

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

DISTRICT OF COLUMBIA

**WASHINGTON CONVENTION AND
SPORTS AUTHORITY**

**Financial Statements and Management's
Discussion and Analysis, and
Independent Auditors' Report
Fiscal Years Ended September 30, 2011, and 2010**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 2, 2012

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

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

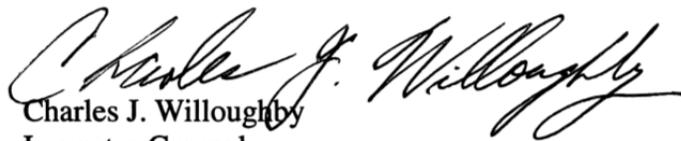
Dear Mayor Gray and Chairman Brown:

In connection with the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2011, KPMG LLP (KPMG) submitted the enclosed final report on the District of Columbia Washington Convention and Sports Authority (the Authority), hereby issued as OIG Report No. 12-1-05ES.

KPMG opined that the financial statements present fairly, in all material respects, the financial position of the Authority for the years ended September 30, 2011, and 2010, and the changes in its financial position and its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles. We will issue the report on the Authority's internal control under separate cover.

If you have questions or need additional information, please contact Ronald W. King, 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 Gray and Chairman Brown
FYs 2011 and 2010 Washington Convention and Sports
Authority Financial Statements, Management's Discussion
and Analysis, and Independent Auditor's Report
OIG No. 12-1-05ES – Final Report
March 2, 2012
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WASHINGTON CONVENTION AND SPORTS AUTHORITY

TRADING AS EVENTS DC

A COMPONENT UNIT OF THE DISTRICT OF COLUMBIA GOVERNMENT

FINANCIAL STATEMENTS

AND MANAGEMENT'S DISCUSSION AND ANALYSIS

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

To the Mayor and the Council of the Government of the District of Columbia
Board of Directors Washington Convention and Sports Authority
Washington, DC

We have audited the accompanying Statement of Net Assets of the Washington Convention and Sports Authority (the Authority), a component unit of the Government of the District of Columbia, as of and for the year ended September 30, 2011 and 2010, and the related Statements of Revenues, Expenses, and Changes in Net Assets and Cash Flows for the years then ended. The basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion 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 the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Washington Convention and Sports Authority as of September 30, 2011 and 2010, and the changes in its financial position and its cash flows, where applicable, thereof and for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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.

Management's Discussion and Analysis, on pages 3 through 12 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. 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.



Washington Convention and Sports Authority
January 26, 2012
Page 2 of 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of net assets by fund and the schedule of revenues, expenses and changes in net assets by fund on pages 36 and 37 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of net assets by fund and schedule of revenues, expenses and changes in net assets by fund have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

January 26, 2012

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011 AND 2010**

As management of Events DC (Authority), we present this Management's Discussion and Analysis (MD&A) of the Authority's financial condition and the results of operations for the year ended September 30, 2011, 2010 and 2009. This discussion is a narrative overview and analysis of our financial activities and should be read in conjunction with the accompanying financial statements.

Introduction

On October 1, 2009, in accordance with the Washington Convention Center Authority (WCCA) and DC Sports and Entertainment Commission (DCSEC) Merger Amendment Act of 2009, D.C. Law 18-111, DC Sports and Entertainment Commission was absorbed as a program of the WCCA and its mission, responsibilities and assets were transferred to WCCA. Following the transfer, the WCCA was renamed the Washington Convention and Sports Authority. This transfer created one umbrella organization with a broadened charter for increasing economic development through the promotion of key sports and entertainment offerings as well as major national and international conventions, meetings and special events held in the District of Columbia. As part of the Amendment Act, the District's Department of Real Estate Services (DRES) became responsible for the facility maintenance tasks previously performed by the DC Sports and Entertainment Commission.

To further the effort of the expanded mission, the Authority created a new brand identity "Events DC" on June 22, 2011. The new name will be the centerpiece of a marketing effort intended to draw more events to the convention center, RFK Stadium and the D.C Armory. The new name is also designed to align with the existing brands for Washington DC and the city's tourism arm, Destination DC.

About Our Business

The Authority operates two distinct business divisions that generate significant regional economic impact by attracting conventions, tradeshow, sports and entertainment and other special events. The Convention Center Operations Division includes the Walter E. Washington Convention Center (WEWCC), an anchor of the District's hospitality and tourism economy that generates event-related revenue primarily from the sale and use of meeting and exhibition space, other ancillary services such as meeting room changes over and commissions on telecommunications, audio-visual, electrical and catering at the WEWCC. The Sports and Entertainment Division (SED), which includes Robert F. Kennedy Memorial Stadium, the DC Armory and the surrounding Festival Grounds and functions as a landlord for Nationals Park, generates revenue primarily from hosting a full season of DC United major league soccer games and other entertainment and community events.

The Authority also operates a public parking lot located at the old Washington Convention Center site at 900 9th Street, N.W., Washington D.C. The parking lot generates revenue primarily from parking fees and hosting special events such as holiday bazaars, sporting events, concerts and open air markets. Currently, the parking lot is managed through an agreement with an independent contractor.

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011 AND 2010**

Fiscal Year 2011 Financial Highlights

- Net assets decreased by \$21 million, a decrease of 6% when compared to the year ended September 30, 2010. The principal factors in the decrease for FY 2011 were attributed to subsidizing the construction of privately owned and operated headquarters hotel. The financial impact of the transaction on net asset is that the bond proceeds were expended in accordance with draw down schedule of the hotel project.
- Operating expenses increased by \$4 million or 5% from fiscal year 2010, due to increases in cost related to personal services, contractual services, depreciation, occupancy and miscellaneous expenses.
- Operating revenue increased by \$3.1 million or 14% from fiscal year 2010, resulting in total operating revenue of \$25.5 million in FY11. The increase in operating revenue was as a result of hosting 17 citywide events in 2011 compared with 11 citywide events in FY2010.
- Assets exceed liabilities by \$353 million at the close of fiscal year 2011, a 6% decrease over FY2010.
- The Authority's long-term debt, including current maturities, increased by \$209 million to \$671 million or 45%, primarily due to the issuance of Senior Lien Dedicated Tax Revenue Bonds to subsidize the construction of the new convention center headquarters' hotel. The Authority issued Series 2010 Bonds with face value of \$249.2 million which are due in 2040. The Bonds are secured by specified revenue sources and carry an interest rate ranging from 3.1% to 7%.
- The statement of cash flows indicates a decrease in cash for the year by \$4.1 million.
- The Authority's bonds are rated "A2" by Moody's and "A" by both Standard & Poor's Corporation and Fitch Rating Services.

(1) *Overview of the Financial Statements*

The Authority's financial report includes: Management's Discussion and Analysis; the Financial Statements; and Notes to the Financial Statements.

- The Financial Statements are designed to provide readers with a broad overview of the Authority's financial activities, in a manner similar to a private-sector business. These financial statements are prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) as applied to governmental units on a full accrual basis. Under this basis of accounting, revenues are recognized in the period they are earned, while expenses are recognized in the period they are incurred. Depreciation and amortization of capital and deferred assets are recognized in the statement of revenues, expenses, and changes in net assets. The basic Financial Statements include a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. This report also includes notes accompanying the statements to fully explain the activities detailed therein.
- The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011 AND 2010**

decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

- The Statement of Revenues, Expenses and Changes in Net Assets report both the operating and non-operating revenues and expenses and other changes in net assets for the end of a fiscal year.
- The Statement of Cash Flows presents information showing how the Authority's cash and cash-equivalents position changed during the fiscal year. The Statement of Cash Flows classifies cash receipts and cash payments resulting from operating activities, capital and related financing activities, non capital financing activities and investing activities.

(2) *Financial Analysis*

The Authority's audited Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows are presented on pages 13 through 15.

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011 AND 2010**

The following table reflects a summary of the Authority's net assets at September 30, 2011, 2010 and 2009 (in thousands):

**Table 1
Condensed Statements of Net Assets
(in thousands)**

| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>Percentage change</u> | |
|---|---------------------|-------------------|-------------------|--------------------------|------------------|
| | | | | <u>2011-2010</u> | <u>2010-2009</u> |
| Current assets | \$ 72,832 | \$ 110,447 | \$ 116,005 | -34% | -5% |
| Capital assets, net of accumulated depreciations | 652,054 | 671,559 | 686,577 | -3% | -2% |
| Other non-current assets | 347,595 | 89,029 | 79,162 | 290% | 12% |
| Total Assets | <u>\$ 1,072,481</u> | <u>\$ 871,035</u> | <u>\$ 881,744</u> | | |
| Current liabilities | \$ 48,595 | \$ 35,592 | \$ 39,787 | 37% | -11% |
| Noncurrent liabilities | 671,246 | 462,114 | 475,067 | 45% | -3% |
| Total Liabilities | <u>\$ 719,841</u> | <u>\$ 497,706</u> | <u>\$ 514,854</u> | | |
| Net assets: | | | | | |
| Investment in capital assets, net of related debt | \$ 212,311 | \$ 196,910 | \$ 199,422 | 8% | -1% |
| Restricted | 148,748 | 83,282 | 73,191 | 79% | 14% |
| Unrestricted | (8,419) | 93,137 | 94,277 | -109% | -1% |
| Total Net Assets | <u>\$ 352,640</u> | <u>\$ 373,329</u> | <u>\$ 366,890</u> | | |

Note: Figures for FY 2009 represent the financial statements of WCSA on pro forma basis by combining the FY 2009 WCCA and DCSEC financial information

For the year ended September 30, 2011 the Authority's financial position remained strong with total assets of \$1.072 million and liabilities of \$720 million. Total assets increased from fiscal year 2010 to fiscal year 2011 by \$201 million or 23% primarily due to \$190 million restricted investments purchased related to Convention Center Headquarters Hotel project.

The total net assets of the Authority decreased by 6% or \$21 million compared to the year ended September 30, 2010. As of September 30, 2011, the Authority had total net assets amounting to approximately \$353 million, with the largest portion of the Authority's net assets, \$212 million or 60%, reflecting its investment in capital assets less any related debt used to acquire the assets.

The Authority uses its capital assets to fulfill its mission of promoting conventions, tourism and sports and entertainment events in the District of Columbia. The resources to repay the debt are derived from dedicated tax collections which are composed of (i) 4.45% sales and use tax on hotel room charges and (ii)

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SEPTEMBER 30, 2011 AND 2010**

a 1% sales and use tax on restaurant meals, alcoholic beverages consumed on premises and rental vehicle charges in the District of Columbia.

Of the Authority's remaining net assets, \$149 million or 42% represents resources that are subject to external restrictions on how they may be used (primarily related to the Authority's bond indenture reserve requirements).

