

# Atlantic City Convention & Visitors Authority

(A Component Unit of the State of New Jersey)

Financial Statements as of and for the  
Years Ended December 31, 2011 and 2010, and  
Independent Auditors' Report

**ATLANTIC CITY CONVENTION & VISITORS AUTHORITY**  
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**

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## INDEPENDENT AUDITORS' REPORT

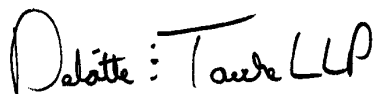
To the Chair and Members of the Board of  
Atlantic City Convention & Visitors Authority  
Atlantic City, New Jersey

We have audited the accompanying statements of net assets of Atlantic City Convention & Visitors Authority (the "Authority"), a component unit of the State of New Jersey, as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2011 and 2010, and the changes in its net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 21 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.



April 5, 2012

# ATLANTIC CITY CONVENTION & VISITORS AUTHORITY

## (A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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#### Introduction to the Annual Report

The Atlantic City Convention & Visitors Authority's (the "Authority") annual report consists of three parts: Management's Discussion and Analysis, Financial Statements and Notes to the Financial Statements.

#### *Management's Discussion and Analysis*

The Management's Discussion and Analysis ("MD&A") presents an overview of the Authority's operations and financial performance during the years ended December 31, 2011 and 2010. It provides an assessment of how the Authority's financial position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with, the other financial statements described below.

#### *Financial Statements of the Authority*

All of the Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board ("GASB"), Statement No. 34. Accrual of revenues and expenses are taken into account regardless of when cash is received or paid. Capital assets are recorded at cost and depreciated over their useful lives.

The financial statements offer short and long-term financial information about the Authority's activities and consist of the Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows.

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information on all Authority assets, liabilities, revenues, and expenses in a manner similar to that used by most private-sector companies. These two statements also report the Authority's net assets and changes in net assets. One can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. Net assets increase both when revenues exceed expenses and when the Authority's assets increase without a corresponding increase to the Authority's liabilities.

The Statements of Cash Flows present information about the Authority's relevant sources and uses of cash for the year. It is prepared in a manner that summarizes (1) cash flows from operations, (2) non-capital financing activities, (3) capital and related financing activities, and (4) investing activities. Additionally, non-cash transactions that have an effect on the entity's financial position are also presented in the Statements of Cash Flows. Specifically, the Statements of Cash Flows, along with related disclosures and information on other financial statements, can be useful in assessing the following:

- Ability of an entity to generate future cash flows
- Need to seek outside financing
- Reasons for differences between cash flows from operations and operating income
- Effect on an entity's financial position of cash and non-cash transactions from investing, capital, and financing activities

## *The Notes to the Financial Statements*

This section of the Authority's financial statements provides information that is essential to understanding the basic financial statements, such as the Authority's accounting methods and policies. The notes also contain details of contractual obligations, future commitments and contingencies of the Authority along with any other events or developing situations that could materially affect the Authority's financial position.

### **The Authority's Business**

The Authority was established to promote the tourist, resort, convention, and casino industries in addition to operating and maintaining the Atlantic City Convention Center ("Convention Center"), the Historic Boardwalk Hall ("Boardwalk Hall"), and the West Hall.

- The Destination Marketing Organization ("Marketing Operations") serves as the destination's principal marketing arm, stimulating economic growth through convention, business and leisure tourism development. Marketing Operations is funded primarily through marketing fees, which are imposed on hotels in Atlantic City. Marketing Operations also began receiving luxury taxes in 2006 to offset the loss of marketing fee revenue as a result of the Urban Revitalization Program. In this program, the Casino Reinvestment Development Authority ("CRDA") and casinos with approved entertainment-retail projects are rebated marketing fees paid in an amount equal to the incremental luxury taxes collected in districts with approved projects, over a baseline luxury tax revenue amount.
- The Authority has engaged SMG, an outside service provider, in a management agreement to provide management services for the Convention Center, Boardwalk Hall, and West Hall.
- The Convention Center consists of 486,000 square feet of contiguous exhibition space, 45 meeting rooms with 114,000 square feet of meeting space, and a 1,500 space parking garage. The facility serves an integral role in the fabric of the hospitality community by offering an anchor facility for conventions, trade shows, corporate meetings and consumer shows. The facility produces economic impact to the community by attracting exhibitors and attendees to the region, where their spending produces revenue streams for area businesses and residents.
- The Boardwalk Hall is a modern special event center able to compete with the nation's finest arenas for major entertainment and sporting events. The Boardwalk Hall offers the opportunity to provide the local community with a venue for activities, broadening the diversity and attractiveness for residents and visitors alike.
- The West Hall was constructed in 1978 to augment the Boardwalk Hall as an expanded convention facility. The facility is currently used to stage events held in Boardwalk Hall and provides additional parking for the same.
- The Convention Center, Boardwalk Hall, and the West Hall operate at a deficit, seeking to attract visitors and business to this marketplace through a competitive rate structure. These facilities are also a significant generator of indirect revenue in the form of increased tax generation. Luxury taxes imposed and collected by the State on hotel room rentals, cover charges, drinks and admissions paid within Atlantic City are paid to the Trustee to reserve an amount sufficient to meet the debt service requirements and make debt payments on bonds issued to construct and renovate the facilities. The balance of the luxury tax collections is then transferred to the Authority to cover the operational deficits, capital expenditures, and working capital and maintenance reserve requirements of the facilities.
- The Luxury Tax Reserve Fund, a new operating segment created in 2010, is used to account for all of the luxury tax related cash, restricted cash, restricted investments, fixed assets, and the related debt of

the Atlantic City Convention Center Project, which specifically includes the Atlantic City Convention Center, Boardwalk Hall, and the West Hall. The assets and liabilities of these buildings were transferred from the financial statements of the New Jersey Sports & Exposition Authority (“NJSEA”) to the financial statements of the Authority in 2010.

