

**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 Year Ended September 30, 2010**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 30, 2011

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

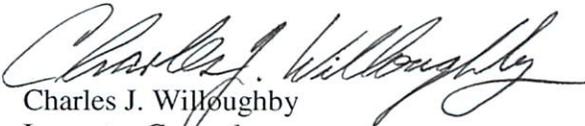
Dear Mayor Gray and Chairman Brown:

In connection with the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2010, KPMG LLP (KPMG) submitted the enclosed final report on the District of Columbia Washington Convention and Sports Authority (OIG 11-1-14ES). On October 1, 2009, the Washington Convention Center Authority and the Sports and Entertainment Commission merged to form the Washington Convention and Sports Authority (Authority).

KPMG opined that the financial statements present fairly, in all material respects, the financial position of the Authority for the year ended September 30, 2010, and the changes in its financial position and its cash flows thereof for the year 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
FY 2010 Washington Convention and Sports Authority Financial
Statements, Management's Discussion and Analysis, and
Independent Auditor's Report
OIG No. 11-1-14ES – Final Report
March 30, 2011
Page 3 of 3

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and General Government



WASHINGTON CONVENTION
AND SPORTS AUTHORITY

WASHINGTON CONVENTION AND SPORTS AUTHORITY
A COMPONENT UNIT OF THE DISTRICT OF COLUMBIA GOVERNMENT

FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

SEPTEMBER 30, 2010

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KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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 September 30, 2010, and the related Statements of Revenues, Expenses, and Changes in Net Assets and Cash Flows for the year then ended. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

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, 2010, and the changes in its financial position and its cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2, the Washington Convention Center Authority and the Sports and Entertainment Commission merged on October 1, 2009 to form the Washington Convention and Sports Authority.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2011 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 11 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.

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 schedule of revenues, expenses and changes in net assets by fund on pages 32 through 34 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 28, 2011

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

As management of the Washington Convention and Sports Authority (Authority or WCSA), we present Management's Discussion and Analysis (MD&A) of the Authority's financial condition and the results of operations for the year ended September 30, 2010 and pro forma 2009 information. 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.

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 change over and commissions on telecommunications, audio-visual, electrical and catering at the WEWCC. The Sports, Entertainment and Special Events Division (SE&SED), which includes Robert F. Kennedy Memorial Stadium, the DC Armory and the surrounding Festival Grounds and functions as a landlord for National 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 840-space 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 U Street Parking. The revenue from the parking lot operation is shared with the District of Columbia.

Fiscal Year 2010 Financial Highlights

- Net assets increased by \$6.4 million an increase of 2% when compared to the year ended September 30, 2009 which includes the pro forma amount related to the combined Sports Commission and Convention Center.
- Operating expenses increased by \$1.9 million or 3% from fiscal year 2009, due to increases cost related to new marketing initiatives and contractual cost related to Convention Center parking operations.

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

- Operating revenue increased by \$.7 million or 3% from fiscal year 2009, resulting in total operating revenue of \$22.4 million in FY10. The increase in operating revenue was as a result of revenue generated from the newly merged division and Convention Center parking operations.
- Assets exceed liabilities by \$373 million at the close of fiscal year 2010, a 2% increase over fiscal year 2009.
- The statement of cash flows indicates a increase in cash for the year by \$9.4 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 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 12 through 15.

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

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

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

	2010	2009	Percentage change	
			\$ change 2010-2009	2010-2009
Current assets	\$ 110,447	\$ 116,005	(5,558)	-5%
Capital assets, net of accumulated depreciations	671,559	686,577	(15,018)	-2%
Other non-current assets	89,029	79,162	9,867	12%
Total Assets	\$ 871,035	\$ 881,744		
Current liabilities	\$ 35,592	\$ 39,787	(4,195)	-11%
Noncurrent liabilities	462,114	475,067	(12,953)	-3%
Total Liabilities	\$ 497,706	\$ 514,854		
Net assets:				
Investment in capital assets, net of related debt	\$ 196,913	\$ 199,422	(2,509)	-1%
Restricted	83,282	\$ 73,191	10,091	14%
Unrestricted	93,134	\$ 94,277	(1,143)	-1%
Total Net Assets	\$ 373,329	\$ 366,890		

Note: Figures for 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, 2010 the Authority's financial position remained strong with total assets of \$871 million and a liabilities of \$498 million. Total assets decreased from fiscal year 2009 to fiscal year 2010 by \$10.7 million or 1% primarily due to depreciation expense offset by additional investments purchased during the fiscal year.