**Table 2
Revenues, Expenses and Changes in Net Assets
(in thousands)**

| | 2011 | 2010 | 2009 | Percentage change | |
|--|-------------------|-------------------|-------------------|-------------------|-----------|
| | | | | 2011-2010 | 2010-2009 |
| Operating Revenues: | | | | | |
| Building rental | \$ 9,151 | \$ 8,126 | \$ 9,721 | 13% | -16% |
| Ancillary charges | 16,336 | 14,274 | 11,991 | 14% | 19% |
| Total Operating Revenues | <u>\$ 25,487</u> | <u>\$ 22,400</u> | <u>\$ 21,712</u> | | |
| Operating Expenses: | | | | | |
| Personal services | \$ 18,422 | \$ 17,173 | \$ 19,556 | 7% | -12% |
| Contractual services | 18,201 | 16,105 | 13,864 | 13% | 16% |
| Depreciation | 33,215 | 32,385 | 32,271 | 3% | 0% |
| Occupancy | 7,003 | 6,598 | 7,286 | 6% | -9% |
| Payments to District | 2,775 | 3,527 | - | -21% | 100% |
| Miscellaneous | 1,013 | 936 | 1,509 | 8% | -38% |
| Bad debt | 335 | 204 | 557 | 64% | -63% |
| Total Operating Expenses | <u>\$ 80,964</u> | <u>\$ 76,928</u> | <u>\$ 75,043</u> | | |
| Operating loss | (55,477) | (54,528) | (53,331) | 2% | 2% |
| Non-operating Revenues and (Expenses): | | | | | |
| Interest income | \$ 2,094 | \$ 959 | \$ 160 | 118% | 499% |
| Dedicated taxes | 97,996 | 94,108 | 91,468 | 4% | 3% |
| Parking lot revenue (old center site) | | | 2,601 | | -100% |
| Miscellaneous | 1,231 | 189 | 6,861 | 551% | -97% |
| Bond interest and amortization issue costs | (35,860) | (23,873) | (24,412) | 50% | -2% |
| Marketing agencies payments | (10,073) | (10,416) | (10,740) | -3% | -3% |
| Parking lot expenses (old center site) | | | (915) | 0% | -100% |
| Funding Hotel Project | (20,600) | - | - | 100% | 0% |
| Total Non-operating Revenues and (Expenses) | <u>\$ 34,788</u> | <u>\$ 60,967</u> | <u>\$ 65,023</u> | | |
| Change in net assets | (20,689) | 6,439 | 11,692 | -421% | -45% |
| Net assets, beginning of year | 373,329 | 366,890 | 355,198 | 2% | 3% |
| Net assets, end of year | <u>\$ 352,640</u> | <u>\$ 373,329</u> | <u>\$ 366,890</u> | | |

Note: Figures for FY 2009 represent the financial statements of WCSA on pro forma basis by combining the FY 2009 WCCA and DCSEC financial information

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011 AND 2010**

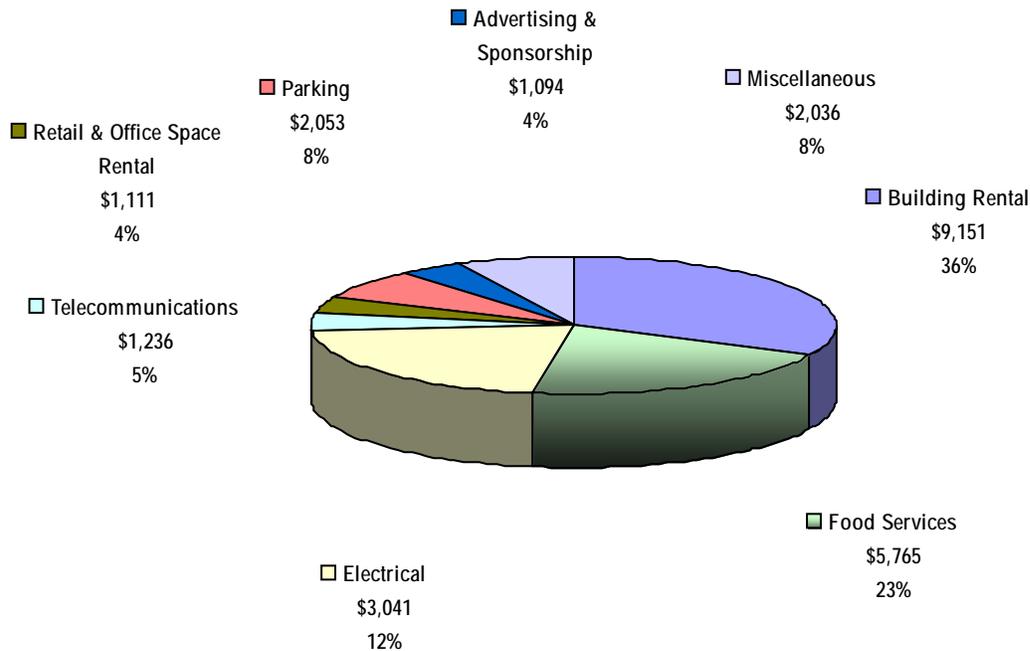
Analysis of Changes in Net Assets

Revenues

For the fiscal years ended September 30, 2011, 2010 and 2009 the Authority's operating revenues were \$25.5 million, \$22.4 million, and 21.7 million, respectively.

Revenue increased by 14% compared to the previous year. The net increase is attributed to the rise in the volume of city-wide events hosted in FY2011. The Authority hosted a total of 17 city-wide events, 6 more city-wide events compared with FY2010 which positively impacted food service and other ancillary revenues. In addition, the Authority created the AT&T Nation's Football Classic game hosted at RFK stadium which increased revenues by \$1.04 million. Miscellaneous income sources including trash hauling charges, special meeting room setup charges, equipment rental, and fees earned from ATMs installed inside the Convention Center also contributed to the increase in operating revenues.

The following is a graphic illustration of operating revenue by source.



During FY2011, non-operating revenues of \$101.3 million were \$6 million or 6% higher than in FY2010. This is as a result of an increase in dedicated tax revenue and interest income. The increase in the interest income is attributed to interest earned on restricted investments related to Convention Center Headquarters Hotel project. Non-operating revenues decreased by \$5.8 million from 2009 to 2010. This is as result of the elimination of the District operating subsidy and recognition of non-operating revenue in FY 2009 as a

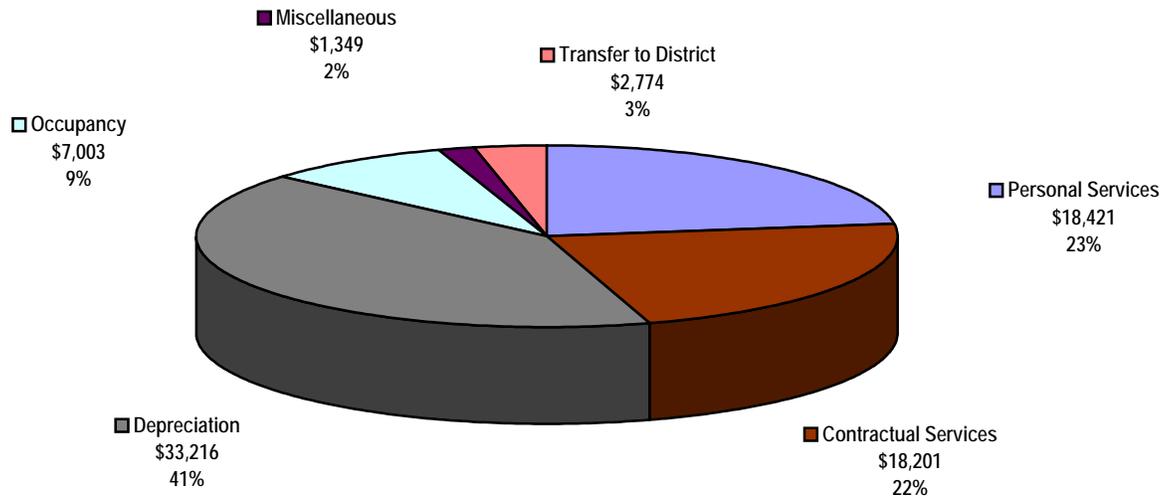
**WASHINGTON CONVENTION AND SPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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result of forgiveness of payroll and benefit cost liability. The former DCSEC's full-time employees' salaries and wage and benefits were previously paid through the District's payroll, benefits, and retirement systems with the former DCSEC reimbursing the District for the costs associated therewith.

Expenses

For fiscal years 2011, 2010 and 2009, the Authority's total operating expenses were \$80.9 million, \$76.9 million and 75 million, respectively. Total operating expenses increased by \$4 million or 5% from fiscal year 2010, primarily due to increase costs related to new marketing initiatives and contractual cost related to the AT&T Nation's Football Classic (NFC) hosted at RFK Stadium. Also contributing to the variance is an increase in health and retirement benefits compared to prior year. When compared to fiscal year 2009, fiscal year 2010 operating expenses increased by 1.9 million or 3% due to cost related to new marketing initiatives and contractual cost related to Convention Center parking operations.

The following is a graphic illustration of operating expenses.



Salaries increased by \$1.2 million or 7%, due to growth in salaries, health and retirement benefits compared to prior year. Contractual services such as housekeeping, building insurance and security and marketing expenses accounted for \$18.2 million in FY2011, an increase of \$2.1 million or 13% compared to FY2010. The increase is attributed to contractual costs related to hosting the NFC event at RFK Stadium. The increase also relates to costs associated with new marketing initiatives launched in FY2010 to maintain and expand the number and enhance the quality of events. Occupancy expense, which includes all utility related expenses such as electricity, telecommunication, water, sewer and natural gas expense accounted for \$7 million, an increase of 6% compared to FY2010. The increases in expenses were primarily due to slight upturn in price of KWH usage as well as increase in consumption directly related to the growth in number

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
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SEPTEMBER 30, 2011 AND 2010**

of events hosted in FY 2011. Depreciation expense, primarily for the building, amounted to \$33 million, a slight increase of \$831,000 in fiscal year 2011.

The Authority's non-operating expenses consisted of \$35.9 million in bond interest payment and amortized issuance costs, \$20.6 million to finance construction and development of a privately owned and operated headquarters hotel (the "HQ Hotel") for the Convention Center and \$10.1 million in payments to marketing agencies. The Washington Convention Center Authority Act of 1994 (as amended in 1998) requires the Authority to transfer 17.4% of the hotel taxes received to the Marketing agencies for the purpose of promoting conventions and tourism in the District of Columbia.

(3) *Capital Asset and Debt Administration*

Capital Assets

The Authority has invested \$652 million in capital assets (net of depreciation). Approximately 83% of this investment is related to the cost of the convention center building. The Authority's capital assets have increased by \$13.7 million compared to fiscal year 2010, which was primarily due to building improvements, the Convention Center headquarters' hotel pre-development costs, purchase of additional furniture, and the capital lease agreement for the Carnegie Library.

Table 3 summarizes the Authority's capital assets, net of accumulated depreciation at September 30, 2011, 2010 and 2009. The changes are presented in detail in Note 5 to the financial statements.

