7,323
Liabilities			
Current Liabilities	22,849	12,726	10,123
Total Liabilities	22,849	12,726	10,123
Net Assets			
Invested in Capital Assets	26,892	31,073	(4,181)
Restricted - Kenilworth Project	4,033	4,423	(390)
Restricted RFK Renovations	523	-	523
Unrestricted	1,270	22	1,248
Total Net Assets	\$ 32,718	\$ 35,518	\$(2,800)

**SUMMARY STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS**
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>Variance</u>
Operating Revenues	\$ 13,006	\$ 18,794	\$(5,788)
Operating Expenses	<u>16,987</u>	<u>21,132</u>	<u>(4,145)</u>
Net Operating Loss	<u>(3,981)</u>	<u>(2,338)</u>	<u>(1,643)</u>
Nonoperating Revenue (Expenses)	<u>(99)</u>	<u>(1,019)</u>	<u>920</u>
Net Loss Before Capital Contributions	(4,080)	(3,357)	(723)
Capital Contributions	<u>1,280</u>	<u>21,506</u>	<u>(20,226)</u>
Change in Fund Net Assets	<u>\$(2,800)</u>	<u>\$ 18,149</u>	<u>\$(20,949)</u>

For the year ended September 30, 2006, the Commission had a decrease in fund net assets of \$2.8 million. This decrease was primarily due to the net operating loss of \$3.9 million which included \$5 million of depreciation expense, a non operating loss of about \$1.0 million from Kenilworth operations (i.e. revenues and expenditures), which was offset by a \$1.3 million capital contribution for RFK stadium renovations.

Revenues

The Commission's operating revenues decreased in 2006 primarily from the reduction in event service revenue, as a result of the transfer of such services as cleaning, event staff, and crowd control for the Washington Nationals games.

Expenditures

Like operating revenues, the Commission's operating expenses also decreased as a result of transfer of event service cost to the Nationals. In addition, one major component of operating expenses is \$5.0 million of depreciation expense.

DESIGN, DEVELOPMENT AND CONSTRUCTION OF NEW BASEBALL STADIUM— During fiscal year 2006, several major events occurred relating to the construction of the new stadium. Specifically, the D.C. Council passed legislation in February 2006, entitled "Ballpark Hard and Soft Costs Cap and Ballpark Lease Conditional Approval Emergency Act of 2006". This legislation resulted in the Council establishing cost caps for hard and soft costs for the District's new stadium, excluding costs for land acquisition, environmental remediation, relocation, and demolition.

Also, in March 2006, the Lease agreement for the new stadium was executed between the Major League Baseball and the District. The Commission then held its ground breaking event on May 4, 2006. Subsequently, the District closed on the bond issuance on May 15, 2006 for \$534.8 million in bonds. The new stadium construction is currently proceeding on schedule.

CONTACTING THE COMMISSION'S OFFICE OF THE CHIEF FINANCIAL OFFICER — This financial report is designed to provide a general overview of the Commission's finances. If you have any questions about this report or need additional information, contact the Office of the Chief Financial Officer at 2400 East Capitol Street, SE, Washington, DC 20003 or call (202) 547-9077.

DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005
(in thousands)

	2006	2005
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 6,336	\$ 5,589
Cash - Restricted RFK Renovation	566	4,976
Cash - Restricted-New Stadium	15,659	-
Investments	450	463
Accounts Receivable, Net	749	1,495
Prepaid Expenses	266	214
Total Current Assets	<u>24,026</u>	<u>12,737</u>
Noncurrent Assets:		
Restricted Investments	4,651	4,435
Total Noncurrent Assets	<u>4,651</u>	<u>4,435</u>
Capital Assets, Net	<u>26,890</u>	<u>31,072</u>
Total Assets	<u>\$ 55,567</u>	<u>\$ 48,244</u>
LIABILITIES		
Current Liabilities:		
Accounts	734	5,407
New Stadium Accounts	13,968	3,123
Compensation	309	554
Due to DC Government	5,780	1,632
Accrued Liabilities	1,878	1,787
Deferred Revenue	180	223
Total Current Liabilities	<u>22,849</u>	<u>12,726</u>
NET ASSETS		
Invested in Capital Assets	26,892	31,073
Restricted - Kenilwork Park	4,033	4,423
Restricted - RFK Renovations	523	-
Unrestricted	1,270	22
Total Net Assets	<u>\$ 32,718</u>	<u>\$ 35,518</u>