The total net assets of the Authority increased by 2% or \$6.4 million compared to the year ended September 30, 2009. As of September 30, 2010, the Authority had total net assets amounting to approximately \$373 million, with the largest portion of the Authority's net assets, \$196.9 million or 53%, 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) a 1% sales and use tax on restaurant meals, alcoholic beverages consumed on premises and rental vehicle charges in the District of Columbia.

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

Of the Authority's remaining net assets, \$83 million or 22% represents resources that are subject to external restrictions on how they may be used (primarily related to the Authority's bond indenture reserve requirements), while the remaining balances of \$93 million, or 25%, is unrestricted. Of the \$93 million unrestricted amount, the Authority is planning to use a significant portion for the financing of the new headquarter hotel.

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

	2010	2009	\$ change 2010-2009	Percentage change 2010-2009
Operating Revenues:				
Building rental	\$ 8,126	\$ 9,721	(1,595)	-16%
Ancillary charges	14,274	11,991	2,283	19%
Total Operating Revenues	\$ 22,400	\$ 21,712		
Operating Expenses:				
Personal services	\$ 17,173	\$ 19,556	(2,383)	-12%
Contractual services	16,105	13,864	2,241	16%
Depreciation	32,385	32,271	114	0%
Occupancy	6,598	7,286	(688)	-9%
Transfer to District	3,527	-	3,527	100%
Miscellaneous	936	1,509	(573)	-38%
Bad debt	204	557	(353)	-63%
Total Operating Expenses	\$ 76,928	\$ 75,043		
Operating loss	(54,528)	(53,331)	(1,197)	2%
Non-operating Revenues and (Expenses):				
Interest income	\$ 959	\$ 160	799	499%
Dedicated taxes	94,108	91,468	2,640	3%
Parking lot revenue (old center site)	-	2,601	(2,601)	-100%
Miscellaneous	189	6,861	(6,672)	-97%
Bond interest and amortization issue costs	(23,873)	(24,412)	539	-2%
Marketing agencies payments	(10,416)	(10,740)	324	-3%
Parking lot expenses (old center site)	-	(915)	915	-100%
Total Non-operating Revenues and (Expenses)	\$ 60,967	\$ 65,023		
Increase in net assets	6,439	11,692	(5,253)	-45%
Net assets, beginning of year	366,890	355,198	11,692	3%
Net assets, end of year	\$ 373,329	\$ 366,890		

Note: Figures for 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, 2010**

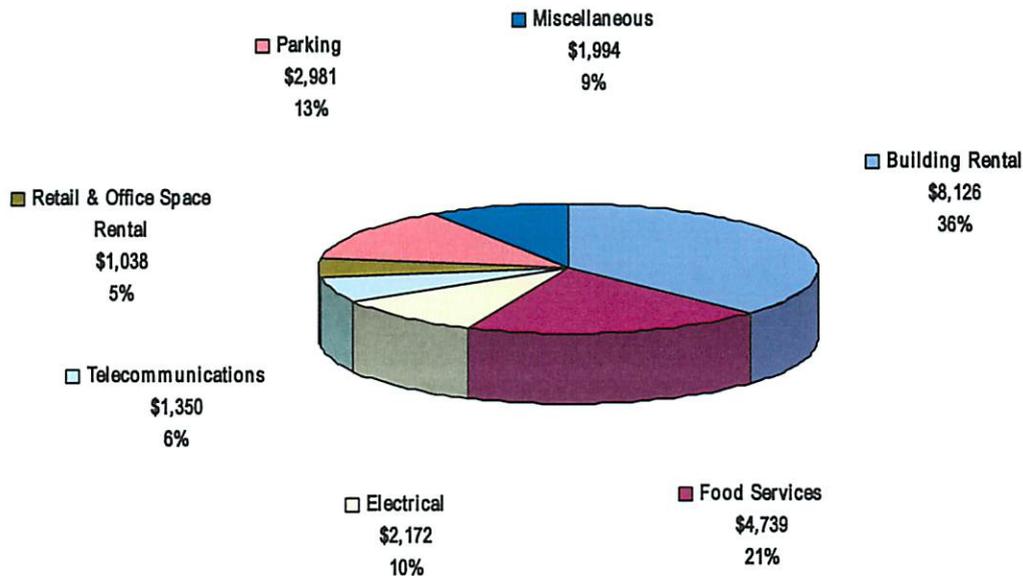
Analysis of Changes in Net Assets

Revenues

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

Revenue increased by 3% compared to the previous year. The net increase was due to the inclusion of revenue from Convention Center parking operations offset by declines in building rental, electrical, telecommunications services charges and miscellaneous revenue at the Convention Center. Miscellaneous income sources include trash hauling charges, special meeting room setup charges, equipment rental, and fees earned from ATMs installed inside the Convention Center. Merchandise commission from DC United, commissions from Ticketmaster, advertising & sponsorship and event services revenue at the SE&SED also included as miscellaneous income.