## **Financial Analysis**

The following sections will discuss the significant changes in the Authority’s financial position for 2011 and 2010. Additionally, an examination of major economic factors and industry trends that have contributed to the Authority’s operations are provided. It should be noted that for purposes of this MD&A, summaries of the financial statements and the various exhibits presented include information from the Authority’s financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America.

### **Authority Highlights (2011)**

On February 1, 2011, The Governor of the State of New Jersey signed legislation that provided for the establishment of the Atlantic City Tourism District and for the transfer of the Authority, together with its functions, powers, and duties, to the CRDA. The tourism district would be an area in which the CRDA would have authority to impose land use regulations, implement a tourism district master plan promoting cleanliness, commercial development, and safety within the tourism district, undertake redevelopment projects, and institute public safety infrastructure improvements. Pursuant to this legislation effective February 1, 2011, all of the powers, rights, assets, and duties of the Authority will be transferred to and vested in the CRDA upon a “transfer date.” The transfer date will take place when the Chairs of the Authority and CRDA certify to the Governor of New Jersey that all of the bonds issued by the NJSEA cease to be outstanding. It is the intent of the Authority and CRDA to effect the transfer date by receiving certain consents from the equity investors in Convention Hall and Boardwalk Hall to assign financial transactions affecting them from the NJSEA to the Authority or the CRDA and causing the Authority or CRDA to redeem the outstanding bonds prior to their maturity date. Prior to the transfer date, the CRDA shall not exercise any powers, rights, or duties that will interfere with those of the Authority. The CRDA and Authority are directed to cooperate with each other so that the transfer date can occur as soon as practicable. Upon the transfer date, the terms of office of the members of the Authority shall terminate and its employees shall be transferred to the CRDA and become employees of CRDA.

As of December 31, 2011 compared to 2010, the total assets of the Authority increased by \$1,286,273, the total liabilities decreased by \$6,226,591, and the corresponding net assets increased by \$7,512,864 to \$322,375,860.

For the year ended December 31, 2011 compared to the same twelve-month period in 2010, operating revenues for the Authority increased by \$655,733, while operating expenses decreased by \$288,115. Net nonoperating income grew by \$6,418,525 in 2011 over 2010 to \$35,474,468.

### **Authority Highlights (2010)**

On January 1, 2010, the assets and liabilities of the Atlantic City Convention Center Project, which specifically include the assets and liabilities of the Atlantic City Convention Center, Boardwalk Hall, and the West Hall were transferred from the financial statements of the NJSEA to the financial statements of the Authority. The Authority accounted for the transfer of these assets and liabilities and all of the corresponding financial activity associated with these assets and liabilities for the year ended December 31, 2010 in the Luxury Tax Reserve Fund, a new operating segment created in 2010. Although detailed descriptions of the new assets and liabilities appear throughout this annual report, the following is a listing of the significant year end balances of the major categories of the new Luxury Tax Reserve Fund:

### Statement of Net Assets

• Total Current Assets	\$ 26,856,098
• Total Long Term Assets	407,711,302
• Total Current Liabilities	(16,866,191)
• Total Long Term Liabilities	<u>(110,448,836)</u>
Total Net Assets	<u>\$ 307,252,373</u>

### Statement of Revenues, Expenses, and Changes in Net Assets

• Total Operating Expenses	\$ (11,496,362)
• Total Nonoperating Income and (Expenses)	<u>11,646,853</u>
Increase in Net Assets for the Year	<u>\$ 150,491</u>

### **Financial Summaries**

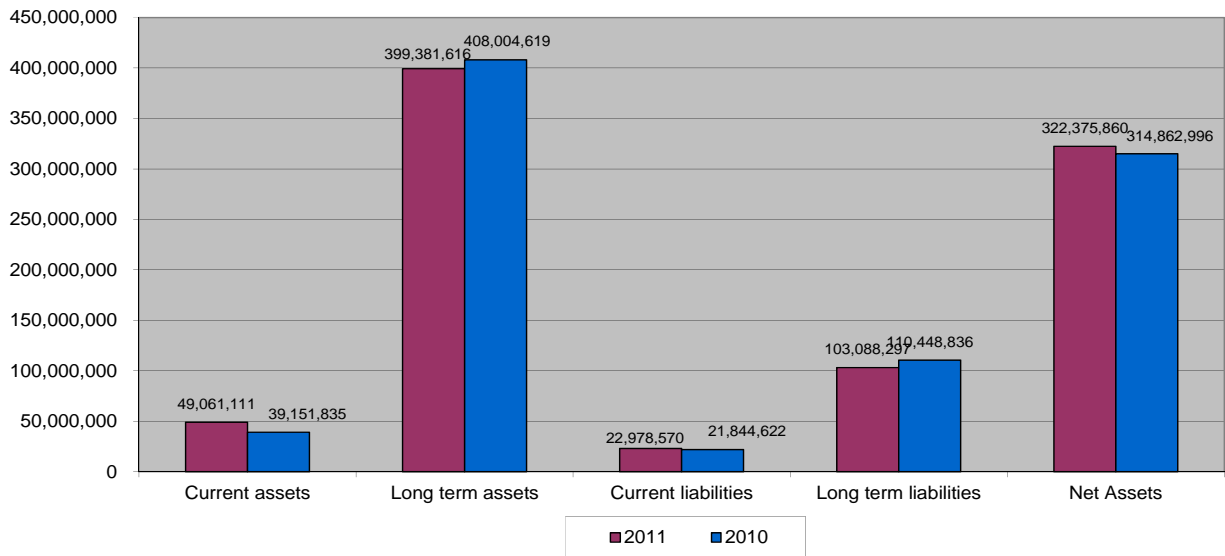
The following exhibits and tables provide a condensed summary and basic explanation of the changes in the financial statements described above, which are also presented in full detail in this annual report:

