

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 20-1-07ES

February 2020



WASHINGTON CONVENTION AND SPORTS AUTHORITY T/A EVENTS DC

Schedule of Excess Cash Calculation
(With Report of Independent Public Accountants)
For Fiscal Year Ended September 30, 2019

Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation
* Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration
* Diversity * Measurement * Continuous Improvement*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world-class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership
* Transparency * Empowerment * Courage * Passion
* Leadership



GOVERNMENT OF THE DISTRICT OF COLUMBIA

Office of the Inspector General

Inspector General



February 13, 2020

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

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

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Washington Convention and Sports Authority Schedule of Excess Cash Calculation for the Fiscal Year Ended September 30, 2019* (OIG No. 20-1-07ES). SB & Company, LLC (SBC) conducted the audit and submitted this component report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2019.

On January 29, 2020, SBC issued its opinion and concluded that the Excess Cash Calculation is fairly stated in all material respects.

If you have questions about this report, please contact me or Benjamin Huddle, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in blue ink, appearing to read 'D. Lucas', is written over the typed name of the Inspector General.

Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

cc: See Distribution List

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Mr. Max Brown, Chairman, Board of Directors, Washington Convention and Sports Authority
(via email)
Mr. Graylin (Gray) Smith, Partner, SB and Company, LLC (via email)

**WASHINGTON CONVENTION AND SPORTS AUTHORITY
T/A EVENTS DC
(A COMPONENT UNIT OF THE DISTRICT OF COLUMBIA)**

**Schedule of Excess Cash Calculation
Together with Report of Independent Public Accountants**

For the Year Ended September 30, 2019



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

SEPTEMBER 30, 2019

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INDEPENDENT PUBLIC ACCOUNTANTS' REPORT

The Mayor and Council of the Government of the District of Columbia, the Inspector General and the Board of Directors of the Washington Convention and Sports Authority

We have examined the Washington Convention and Sports Authority's (the Authority) compliance with the Master Trust Agreement between the Authority and The Bank of New York, the Memorandum of Understanding between the District and the Authority, and D.C. Code §10-1202.13, as described in Note 1, for the year ended September 30, 2019. The Authority is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the Authority's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Authority complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Authority complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the Master Trust Agreement between the Authority and The Bank of New York, the Memorandum of Understanding between the District and the Authority, and D.C. Code §10-1202.13, as described in Note 1, for the year ended September 30, 2019.

Washington, D.C.
January 29, 2020

WASHINGTON CONVENTION AND SPORTS AUTHORITY

Schedule of Excess Cash Calculation For the Year Ended September 30, 2019 (Dollar Amounts in Thousands)

| | <u>Note 1 Section</u> | |
|--|-----------------------|------------------------|
| Required Reserves | | |
| Maximum Debt Service for 2018A Bonds | A | \$ 33,779 |
| Maximum Required Operating and Marketing Reser | B | 151,340 |
| Capital Reserve 5% of Project Cost, inflated | C | 78,878 |
| Current Liabilities | D | <u>71,147</u> |
| Total Required Reserves | | <u>335,144</u> |
| Balance of Cash and Investments | | |
| Investments Balance | E | 298,437 |
| Operating Cash Balance | F | <u>17,146</u> |
| Total Cash and Investments | | <u>315,583</u> |
| Excess Cash for the Year | | <u>\$ (19,561)</u> |

See the accompanying note to the schedule.

WASHINGTON CONVENTION AND SPORTS AUTHORITY

Note to the Schedule of Excess Cash Calculation For the Year Ended September 30, 2019

1. PURPOSE OF THE SCHEDULE

In accordance with D.C. Code § 10-1202.13 (the Code), Transfer of Excess Cash, if, at the end of a fiscal year, the Washington Convention and Sports Authority's (the Authority) balance of cash and investments in its Convention Center Operating Fund exceeds the balance of current liabilities, reserves, and any amounts the Authority will need to purchase or redeem its outstanding indebtedness during the upcoming fiscal year, the Authority must transfer the excess, in cash, to the District's General Fund. Consistent with District legislation, the Master Trust Agreement between the Authority and The Bank of New York (as Trustee), and a Memorandum of Understanding between the District and the Authority (as amended), the Authority must maintain the following reserves: (1) maximum annual debt service on outstanding bonds and notes issued by the Authority; (2) an operating reserve equal to 1.5 times the operating expenditures; and (3) a capital reserve of 5% of the total capital cost of the convention center adjusted for inflation.