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

DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION
STATEMENTS OF REVENUE, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(in thousands)

	2006	2005
Operating Revenues:		
Rental	\$ 6,127	\$ 6,202
Event Services	1,878	6,141
Management Fee	2,000	2,000
Contributions	314	1,880
Commissions	1,106	973
Advertising and Sponsorship	692	477
Parking	655	682
Other Income	234	439
Total Operating Revenues	13,006	18,794
Operating Expenses:		
Personnel Cost	4,303	5,387
Outside Services	2,694	5,686
Equipment and Supplies	410	503
Repairs and Maintenance	1,312	2,501
Utilities	1,036	1,163
Advertising and Promotions	74	156
Professional Services	616	1,315
Administration	324	364
Technology	158	226
Insurance	841	895
Grants	176	277
Depreciation	5,015	2,236
Other	28	423
Total Operating Expenses	16,987	21,132
Operating Loss	\$(3,981)	\$(2,338)

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

DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION
STATEMENTS OF REVENUE, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(in thousands)

	2006	2005
Nonoperating Revenues (Expenses):		
Gain on the Sale of Capital Assets	-	5
Kenilworth Grant	1,394	-
Kenilworth Expenses	(1,927)	(1,188)
Investment Income	<u>434</u>	<u>164</u>
Total Nonoperating Revenues (Expenses)	<u>(99)</u>	<u>(1,019)</u>
Loss Before Capital Contributions	(4,080)	(3,357)
Capital Contributions	<u>1,280</u>	<u>21,506</u>
Change in Net Assets	(2,800)	18,149
Net Assets, October 1	<u>35,518</u>	<u>17,369</u>
Net Assets, September 30	<u>\$ 32,718</u>	<u>\$ 35,518</u>

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

DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(in thousands)

	2006	2005
Cash Flows from Operating Activities:		
Cash Receipts from Customers	\$ 13,396	\$ 14,829
Cash Receipts from Others	314	1,880
Cash Payments to Vendors	(13,926)	(4,282)
Cash Payments to Employees	<u>(3,591)</u>	<u>(2,711)</u>
Net Cash (Used in) Provided by Operating Activities	<u>(3,807)</u>	<u>9,716</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisitions of Fixed Assets	(833)	(22,522)
Proceeds from Sale of Capital Asset	-	5
Capital Contributions	<u>1,280</u>	<u>21,506</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>447</u>	<u>(1,011)</u>
Cash Flows from Noncapital Financing Activities		
Receipts of Kenilworth Grant Funds	1,393	-
Payment of Kenilworth Expenses	<u>(1,927)</u>	<u>(631)</u>
Net Cash Used in Noncapital Financing Activities	<u>(534)</u>	<u>(631)</u>
Cash Flows from Investing Activities:		
Purchase of Investment Securities	(1,541)	(94)
Proceeds from Sale and Maturities of Investments	1,338	1,531
Interest Income	<u>434</u>	<u>164</u>
Net Cash Provided by Investing Activities	<u>231</u>	<u>1,601</u>
(Decrease) Increase in Cash and Cash Equivalents	(3,663)	9,675
Cash and Cash Equivalents at October 1	<u>10,565</u>	<u>890</u>
Cash and Cash Equivalents at September 30	<u><u>\$ 6,902</u></u>	<u><u>\$ 10,565</u></u>

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

DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(in thousands)

	2006	2005
Reconciliation of Operating Loss to Net Cash (Used In) Provided by (Operating Activities)		
Operating Loss	\$(3,981)	\$(2,338)
Adjustments to Reconcile Operating Loss to Net Cash (Used In) Provided by Operating Activities		
Depreciation	5,015	2,236
Allowance for Uncollectibles	(56)	(198)
Decrease (Increase) in Assets:		
Receivables	803	(389)
Other Current Assets	(51)	(60)
Increase (Decrease) in Liabilities:		
Accounts Payable	(4,674)	5,669
Compensation	(245)	305
Due to Dc Government	(666)	882
Accrued Liabilities	91	3,608
Deferred Revenue	(43)	1
Total Adjustments	174	12,054
Net Cash (Used in) Provided by Operating Activities	<u>\$(3,807)</u>	<u>\$ 9,716</u>