### **EXHIBIT 1**

#### **Condensed Statements of Net Assets**

	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Current assets	\$ 49,061,111	\$ 39,151,835	\$ 14,149,813
Other assets	5,842,256	5,951,743	-
Capital assets, net of accumulated depreciation	<u>393,539,360</u>	<u>402,052,876</u>	<u>494,744</u>
Total assets	<u>448,442,727</u>	<u>447,156,454</u>	<u>14,644,557</u>
Current and other liabilities	22,978,570	21,844,622	7,033,934
Long-term liabilities	<u>103,088,297</u>	<u>110,448,836</u>	<u>-</u>
Total liabilities	<u>126,066,867</u>	<u>132,293,458</u>	<u>7,033,934</u>
Invested in capital assets	284,589,360	284,724,040	494,744
Restricted for statutory requirements	5,519,884	5,679,829	-
Unrestricted net assets	<u>32,266,616</u>	<u>24,459,127</u>	<u>7,115,879</u>
Total liabilities and net assets	<u>\$ 448,442,727</u>	<u>\$ 447,156,454</u>	<u>\$ 14,644,557</u>

### Condensed Statements of Net Assets



### **As of December 31, 2011**

#### **Current Assets**

The Authority's current assets increased by \$9,909,276 in 2011 to \$49,061,111 primarily due to a \$5,512,830 increase in its cash and cash equivalents and a \$4,237,675 increase in its Due from the State. The Authority's receivables and prepaid expenses and other assets increased \$70,043 and \$88,728, respectively, due to modest increases in these line-items at the Convention Center, Boardwalk Hall, and Marketing Operations.

#### **Luxury Tax Reserve Fund**

The year-end cash balances in the Luxury Tax Reserve Fund were higher by \$7,005,021 in 2011 compared to 2010. This cash consists of amounts necessary to meet the Authority's debt service requirements and fund its operating deficits and capital requirements. The increase resulted from the excess of luxury tax collections over debt service payments and capital and operating deficit fundings during 2011. Restricted cash and cash equivalents decreased by \$159,425 due primarily to \$261,522 in organ restoration expenditures made during 2011, net of a \$100,000 capital grant received during the year (Note 11).

The Luxury Tax Reserve Fund's Due from the State increased by \$1,094,274 in 2011 as a result of higher luxury tax certifications in the final three months of 2011 compared to 2010. The balances represent the final three months of luxury taxes certified by the State in both years that were not transferred to the Authority until the subsequent year.

#### **Marketing Operations**

Marketing Operations' cash decreased by \$950,128 in 2011 primarily due to the decrease in nonoperating cash collections in 2011 compared to 2010, while its cash operating expenditures remained relatively flat over the two-year period. Nonoperating cash consists primarily of marketing fees and luxury taxes. Nonoperating cash collections decreased by \$2,873,933 to \$8,683,830 in 2011 while cash operating expenditures increased



by \$265,260 to \$10,316,805. The resulting \$1,632,975 decrease in cash was partially offset by \$615,372 in operating cash receipts during 2011.

Accordingly, Marketing Operations' receivable from the State increased by \$3,143,401 primarily due to the shortfall in marketing fee collections from the State during the year. Marketing fee collections from the State dropped from \$10,057,763 in 2010 to \$5,830,587 in 2011. While the receivable from the State increased in 2011 by \$8,973,987 due to \$10,572,608 in marketing fee certifications, net of \$2,178,000 in marketing fee rebates, only \$5,830,587 was collected against the balance during the year. A 2011 adjustment to the 2010 marketing fee rebate amount also resulted in a \$579,380 increase in Marketing Operations' receivable from the State.

### **Other Long-Term Assets**

Long-term assets decreased by \$8,623,003 in 2011 primarily due to the impact of depreciation. The Authority's capital expenditure program was suspended for approximately nine months during 2011 after legislation for the Atlantic City Tourism District was adopted. As a result, only \$1,434,874 in capital asset additions were made in 2011, while accumulated depreciation increased by \$9,948,390.

### **Current Liabilities**

Current liabilities increased by \$1,133,948 in 2011 due to a \$710,855 increase in accounts payable and accrued expenses, a \$378,945 increase in interest payable, and a \$345,000 increase in the current portion of long-term debt. Deferred revenue decreased by \$300,852 in 2011.