The accompanying Schedule of Excess Cash Calculation (the Schedule) shows the calculation for the year ended September 30, 2019. The components of the calculation are listed below (dollar amounts in thousands):

A. Maximum Debt Service 2018A Bonds

The Code defines debt service reserves as not more than the maximum annual debt service on outstanding bonds and notes issued by the Authority.

| | |
|--|------------------|
| Principal due in fiscal year 2031 on the 2018A bonds | \$ 32,170 |
| Interest due in fiscal year 2031 on the 2018A bonds | 1,609 |
| Total | <u>\$ 33,779</u> |

B. Maximum Required Operating and Marketing Reserve

The Code defines the operating reserve to be equal to not more than 1.5 times the annual operating expenditures. Management of the District and the Authority considers the operating expenditures to be the operating and marketing budget for the year.

| | |
|--|-------------------|
| Operating Budget for fiscal year 2019 | \$ 77,512 |
| Marketing Budget, net for fiscal year 2019 | 23,381 |
| Total Budget | 100,893 |
| 1.5 Factor for Reserve | 150% |
| Total | <u>\$ 151,340</u> |

WASHINGTON CONVENTION AND SPORTS AUTHORITY

Note to the Schedule of Excess Cash Calculation For the Year Ended September 30, 2019

1. PURPOSE OF THE SCHEDULE (continued)

| | |
|---|-------------------|
| C. Capital Reserve 5% of Project Cost | <u>\$ 78,878</u> |
| <p>The Code defines the capital reserve as not more than 2.5% of the total capital cost for the new convention adjusted for inflation. The 2.5% was adjusted by the District's City Council to 5%.¹ Management of the District and Authority considers the Turner Building cost index to be an appropriate inflation factor to apply.</p> <p>Calculated based on 5% of the original project cost of approximately \$850,000 inflated by the Turner Building cost index from 2004 to 2019</p> | |
| D. Current Liabilities | |
| <p>The Code states that if the balance of cash and investments of the Authority in the Convention Center Fund exceeds the balance of current liabilities, reserves, and any amounts that the Authority expects to apply to purchase or redeem its outstanding indebtedness during the upcoming fiscal year, the excess shall be transferred in cash to the District General Fund. Management of the District and the Authority considers the interest expense due during the next fiscal year to be a part of the debt service current liability at year end and has included that amount in the calculation.</p> | |
| Current Liabilities as of September 30, 2019 | \$ 65,145 |
| Next interest expense payment due on April 1, 2020 | 6,002 |
| Total | <u>\$ 71,147</u> |
| E. Investment Balance as of September 30, 2019 | |
| <p>The Code states that the excess balance of cash and investments in the Convention Center Fund greater than the balance of current liabilities, reserves, and any amounts the Authority expects to apply to purchase or redeem its outstanding indebtedness during the upcoming fiscal year shall be transferred in cash to the District General Fund. Management of the District and the Authority considers the excess balance to be all unrestricted cash and investments of the Authority and all Operating-WCC restricted cash and investments of the Authority.</p> | |
| Investments as of September 30, 2019 | \$ 140,100 |
| Restricted Investments as of September 30, 2019 | 214,339 |
| Total Investments | 354,439 |
| Less Restricted Investments for Building Fund as of September 30, 2019 | 56,001 |
| Total | <u>\$ 298,438</u> |
| F. Operating Cash Balance as of September 30, 2019, excluding restricted cash as of September 30, 2019 | <u>\$ 17,146</u> |
| <p>The Code states that the excess balance of cash and investments in the Convention Center Fund greater than the balance of current liabilities, reserves, and any amounts the Authority expects to apply to purchase or redeem its outstanding indebtedness during the upcoming fiscal year shall be transferred in cash to the District General Fund. Management of the District and the Authority considers the excess balance to be all unrestricted cash and investments of the Authority and all Operating-WCC restricted cash and investments of the Authority.</p> | |

¹ In accordance with D.C. Code § 10-1202.13(c), the D.C. Council, by resolution, may permit the Authority to increase the level of reserves. Accordingly, the Council passed the Washington Convention Center Authority Dedicated Tax Revenue Bond Resolution of 1998, effective August 12, 1998.