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

DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 1 REPORTING ENTITY

Organization: Effective August 23, 1994, the District of Columbia (District) enacted D.C. Law 10-152, Omnibus Sports Consolidation Act of 1994 (the Act), which established the District of Columbia Sports and Entertainment Commission (Commission). The Commission is responsible for promoting and managing sporting and entertainment events primarily in the District. The Commission operates Robert F. Kennedy Memorial Stadium (RFK Stadium) and manages the non-military functions of the District of Columbia National Guard Armory (Armory). The Commission is also responsible for coordinating the development, construction, and implementation of new facilities and the improvement of RFK Stadium and enhancement of the arena within the Armory and has the authority to issue bonds, notes, or other obligations to finance such activities. As of September 30, 2006, the Commission had neither issued any such bonds, notes, or obligations nor borrowed any funds.

The Commission's Board of Directors (Board) consists of eleven members. Eight of the members are nominated by the Mayor, subject to the advice and consent of the District's Council. The Commanding General of the District's National Guard, the Director of the District's Department of Recreation and Parks, and the Chief Financial Officer of the District of Columbia also serve on the Board. The Board appoints the Chief Executive Officer of the Commission.

The Commission is a component unit of the Government of the District of Columbia and its financial statements are included in the District's Comprehensive Annual Financial Report (CAFR).

- ▶ ***Relationship to the District of Columbia Government:*** The Commission is an independent agency and corporate body and instrumentality of the District government established by the Act. The commission's activities are governed by the Act, regulations and policies promulgated pursuant to the Act, and District government statutes, regulations, and policies of general application.

The Commission purchases at arms length certain services, including cleaning, water and sewer, and police services from District government agencies. Since the Armory exists primarily for use by the D.C. National Guard and the Commission is authorized only to manage non-military uses of the facility, the District provides for the Armory's basic maintenance.

- ▶ ***Relationship to the United States Government:*** The United States government contracted with the Commission's predecessor, the District of Columbia Armory Board, for the construction of RFK Stadium while the United States government constructed the surrounding motor vehicle parking areas. Both were constructed on land owned by the United States government. (DC ST 3-322)

In 1988, the United States government deeded, pursuant to Public Law 99-581, "all right, title, and interest of the United States in and to the Stadium" to the District. In addition, the United States Department of the Interior leased to the District the land occupied by the stadium and the parking areas without consideration for 50 years.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- ▶ ***Basis of Accounting:*** The accompanying financial statements are prepared on the accrual basis of accounting. Under this accounting method, all revenues are recognized when earned and expenses are recognized as incurred in the production of that revenue.

The Commission has elected not to apply the option allowed in paragraph 7 of GASB Statement No. 20 titled *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Therefore, the Commission does not apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

- ▶ ***Basis of Presentation:*** The accounting policies of the Commission used in the accompanying financial statements conform to the U.S. General Accepted Accounting Principles applicable to governments as prescribed by the Governmental Accounting Standards Board (GASB)
- ▶ ***Measurement Focus:*** The financial statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included in the statement of net assets. The related statement of activities presents increases (revenues) and decreases (expenses) in net assets.
- ▶ ***Cash Equivalents:*** For the purpose of the cash flow statement, cash and overnight bank deposits are considered cash and cash equivalents.
- ▶ ***Allowance for Doubtful Accounts:*** The Commission establishes an allowance for doubtful accounts for all account receivables over 120 days old. At September 30, 2006 and 2005, account receivables were shown net of allowance of doubtful accounts of \$55,593 and \$198,828, respectively
- ▶ ***Investments:*** Pursuant to the Financial Institutions Deposit Investment Emergency Act of 1997 (DC ST 47-351.01), the Commission may invest in obligations issued by the United States government, insured or uninsured evidences of deposit at a financial institution, obligations of quasi-governmental corporations, prime banker acceptances, prime commercial paper, investment grade obligations of the District or a state or local government, repurchase agreements, investment grade asset-backed or mortgage-backed investments, securities, or money market funds. As of September 30, 2006 and 2005, the Commission's investments included certificates of deposit, repurchase agreements, and money market funds. The carrying value of investments approximates fair value.
- ▶ ***Capital Assets:*** The Commission capitalizes capital assets categorized as personal property (i.e. equipment, furniture, computers, major tools, etc.) exceeding \$500 at cost. The Commission also capitalizes all other capital assets exceeding \$5,000. Depreciation is recorded on a straight-line basis over capital assets' estimated useful lives.