### **Luxury Tax Reserve Fund**

As of December 31, 2011, the current portion of the 1999 series bonds payable is \$7,225,000 compared to \$6,880,000 at the end of 2010, and it will be paid on September 1, 2012. Interest payable on the 1999 bond series, the 2004 bond series, and the note payable is \$1,283,832, \$423,225, and \$7,490,434, respectively, which represents a \$378,945 increase over the interest payable at the end of 2010.

### **Convention Center and Boardwalk Hall**

The Convention Center's and Boardwalk Hall's accounts payable and accrued expenses increased by a collective \$505,542 at the end of 2011 compared to 2010. The year-end balances in these accounts are impacted by the number of events occurring near the end of the year and the timing of goods received and services rendered by vendors. The later in the year that events take place, goods are received, or services are rendered, the more likely the payment for the related goods or services takes place in the subsequent year. At the end of 2011, \$436,630 of the increase pertained to increases in end-of-the-year event expenses and higher legal, capital, and utility accruals. Accrued payroll also increased in 2011 over 2010 by \$116,048 primarily due to increased retro-pay accruals for union employees as a result of on-going contract negotiations.

The Convention Center's and Boardwalk Hall's deferred revenues decreased \$361,116 in 2011 as a result of Boardwalk Hall's strong end of the year collections in 2010 for the 2011 Lady Gaga concert. As of December 31, 2010, \$1,056,102 in ticket sales had already been collected for the February 2011 concert. At the end of 2011, by contrast, the highest advance ticket sale collections were the \$519,526 for Rascal Flatt's January 2012 concert. Advance deposits for Boardwalk Hall and the Convention Center were also down \$144,176, collectively, at the end of 2011 compared to 2010. The decrease in advance ticket sales and deposits in 2011 was offset, somewhat, by an increase in unused facility fees at the end of 2011 compared to 2010. In October 2010, the Boardwalk Hall began assessing and collecting facility fees on tickets, licenses, and permits purchased for admission. The funds are to be used for enhanced maintenance, alterations and improvements at the Hall. At the end of 2011, there was \$355,264 in unused facility fees, while there was only \$32,224 in unused facility fees on hand at the end of 2010, a difference of \$323,040.

### Long-Term Liabilities

Long-term liabilities decreased by \$7,360,539 in 2011 due to \$7,225,000 in bonds payable coming due \$135,539 in bond premium and discount amortization.

### For the Year Ended December 31, 2010

#### Current Assets

Current assets increased by \$25,002,022 in 2010 to \$39,151,835. The primary reason for the increase was the transfer of the Luxury Tax Reserve Fund from the NJSEA to the Authority in 2010. The Authority's cash and investments increased by \$23,423,698, its Due from the State increased by \$2,522,910, while its receivables decreased by \$720,621, and its prepaid and other assets decreased by \$223,965.

#### Luxury Tax Reserve Fund

As a result of the Authority's separation from the NJSEA, the Authority began reporting all of the financial activity of the Luxury Tax Reserve Fund on its financial statements as of January 1, 2010. The year end cash balances in the Debt Service, Operating, and Working Capital & Maintenance Reserve Funds represented \$19,943,728 of the \$23,423,698 increase in the Authority's cash and investments. This cash consists of amounts necessary to meet the Authority's debt service requirements and fund its operating deficits and capital requirements. Restricted cash and cash equivalents equaling \$881,294 brings the Luxury Tax Reserve Fund's year end cash and cash equivalents balances to \$20,825,022, which accounts for the bulk of the Authority's increase in cash and cash equivalents during 2010. The increase in the Authority's receivable from the State is also due, in large part, to the Luxury Tax Reserve Fund's balance of \$5,401,067 in its Due from the State – luxury taxes. This amount represents the final three months of luxury taxes certified by the State in 2010 that were not transferred to the Authority until 2011.

#### Marketing Operations

Marketing Operations' cash increased by \$1,896,113 in 2010 primarily due to a large increase in collections from the State in 2010 pertaining to prior years. In fact, approximately \$1,883,369 of the collections in 2010 pertained to 2008. Marketing Operations' receivable from the State decreased by \$2,878,157 partly due to the aforementioned collection of \$1,883,369 as well as an estimated \$629,152 increase in 2010 marketing fee rebates over 2009. Marketing fee rebates are netted out from the receivable from the State, therefore an increase in the rebates results in a decrease in the receivable.