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SEPTEMBER 30, 2011 AND 2010**

**Table 3
Capital Assets (Net of Depreciation)
(in thousands)**

| | 2011 | 2010 | 2009 | Percentage change | |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-----------|
| | | | | 2011-2010 | 2010-2009 |
| Non-depreciable | | | | | |
| Land | \$ 4,785 | \$ 4,785 | \$ 4,785 | 0% | 0% |
| Construction in progress | 4,422 | 4,052 | 3,052 | 9% | 33% |
| Plumber's building | 33,425 | 33,425 | 33,425 | 0% | 0% |
| Artwork | 2,742 | 2,742 | 2,742 | 0% | 0% |
| Total non-depreciable capital assets | <u>\$ 45,374</u> | <u>\$ 45,004</u> | <u>\$ 44,004</u> | | |
| Depreciable | | | | | |
| Building | 769,453 | 769,453 | 769,452 | 0% | 0% |
| Building improvements | 22,955 | 21,446 | 12,552 | 7% | 71% |
| Building improvements-RFK | 34,051 | 33,755 | 33,762 | 1% | 0% |
| Stadium Structure | 19,037 | 19,037 | 19,037 | 0% | 0% |
| Parking Lot improvements | 5,965 | 5,965 | 5,966 | 0% | 0% |
| Central plant | 16,265 | 16,265 | 16,266 | 0% | 0% |
| Carnegie Library (Visitor Center) | 8,985 | - | - | 100% | 0% |
| Financial Systems | 1,446 | 1,416 | 1,414 | 2% | 0% |
| Furniture and Fixtures | 18,596 | 16,507 | 9,777 | 13% | 69% |
| Furniture and Fixtures-RFK | 451 | 367 | 2,648 | 23% | -86% |
| Machinery and equipment | 8,788 | 8,439 | 7,685 | 4% | 10% |
| Total depreciable capital assets | <u>\$ 905,992</u> | <u>\$ 892,650</u> | <u>\$ 878,559</u> | | |
| Less accumulated depreciation | <u>299,312</u> | <u>266,095</u> | <u>235,986</u> | 12% | 13% |
| Net capital assets | <u>\$ 652,054</u> | <u>\$ 671,559</u> | <u>\$ 686,577</u> | | |

Note: Figures for FY 2009 represent the financial statements of WCSA on pro forma basis by combining the FY 2009 WCCA and DCSEC financial information

Debt Administration

The Authority had \$689 million and \$475 million in debt outstanding at the end of fiscal years September 30, 2011 and 2010 respectively. The increase of \$214 million or 45% is attributed to the sale of Series 2010 Bonds with the face value of \$249.2 million to partially finance construction and development of a privately owned and operated headquarters hotel (the "HQ Hotel") for the Convention Center. In addition, \$29 million was used to partially defease Series 2007A Bonds and principal payments of \$13 million made during fiscal year 2011.

The debt position of the Authority is summarized below and is more fully analyzed in the financial statements. (See Note 7 for more information on long-term debt).

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
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SEPTEMBER 30, 2011 AND 2010**

**Table 4
Long-Term Debt Outstanding
(in thousands)**

| | 2011 | 2010 | 2009 | Percentage change | |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-----------|
| | | | | 2011-2010 | 2010-2009 |
| Bonds Payable | \$ 672,309 | \$ 465,998 | \$ 477,785 | 44% | -2% |
| Capital Lease obligation | \$ 8,985 | \$ - | \$ - | 100% | - |
| Financing Arrangements | 7,932 | 8,651 | 9,370 | -8% | -8% |
| Total debt outstanding | 689,226 | 474,649 | 487,155 | | |
| Current portion of debt outstanding | 18,984 | 13,419 | 12,879 | 41% | 4% |
| Debt outstanding less current portion | <u>\$ 670,242</u> | <u>\$ 461,230</u> | <u>\$ 474,276</u> | | |

Note: Figures for FY 2009 represent the financial statements of WCSA on pro forma basis by

In addition to the above long-term outstanding debt, the Authority has long-term liabilities related to compensated absences of \$1 million.

The Authority's bonds are rated "A2" by Moody's and "A" by both Standard & Poor's Corporation and Fitch Rating Services.

(4) Factors Impacting Future Periods

On November 9, 2011, the Authority signed a new lease agreement with the Historical Society of Washington, D.C. (HSW). Under the agreement, the Authority makes an annual payment to HSW for an 87-year term with the initial three years lease payment of \$125,000 with an added escalation clause thereafter for the exclusive use of approximately 80% of the Carnegie Library. The Authority intends to use the Library interior and park land as additional revenue-generating leasable space for events and tourism-related activities, including a District of Columbia Visitors Center. The Visitors Center will be used to promote visitation and visitor spending in District neighborhoods and businesses.

(5) Budgetary Controls

The Authority adopts an operating and capital budget, which are approved by its Board of Directors in February of each year for the subsequent fiscal year. The budget is reviewed and adjusted if necessary by the Board prior to the start of each new fiscal year. The budgets are loaded into the Authority's Financial Management System, which prevents overspending without appropriate approvals. The Financial Management Division prepares monthly reports for the Board of Directors and its Finance Committee. The reports are reviewed and acted upon each month to ensure the Authority complies with its authorized budget levels.

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011 AND 2010**

After approval by the Board of Directors, the Authority is required to submit its annual operating and capital budgets to the Mayor and Council of the District of Columbia to be included in the District's budgets that are sent to the United States Congress for approval.

(6) *Request for Information*

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Mr. Henry W. Mosley, Chief Financial Officer, Washington Convention and Sports Authority, 801 Mount Vernon Place, NW, Washington, D.C. 20001.

WASHINGTON CONVENTION AND SPORTS AUTHORITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2011 AND 2010
(In Thousands)

| | 2011 | 2010 |
|--|---------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and Cash Equivalents | \$ 11,611 | \$ 14,103 |
| Restricted Cash | 936 | 2,500 |
| Due from District of Columbia | 8,405 | 8,487 |
| Accounts Receivable, Net of Allowance for Uncollectible Accounts | 3,846 | 2,185 |
| Prepaid Expenses and Other Assets | 27 | 1 |
| Accrued Interest Receivable | 2,925 | 1,526 |
| Investments | 45,082 | 81,645 |
| Total current assets | 72,832 | 110,447 |
| Noncurrent Assets | | |
| Restricted Investments | 337,476 | 83,137 |
| Non-Depreciable Capital Assets | 45,374 | 45,004 |
| Depreciable Capital Assets, Net of Accumulated Depreciation | 606,680 | 626,555 |
| Unamortized Bond Issue Costs | 10,119 | 5,892 |
| Total Noncurrent Assets | 999,649 | 760,588 |
| Total Assets | \$ 1,072,481 | \$ 871,035 |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable | \$ 8,222 | \$ 5,234 |
| Due to District Government | 791 | 2,422 |
| Compensation Liabilities | 361 | 599 |
| Deferred Revenue | 2,561 | 2,807 |
| Accrued Interest Payable | 17,676 | 11,111 |
| Other Financing Arrangement Payable, Current Portion | 719 | 719 |
| Other Short-Term Liabilities | 5,000 | - |
| Bonds Payable, Current Portion | 13,265 | 12,700 |
| Total Current Liabilities | 48,595 | 35,592 |
| Noncurrent Liabilities | | |
| Compensated Absences | 1,004 | 884 |
| Long-term Bonds Payable including Premium | 659,044 | 453,298 |
| Other Long-Term Liabilities | 3,985 | - |
| Long-term Other Financing Arrangement Payable | 7,213 | 7,932 |
| Total Noncurrent Liabilities | 671,246 | 462,114 |
| Total Liabilities | 719,841 | 497,706 |
| Net Assets | | |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 212,311 | 196,910 |
| Restricted for: | | |
| Debt Service and Capital Interest | 38,135 | 23,811 |
| Capital Renewal | 17,445 | 17,221 |
| Operating Fund | 31,098 | 28,126 |
| Senior Proceeds Account | 2 | 2 |
| Debt Service Reserve | 36,919 | 13,977 |
| Kenilworth Park | 145 | 145 |
| Hotel Project | 25,004 | - |
| Unrestricted Net Assets | (8,419) | 93,137 |
| Total Net Assets | \$ 352,640 | \$ 373,329 |

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

WASHINGTON CONVENTION AND SPORTS AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(In Thousands)

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Operating Revenue and Expenses | | |
| Operating Revenues: | | |
| Building Rental | \$ 9,151 | \$ 8,126 |
| Food Services | 5,764 | 4,739 |
| Electrical | 3,041 | 2,172 |
| Parking | 2,053 | 2,981 |
| Telecommunications | 1,236 | 1,350 |
| Retail & Office Space Rental | 1,111 | 1,038 |
| Advertising & Sponsorship | 1,094 | 500 |
| Miscellaneous | 2,037 | 1,494 |
| Total Operating Revenues | <u>25,487</u> | <u>22,400</u> |
| Operating Expenses | | |
| Personal Services | 18,422 | 17,173 |
| Contractual Services | 18,201 | 16,105 |
| Depreciation | 33,215 | 32,385 |
| Occupancy | 7,003 | 6,598 |
| Payment to District | 2,775 | 3,527 |
| Miscellaneous | 1,013 | 936 |
| Bad Debt | 335 | 204 |
| Total Operating Expenses | <u>80,964</u> | <u>76,928</u> |
| Operating Loss | <u>(55,477)</u> | <u>(54,528)</u> |
| Nonoperating Revenues and (Expenses) | | |
| Interest Income | 2,094 | 959 |
| Dedicated Taxes | 97,996 | 94,108 |
| Miscellaneous Revenue | 1,230 | 959 |
| Interest Expense | (35,526) | (23,649) |
| Amortization of Bond Issuance Costs | (334) | (224) |
| Marketing Agencies & Internal Marketing Expenses | (10,073) | (10,416) |
| Funding Hotel Project | (20,600) | - |
| Miscellaneous Expenses | - | (485) |
| Prior Year Cost Recovery | 1 | (273) |
| Loss on Disposal of Fixed Assets | - | (12) |
| Total Nonoperating Revenues and (Expenses) | <u>34,788</u> | <u>60,967</u> |
| Increase in Net Assets before changes related to contribution of DCSEC | <u>(20,689)</u> | <u>6,439</u> |
| Contribution of Net Assets of DCSEC | - | 19,844 |
| Increase in Net Assets | <u>(20,689)</u> | <u>26,283</u> |
| Net Assets, Beginning of Year | <u>373,329</u> | <u>347,046</u> |
| Net Assets, End of Year | <u>\$ 352,640</u> | <u>\$ 373,329</u> |