The Commission uses the following useful lives:

Furniture & Equipment	3-10 years
Structure and Parking Lot Improvements	5-35 years
RFK Stadium	50 years

When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are written-off and any gain or loss is recognized.

The Commission distinguishes between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Commission's ongoing operation. The principal operating revenues of the Commission are the RFK Stadium and D.C. Armory Stadium rental and event revenues. Operating expenses include personal services, contractual services, depreciation, event services, supplies, and other miscellaneous expenses. All revenue and expenses not meeting this definition are non-operating.

- ▶ **Net Assets:** Net assets are classified in the following components: invested in capital assets, restricted net assets and unrestricted net assets. Invested in capital assets consist of capital assets net of accumulated depreciation. Unrestricted net assets consist of all other net assets. Restricted assets consist of those assets restricted specific use or purpose.
- ▶ **Deferred Revenue:** Deferred revenue represents revenue and deposits received in advance from event promoters, advertisers, and others. Event revenue is recognized when the events are settled and advertising revenue is recognized on a monthly basis.
- ▶ **Compensated Absences:** The Commission employees earn annual vacation leave based on a prescribed formula. Accumulated annual leave is recorded as a liability as the benefits accrue to employees.

Employees are not paid for unused sick leave when they resign or retire. The expense for employee sick leave is recorded only as paid. Therefore, no liability is reflected in the accompanying financial statements for accumulated sick leave.

- ▶ **Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- ▶ **Reclassifications:** Certain amounts in the 2005 financial statements have been reclassified to conform with the 2006 presentation.

NOTE 3 DEPOSITS

The Commission had deposits as of September 30, 2006 and 2005 at one financial institution that exceeded the FDIC insured limit of \$100,000. The total uninsured amount for each fiscal year was \$10,000.

NOTE 4 INVESTMENTS

The Commission's investments, which approximate fair market value, as of September 30, 2006 and 2005 are classified as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Certificates of Deposit	\$4,913	\$4,716
Repurchase Agreement	107	103
Money Market Funds	<u>81</u>	<u>79</u>
Total	<u>\$5,101</u>	<u>\$4,898</u>

The Commission's investments were subject to certain investment risks. As of September 30, 2006 and 2005, the Commission had investments totaling \$114,057, and \$107,206, respectively that were uninsured and uncollateralized. Accordingly, these investments are exposed to custodial credit risk. Custodial credit risk is the risk that in event of an institution failure, the Commission investment may not be returned to it.

The Commission places no limit on the amount it may invest in any one issuer. More than 5% of the Commission's investments were in one financial institution in 2006 and 2005. About 96% the Commission's investments in 2006 and 2005 were in this one financial institution.

Of the Commission's investment balance at September 30, 2006 and 2005, \$4,651,128 and \$4,435,718, respectively, is restricted for the renovation of the Kenilworth Park field.

NOTE 5 ACCOUNTS RECEIVABLE

Accounts Receivable at September 30, 2006 and 2005 consists of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Trade Accounts Receivable	\$ 197	\$ 547
Commissions	456	302
Other Receivables	152	844
Less Allowance for Doubtful Accounts	<u>(56)</u>	<u>(198)</u>
Total	<u>\$ 749</u>	<u>\$ 1,495</u>

NOTE 6 CAPITAL ASSETS

The land, on which the Armory, RFK Stadium, and motor vehicle parking areas are located on, is legally titled to the government of the United States. Accordingly, the cost of the land is not reported in the accompanying financial statements. The Armory structure was built for the District, primarily for the use by the National Guard and is not reported in the accompanying financial statements, except to the extent of building improvements paid for by the Commission. As disclosed in Note 2, the cost of RFK Stadium has been recorded in the accompanying financial statements.