#### Convention Center and Boardwalk Hall

The Convention Center's and Boardwalk Hall's cash increased by \$702,563 in 2010 largely due to the higher volume of advance ticket sales at the end of 2010 compared to 2009. Boardwalk Hall had already collected \$1,056,102 in ticket sales as of December 31, 2010 for the February 2011 Lady Gaga concert. This increase is also reflected in Boardwalk Hall's increase in deferred income. The Convention Center's and Boardwalk Hall's receivables decreased in 2010 a collective \$719,545 from 2009 primarily due to the transfer of the Luxury Tax Reserve Fund from the NJSEA to the Authority. In 2009, the receivable from the Luxury Tax Reserve Fund, held by the NJSEA, was reflected on the Statement of Net Assets. In 2010, the Luxury Tax Reserve Fund became an operating segment of the Authority, so the Convention Center's and Boardwalk Hall's collective receivable balances from the Luxury Tax Reserve Fund are accounted for in intercompany accounts which are eliminated and are not reflected on Statement of Net Assets. The Convention Center's and Boardwalk Hall's prepaid and other expenses decreased by \$213,143 primarily due to decreases in prepaid maintenance and insurance expenses. Prepaid maintenance decreased by \$71,650 due to the fact that the 2010 payment of the annual policy, which is usually paid in December, was not paid until January 2011. Prepaid property insurance decreased by \$67,865 in 2010 as a result of a less expensive annual premium due

to a policy change. Finally, prepaid pollution insurance is lower in 2010 by \$102,134 as a result of having one less year of the five-year prepaid insurance policy on the books at yearend. The five-year policy will expire in 2011.

### **Other Long-Term Assets**

#### **Luxury Tax Reserve Fund**

Other long-term assets, totaling \$5,951,743, are reported on the financial statements of the Authority for the first time as of December 31, 2010. The assets represent \$4,798,535 in restricted investments held for the Boardwalk Hall and deferred issuance costs on the two Convention Center Luxury Tax Bond Series now being recorded on Authority's financial statements as a result of the separation from the NJSEA. The issuance costs are being amortized over the life of the bond issuances on a straight-line basis. The unamortized bond issuance costs for the 1999 and 2004 Series of Convention Center Luxury Tax Bonds are \$613,159 and \$540,049, respectively.

### **Current Liabilities**

Current liabilities increased by \$14,810,688 due to increases in accounts payable and accrued expenses, interest expense, deferred revenue, and the current portion of long-term debt of \$189,998, \$8,818,546, \$680,940 and \$6,880,000, respectively. The due to luxury tax reserve fund decreased by \$1,758,796 in 2010.

#### **Luxury Tax Reserve Fund**

The current portion of bonds payable associated with the 1999 Series of Convention Center Luxury Tax Bonds, now being reported on the Authority's financial statements, are reflected in current liabilities. The interest payable on the outstanding bond series along with the interest payable on the note payable are reported on the Authority's financial statements for the first time in 2010 and are also reflected in current liabilities. As of December 31, 2010, interest payable on the 1999 bond series, the 2004 bond series, and the Note Payable is \$1,401,364, 423,225, and \$6,993,956, respectively. The current portion of the 1999 series bond payable is \$6,880,000 and it will be paid on September 1, 2011.

The decrease of \$1,758,796 in the due to luxury tax reserve fund is primarily due to the transfer of the Luxury Tax Reserve Fund from the NJSEA to the Authority. In 2009, the liability to the Luxury Tax Reserve Fund, held by the NJSEA, was reflected on the Statement of Net Assets. In 2010, the Luxury Tax Reserve Fund became an operating segment of the Authority, so Marketing Operations' current year liability to the Luxury Tax Reserve Fund is accounted for in an intercompany account which is eliminated and is not reflected on Statement of Net Assets.

### **Marketing Operations**

Marketing Operations' deferred revenue decreased by \$137,260 primarily due to decreases in advance marketing partner dues collections and grant proceeds on hand at the end of 2010 compared to 2009. Marketing partner dues, which are payments made to the Authority by area businesses in order to be included in the Authority's promotional activities and literature, were down \$21,769 in 2010. The decrease is attributable to the lagging economy and the Authority's potential organizational changes. Marketing partner dues are collected in the fourth quarter for the upcoming year. The amount of grant proceeds on hand at the end of 2010 was also down by \$146,689 as compared to 2009. Marketing Operations receives grant proceeds from the State of New Jersey to promote Restaurant Week. At the end of 2009, grant proceeds for both 2010 and 2011 had already been received, while at the end of 2010, Marketing Operations only had the 2011 grant proceeds on hand. Marketing Operations did, however, have \$31,197 more in other sponsorships for Restaurant Week on hand at the end of 2010 compared to 2009. The increase in other sponsorships partially offset the decrease in the grant proceeds.

### Convention Center and Boardwalk Hall

The Convention Center's and Boardwalk Hall's deferred revenues increased a collective \$818,200 in 2010 as a result of Boardwalk Hall's strong end of the year collections for the 2011 Lady Gaga concert. As of December 31, 2010, \$1,056,102 in ticket sales had already been collected for the February 2011 concert.

### Long-Term Liabilities

Long-term liabilities increased by \$110,448,836 in 2010 due to increases in notes payable and the long-term portion of bonds payable of \$8,600,000, and \$101,848,836, respectively.

### Luxury Tax Reserve Fund

The note payable pertains to a 1997 loan from the CRDA to pay for costs of the Convention Center Project. The balance of the note payable at December 31, 2010 is \$8,600,000. The outstanding long-term portion of the 1999 series bonds payable and associated bond premium and discount as of December 31, 2010 are \$77,265,000, \$600,820, and \$321,272, respectively. The outstanding long-term portion of the 2004 series bonds payable and associated bond premium as of December 31, 2010 are \$23,085,000 and \$1,219,288, respectively.