The accompanying notes are an integral part of these financial statements

WASHINGTON CONVENTION AND SPORTS AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(IN THOUSANDS)

| | 2011 | 2010 |
|---|-------------|-------------|
| Cash flows from operating activities: | | |
| Receipts from customers | \$ 23,246 | \$ 22,032 |
| Payments to suppliers | (24,887) | (27,899) |
| Payments to employees | (18,538) | (17,376) |
| Other payments | (2,774) | (3,527) |
| | (22,953) | (26,770) |
| Net cash used in operating activities | | |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (4,725) | (17,380) |
| Other financing arrangement payment | (719) | (719) |
| Bond proceeds | 215,829 | - |
| Bonds payable payment | (12,700) | (12,160) |
| Interest payments | (28,476) | (23,545) |
| | 169,209 | (53,804) |
| Net cash used in capital and related financing activities | | |
| Cash flows from noncapital financing activities: | | |
| Dedicated tax receipts | 98,078 | 94,059 |
| Payments to tourism responsibility centers | (10,074) | (10,416) |
| Other receipts (payments) | (22,877) | 200 |
| | 65,127 | 83,843 |
| Net cash provided by noncapital financing activities | | |
| Cash flows from investing activities: | | |
| Proceeds from sale and maturities of investment securities | 244,252 | 136,169 |
| Purchases of investment securities | (462,029) | (141,149) |
| Interest and dividends on investments | 2,338 | 28 |
| Contribution From DCSEC | - | 11,046 |
| | (215,439) | 6,094 |
| Net cash used in investing activities | | |
| Net (decrease) increase in cash and cash equivalents | (4,056) | 9,363 |
| Cash and cash equivalents, beginning of year | 16,603 | 7,240 |
| Cash and cash equivalents, end of year | \$ 12,547 | \$ 16,603 |
| | | |
| | 2011 | 2010 |
| Reconciliation of Operating Loss to Net Cash Used In Operating Activities | | |
| Operating Loss | \$ (55,477) | \$ (54,528) |
| <i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities</i> | | |
| Depreciation | 33,216 | 32,385 |
| Provision for Doubtful Accounts | 335 | 204 |
| Increase in receivables | (1,995) | (688) |
| Increase (Decrease) in prepaid expenses and other assets | (25) | 229 |
| Increase (Decrease) in accounts payable | 1,357 | (4,490) |
| Decrease in compensation liabilities | (117) | (202) |
| (Decrease) Increase in deferred revenue | (247) | 320 |
| | (22,953) | (26,770) |
| Net Cash Used in Operating Activities | | |
| Interest expense paid | \$ (28,810) | \$ (23,545) |

The accompanying notes are an integral part of these financial statements

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 REPORTING ENTITY

The Washington Convention Center Authority (WCCA), a corporate body and independent authority of the District of Columbia government was created pursuant to the “Washington Convention Center Authority Act of 1994,” D.C. Law 10-188 (the WCCA Act), effective September 28, 1994.

The Authority was established for the purpose of acquiring, constructing, equipping, maintaining, and operating a new convention center in the District of Columbia. The Authority engages in activities deemed appropriate to promote trade shows, conventions, and other events closely related to activities of the new convention center.

The Washington Convention and Sports Authority (the Authority or WCSA) was formed on October 1, 2009 following the transfer of D.C. Sports and Entertainment Commission’s mission, responsibilities and assets to WCCA in accordance with the Washington Convention Center Authority and Sports and Entertainment Commission Merger Amendment Act of 2009, D.C. Law 18-111.

Following the transfer, the Authority’s Board of Directors (the Board) grew from nine to eleven members. Two members serve as ex-officio voting members of the Board. One of the ex-officio members must be the chief financial officer of the District of Columbia and the mayor designates the other. The remaining nine public members are appointed by the mayor with the consent of the Council of the District of Columbia (the Council). The terms of the public members are four years. The mayor appoints one public member as chairperson with the advice and consent of the Council.

The Authority receives its funding by generating operating revenue from meetings, sports events, parking, advertising, sponsorships, and ancillary operations. In addition, it receives dedicated taxes from the hospitality industry as well as interest and dividend income from investments. The dedicated taxes were established pursuant to the WCCA Act. Effective October 1, 1998, the dedicated taxes consist of a separate sales and use tax of 4.45% (of the District’s 14.5%) on hotel room charges and a sales and use tax of 1.0% (of the District’s 10.0%) on restaurant meals, alcoholic beverages consumed on premises, and rental vehicle charges. The dedicated taxes are collected on behalf of the Authority in accordance with the September 1998 Lockbox and Collection Agreements executed by the Authority, the District and a financial institution.

The Authority is a component unit of the District of Columbia government.

NOTE 2 BUSINESS COMBINATIONS

On October 1, 2009, the District of Columbia Government dissolved the D.C. Sports and Entertainment Commission (DCSEC) and transferred its net assets to the Washington Convention Center Authority (WCCA). Following the transfer, the WCCA was renamed the Washington Convention and Sports Authority (the Authority or WCSA).

DCSEC was established pursuant to D.C. Law 10-152, Omnibus Sports Consolidation Act of 1994 for the purpose of promoting and managing sports and entertainment events

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

primarily in the District. The WCSA maintained and enhanced the mission of the former DCSEC through the creation of a separate program for this purpose.

The transfer of net assets provides the Authority an opportunity to expand its service area not only by running a world-class convention and meetings facility, but also through the promotion and coordination of key sports and entertainment activities for the District. A separate Sports and Entertainment Division (S&E) was formed to provide these services, while the core Conventions and Meetings Division team remains unchanged.

The Authority recognized net assets of the former DCSEC of \$19.8 million in its Statement of Revenues, Expenses, and Changes in Net Assets. The net assets consisted of \$12.4 million invested in capital assets, net of related debt; \$146,000 of temporarily restricted assets for Kenilworth Park improvements, and unrestricted net assets of \$7.3 million for the year ended September 30, 2010.

In June 2011, Washington Convention and Sports Authority launched a new brand name, "Events DC". The new brand entity fully encompasses the event experience in the city, elevates the organization's core assets and portfolio, and perhaps most importantly, aligns with the existing brands for Washington DC and the city's promotional arm, Destination DC.

Events are at the heart of the organization's work to create economic and community benefits for the District of Columbia, and adopting the name Events DC underscores both the mission and the agency's core strengths. In addition, the name Events DC, which aligns with the existing Washington, DC brand identity, defines the Authority's ownership of the events and visitors experience in Washington, DC, creating consistency among its core lines of business while adding an exciting new energy to the organization's work.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to U.S. Generally Accepted Accounting Principles (GAAP) as applicable to government enterprises. The following is a summary of the Authority's significant accounting policies:

Basis of Accounting

The Authority's basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The measurement focus is on the flow of economic resources. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statements of Net Assets.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. The Authority has elected to apply only those Financial Accounting

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins, issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

For the purposes of financial reporting, the Authority is considered to be a single enterprise fund. However, for accounting purposes, and to ensure observation of limitations and restrictions placed on the use of the resources available to the Authority, accounts are maintained in accordance with the principles of fund accounting.

The Authority accounts for its activities in ten separate funds: the Operating (WEWCC) Fund, the Building Fund, the Marketing Fund, Capital (WEWCC) Fund, the Demolition Fund, Operating (S&E) Fund, New Stadium Fund, S&E Capital Fund, Operating (Visitor Center) Fund and Capital (Visitor Center) Fund. The following activities are reported in each fund.

- a. Operating Fund—The operating fund accounts for the transactions related to the operation of the convention center.
- b. Building Fund—The building fund accounts for the transactions related to the new hotel and expansion projects.
- c. Marketing Fund—The marketing fund accounts for the transactions related to marketing and promoting conventions and tourism in the District of Columbia.
- d. Capital Fund—The capital fund accounts for the transactions related to the improvement of the convention center.
- e. Demolition Fund—The demolition fund accounts for the transactions related to the demolition of the old convention center, construction of a parking lot, and management of parking operations.
- f. Operating (S&E) Fund— The operating S&E fund accounts for transactions related to the operation of Robert F. Kennedy Memorial Stadium and DC Armory.
- g. New Stadium Fund— The new stadium fund accounts for transactions related to the new Nationals Park Stadium.
- h. Capital (S&E) Fund— The S&E capital fund accounts for the transactions related to the improvement of the Robert F. Kennedy Memorial Stadium and DC Armory.
- i. Operating (Visitor Center) Fund— The operating visitor center fund accounts for transactions related to the operation of the Visitor Center (Carnegie Library).
- j. Capital (Visitor Center) Fund— The visitor center capital fund accounts for the transactions related to the improvement of the Visitor Center (Carnegie Library).

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Current and Noncurrent

Current assets are used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or consumed during a normal operating cycle of business usually one year or less, without interfering with normal business operations. Current liabilities are defined as obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities.

Cash and Cash Equivalents

The Authority considers all highly liquid instruments purchased with an original maturity of less than 90 days to be cash equivalents.

Receivables

Receivables relate to transactions involving building rental, electrical, telecommunications, audio-visual, advertising, sponsorships, parking, and miscellaneous revenue.

Allowance for Doubtful Accounts

The Authority establishes an allowance for doubtful accounts for all account receivables over 180 days old. At September 30, 2011 and 2010, accounts receivable were shown net of allowance for doubtful accounts of \$3.8 million and \$2.2 million respectively.

Investments

Investments in money markets and repurchase agreements are recorded at market value which approximates fair value. Treasury obligations and commercial paper are recorded at amortized cost which approximates fair value.

Capital Assets and Depreciation

Capital assets are carried at cost at the date of acquisition less accumulated depreciation. The Washington Convention and Sports Authority capitalized assets with an original cost of \$5,000 or greater. Donated capital assets are recorded at fair market value at the date donated. Depreciation expense is calculated using the straight-line method over the following estimated useful lives:

| | |
|------------------------------------|------------|
| Financial Systems | 5 years |
| Machinery and Equipment | 5 years |
| Furniture and Fixtures | 10 years |
| Central Plant | 20 years |
| Building and Building Improvements | 30 years |
| Structure and parking Lot | |
| Improvements | 5-35 years |
| RFK Stadium | 50 years |

Expenditures for repairs and maintenance that do not increase the economic useful lives of related assets are charged to operations during the fiscal year in which the costs are incurred.

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

Amortization of Bond Premium, Bond Deferral and Issuance Costs

The bond premium is recorded as an increment of the carrying cost of the bonds. Bond premium and issuance costs are amortized based upon the weighted average of bonds outstanding over the term of the bonds. Bond deferral is the result of defeasance of Series 1998A bonds which was the difference between the reacquisition price and the net carrying amount of the old debt and the defeasance of the \$25 million of the 2007A bonds obtained for a portion of the land acquisition of related to headquarters hotel for the convention center. It is deferred and amortized over the remaining life of the old or new debt, whichever is shorter. It is being amortized over twenty two (22) years, the remaining life of the old bonds.

Deferred Revenue

Deferred revenue represents revenue and deposits received in advance from show managers and promoters for events booked at the Walter E. Washington Convention Center and the Sports& Entertainment Division.