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



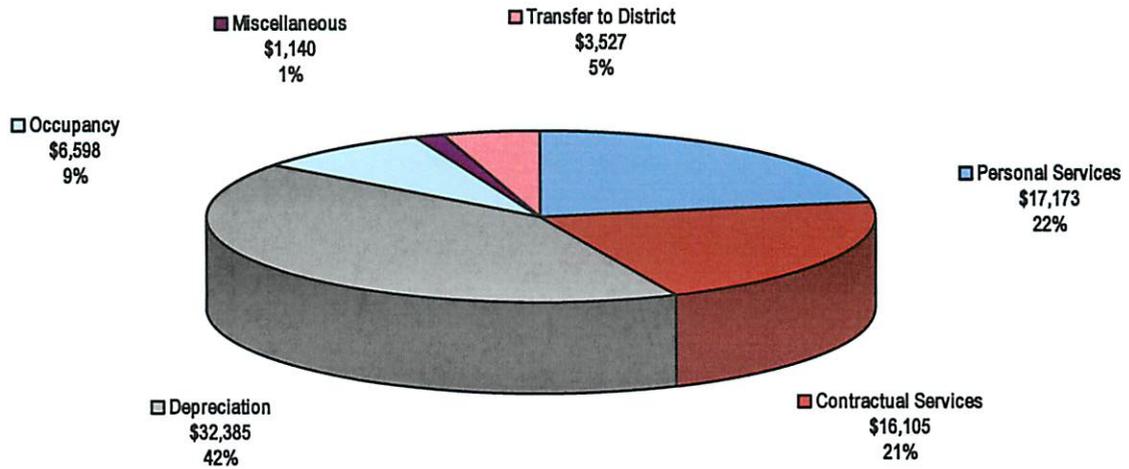
During FY2010, non-operating revenues of \$95.3 million were \$5.8 million lower than in FY2009. This is as a result of the elimination of the District operating subsidy and recognition of non-operating revenue in FY 2009 as a result of forgiveness of payroll and benefit cost liability. The former DCSEC's 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.

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

Expenses

For fiscal years 2010 and 2009, the Authority's total operating expenses were \$76.9 million and \$75 million respectively. Total operating expenses increased by \$1.9 million or 3% from fiscal year 2009, primarily due to costs related to new marketing initiatives and contractual cost related to Convention Center parking operations.

The following is a graphic illustration of operating expenses.



Salaries decreased by \$2.4 million or 12%, reflecting overhead reduction as a result of synergy gained from the combined operation. Contractual services such as housekeeping, building insurance and security and marketing expenses accounted for \$16.1 million in FY2010, an increase of \$2.2 million or 16% compared to FY2009. The increases were due to the inclusion of contractual cost of parking operations. The increases also related to cost associated with new marketing initiatives launched in FY2010 to maintain and increase the number and quality of events. Occupancy expense, which includes all utility related expenses such as electricity, telecommunication, water, sewer and natural gas expense accounted for \$6.6 million, a decrease of 9% compared to FY2009. The decreases in expenses were primarily due to savings resulting from the installation of energy efficient lighting at the Convention Center facility. Depreciation expense, primarily for the building, amounted to \$32 million, a slight increase of \$114,000 in fiscal year 2010.

The Authority's non-operating expenses consisted of \$23.9 million in bond interest payment and amortized issuance costs and \$10.4 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 Fund for the purpose of promoting conventions and tourism in the District of Columbia.

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

(3) Capital Asset and Debt Administration

Capital Assets

The Authority has invested \$671.6 million in capital assets (net of depreciation). Approximately 84% of this investment is related to the cost of the convention center building. The Authority's capital assets have increased by \$15 million compared to fiscal year 2009, which was primarily due to building improvements and the Convention Center headquarters' hotel pre-development costs.