## **EXHIBIT 2**

### **Condensed Statements of Revenues, Expenses and Changes in Net Assets**

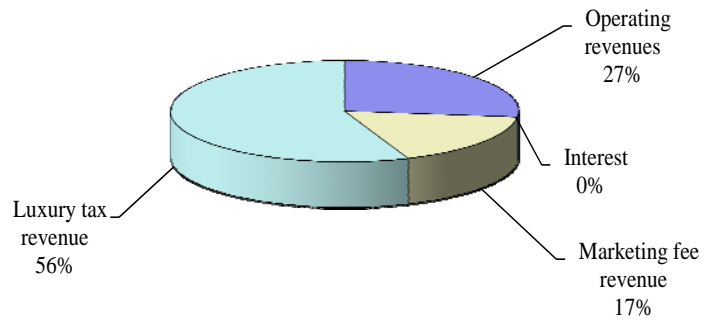
	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>	<b>Year Ended December 31, 2009</b>
Operating revenues	\$ 15,177,721	\$ 14,521,988	\$ 13,352,526
Operating expenses	<u>(43,139,325)</u>	<u>(43,427,440)</u>	<u>(32,570,925)</u>
Operating loss	<u>(27,961,604)</u>	<u>(28,905,452)</u>	<u>(19,218,399)</u>
Nonoperating income and (expenses):			
Luxury tax revenue	31,515,011	27,989,825	10,095,723
Marketing fee revenue	9,649,231	7,179,606	9,099,763
Interest income	37,367	53,665	22,913
Interest expense	(5,717,174)	(6,058,186)	-
Capital grant revenue	100,000	-	-
Other nonoperating income (expense)	<u>(109,967)</u>	<u>(108,967)</u>	<u>-</u>
Total nonoperating revenue	<u>35,474,468</u>	<u>29,055,943</u>	<u>19,218,399</u>
Transfers from NJSEA	<u>-</u>	<u>307,101,882</u>	<u>-</u>
Increase in net assets	<u>\$ 7,512,864</u>	<u>\$ 307,252,373</u>	<u>\$ -</u>

While the Statements of Net Assets show the financial position or net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provide answers as to the nature and source of these changes.

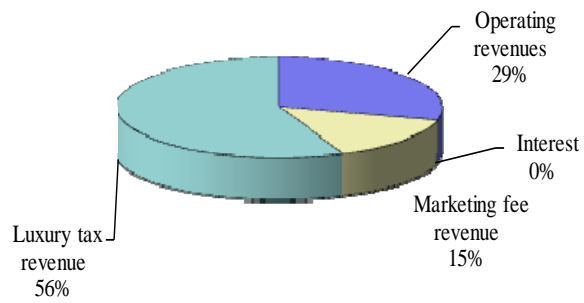
Sources of revenue consisted of:

- Operating revenues - the revenues generated at the Convention Center, Boardwalk Hall, West Hall, and Marketing Operations.
- Luxury tax revenue - received from the Trustee, after the debt service requirements are met, for capital expenditures for the Convention Center, Boardwalk Hall, and West Hall and the operating deficits of the Convention Center, Boardwalk Hall, West Hall, and Marketing Operations. Prior to 2010, luxury tax revenue was forwarded from the State to the NJSEA. The NJSEA would forward the necessary funds to the Trustee for the debt service payments. The NJSEA would then fund the Authority directly for the capital expenditures and operating deficits.
- Marketing fee revenue - collected from Atlantic City hotels, via the State, to promote the destination of Atlantic City.

Sources of Revenue  
2011

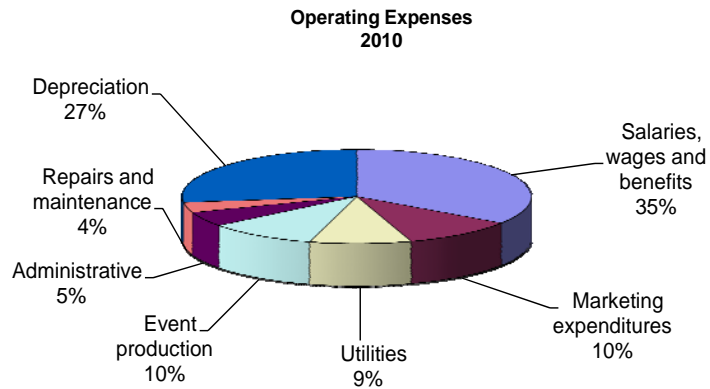
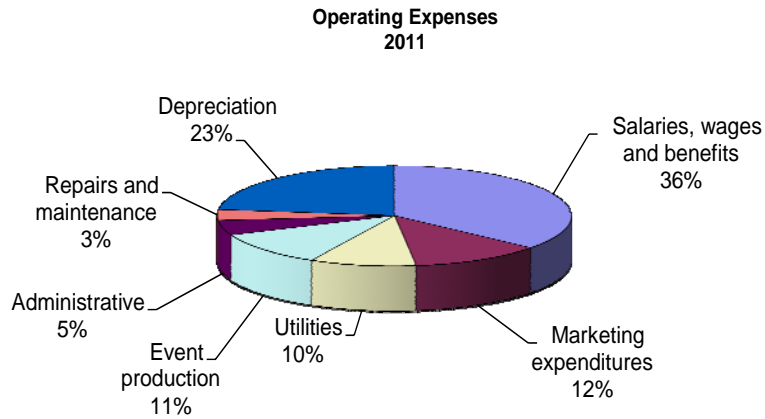


Sources of Revenue  
2010



Sources of expenses consisted of:

- Operating expenses - all of the costs associated with promoting the destination of Atlantic City and operating the facilities, except for costs of a capital nature that are depreciated.
- Depreciation expenses - recognizes the cost of capital assets, such as buildings, furniture, fixtures, and equipment, and building and leasehold improvements over their estimated useful lives, which is usually between three and sixty years.