Operating Component

The financial statement operating component includes all transactions and other events that are not defined as capital and related financing, noncapital financing or investing activities.

Revenue Recognition

Revenues are recorded when earned. Dedicated taxes are recorded in the period when the exchange transaction on which the tax is imposed occurs.

The Authority distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operation. The principal operating revenues of the Authority consist of building rental, electrical, telecommunications, food services, audio-visual, retail/office space rental, event services, advertisements and sponsorship and miscellaneous revenues. Operating expenses include personnel services, contractual services, depreciation, occupancy, supplies, transfer to District and miscellaneous expenses. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Compensated Absences

The Authority accrues a liability for annual leave based on salary rates and accumulated leave hours at September 30. Employees earn annual leave during the year at varying rates, depending on the employee's classification and years of service. Generally, non-union employees may carry a maximum of 240 hours of annual leave and union employees may carry a maximum of 320 hours beyond December 31 of each calendar year. Carryover of annual leave in excess of 240 and 320 hours is permitted with the approval of appropriate Authority officials. The accrued maximum annual leave balance is payable to employee's upon termination of employment.

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP) require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions may also affect the reported amounts of revenues and expenses. Accordingly, actual results could differ from those estimates.

NOTE 4 CASH DEPOSIT AND INVESTMENTS

The Authority complies with GASB Statement No. 40, Deposit and Investment Risk Disclosures. Cash, cash equivalents and investments are separately held within several of the Authority's funds.

Cash Deposits

The carrying amount of the Authority's cash as of September 30, 2011 and 2010 were \$12.5 million and \$16.6 million respectively. The Authority's bank balance at September 30, 2011 and 2010 were \$12.9 million and \$17.3 million. These bank balances are entirely insured or collateralized with securities held by third parties in the Authority's name.

Investments

In accordance with the Authority's investment policy adopted in 1999 and amended in 2009, the Authority may invest in bonds, notes, certificates of indebtedness, treasury bills, or other securities guaranteed by the U.S Government, its agencies, and instrumentalities, domestic interest bearing savings accounts, certificate of deposits, time deposits or any other investments that are direct obligations of any bank, short-term obligations of U.S Corporations, shares or other securities legally issued by state or federal savings and loan associations that are insured by the FDIC, money market mutual funds registered under amended Investment Act of 1940, repurchase agreements with any bank, trust company, or national banking association or government bond dealer reporting to the Federal Reserve Bank of New York, and investment agreement which represent the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution.

As of September 30, 2011 and 2010, the Authority's investments were in money market, agency securities and certificate of deposits. Agency Securities and Money Market investments were rated AAA and/or collateralized by the fund provider. However, the certificate of deposit is collateralized at 102% by the bank pledging of securities with a safekeeping agent to cover the uninsured deposit.

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

As of September 30, 2011 and 2010, the Authority had the following investments (in thousands):

| Investment Type | 2011 | 2010 | Maturity date |
|-------------------------------|-------------------|-------------------|----------------------|
| Agency Securities | \$ 75,014 | \$ 81,500 | November, 2011 |
| Money Market | 102,117 | 36,032 | |
| Certificate of Deposits (CDs) | 47,000 | 47,000 | November, 2011 |
| GICs | 158,427 | - | December, 2013 |
| Repos | - | 250 | |
| Totals | \$ 382,558 | \$ 164,782 | |

The Authority's investments are subject to certain risks. Those risks are as follows:

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its investments. As of September 30, 2011, 53% of the Authority's investments were held by a counterparty that is insured and collateralized.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The risk may vary based on the type of investment. As of September 30, 2011, all funds are invested in triple A rated money market funds, agency securities and certificate of deposits (CDs) thereby limiting the Authority's exposure to interest rate risk. In accordance with the Authority's investment policy, the investments maturity varies from 1- 5 years.

Credit Risk: Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy limits investments to investments that are highly rated by Moody or Standard and Poor. As of September 30, 2011, the Authority's investments were all in a AAA rated short term money market funds, triple A rated agency securities, guaranteed investment contracts, and certificate of deposits.

Concentration of Credit Risk: To limit exposure to concentrations of credit risk, the Authority's investment policy limits investment in U.S. Treasury to 100%, Federal Agencies to 40%, money market mutual funds to 25%, and repurchase agreement 25% to any one issuer

As of September 30, 2011 the following represent 5 percent or more of the Authority's investments:

| Investment | Fair Value | % |
|---|-------------------|----------|
| Collateralized Repurchase agreements (Duetche Bank) | 158,427 | 41% |
| Money Market (Invesco) | 102,117 | 27% |
| US Agency Securities | 75,014 | 20% |
| Certificate of Deposit (BB&T) | 47,000 | 12% |
| | <u>382,558</u> | |

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Required Reserves: Under the Bond Trust agreements, the Authority is required to maintain certain reserve requirements for debt service, operating and marketing, capital renewal and replacement, marketing, and hotel projects. The Authority maintained the above investment in various reserve accounts to meet the requirements. At September 30, 2011 and 2010, those restricted investments totaled approximately \$337.5 million and \$83.1 million respectively.

In connection with the Series 2007A Bonds, the Debt Service Reserve Account requirement is satisfied by the deposit of a surety bond (the Reserve Account Credit Facility) provided by AMBAC Assurance Corporation (“Ambac Assurance” the “Reserve Account Credit Facility Provider”). If there are insufficient funds in the debt service account, the series 2007A Bonds are insured against non-payment by a Municipal Bond Insurance Policy issued by AMBAC Assurance Corporation (Ambac Assurance or “Insurer”). However, due to the lowering of AMBAC’s credit rating, the Authority is obligated to provide a disclosure with respect to the downgrade of AMBAC who provided the surety policy for the 2007 Convention Center Revenue and Refunding Bonds and the Authority is required either to provide a substitute surety or post cash or other collateral in the debt service reserve account. The Indenture requires that the Authority fill the debt service reserve fund in 10 equal installments on each April 1 and October 1 over the next five years or fully fund it. The Authority has opted to fully fund the maximum required amount of \$33.7 million.

The following table summarizes the minimum reserve requirements and restricted amounts as of September 30, 2011 and 2010.

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

| Reserve Account | Investment Balance as of September 30, 2011 | Minimum Required Reserve (Restricted) | Available Reserve Above the Required Minimum |
|---|--|--|---|
| <u>Series 2007A</u> | | | |
| Capital Renewal & Replacement Account | 32,470 | 17,445 | 15,025 |
| Debt Service & Capitalized Interest | 38,135 | 38,135 | - |
| Debt Service Reserve Account | 36,919 | 36,919 | - |
| Senior Proceeds Account | 2 | 2 | - |
| Marketing Account | 1,501 | 1,501 | - |
| Operating and Marketing Reserve Account | 36,563 | 28,597 | 7,966 |
| Revenue Account | 22,091 | | 22,091 |
| WCSA Hotel Contribution | 25,004 | 25,004 | - |
| | 192,685 | 147,603 | 45,082 |
| <u>Series 2010</u> | | | |
| Bond Issuance cost | 268 | 268 | - |
| Capitalized Interest | 20,910 | 20,910 | - |
| Debt Service Reserve Account | 28,177 | 28,177 | - |
| Hotel Project | 140,518 | 140,518 | - |
| | \$ 189,873 | \$ 189,873 | \$ - |
| Total | \$ 382,558 | \$ 337,476 | 45,082 |

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

| Reserve Account | Investment Balance as of September 30, 2010 | Minimum Required Reserve (Restricted) | Available Reserve Above the Required Minimum |
|---|--|--|---|
| WCSA Bond Fund Senior Proceeds Account | \$ 2 | \$ 2 | \$ - |
| Revenue Account | 29,704 | - | 29,704 |
| Debt Service Reserve Account | 52,383 | 37,788 | 14,595 |
| Capital Renewal & Replacement Account | 32,060 | 17,221 | 14,839 |
| Operating and Other Accounts | 336 | - | 336 |
| Marketing Account | 557 | - | 557 |
| Operating and Marketing Reserve Account | 49,740 | 28,126 | 21,614 |
| Total | \$ 164,782 | \$ 83,137 | \$ 81,645 |

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 5 CAPITAL ASSETS

Capital asset balances at September 30, 2011 are summarized as follows (in thousands):

| | Balance @ | | | | Balance @ |
|--------------------------------------|-------------------|--------------------|------------------|--------------------|-------------------|
| | 9/30/2010 | Additions | Disposals | Adjustments | 9/30/2011 |
| Non-Depreciable | | | | | |
| Land | \$ 4,785 | \$ - | \$ - | \$ - | \$ 4,785 |
| Construction in Progress | 4,052 | 370 | - | - | 4,422 |
| Plumber's Building | 33,425 | - | - | - | 33,425 |
| Artwork | 2,742 | - | - | - | 2,742 |
| Total Non-Depreciable Capital Assets | <u>\$ 45,004</u> | <u>\$ 370</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 45,374</u> |
| Depreciable | | | | | |
| Building (WEWCC) | \$ 769,453 | \$ - | \$ - | \$ - | \$ 769,453 |
| Building Improvements (WEWCC) | 21,445 | 1,510 | - | - | 22,955 |
| Stadium Structure | 19,037 | - | - | - | 19,037 |
| Building Improvements/Displays (SED) | 33,755 | 296 | - | - | 34,051 |
| Parking Lot Improvements (SED) | 5,965 | - | - | - | 5,965 |
| Central plant | 16,265 | - | - | - | 16,265 |
| Carnegie Library (Visitor Center) | - | 8,985 | - | - | 8,985 |
| Financial systems | 1,416 | 30 | - | - | 1,446 |
| Furniture and fixtures | 16,508 | 2,088 | - | - | 18,596 |
| Furniture & Equipment (SED) | 367 | 84 | - | - | 451 |
| Machinery and Equipment | 8,439 | 349 | - | - | 8,788 |
| Total Depreciable Capital Assets | <u>892,650</u> | <u>13,342</u> | <u>-</u> | <u>-</u> | <u>905,992</u> |
| Less: Accumulated Depreciation | 266,095 | 33,217 | - | - | 299,312 |
| Total Net Depreciable Capital Assets | <u>\$ 626,555</u> | <u>\$ (19,875)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 606,680</u> |