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

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

	2010	2009	\$ change 2010-2009	Percentage change 2010-2009
Non-depreciable				
Land	\$ 4,785	\$ 4,785	\$ -	0%
Construction in progress	4,052	3,052	1,000	33%
Plumber's building	33,425	33,425	-	0%
Artwork	2,742	2,742	-	0%
Total non-depreciable capital assets	<u>\$ 45,004</u>	<u>\$ 44,004</u>		
Depreciable				
Building	769,453	769,452	1	0%
Building improvements	21,446	12,552	8,894	71%
Building improvements-RFK	33,755	33,762	(7)	0%
Stadium Structure	19,037	19,037	-	0%
Parking Lot improvements	5,965	5,966	(1)	0%
Central plant	16,265	16,266	(1)	0%
Financial Systems	1,416	1,414	2	0%
Furniture and Fixtures	16,507	9,777	6,730	69%
Furniture and Fixtures-RFK	367	2,648	(2,281)	-86%
Machinery and equipment	8,439	7,685	754	10%
Total depreciable capital assets	<u>\$ 892,650</u>	<u>\$ 878,559</u>		
Less accumulated depreciation	<u>266,095</u>	<u>235,986</u>	30,109	13%
Net capital assets	<u>\$ 671,559</u>	<u>\$ 686,577</u>		

Note: Figures for 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, 2010**

Debt Administration

The Authority had \$475 million and \$487 million in debt outstanding, a decrease of \$12.5 million or 3% at the end of fiscal years September 30, 2010 and 2009 respectively. The decrease is attributed to principal payments made during fiscal year 2010.

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)

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

	2010	2009	Percentage	
			\$ change 2010-2009	change 2010-2009
Bonds Payable	\$ 465,998	\$ 477,785	\$ (11,787)	-2%
Financing Arrangements	8,651	9,370	(719)	-8%
Total debt outstanding	474,649	487,155		
Current portion of debt outstanding	13,419	12,879	540	4%
Debt outstanding less current portion	\$ 461,230	\$ 474,276		

In addition to the above long-term outstanding debt, the Authority has long-term liabilities related to compensated absences of \$0.9 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 October 26, 2010, the Authority concluded the sale of its Series 2010 Bonds in the gross amount of approximately \$250 million to finance construction and development of a privately owned and operated headquarters hotel (the "HQ Hotel") for the Convention Center. The bonds yielded \$206 million in net revenue, after cost of issuance, capitalized interest and reserve requirements. They are secured by specified revenue sources, carry an interest rate of approximately 5%, and reach final maturity in 2040. The Bonds bear interest from the date of delivery, payable semiannually each April 1 and October 1, commencing on April 1, 2011.

(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

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

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.

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
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010
(In Thousands)

	2010
Assets	
Current assets:	
Cash and Cash Equivalents	\$ 14,103
Restricted Cash	2,500
Investments	81,645
Due from District of Columbia	8,487
Accounts Receivable, Net of Allowance for Uncollectible Accounts	2,185
Prepaid Expenses and Other Assets	1
Accrued Interest Receivable	1,526
Total current assets	110,447
Noncurrent Assets	
Non-Depreciable Capital Assets	45,004
Depreciable Capital Assets, Net of Accumulated Depreciation	626,555
Unamortized Bond Issue Costs	5,892
Restricted Investments	83,137
Total Noncurrent Assets	760,588
Total Assets	\$ 871,035
Liabilities	
Current Liabilities	
Accounts Payable	\$ 5,234
Due to District Government	2,422
Compensation Liabilities	599
Deferred Revenue	2,807
Accrued Interest Payable	11,111
Other Financing Arrangement Payable, Current Portion	719
Bonds Payable, Current Portion	12,700
Total Current Liabilities	35,592
Noncurrent Liabilities	
Compensated Absences	884
Long-term Bonds Payable including Premium	453,298
Long-term Other Financing Arrangement Payable	7,932
Total Noncurrent Liabilities	462,114
Total Liabilities	497,706
Net Assets	
Restricted Net Assets	
Invested in Capital Assets, Net of Related Debt	196,910
Restricted For:	
Debt Service and Capitalized Interest	23,811
Capital Renewal	17,221
Operating Fund	28,126
Marketing Fund	-
Senior Proceeds Account	2
Debt services reserve	13,977
Kenilworth Park	145
Unrestricted Net Assets	93,137
Total Net Assets	\$ 373,329