## Operating Highlights

### Number of Attendees

	2011	2010	2009
Boardwalk Hall	279,140	317,736	208,801
Convention Center	<u>326,465</u>	<u>307,545</u>	<u>360,700</u>
	<u>605,605</u>	<u>625,281</u>	<u>569,501</u>

### Number of Events

	2011	2010	2009
Boardwalk Hall	40	40	32
Convention Center	<u>104</u>	<u>106</u>	<u>131</u>
	<u>144</u>	<u>146</u>	<u>163</u>

### Operating Revenues & Expenses by Facility (000's)

	2011	2010	2009
Operating Revenues:			
Boardwalk Hall	\$ 6,746	\$ 6,369	\$ 3,896
Convention Center	7,865	7,576	8,614
Luxury Tax Reserve	-	-	-
Marketing Operations	<u>567</u>	<u>577</u>	<u>842</u>
	<u>\$ 15,178</u>	<u>\$ 14,522</u>	<u>\$ 13,352</u>
Operating Expenses:			
Boardwalk Hall	\$ 10,596	\$ 9,802	\$ 9,481
Convention Center	12,089	11,901	12,385
Luxury Tax Reserve	9,751	11,496	-
Marketing Operations	<u>10,703</u>	<u>10,228</u>	<u>10,704</u>
	<u>\$ 43,139</u>	<u>\$ 43,427</u>	<u>\$ 32,570</u>

## For the Year Ended December 31, 2011

### Operating Revenues

Operating revenues for the Authority for the year ended December 31, 2011 increased by \$655,733 over 2010 to \$15,177,721. Boardwalk Hall's and the Convention Center's operating revenues increased by \$376,330 and \$289,766, respectively, while Marketing Operations' operating revenues decreased by \$10,363.

### Boardwalk Hall

As a result of the change in the composition of events held at Boardwalk Hall in 2011 compared to 2010, special services revenue increased by \$750,163, while facilities rental revenue and concessions revenue decreased by \$281,021 and \$206,036, respectively. In 2011, there were more sporting and family type events compared to the higher number of arena concerts and boxing events in 2010. Sporting and family type events typically have more services billed with lower rent, while arena concerts and boxing events typically have higher rents and less billable services. There were thirteen mid-to-large concerts and boxing events in 2011



compared to seventeen of these types of events in 2010 including a 3-day Phish concert which had an attendance of 42,250 and generated over \$300,000 in concessions revenue.

#### Convention Center

Attendance was up at the Convention Center by 18,920 in 2011 due to new and annual events such as Pet Industry, North Atlantic AKA Conference, Eastern Area Links and New Jersey School Boards. The increase in attendance helped to drive increases in special services, parking, and concessions revenues a collective \$399,598. Two of the new events in 2011, Delta Sigma Theta and Eastern Area Links, had catering sales of \$70,362 and \$92,262, respectively, which helped to increase concessions revenues in 2011 by \$161,169. Facilities rental revenue, however, decreased by \$128,909 primarily due to the downsizing of some of the larger shows. The annual Power Boat Show, for example, downsized its 2011 show which resulted in a reduction of its rent by \$75,000 compared to 2010.

#### Operating Expenses

For the year ended December 31, 2011 compared to 2010, operating expenses for the Authority decreased by \$288,115 to \$43,139,325. Operating expenses for Boardwalk Hall, the Convention Center, and Marketing Operations increased by \$794,371, \$187,318, and \$475,784, respectively. Operating expenses for the Luxury Tax Reserve Fund, however, decreased by \$1,745,588 primarily due to the \$1,747,743 decrease in depreciation expense in 2011.

#### Boardwalk Hall

In 2011, the increase in multiple-day family and sporting events held at Boardwalk Hall resulted in higher salaries, wages, and benefits, marketing expenditures, and production expenses. These three line-item expenses increased a collective \$841,502 in 2011 over 2010. The Alegria-Cirque, ECAC and Devils hockey games, and the Atlantic City Boardwalk Rodeo are just a few of the events that require high labor and production needs for staging set ups, cleaning and breakdowns.

#### Convention Center

Utilities and salaries, wages and benefits increased a collective \$199,374 in 2011 over 2010 primarily due to utility rate increases and the types of events held at the Convention Center in 2011. Utilities increased in 2011 primarily due to a \$45,452 increase in thermal heating and cooling, a \$20,929 increase in solar, and a \$12,231 increase in water and sewer. Larger events like the New Jersey School Boards were a primary reason for the increase in event-related payroll, while non-event related payroll increased due to contracted union rate increases and an increase in health benefit expenses.

#### Marketing Operations

Marketing Operations' \$475,784 increase in operating expenses is due primarily to the \$455,045 increase in marketing expenses. The ECAC hockey tournament came to Atlantic City for the first time in 2011. The net operating expenses and payment guarantee for the first year of this tournament were \$319,868. In 2011, the net operating expenses and the payment guarantee for the Atlantic 10 basketball tournament also increased a collective \$66,758.