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

Capital asset balances at September 30, 2010 are summarized as follows (in thousands):

| | Balance @ 9/30/2009 | Additions | Disposals | Adjustments | Balance @ 9/30/2010 |
|--------------------------------------|--------------------------------|---------------------------|--------------------|-------------------------|--------------------------------|
| Non-Depreciable | | | | | |
| Land | \$ 4,785 | \$ - | \$ - | \$ - | \$ 4,785 |
| Construction in Progress | 3,052 | 1,000 | - | - | 4,052 |
| Plumber's Building | 33,425 | - | - | - | 33,425 |
| Artwork | 2,742 | - | - | - | 2,742 |
| Total Non-Depreciable Capital Assets | <u>\$ 44,004</u> | <u>\$ 1,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 45,004</u> |
| Depreciable | | | | | |
| Building (WEWCC) | \$ 769,452 | \$ - | \$ - | \$ 1 | \$ 769,453 |
| Building Improvements (WEWCC) | 12,552 | 8,894 | - | (1) | 21,445 |
| Stadium Structure | - | - | - | 19,037 | 19,037 |
| Building Improvements/Displays (SED) | - | - | - | 33,755 | 33,755 |
| Parking Lot Improvements (SED) | - | - | - | 5,965 | 5,965 |
| Central plant | 16,266 | - | - | (1) | 16,265 |
| Financial systems | 1,414 | 1 | - | 1 | 1,416 |
| Furniture and fixtures | 9,777 | 6,731 | - | - | 16,508 |
| Furniture & Equipment (SED) | - | - | (2,283) | 2,650 | 367 |
| Machinery and Equipment | 7,685 | 754 | - | - | 8,439 |
| Total Depreciable Capital Assets | <u>817,146</u> | <u>16,380</u> | <u>(2,283)</u> | <u>61,407</u> | <u>892,650</u> |
| Less: Accumulated Depreciation | <u>186,980</u> | <u>32,385</u> | <u>(2,283)</u> | <u>49,013</u> | <u>266,095</u> |
| Total Net Depreciable Capital Assets | <u><u>\$ 630,166</u></u> | <u><u>\$ (16,005)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 12,394</u></u> | <u><u>\$ 626,555</u></u> |

Construction in Progress

The construction in progress represents predevelopment costs related to construction of the new headquarters hotel project.

NOTE 6

CAPITAL LEASE

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of September 30, 2011 (*see Note 11 capital lease arrangement for more information*):

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

| <u>Year Ended September 30</u> | <u>Amount</u> |
|--|-----------------|
| 2011 | \$ 5,000 |
| 2012 | 2,000 |
| 2013 | <u>2,000</u> |
| Total minimum lease payments | 9,000 |
| Less: Amount representing imputed interest costs | <u>(15)</u> |
| Present value of minimum lease payments | <u>\$ 8,985</u> |

NOTE 7 FINANCING ARRANGEMENTS PAYABLE

The Authority entered into an arrangement with a vendor to finance the construction of the Central Plant for the Authority. The Central Plant, which is part of the convention center, provides hot and chilled water to the facility. The total construction cost of the Central Plant was approximately \$16 million. The vendor financed \$14 million and the Authority paid the remaining balance of \$1.8 million with bond proceeds. Under the financing arrangement, the Authority agreed to pay the vendor \$0.7 million annually for twenty years and will assume ownership of the plant at the end of the lease term. The Authority is exploring the options to purchase the Central Plant on the next anniversary date (June 2012) in accordance with the conditions set forth in the Agreement.

The following reflects the annual financing arrangement payable through maturity as of September 30, 2011 (in thousands):

| <u>Year ending September 30:</u> | |
|-------------------------------------|-----------------|
| 2012 | \$ 1,099 |
| 2013 | 1,063 |
| 2014 | 1,027 |
| 2015 | 991 |
| 2016 | 955 |
| 2017-2021 | 4,237 |
| 2022 | <u>764</u> |
| Total | \$ 10,136 |
| Less Interest | <u>(2,204)</u> |
| Total Financing Arrangement Payable | 7,932 |
| Less Current Portion | 719 |
| Long Term Portion | <u>\$ 7,213</u> |

NOTE 8 BOND PAYABLE

The Authority was authorized to issue bonds to finance the costs of the new convention center pursuant to the WCCA Act, as amended. On September 28, 1998, the Authority issued \$524.5 million in senior lien dedicated tax revenue bonds (Series 1998A Bonds) to finance the construction of the new Washington Convention Center.

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

On February 1, 2007, WCCA issued \$492.5 million of refunding Series 2007A Bonds, with a net premium of \$15.6 million to effect a refunding for the Series 1998A Bonds. These refunding bonds were delivered on February 8, 2007, with maturities ranging from October 1, 2008 to October 2036, at interest rates ranging from 3.75% to 5%. The net proceeds of these refunding bonds were used to 1) advance refund all of the Series 1998A Bonds in the aggregate principal amount of \$480.6 million; 2) refinance a portion of the land acquisition cost of WCCA related to the headquarters hotel; 3) pay the premium for the Reserve Account Credit Facility that funds the Series 2007A Bonds, including the premium for the Financial Guaranty Insurance Policy. As a result, the previously outstanding refunded bonds were considered to be defeased and the liabilities for those bonds had been extinguished. The aggregate difference in debt service between the refunded debt and the refunding debt was \$10 million (NPV). In October 2008, the defeased bonds that were outstanding were paid by the escrow held by the Escrow Agent.

Between June, 2006 and July, 2009, the Council passed a series of legislative Acts (collectively, the “Hotel Acts”),¹ which authorized the financing, construction and development of a privately owned and operated headquarters hotel (the “HQ Hotel”) for the Convention Center, including a program to train D.C. residents for HQ Hotel jobs.

In October 2010, the Authority issued senior lien dedicated tax revenue bonds (Series 2010 Bonds) with face value of \$249.2 million. These Bonds were delivered on October 26, 2010, with maturities ranging from October 2015 to October 2040, at interest rates ranging from 3.1% to 7%. The proceeds are to be used to (i) make funds available to the Developer to pay a portion of the costs of acquiring, developing, constructing and equipping the Convention Center Hotel project to be constructed on the Hotel Site adjacent to the Walter E. Washington Convention Center; (ii) fund capitalized interest for a portion of the Series 2010 Bonds during the construction phase of the Convention Center Hotel Project; (iii) fund the Debt Service Reserve Account Requirement for each series of Series 2010 Bonds; (iv) defease to the earliest optional redemption date that portion of WCSA’s outstanding senior lien dedicated tax Revenue and Refunding Bonds, Series 2007A maturing on December 1, 2036 in the aggregate principal amount of \$25.4 million; (v) make \$2 million available to WCSA for establishment of the D.C. Citizen’s Job Program created pursuant to the Hotel Act; and (vi) pay the Cost of Issuance for the Series 2010 Bonds. As the hotel will be privately owned, the disbursement of the hotel related bond proceeds will be recorded as an expense by the Authority.

Portion of the net proceeds from the issuance of Series 2010 Bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt services payments until the Series 2007A bonds are called or matures. As a result, the aggregate principal amount of \$25.4 million from Series 2007A Bonds is considered to be defeased and therefore removed as a liability from the Authority’s financial statements.

¹See New Convention Center Hotel Omnibus Financing and Development Act of 2006 (D.C. Law 16-163); New Convention Center Hotel Omnibus Financing and Development Amendment Act of 2008, D.C. Law 17-144; New Convention Center Hotel Technical Amendments Act of 2008, D.C. Law 17-399; New Convention Center Hotel Emergency Amendment Act of 2009, D.C. Bill No. 18-391; and New Convention Center Hotel Amendment Act of 2009, D.C. Bill No. 18-310.

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

In connection with the issuance of the bonds, the District and the WCSA entered into lockbox and collection agreements with a local bank into which the dedicated taxes are deposited and transferred to the bond trustee. Dedicated taxes are collected one month in arrears.

The WCCA Act provides that on or before July 15 of each year, the District's Auditor shall deliver a certification relating to the sufficiency of the projected dedicated tax revenues, WCSA operating revenues, and any amounts in excess of the minimum reserve account deposits to meet the sum of the projected operating and debt service expenditures and reserve requirements. If the projected revenues are insufficient, the WCCA Act requires the mayor to impose a surtax in an amount sufficient to meet the projected deficiency. The District's Auditor determined that the projected dedicated taxes for fiscal year 2011 were expected to be sufficient to meet the projected expenditures and reserve requirements. Therefore, no surtax was imposed by the Mayor.

As of September 30, 2011, the Authority's bond liability totaled approximately \$679.8 million. A summary of annual maturities of the bonds payable for the years ending September 30, are as follows (in thousands):

| Fiscal year | Principal | Interest | Total Debt Service |
|--------------|-------------------|-------------------|-----------------------|
| 2012 | \$ 13,265 | \$ 34,752 | \$ 48,017 |
| 2013 | 13,865 | 34,073 | 47,938 |
| 2014 | 15,625 | 33,384 | 49,009 |
| 2015 | 18,200 | 32,652 | 50,852 |
| 2016 | 18,970 | 31,769 | 50,739 |
| 2017-2021 | 111,360 | 143,459 | 254,819 |
| 2022-2026 | 146,360 | 111,649 | 258,009 |
| 2027-2031 | 199,540 | 68,472 | 268,012 |
| 2032-2036 | 71,970 | 36,214 | 108,184 |
| 2037-2040 | 70,635 | 10,742 | 81,377 |
| Total | \$ 679,790 | \$ 537,165 | \$ 1,216,955 |

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

As of September 30, 2010, the Authority's bond liability totaled approximately \$469 million. A summary of annual maturities of the bonds payable for the years ending September 30, are as follows (in thousands):

| Fiscal Year | Principal | Interest | Debt Service |
|--------------------|-------------------|-------------------|---------------------|
| 2011 | 12,700 | 21,655 | 34,355 |
| 2012 | 13,265 | 21,055 | 34,320 |
| 2013 | 13,865 | 20,375 | 34,240 |
| 2014 | 14,545 | 19,687 | 34,232 |
| 2015 | 15,235 | 18,988 | 34,223 |
| 2016-2020 | 87,955 | 82,282 | 170,237 |
| 2021-2025 | 111,860 | 57,355 | 169,215 |
| 2026-2030 | 141,520 | 26,451 | 167,971 |
| 2031-2035 | 48,505 | 3,936 | 52,441 |
| 2036-2037 | 9,225 | 212 | 9,437 |
| Totals | \$ 468,675 | \$ 271,996 | \$ 740,671 |

At September 30, 2011 and 2010, the unamortized bond premiums were \$13.5 million and \$13.7 million respectively, and bond deferral were \$20.9 million and \$16.4 million respectively.