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

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

	2010
Operating Revenue and Expenses	
Operating Revenues:	
Building Rental	\$ 8,126
Food Services	4,739
Electrical	2,172
Parking	2,981
Telecommunications	1,350
Retail and Office Space Rental	1,038
Miscellaneous	1,994
Total Operating Revenues	22,400
Operating Expenses	
Personnel Services	17,173
Contractual Services	16,105
Depreciation	32,385
Occupancy	6,598
Transfer to District	3,527
Miscellaneous	936
Bad Debt	204
Total Operating Expenses	76,928
Operating Loss	(54,528)
Nonoperating Revenues and (Expenses)	
Interest Income	959
Dedicated Taxes	94,108
Interest Expense	(23,649)
Amortization of Bond Issuance Costs	(224)
Marketing Agencies & Internal Marketing Expenses	(10,416)
Miscellaneous Revenue	959
Miscellaneous Expenses	(485)
Prior Year Cost Recovery	(273)
Loss on Disposal of Fixed Assets	(12)
Total Nonoperating Revenues and (Expenses)	60,967
Increase in Net Assets before changes related to contribution of DCSEC	6,439
Contribution of Net Assets of DCSEC	19,844
Increase in Net Assets	26,283
Net Assets, Beginning of Year- WCCA	347,046
Net Assets, End of Year	\$ 373,329

The accompanying notes are an integral part of these financial statements

WASHINGTON CONVENTION AND SPORTS AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2010
(In Thousands)

	2010
Cash flows from operating activities:	
Receipts from customers	\$ 22,032
Payments to suppliers	(27,899)
Payments to employees	(17,376)
Other payments	(3,527)
	(26,770)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(17,380)
Other financing arrangement payment	(719)
Bonds payable payment	(12,160)
Interest payments	(23,545)
	(53,804)
Cash flows from noncapital financing activities:	
Dedicated tax receipts	94,059
Transfers to tourism responsibility centers	(10,416)
Other receipts	200
	83,843
Cash flows from investing activities:	
Sales of investments	136,169
Purchases of investments	(141,149)
Receipts of interest and dividends	28
Contribution from DCSEC	11,046
	6,094
Net increase in cash and cash equivalents	9,363
Cash and cash equivalents, beginning of year	7,240
Cash and cash equivalents, end of year	\$ 16,603

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

WASHINGTON CONVENTION AND SPORTS AUTHORITY
STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2010
(In Thousands)

	2010
Reconciliation of Operating Loss to Net Cash Used In Operating Activities	
Operating Loss	\$ (54,528)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities</i>	
Depreciation	32,385
Bad debt expense	204
Increase in receivables	(688)
Decrease in prepaid expenses and other assets	229
Decrease in accounts payable	(4,490)
Decrease in compensation liabilities	(202)
Increase in deferred revenue	320
Net Cash Used in Operating Activities	\$ (26,770)
Interest expense paid	\$ (23,545)
<i>Non-cash investing, capital and financing activities</i>	
Net Assets contribution from DCSEC	\$ 8,798

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

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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 DC 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, 2010**

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, Entertainment and Special Events Division (SE&SED) was formed to provide these services, while the core Convention Center Operations 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. The following table summarizes the October 1, 2009 carrying values of the assets and liabilities transferred.

**Major Classes of Assets
October 1, 2009
(in thousands)**

		<u>Amount</u>
Cash & Cash Equivalents	\$	11,046
Accounts receivable, net		1,001
Prepaid Expenses		230
Capital assets, net		12,407
Current liabilities		<u>(4,840)</u>
Contribution of net assets of DCSEC	\$	<u>19,844</u>
Investment in capital assets, net of related debt	\$	12,407
Restricted		146
Unrestricted		<u>7,291</u>
	\$	<u>19,844</u>

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:

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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 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 eight separate funds: the Operating Fund, the Building Fund, the Marketing Fund, Capital Fund, the Demolition Fund, Operating (SE&SED) Fund, New Stadium Fund and SE&SED Capital 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 the marketing fund for the purpose of 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 (SE&SED) Fund – The operating SE&SED 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.

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

- h. SE&SED Capital Fund – The SE&SED Capital fund accounts for the transactions related to the improvement of the Robert F. Kennedy Memorial Stadium and DC Armory.

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, 2010 accounts receivable were shown net of allowance for doubtful accounts of \$951 thousand.

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 thousand 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

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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.

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 bond which was the difference between the reacquisition price and the net carrying amount of the old debt. 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 and Special Events 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, 2010**

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 by several of the Authority's funds.

Cash Deposits

The carrying amount of the Authority's cash as of September 30, 2010 was \$16.6 million. The Authority's bank balance at September 30, 2010 was \$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, 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, 2010**

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

<u>Investment Type</u>	<u>2010</u>
Agency Securities	\$ 81,500
Money Market	36,032
Certificate of Deposits (CDs)	47,000
Repos	250
Totals	\$ 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, 2010, a significant portion 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 will adversely affect the fair value of an investment. As of September 30, 2010, 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. To mitigate interest rate risk, management is vigilant in monitoring the movement of interest rates and shorter-term exposures are simple and easily adjusted to control risk.

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, 2010, the Authority's investments were in a short term money market funds, triple AAA rated agency securities and certificate of deposits.