Capital assets as of September 30, 2006, and 2005 consist of the following (in thousands):

	Balance at 10/1/2005	Additions	Dispositions	Transfers	Balance at 9/30/2006
Stadium Structure	\$ 19,037	\$ -	\$ -	\$ -	\$ 19,037
Building Improvements and Displays	34,135	770	-	-	34,905
Furniture and Equipment	3,409	63	-	-	3,472
Parking Lot Improvements	<u>5,966</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,966</u>
Total Capital Assets	62,547	833	-	-	63,380
Less-Accumulated Depreciation	<u>(31,475)</u>	<u>(5,015)</u>	<u>-</u>	<u>-</u>	<u>(36,490)</u>
Net Capital Assets	<u>\$ 31,072</u>	<u>\$(4,182)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,890</u>

	Balance at 10/1/2004	Additions	Dispositions	Transfers	Balance at 9/30/2005
Stadium Structure	\$ 19,037	\$ -	\$ -	\$ -	\$ 19,037
Building Improvements and Displays	12,007	22,315	(187)	-	34,135
Furniture and Equipment	3,202	207	-	-	3,409
Parking Lot Improvements	5,966	-	-	-	5,966
Construction in Progress	<u>557</u>	<u>-</u>	<u>-</u>	<u>(557)</u>	<u>-</u>
Total Capital Assets	40,769	22,522	(187)	(557)	62,547
Less-Accumulated Depreciation	<u>(29,426)</u>	<u>(2,236)</u>	<u>(187)</u>	<u>-</u>	<u>(31,475)</u>
Net Capital Assets	<u>\$ 11,343</u>	<u>\$ 20,286</u>	<u>\$ -</u>	<u>\$(557)</u>	<u>\$ 31,072</u>

In 2006 and 2005, the Commission acquired capital assets totaling \$832,914, and \$22,522,600 respectively. The capital assets purchased were largely funded by the RFK renovation funds. The Commission recorded depreciation expense on total capital assets of \$5,014,911 in 2006 and \$2,236,437 in 2005.

NOTE 7 DUE TO THE DISTRICT OF COLUMBIA GOVERNMENT

The Commission’s full-time employees’ salaries and wages and benefits are paid through the District’s payroll, benefits, and retirement systems with the Commission reimbursing the District for the costs associated therewith. At September 30, 2006 and 2005, the Commission owes the District a total of \$4,089,120, and \$3,132,636 respectively, for these payroll and benefit costs.

In addition to the payroll benefit costs owed to the District at September 30, 2006 and 2005, the Commission also owes the District funds related to the RFK Renovation and the New Baseball Stadium.

As of September 30, 2006, the Commission owes the District \$1,691,329 for the unused portion of funding received for the new baseball stadium construction, as a result of a change of method in funding expenditures, i.e. from a 3-month cash advance basis, to a monthly requisition based on actual invoices reviewed and approved.

As of September 30, 2005, the Commission owed the District \$1,593,929 as a result of the RFK Stadium renovation fund balance that was largely committed, but not yet disbursed, and \$30,012 which was the remaining balance of funding received for the new baseball stadium preconstruction activity. Offset against the fiscal year 2005 payables was \$3,123,445 due from the District for incurred costs for the new baseball stadium preconstruction activity.

The following table reflects the analysis of the net due to the District:

	<u>2006</u>	<u>2005</u>
Due to DC: Salaries, Wages and Benefits	\$4,089	\$ 3,132
Due to DC: Balance of Rfk Renovation Funds	-	1,593
Due to DC: Balance of New Stadium Construction Funding	1,691	30
Due from DC: Additional New Stadium Funding Due to the Commission	<u>-</u>	<u>(3,123)</u>
Net Due to District	<u>\$5,780</u>	<u>\$ 1,632</u>

NOTE 8 ACCRUED LIABILITIES

	<u>2006</u>	<u>2005</u>
Metropolitan Police Department Baseball Liability	\$ 899	\$ 736
Event Settlement	122	61
Service Contract Act Vendor Liability	-	833
Other	<u>837</u>	<u>157</u>
	<u>\$1,878</u>	<u>\$1,787</u>

NOTE 9 RETIREMENT PLANS

Employees hired before October 1, 1987 contribute 7 percent of their salaries into the United States Civil Service Retirement System. The Commission contributes the equivalent of 8.5 percent of each participating employee's salary to the plan. The United States government through the Office of Personnel Management is responsible for the administration of the system and payment of benefits.