NOTE 9 CHANGE IN LONG TERM LIABILITIES

| | Balance @ | | | Balance @ | Amount Due |
|---------------------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| | 9/30/2010 | Additions | Reductions | 9/30/2011 | Within One |
| | | | | | Year |
| Series 2007A Bond Payable | \$ 468,675 | | \$ (38,105) | \$ 430,570 | \$ 13,265 |
| Series 2007A Unamortized Bond Premium | 13,715 | - | (521) | 13,194 | - |
| Series 2007A Bond Deferral | (16,392) | (5,215) | 671 | (20,936) | - |
| Series 2010 Bond Payable | - | 249,220 | - | 249,220 | - |
| Series 2010 Unamortized Bond Premium | - | 362 | (101) | 261 | - |
| Capital Lease obligation | - | 8,985 | - | 8,985 | 5,000 |
| Financing Arrangement Payable | 8,651 | - | (719) | 7,932 | 719 |
| Total Long Term Liabilities | \$ 474,649 | \$ 253,352 | \$ (38,775) | \$ 689,226 | \$ 18,984 |

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

| | Balance @ 9/30/2009 | Additions | Reductions | Balance @ 9/30/2010 | Amount Due Within One Year |
|------------------------------------|------------------------|-------------|--------------------|------------------------|----------------------------------|
| Bond Payable | \$ 480,835 | \$ - | \$ (12,160) | \$ 468,675 | \$ 12,700 |
| Unamortized Bond Premium | 14,236 | - | (521) | 13,715 | - |
| Bond Deferral | (17,286) | - | 894 | (16,392) | - |
| Financing Arrangement Payable | 9,370 | - | (719) | 8,651 | 719 |
| Total Long Term Liabilities | \$ 487,155 | \$ - | \$ (12,506) | \$ 474,649 | \$ 13,419 |

In addition to the above long-term outstanding debt, the Authority has long-term liabilities related to compensated absences of \$1 million and \$0.9 million at the end of fiscal years September 30, 2011 and 2010 respectively.

NOTE 10 RETIREMENT PLAN

Effective April 1998, all Events DC full-time employees are covered by a defined contribution plan. The plan, which is managed by ICMA Retirement Corporation, requires no employee contributions. All employees are vested after four years of service. The contribution is 7% of total employee's salaries. The total employer's contribution for FY2011 and 2010 were \$0.94 million and \$0.87 million respectively.

NOTE 11 RELATED PARTY TRANSACTIONS

Dedicated Taxes

In accordance with the WCCA Act and amended Master Trust Agreement, the District of Columbia Government collects and forwards to the Authority the dedicated tax receipts that are used to fund the debt service and reserve requirements of its Series 2007A Bonds. In FY2011, the Authority recognized revenue from dedicated tax receipts of \$98 million. As of September 30, 2011 and 2010, the dedicated taxes due from the District government were \$8.4 million and \$8.5 million respectively. These receivables represent September tax payments collected by the District in October.

Revenue Share Agreement with the District

The Authority entered into a Lease Agreement with the District dated July 1, 2004 for the use of the old convention center site located on 900 9th Street, N.W., Washington D.C solely for the operation of a public parking lot. To secure the funding for the demolition of the old convention center and the construction of parking lots, on July 1, 2004 the Authority signed a \$17 million non-revolving construction line of credit with a financial institution. The Authority drew a total of \$15.8 million from the line of credit to construct the parking lots. The Authority finished paying the loan in July 2009 using the revenue generated from parking lots.

In FY2010, the Authority and the District executed the third amendment of their Lease Agreement to provide the District a portion of the revenues received by the Authority for

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

the parking operations and events held at the parking lot. In FY2011 and 2010, the total amount paid to the District under the agreement totaled \$235,484 and 774,516 respectively.

District's (DRES) Management Agreement

On October 1, 2009, under the Washington Convention Center Authority and Sports and Entertainment Commission Merger Amendment Act of 2009, D.C. Law 18-111, the Authority merged with the DC Sports and Entertainment Commission to form the Washington Convention and Sports Authority (WCSA). As part of the merger, the District of Columbia's Department of Real Estate Services (DRES) became responsible for the facility maintenance tasks on RFK stadium and the D.C. Armory previously performed by the DC Sports and Entertainment Commission.

In FY2011 and 2010, the Authority paid DRES \$2.5 million each year for facility maintenance services.

Relationship to the United States Government

The United States government contracted with the DC Sports and Entertainment 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.

Relationship to the District of Columbia Government

Prior to the merger, the D.C. Sports and Entertainment Commission (DCSEC) entered into a lease agreement on March 2006 with the Government of the District of Columbia under which the District leased the Baseball Stadium Site and the Baseball Stadium complex to the DCSEC for a 99-year term, for the amount of one dollar (\$1) for the entire term. The DCSEC subsequently entered into a Lease Agreement dated March 6, 2006 with Baseball Expos, L.P which is now the Washington Nationals Baseball Club (The "Team"). The Agreement established provisions for the DCSEC, as lessor, to sublease the Baseball Stadium Site and the Baseball Stadium Complex to the Team. The lease term extends for 30 years for an initial lease payment of \$3.5 million and with an added escalation clause thereafter. The Team is required to pay additional rent in each lease year in which the number of certain tickets issued exceeds \$2.5 million.

The former DCSEC also entered into a Funding and Assignment Agreement dated May 1, 2006 with the District of Columbia whereby the DCSEC assigned to the District all rent and other revenue amounts that it receives or is entitled to receive under or related to the March 6, 2006 Lease Agreement with the Team. During FY2011, the District received

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

annual rent equal to \$4.5 million. The District uses the rent revenue to pay the outstanding debt related to the Baseball Stadium Bonds.

The Authority assumed all rights and obligations of the former DCSEC pursuant to the merger.

Leasing Arrangements-Carnegie Library (Visitor Center)

The District of Columbia holds the former Central Public Library known as the Carnegie Library at Mount Vernon Square situated on Lot 800 in Square 403N, with a street address at 801 K Street, N.W. under a grant of jurisdiction dated March 3, 1899 from the Fifty-Fifth session of the Congress of the United States of America, in Chapter 455, entitled "An Act To provide a site for a building for the Washington Public Library".

On June 1, 1999, the District and The Historical Society of Washington, D.C. (HSW) entered into a lease agreement with respect to the Building as the leased premises for a term of ninety-nine (99) years commencing on June 1, 1999 and ending on May 31, 2098. The Original Lease was amended on April 17, 2002 and May 29, 2002.

In 2006, the United States of America transferred to the District administrative jurisdiction of U.S. Reservation 8, being the land underneath and adjacent to the Building.

On May 5, 2011, the District and the Authority entered into a Memorandum of Understanding (MOU) Regarding The Carnegie Library and Reservation 8, whereby the District transferred to the Authority all of its rights and obligations with respect to the administrative jurisdiction over the Carnegie Library and with respect to the Original Lease, as amended, as well as setting forth certain obligations and rights with respect to Reservation 8, among other items for \$9 million payable in three year (3-year) installments beginning November 30, 2011. The MOU shall be effective from May 1, 2011 through April 30, 2110. In addition, both Events DC and HSW desire to amend and restate the Original Lease, as modified by the First Amendment and the Second Amendment.

The Authority reported the lease as capital asset and the related debt as long-term liability in the Authority's statement of net assets.

NOTE 12 MARKETING SERVICE CONTRACTS

In accordance with the provisions of Section 208(c) of the Washington Convention Center Act of 1994 (as amended in 1998), the Authority is required to maintain a Marketing Fund for the payment of marketing service contracts to promote conventions, tourism, and leisure travel in the District. The Act states that the total payment amount of the marketing service contracts is to be based on 17.4% of the hotel sales tax received.

During FY2011 and 2010 the total amount of dedicated taxes allocated to the Marketing Fund was \$10.1 million and \$10.4 million respectively. The Authority incurred the following marketing services expenses in FY2011 and FY2010 (in thousands) respectively:

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

| Marketing Agencies | 2011 | 2010 |
|---|------------------|------------------|
| Washington D.C. Convention and Toursim Corporation | \$ 9,682 | \$ 10,015 |
| D.C. Chamber of Commerce | 175 | 201 |
| Greater Washington IBERO American Chamber of Commerce | 200 | 200 |
| Totals | \$ 10,057 | \$ 10,416 |

NOTE 13 BASEBALL STADIUM

Team Contingency Fund

On November 10, 2008 the Washington Nationals, the District, and the former DCSEC entered into a settlement agreement to settle all disputes related to the construction of the New Baseball Stadium Complex. Under the agreement, the former DCSEC and the District agreed to provide an additional \$4.25 million to a Team Contingency Fund and to complete all construction related tasks set forth in the settlement agreement. The Team Contingency Fund is managed by the Authority. In December 2010, the Team Contingency Fund was depleted and the bank account was closed.

Capital Fund Reserve

Pursuant to the Lease Agreement dated March 6, 2006 the District makes a contribution of \$1.5 million to the Capital Reserve Fund each year to be used for necessary Baseball Stadium improvements and repairs costs. The Capital Reserve Fund balance is managed by the Authority and has a balance of \$125,116 as of September 30, 2011, which is reflected as a liability Due to the District in the financial statements.

Close Out Project

A memorandum agreement was signed between the District and former DCSEC on September 30, 2009 to close out all spending for construction and development of the Baseball Stadium. A transfer of \$1.9 million was made to the New Stadium Account, which is managed by the Authority. During FY2011 and FY 2010 the Authority expensed \$461,640 and \$772,591 respectively. The remaining balance of \$665,769 is reflected as a liability Due to the District in the financial statements.

NOTE 14 KENILWORTH PARK PROJECT

The former DCSEC received funds from the federal government, the Washington Nationals and the District of Columbia Department of Parks and Recreation to renovate a soccer field at Kenilworth Fort Greble fields which was completed in FY 2008. At the time of the merger the Kenilworth fund had a balance of \$145,537. This project had no activities besides monthly interest/service charge payments in fiscal years 2011 and 2010. As of

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

September 30, 2011 and 2010, the account has a balance of \$144,830 and \$145,193 respectively. These amounts were reflected as restricted net assets in the financial statements.

NOTE 15 COMMITMENTS AND CONTINGENCIES

The Authority is exposed to various asserted claims arising from the normal course of business. As of September 30, 2011 and 2010, the Authority did not record an additional liability as the potential exposures for the current or pending contingencies to the Authority cannot be determined at this time.

NOTE 16 SUBSEQUENT EVENTS

In May, 2011 the Authority entered into a Memorandum of Agreement (MOA) with the District Government in order to assume the District's responsibility for the operation and maintenance of the historic Carnegie Library and grounds. The Authority is now responsible for the operation, upkeep and maintenance of the historic building and Mount Vernon Square parkland. The District had a 99-year lease in place with the Historical Society of Washington, DC (HSW); under the terms of the existing lease HSW was allowed the use of the entire Library interior for certain revenue-generating programs and activities that supported HSW's mission. The MOA required the Authority to negotiate a new lease agreement with HSW, which was executed on November 9, 2011. Under the new lease agreement, the Authority makes an annual payment to HSW for the 87-year term with the initial three years lease payments of \$125,000 and with an added escalation clause thereafter for the exclusive use of approximately 80% of the Library interior. The Authority intends to use the Library interior and park land as additional revenue-generating leasable space for events and tourism-related activities, including a District of Columbia Visitors Center. The Visitors Center will be used to promote visitation and visitor spending in District neighborhoods and businesses. The Authority is completing repairs, maintenance and upgrades to the building and grounds, providing tenant services to HSW as required in the new lease, and developing its staffing and programming for the ongoing use of the Library and grounds.