Concentration of Credit Risk: The Authority places no limit on the amount that maybe invested in any one issuer.

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

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

WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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. The Authority chose to self fund the debt service reserve fund and as of September 30, 2010, the Authority set aside \$14 million in the debt service reserve account.

The following table summarizes the minimum reserve requirements and actual balance on the reserves as of September 30, 2010.

Reserve Account	Investment Balance as of September 30, 2010	Minimum Required Reserve (Restricted)	Available Reserve Over and Above the Required Minimum
WCSA Bond Fund Senior Proceeds Account	\$ 2	\$ 2	\$ -
Revenue Account	29,704	-	29,704
Senior Debt Service Account	38,406	23,811	14,595
Debt Service Reserve Account	13,977	13,977	-
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
Totals	<u>\$ 164,782</u>	<u>\$ 83,137</u>	<u>\$ 81,645</u>

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 5 CAPITAL ASSETS

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

	Balance @ 9/30/2009	Additions	Disposals	Transfers and 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 (SE&SED)	-	-	-	19,037	19,037
Building Improvements/Displays (SE&SED)	-	-	-	33,755	33,755
Parking Lot Improvements (SE&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 (SE&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>\$ 630,166</u>	<u>\$ (16,005)</u>	<u>\$ -</u>	<u>\$ 12,394</u>	<u>\$ 626,555</u>

Construction in Progress

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

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 6 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 following reflects the annual financing arrangement payable through maturity as of September 30, (in thousands):

<u>Year ending September 30:</u>		
2011	\$	1,135
2012		1,099
2013		1,063
2014		1,027
2015		991
2016-2020		4,417
2021-2022		<u>1,539</u>
Total	\$	11,271
Less Interest		<u>(2,620)</u>
Total Financing Arrangement Payable		8,651
Less Current Portion		<u>719</u>
Long Term Portion	\$	<u>7,932</u>

NOTE 7 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.

On February 1, 2008, 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 dated February 1, 2008, with maturities ranging from October 2007 to October 2037, at a variable interest rates ranging from of 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; and 3) pay the premium for the Reserve Account Credit Facility that will fund the Series 2007A Bonds, including the premium for the Financials Guaranty Insurance Policy. As a result, the previously outstanding refunded bonds are considered to be defeased and the liability for those bonds

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

have been extinguished. On a net present value basis the aggregate difference in debt service between the old and new debt is \$10 million. The economic gain on the transaction was \$13.8 million.

In FY 1998, the District and the WCCA 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, WCCA 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 surtax in an amount sufficient to meet the projected deficiency. The District's Auditor determined that the projected dedicated taxes for fiscal year 2010 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, 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):

	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
	\$ 468,675	\$ 271,996	\$ 740,671

At September 30, 2010, the unamortized bond premium and bond deferral were \$13.7 million and \$16.4 million, respectively.

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 8 CHANGE IN LONG TERM LIABILITIES

	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

NOTE 9 RETIREMENT PLAN

Effective April 1998, all WCSA 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 FY2010 was \$0.87 million.

NOTE 10 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 FY2010, the Authority recognized revenue from dedicated tax receipts of \$94.1 million. As of September 30, 2010, the dedicated taxes due from the District government were \$8.5 million. 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. Revenue from parking lots is applied to pay the \$15.8 million that the Authority has drawn on the line of credit to construct the parking lots. The outstanding principal payment in the amount of \$2.3 million was fully paid on July 1, 2009 upon the due date of the loan balance.

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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During 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 the parking operations and events held at the parking lot. The total amount paid to the District under the agreement totaled \$774,516 at September 30, 2010.

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 previously performed by the DC Sports and Entertainment Commission.

During FY2010, the Authority paid DRES approximately \$2.5 million 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 FY2010, the District received

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annual rent equal to \$4 million. The District uses the rent revenue to pay the outstanding debt related to the Baseball Bonds.

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

NOTE 11 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 FY2010 the total amount of dedicated taxes allocable to the Marketing Fund was \$10.4 million. The Authority incurred the following marketing services expenses in FY2010 (in thousands):

Marketing Agencies	2010
Washington D.C. Convention and Tourism Corporation	\$ 10,015
D.C. Chamber of Commerce	201
Greater Washington IBERO American Chamber of Commerce	200
Totals	\$ 10,416

NOTE 12 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. As of September 30, 2010 there is a remaining balance of \$478,153 in the Team Contingency Fund, which is reflected as a liability Due to the District in the financial statements.