Employees hired on or after October 1, 1987, participate in the District Retirement Plan, a defined contribution plan (D.C. ST 1-626) with a qualified trust under Internal Revenue Code Section 401 for permanent full time employees covered by the Social Security System. The Commission contributes 5 percent of eligible employee base salaries. Employees cannot contribute to the plan. Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions are reduced if separation occurs before five years of credited service. The Commission contributed \$115,498 in 2006, and \$67,720 in 2005 to both retirement plans.

NOTE 10 KENILWORTH PARK PROJECT

The Commission received \$5,467,500 from the federal government to renovate a soccer field at Kenilworth Park. During fiscal year 2006, the Commission received \$1,394,258 from the District of Columbia Department of Parks and Recreation for the Kenilworth and Fort Greble fields. As of September 30, 2006, and 2005, the Commission had expended \$3,103,603, and \$1,176,785 of the funds, respectively.

The Commission has invested the unexpended funds in a separate certificate of deposit, which has earned interest (net of bank fees) totaling \$132,416 in 2006 and \$76,747 in 2005. Accordingly, the unexpended balance of \$4,651,128 in 2006, and \$4,435,718 is reflected as restricted net assets in the statement of net assets. As of September 30, 2006, the Commission has recorded construction retainage of \$11,720 related to the project.

NOTE 11 CONTRIBUTIONS

In 2006, the Commission received \$1,593,929 from the District to continue RFK renovations. The District funds were used for both capital improvements and repair and maintenance work, which totaled \$805,439 and \$314,242, respectively. The Commission has reflected the remaining cash balance \$566,387 as restricted for RFK Renovation.

In 2005, the Commission received several contributions during the fiscal year from the District, Major League Baseball, and a food service vendor towards the renovation of the RFK Stadium for the Washington National baseball games. The Commission received \$24,000,000 from the District, \$380,000 from Major League Baseball, and \$500,000 from a food service vendor. The Commission spent all of the District funds except for \$1,593,929. The funds were used for both capital improvements and repair and maintenance work, which totaled \$21,505,596 and \$900,475, respectively. The Commission has reflected the remaining unspent District funds as a Due to D.C. Government. The Commission also received \$100,000 from Major League Baseball for renovation of multi-purpose field at Fort Greble Recreation Center.

NOTE 12 NEW BASEBALL STADIUM

The Commission entered into an agreement with the District to manage the construction of the new baseball stadium, which is owned by the District. Under the agreement, the District agreed to pay the commission a management fee totaling \$6,000,000 payable over three years. The Commission received \$2,000,000 in 2006 and 2005, respectively.

In 2006, the Commission received about \$105,527,800 from the District and \$2,145,781 from the Washington Nationals to pay for 2006 preconstruction and construction costs of the new baseball stadium. As of September 30, 2006, the Commission had a remaining cash balance of \$13,967,687 to pay the unpaid liabilities related to the new stadium and \$1,691,329 that was due to the District for the unused portion of the funds received.

NOTE 13 COMMITMENTS AND CONTINGENCIES

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To limit this exposure, the Commission carries general liability, property and casualty, auto liability, and commercial crime insurance policies.

In addition, the Commission carries public liability insurance protecting the Commission, its members, officers and employees in the performance of their duties as authorized by the Commission's implementing legislation (DC ST 4-1406(13)). During fiscal year 2006 and 2005, there were a number of incidents at RFK Stadium that have been referred to the Commission's insurance carrier, none of which are likely to exceed the Commission's insurance limits.

During the baseball season, the Commission incurs various expenses related to baseball game events that are reimbursable by the Washington Nationals. These costs are reimbursed via a monthly settlement whereby income collected on behalf of the Nationals are netted against expenses incurred by the Commission. In order to ensure both parties are in agreement with the monthly settlements, the Commission and the Washington Nationals hold an "annual settlement" within forty-five (45) days following the end of the calendar year as required under the Licensing Agreement. Any liabilities to either party for the 2006 baseball season are not known at this time.

NOTE 14 STATUS OF FINANCIAL CONDITION

Fiscal Year 2006: The Commission does not receive any funding from the District and operates solely on the funds generated from the events held at its facilities. The Commission's financial position improved during 2006, resulting in the \$1.2 million increase in unrestricted net assets. The Commission continues to review its operations for opportunities to increase revenues and reduce its expenditures.