WASHINGTON CONVENTION AND SPORTS AUTHORITY
SCHEDULE OF NET ASSETS BY FUND
SEPTEMBER 30, 2011
(IN THOUSANDS)

| | Operating (WEWCC) | Operating (SESED) | Marketing Fund | Capital Fund | Building Fund | Demolition Fund (Parking Lot) | New Stadium Fund | SE&SED Fund Capital | Visitor Center Operating Fund | Visitor Center Capital Fund | TOTAL |
|---|----------------------|----------------------|-------------------|-----------------|-------------------|-------------------------------------|---------------------|------------------------|--|-----------------------------------|---------------------|
| ASSETS | | | | | | | | | | | |
| Current assets: | | | | | | | | | | | |
| Cash and cash equivalents | \$ 2,201 | \$ 4,905 | \$ 962 | \$ 1,365 | \$ 152 | \$ 920 | \$ - | \$ 1,106 | | | \$ 11,611 |
| Restricted cash | | 145 | - | - | | | 791 | | | | 936 |
| Due from District of Columbia | 7,333 | | 1,072 | | | | | | | | 8,405 |
| Accounts receivable, net of allowance for | 1,389 | 2,421 | | 32 | | 4 | | | | | 3,846 |
| Prepaid expenses and other assets | 26 | 1 | | | | | | | | | 27 |
| Accrued interest receivable | 2,429 | | | | 496 | | | | | | 2,925 |
| Interfund receivable (payable) | 45,796 | (632) | (4,217) | (34,526) | (5,434) | 13 | | (1,000) | | | - |
| Investments | 44,576 | | 506 | | | | | | | | 45,082 |
| Total current assets | 103,750 | 6,840 | (1,677) | (33,129) | (4,786) | 937 | 791 | 106 | - | - | 72,832 |
| Noncurrent Assets | | | | | | | | | | | |
| Restricted investments | 147,603 | | | | 189,873 | | | | | | 337,476 |
| Capital assets, net of accumulated depreciation | 569,600 | 2,908 | | 32,355 | 37,848 | | | 358 | 8,985 | | 652,054 |
| Unamortized bond issue costs | 4,985 | | | | 5,134 | | | | | | 10,119 |
| Total Noncurrent Assets | 722,188 | 2,908 | - | 32,355 | 232,855 | - | - | 358 | 8,985 | - | 999,649 |
| Total Assets | \$ 825,938 | \$ 9,748 | \$ (1,677) | \$ (774) | \$ 228,069 | \$ 937 | \$ 791 | \$ 464 | \$ 8,985 | \$ - | \$ 1,072,481 |
| LIABILITIES AND NET ASSETS | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | |
| Accounts payable | \$ 2,065 | \$ 3,442 | \$ 1,591 | \$ 1,014 | \$ 54 | \$ 22 | \$ - | \$ 34 | | | \$ 8,222 |
| Due to District Government | | | | | | | 791 | | | | 791 |
| Compensation liabilities | 361 | | | | | | | | | | 361 |
| Deferred revenue | 2,559 | 2 | | | | | | | | | 2,561 |
| Accrued interest payable | 10,256 | | | | 7,420 | | | | | | 17,676 |
| Other Short-Term Liabilities | | | | | | | | | 5,000 | | 5,000 |
| Other financing arrangement payable | 719 | | | | | | | | | | 719 |
| Bonds payable, current portion | 13,265 | | | | | | | | | | 13,265 |
| Total Current Liabilities | 29,225 | 3,444 | 1,591 | 1,014 | 7,474 | 22 | 791 | 34 | 5,000 | - | 48,595 |

See independent auditors' report.

WASHINGTON CONVENTION AND SPORTS AUTHORITY
SCHEDULE OF NET ASSETS BY FUND
SEPTEMBER 30, 2011
(IN THOUSANDS)

| | Operating (WEWCC) | Operating (SESED) | Marketing | Capital | Building | Demolition Fund (Parking Lot) | New Stadium | SE&SED | Visitor Center Operating | Visitor Center Capital | TOTAL |
|---|----------------------|----------------------|-------------------|-------------------|--------------------|-------------------------------------|-------------|---------------|--------------------------------|---------------------------|-------------------|
| | Fund | Fund | Fund | Fund | Fund | Fund | Fund | Fund Capital | Fund | Fund | |
| Noncurrent Liabilities | | | | | | | | | | | |
| Compensated absences | 912 | 92 | - | - | - | - | - | - | - | - | 1,004 |
| Bonds payable including premium | 409,563 | - | - | - | 249,481 | - | - | - | - | - | 659,044 |
| Other Long-Term Liabilities | - | - | - | - | - | - | - | - | 3,985 | - | 3,985 |
| Other financing arrangement payable | 7,213 | - | - | - | - | - | - | - | - | - | 7,213 |
| Total Noncurrent Liabilities | <u>417,688</u> | <u>92</u> | <u>-</u> | <u>-</u> | <u>249,481</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,985</u> | <u>-</u> | <u>671,246</u> |
| Total Liabilities | <u>446,913</u> | <u>3,536</u> | <u>1,591</u> | <u>1,014</u> | <u>256,955</u> | <u>22</u> | <u>791</u> | <u>34</u> | <u>8,985</u> | <u>-</u> | <u>719,841</u> |
| NET ASSETS | | | | | | | | | | | |
| Net Assets | | | | | | | | | | | |
| Invested in capital assets, net of related debt | 138,842 | 2,908 | - | 32,355 | 37,848 | - | - | 358 | - | - | 212,311 |
| Restricted for: | | | | | | | | | | | |
| Debt service Reserve and capitalized interest | 38,135 | - | - | - | - | - | - | - | - | - | 38,135 |
| Capital renewal | 17,445 | - | - | - | - | - | - | - | - | - | 17,445 |
| Operating fund | 31,098 | - | - | - | - | - | - | - | - | - | 31,098 |
| Senior Proceeds | 2 | - | - | - | - | - | - | - | - | - | 2 |
| Debt services reserve | 36,919 | - | - | - | - | - | - | - | - | - | 36,919 |
| Kenilworth Park | - | 145 | - | - | - | - | - | - | - | - | 145 |
| Hotel Project | 25,004 | - | - | - | - | - | - | - | - | - | 25,004 |
| Unrestricted Net Assets | <u>91,581</u> | <u>3,158</u> | <u>(3,269)</u> | <u>(34,143)</u> | <u>(66,733)</u> | <u>915</u> | <u>-</u> | <u>72</u> | <u>-</u> | <u>-</u> | <u>(8,419)</u> |
| Total Net Assets | <u>\$ 379,026</u> | <u>\$ 6,211</u> | <u>\$ (3,269)</u> | <u>\$ (1,788)</u> | <u>\$ (28,885)</u> | <u>\$ 915</u> | <u>\$ -</u> | <u>\$ 430</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 352,640</u> |

See independent auditors' report.

WASHINGTON CONVENTION AND SPORTS AUTHORITY
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS BY FUND
YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

| | Operating (WCC) Fund | Operating (SESED) Fund | Marketing Fund | Capital Fund | Building Fund | Demolition Fund (Parking Lot) | New Stadium Fund | SE&SED Fund Capital | Visitor Center Operating Fund | Total |
|---|----------------------------|------------------------------|-------------------|-------------------|--------------------|----------------------------------|---------------------|------------------------|--|-------------------|
| Operating Revenues: | | | | | | | | | | |
| Building rental | \$ 8,182 | \$ 969 | \$ - | \$ - | \$ - | \$ - | \$ - | | | \$ 9,151 |
| Food services | 5,268 | 496 | - | - | - | - | - | | | 5,764 |
| Electrical | 3,041 | - | - | - | - | - | - | | | 3,041 |
| Parking | - | 728 | - | - | - | 1,325 | - | | | 2,053 |
| Telecommunications | 1,236 | - | - | - | - | - | - | | | 1,236 |
| Retail/ office rental | 471 | 640 | - | - | - | - | - | | | 1,111 |
| Advertising & Sponsorship | - | 1,094 | - | - | - | - | - | | | 1,094 |
| Miscellaneous | 1,001 | 1,036 | - | - | - | - | - | | | 2,037 |
| Total Operating Revenues | 19,199 | 4,963 | - | - | - | 1,325 | - | - | - | 25,487 |
| Operating Expenses | | | | | | | | | | |
| Personal services | 16,865 | 1,557 | - | - | - | - | - | | | 18,422 |
| Contractual services | 11,413 | 2,055 | 3,705 | 430 | - | 576 | - | 22 | | 18,201 |
| Depreciation | 27,238 | 4,758 | - | 1,197 | - | - | - | 22 | | 33,215 |
| Occupancy | 5,697 | 1,274 | - | - | - | 32 | - | - | | 7,003 |
| Payment to District | - | 2,539 | - | - | - | 236 | - | - | | 2,775 |
| Miscellaneous | 928 | 85 | - | - | - | - | - | - | | 1,013 |
| Bad debt | 279 | 56 | - | - | - | - | - | - | | 335 |
| Total Operating Expenses | 62,420 | 12,324 | 3,705 | 1,627 | - | 844 | - | 44 | - | 80,964 |
| Operating Loss | (43,221) | (7,361) | (3,705) | (1,627) | - | 481 | - | (44) | - | (55,477) |
| Nonoperating Revenues and (Expenses) | | | | | | | | | | |
| Interest Income | 1,235 | 9 | - | - | 847 | - | - | 3 | | 2,094 |
| Dedicated taxes | 84,779 | 1,856 | 11,361 | - | - | - | - | - | | 97,996 |
| Miscellaneous revenue | - | - | - | - | 1,230 | - | - | - | | 1,230 |
| Interest expense | (21,716) | - | - | - | (13,810) | - | - | - | | (35,526) |
| Amortization of Bond issuance costs | (200) | - | - | - | (134) | - | - | - | | (334) |
| Marketing Agencies & Internal Marketing Expense: | - | - | (10,073) | - | - | - | - | - | | (10,073) |
| Funding to Hotel Project | - | - | - | - | (20,600) | - | - | - | | (20,600) |
| Prior year cost recovery | 1 | - | - | - | - | - | - | - | | 1 |
| Total Nonoperating Revenues and (Expenses) | 64,099 | 1,865 | 1,288 | - | (32,467) | - | - | 3 | - | 34,788 |
| Increase (Decrease) in Net Assets | 20,878 | (5,496) | (2,417) | (1,627) | (32,467) | 481 | - | (41) | - | (20,689) |
| Net assets, Beginning of Year | 358,148 | 11,707 | (852) | (161) | 3,582 | 434 | - | 471 | - | 373,329 |
| Net assets, End of Year | \$ 379,026 | \$ 6,211 | \$ (3,269) | \$ (1,788) | \$ (28,885) | \$ 915 | \$ - | \$ 430 | \$ - | \$ 352,640 |

See independent auditors' report.