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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 \$512,730 as of September 30, 2010, 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 FY2010, the Authority expensed \$772,591 of the funds. The remaining balance of \$1.1 million is reflected as a liability Due to the District in the financial statements.

NOTE 13 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 has a balance of \$145,537. This project had no activities besides monthly interest payments in fiscal year 2010. As of September 30, 2010, a balance of \$145,193 is reflected as restricted net assets in the financial statements.

NOTE 14 COMMITMENTS AND CONTINGENCIES

The Authority is exposed to various asserted claims arising from the normal course of business. As of September 30, 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 15 SUBSEQUENT EVENTS

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. Together, the Acts: (a) created a tax increment financing district (the "Hotel TIF District"), the revenues from which will be used to secure Authority bonds to partially finance the costs of the HQ Hotel; (b) authorized the Authority to issue TIF bonds in a net amount up

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.

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to \$206 million to partially finance the development and construction of the HQ Hotel; (c) established a \$2 million HQ Hotel jobs training program; (d) authorized the Authority and the District to acquire and lease land for the HQ Hotel to the developer; and, (e) approved the HQ Hotel Development Funding Agreement, Ground Lease and related project documents.

Before the TIF bonds could be issued, an administrative appeal and two (2) civil actions were filed to challenge the development of the HQ Hotel. By October, 2010, all matters had either been dismissed or settled without payment by the Authority.

On October 26, 2010, the Authority concluded the sale of its Series 2010 Bonds in the gross amount of approximately \$250 million. The bonds yielded \$206 million in net revenue, after cost of issuance, capitalized interest and reserve requirements. They are secured by specified revenue sources, carry an interest rate of approximately 5%, and reach final maturity in 2040. The Bonds bear interest from the date of delivery, payable semiannually each April 1 and October 1, commencing on April 1, 2011.

WASHINGTON CONVENTION AND SPORTS AUTHORITY
SCHEDULE OF NET ASSETS BY FUND
SEPTEMBER 30, 2010
(IN THOUSANDS)

	Operating (WCC) Fund	Operating (SESED) Fund	Demolition / Parking Fund	Marketing Fund	Capital (WCC) Fund	Building Fund	Capital (SESED) Fund	New Stadium Fund	TOTAL
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 3,256	\$ 5,982	\$ 693	\$ 725	\$ 2,305	\$ 639	\$ 503	\$ -	\$ 14,103
Restricted cash	-	145	-	-	-	-	-	2,355	2,500
Investments	81,139	-	-	506	-	-	-	-	81,645
Due from District of Columbia	7,518	-	-	969	-	-	-	-	8,487
Accounts receivable, net of allowance for uncollectible accounts	1,404	762	19	-	-	-	-	-	2,185
Prepaid expenses and other assets	1	-	-	-	-	-	-	-	1
Accrued interest receivable	1,526	-	-	-	-	-	-	-	1,526
Interfund receivable (payable)	68,998	(1,952)	13	(2,072)	(30,603)	(34,364)	(5)	(15)	-
Total current assets	163,842	4,937	725	128	(28,298)	(33,725)	498	2,340	110,447
Noncurrent Assets									
Capital assets, net of accumulated depreciation	596,747	7,667	-	-	29,668	37,477	-	-	671,559
Unamortized bond issue costs	5,892	-	-	-	-	-	-	-	5,892
Restricted investments	83,137	-	-	-	-	-	-	-	83,137
Total Noncurrent Assets	685,776	7,667	-	-	29,668	37,477	-	-	760,588
Total Assets	\$ 849,618	\$ 12,604	\$ 725	\$ 128	\$ 1,370	\$ 3,752	\$ 498	\$ 2,340	\$ 871,035
LIABILITIES AND NET ASSETS									
Current Liabilities									
Accounts payable	\$ 1,610	\$ 627	\$ 291	\$ 979	\$ 1,530	\$ 171	\$ 26	\$ -	\$ 5,234
Due to District Government	-	82	-	-	-	-	-	2,340	2,422
Compensation liabilities	599	-	-	-	-	-	-	-	599
Deferred revenue	2,675	132	-	-	-	-	-	-	2,807
Accrued interest payable	11,111	-	-	-	-	-	-	-	11,111
Other financing arrangement payable	719	-	-	-	-	-	-	-	719
Bonds payable, current portion	12,700	-	-	-	-	-	-	-	12,700
Total Current Liabilities	29,414	841	291	979	1,530	171	26	2,340	35,592

See independent auditors' report.