Fiscal Year 2005: At September 30, 2005, the Commission incurred operating losses in FY 2005 and prior five fiscal years which resulted in a significant reduction of its unrestricted net assets and operating investments.

NOTE 15 SUBSEQUENT EVENTS

In November 2006, the Commission was named as a defendant in the WDC Baseball Partners, LLC case v. the District of Columbia, et al., where the WDC Baseball Partners, LLC has sued the District of Columbia, the Anacostia Waterfront Corporation, and the Commission for \$40 million in compensatory damages, and up to \$100 million in punitive damages alleging that they conspired to and/or wrongfully prevented WDC from implementing a mixed-use development project on the site of the new Washington Nationals Ballpark.



**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Mayor and Members of
the Council of the Government of the District of Columbia and
Sports and Entertainment Commission Board of Directors
Washington, D.C.

We have audited the financial statements of the District of Columbia Sports and Entertainment Commission (the Commission) as of and for the year ended September 30, 2006, and have issued our report thereon dated December 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting — In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We also noted certain additional matters that we reported to management of the Commission in a separate letter dated December 21, 2006.

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

This report is intended solely for the information of the Board of Directors, management, and others within the organization, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bert Smith & Co.

December 21, 2006
Washington, D.C.

SCHEDULE 1

DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION
SCHEDULE OF EVENTS HELD AT RFK STADIUM AND ARMORY
FOR THE YEAR ENDED SEPTEMBER 30, 2006

D.C. ARMORY RENTALS

Armory Concerts and Entertainment (AC)

October 22, 2005	Howard University Step Show
November 6, 2005	Latin Concert
November 25, 2005	Latin Concert
February 11, 2006	Red Rose Valentine's Concert
February 19, 2006	Los Tigres Concert
February 26, 2006	Latin Concert
April 29, 2006	Teddy Afro Concert
May 2-6, 2006	Three Angels

Armory Retail and Tradeshows (AT)

October 28-30, 2005	Marine Corp Marathon Expo
December 11, 2005	La Feria de la Familia
May 26-28, 2006	Washington Motorcycle Expo and Show

Armory Other

FY05	Katrina Relief at DC Armory
November 18-20, 2005	National Geographic Warehouse Sale
December 2-4, 2005	Winter Antique Show
December 15, 2005	Holiday Senior Luncheon
December 30, 2005	Joy in the City
December 31, 2005	New Samaritan Baptist Church Celebration
February 18, 2005	Cheerleading Championship
March 18, 2006	Encuentro Catolico II (Church Event)
March 21-26, 2006	Ringling Brothers
April 7-8, 2006	Cherry Blossom Parade
May 13, 2006	Capitol Gloves Tournament
May 18, 2006	Annual Senior Day
May 20, 2006	Fire Department Exam
May 20, 2006	Taste of the South

**DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION
SCHEDULE OF EVENTS HELD AT RFK STADIUM AND ARMORY
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

RFK STADIUM RENTALS

DC United Men Soccer Team

	No. of Hosted Games
October 2005	3
April 2006	5
May 2006	2
June 2006	3
July 2006	2
August 2006	3
September 2006	<u>2</u>
Total Games	<u>20</u>

Washington Nationals Baseball Team

	No. of Hosted Games
October 2005	2
March 2006	1
April 2006	9
May 2006	15
June 2006	12
July 2006	15
August 2006	13
September 2006	<u>17</u>
Total Games	<u>84</u>

Other Events at RFK Stadium

	Stadium Concerts
June 29, 2006	Congressional Baseball Game
August 6, 2006	Courier Bike Race

DISTRICT OF COLUMBIA SPORTS AND ENTERTAINMENT COMMISSION
SCHEDULE OF EVENTS HELD AT RFK STADIUM AND ARMORY
FOR THE YEAR ENDED SEPTEMBER 30, 2006

RFK STADIUM RENTALS CONTINUED

Other Locations

April 1, 2006
May 1, 2006
June 1, 2006
June 24, 2006
July 1, 2006
July 29, 2006
August 1, 2006

Parking Lots

Farmers Market
Farmers Market
Farmers Market
The DC Carnival
Farmers Market
Stone Soul Picnic (Lot 7)
Farmers Market

Auxiliary Field

FY06
October 9 -10 & 16/2005

Virginia International Soccer
MD Futbol