WASHINGTON CONVENTION AND SPORTS AUTHORITY
SCHEDULE OF NET ASSETS BY FUND
SEPTEMBER 30, 2010
(IN THOUSANDS)

	Operating (WCC) Fund	Operating (SESED) Fund	Demolition / Parking Fund	Marketing Fund	Capital (WCC) Fund	Building Fund	Capital (SESED) Fund	New Stadium Fund	TOTAL
Noncurrent Liabilities									
Compensated absences	826	58	-	-	-	-	-	884	
Bonds payable including premium	453,298		-	-	-	-	-	453,298	
Other financing arrangement payable	7,932		-	-	-	-	-	7,932	
Total Noncurrent Liabilities	462,056	58	-	-	-	-	-	462,114	
Total Liabilities	491,470	899	291	979	1,530	171	26	497,706	
NET ASSETS									
Restricted Net Assets									
Invested in capital assets, net of related debt	122,098	7,667	-	-	29,668	37,477	-	196,910	
Debt services and capitalized interest	23,811		-	-	-	-	-	23,811	
Capital renewal	17,221		-	-	-	-	-	17,221	
Operating fund	28,126		-	-	-	-	-	28,126	
Senior proceeds account	2		-	-	-	-	-	2	
Debt services reserve	13,977		-	-	-	-	-	13,977	
Kenilworth Park	-	145	-	-	-	-	-	145	
Unrestricted Net Assets	152,913	3,895	434	(852)	(29,829)	(33,895)	471	93,137	
Total Net Assets	\$ 358,148	\$ 11,707	\$ 434	\$ (852)	\$ (161)	\$ 3,582	\$ 471	\$ -	\$ 373,329

See independent auditors' report.

WASHINGTON CONVENTION AND SPORTS AUTHORITY
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS BY FUND
YEAR ENDED SEPTEMBER 30, 2010
(IN THOUSANDS)

	Operating (WCC) Fund	Operating (SESED) Fund	Demolition/ Parking Fund	Marketing Fund	Capital (WCC) Fund	Building Fund	Capital (SESED) Fund	TOTAL
Operating Revenues:								
Building rental	\$ 7,119	\$ 1,007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,126
Food services	4,623	116	-	-	-	-	-	4,739
Electrical	2,172	-	-	-	-	-	-	2,172
Parking	-	578	2,403	-	-	-	-	2,981
Telecommunications	1,350	-	-	-	-	-	-	1,350
Retail/ office rental	479	559	-	-	-	-	-	1,038
Miscellaneous	816	1,178	-	-	-	-	-	1,994
Total Operating Revenues	16,559	3,438	2,403	-	-	-	-	22,400
Operating Expenses								
Personal services	15,747	1,426	-	-	-	-	-	17,173
Contractual services	11,483	814	826	2,930	23	29	-	16,105
Depreciation	27,362	4,728	-	-	295	-	-	32,385
Occupancy	5,156	1,413	36	-	-	(7)	-	6,598
Transfer to District	-	2,753	774	-	-	-	-	3,527
Miscellaneous	812	124	-	-	-	-	-	936
Bad debt	173	31	-	-	-	-	-	204
Total Operating Expenses	60,733	11,289	1,636	2,930	318	22	-	76,928
Operating Loss	(44,174)	(7,851)	767	(2,930)	(318)	(22)	-	(54,528)
Nonoperating Revenues and (Expenses)								
Interest Income	952	5	-	1	1	-	-	959
Dedicated taxes	83,333	-	-	10,775	-	-	-	94,108
Interest expense	(23,649)	-	-	-	-	-	-	(23,649)
Amortization of Bond issuance costs	(224)	-	-	-	-	-	-	(224)
Marketing Agencies & Internal Marketing Expenses	-	-	-	(10,416)	-	-	-	(10,416)
Miscellaneous revenue	-	-	-	-	-	4	955	959
Miscellaneous expenses	-	-	-	-	-	-	(485)	(485)
Prior year cost recovery	10	(275)	(8)	-	-	-	-	(273)
Loss on Disposal of Fixed Assets	-	(12)	-	-	-	-	-	(12)
Total Nonoperating Revenues and (Expenses)	60,422	(282)	(8)	360	1	4	470	60,967
Increase (Decrease) in Net Assets before changes related to contribution of DCSEC	16,248	(8,133)	759	(2,570)	(317)	(18)	470	6,439
Contribution of Net Assets of DCSEC	-	19,844	-	-	-	-	-	19,844
Net assets, Beginning of Year-WCSA	341,897		(326)	1,718	157	3,600		347,046
Net assets, End of Year	\$ 358,145	\$ 11,711	\$ 433	\$ (852)	\$ (160)	\$ 3,582	\$ 470	\$ 373,329

See independent auditors' report.