### **For the Year Ended December 31, 2010**

#### Operating Revenues

Operating revenues for the Authority increased by \$1,169,462 to \$14,521,988 for the year ended December 31, 2010. Boardwalk Hall's operating revenues increased by \$2,472,478, while the Convention Center's and Marketing Operations' operating revenues decreased by \$1,038,395 and \$264,621, respectively.

## Boardwalk Hall

Boardwalk Hall's special services, facilities rental, parking, and food & beverage revenues were higher by a collective \$2,440,492 in 2010 due to fact that there were 8 more events and 108,935 more attendees in the Boardwalk Hall in 2010. The biggest revenue increase was the \$1,240,613 increase in facilities rental revenue. The Boardwalk Hall is composed of an arena and a ballroom and both are rented out during the course of the year. The big increase in facilities rental revenue was due to the increased revenues from arena rentals in 2010. Revenues from arena rentals increased by \$1,297,980 to \$2,240,615 in 2010, while ballroom rentals decreased by \$61,351 to \$76,651. Examples of the arena events that generated the significant increase in operating revenues for Boardwalk Hall included concerts featuring Phish, Nickelback, Lady Gaga, Justin Bieber, and the Blackeyed Peas. Special services, parking, and food & beverage revenues also increased \$616,457, \$65,245, and \$518,177, respectively in 2010. These increases were also due to the increase in the number and size of events held in the Hall's arena in 2010. Special services revenue includes ticket incentive and handling fees, event labor and rentals, and other related income such as utility and insurance billbacks.

## Convention Center

The Convention Center's facilities rental, parking, and food & beverage revenues were down a collective \$1,115,768 in 2010 due to the fact that there were 25 fewer events in the Convention Center during the year. Facilities rental revenue decreased \$495,754 in 2010 largely due to the absence or downsizing in 2010 of some of the larger events that took place in 2009. A brief listing of the aforementioned events that yielded declines in facilities rental revenue includes Antique, Antique Road Show, Arett, Dub, Motorsports, NJ School Boards, and PowerBoat. The decrease in the number and size of the events in 2010 also translated into decreases in parking and food & beverage revenues of \$138,530 and \$481,484, respectively.

## Marketing Operations

Marketing Operations' operating revenues decreased by \$264,621 to \$577,369 in 2010 primarily due to the discontinuance of two cooperative marketing programs at the end of 2009. A cooperative marketing program with area golf courses ended in 2009, which resulted in a decrease of \$188,480 in 2010 operating revenues. A cooperative online advertising campaign with a few of the city's casino properties took place in 2009, but did not occur in 2010, which resulted in a \$45,460 decrease in operating revenues.

## Operating Expenses

Operating expenses for the Authority increased by \$10,856,515 to \$43,427,440 for the year ended December 31, 2010. Boardwalk Hall's operating expenses increased by \$320,914, while the Convention Center and Marketing Operations' operating expenses decreased by \$484,167 and \$476,594, respectively. Operating expenses for the new Luxury Tax Reserve Fund were \$11,496,362, consisting primarily of depreciation expense.

## Boardwalk Hall

The increase in the number and size of the events held at the Boardwalk Hall in 2010 resulted in increases in salaries, wages and benefits, contract services, and production expenses totaling \$1,501,600. The increases in these 2010 operating expenses were offset, somewhat by decreases in utilities and professional services of \$225,559 and \$887,671, respectively. The increase in salaries, wages and benefits was due primarily to a \$642,897 increase in event related labor. The increase in the larger arena events required an increase in contract services such as outside security and electrical services. Boardwalk Hall's expenses pertaining to outside security and electrical services also increased by \$305,236 and \$201,272, respectively in 2010. Production and event related expenses such as rigging, police, emergency medical technicians, and catering increased by \$374,524 in 2010 as a result of the increase in arena events. The decrease in Boardwalk Hall's utilities was due to ongoing energy conservation efforts and the decrease in professional services was due to the reduction in legal and bond counsel separation-related expenses in 2010.

### Convention Center

The Convention Center did a staffing reorganization early in 2010, whereby several departments were downsized. The reorganization was the primary reason why salaries, wages and benefits were down \$207,415 compared to 2009. A few of the departments that were downsized were property maintenance/housekeeping, parking, carpentry, and security. The Convention Center's utilities were also lower by \$135,942 in 2010 as a result of the energy conservation program. The Convention Center's legal and bond counsel separation-related expenses were also \$72,162 lower in 2010, which was due, in part, to the separation documents executed between the Authority and NJSEA in January 2011. There was also an \$84,900 reduction in management fees paid to the NJSEA in 2010 as a result of the execution of the separation documents.

### Marketing Operations

The golf marketing program and cooperative online advertising programs which existed in 2009, but not in 2010, accounted for \$233,940 of the reduction in Marketing Operations' operating expenses. Marketing expenses associated with the Atlantic 10 Basketball Tournament were \$111,243 lower in 2010 compared to 2009. Marketing Operations has hosted the conference championship for the Atlantic 10 since 2007. In 2010, the tournament format went from a 4-day schedule to a 3-day schedule, and Marketing Operations' payment guarantee to the conference was reduced by \$75,000. Net ticket sales, which offset the tournament's expenses, also exceeded 2009 sales by \$36,243.

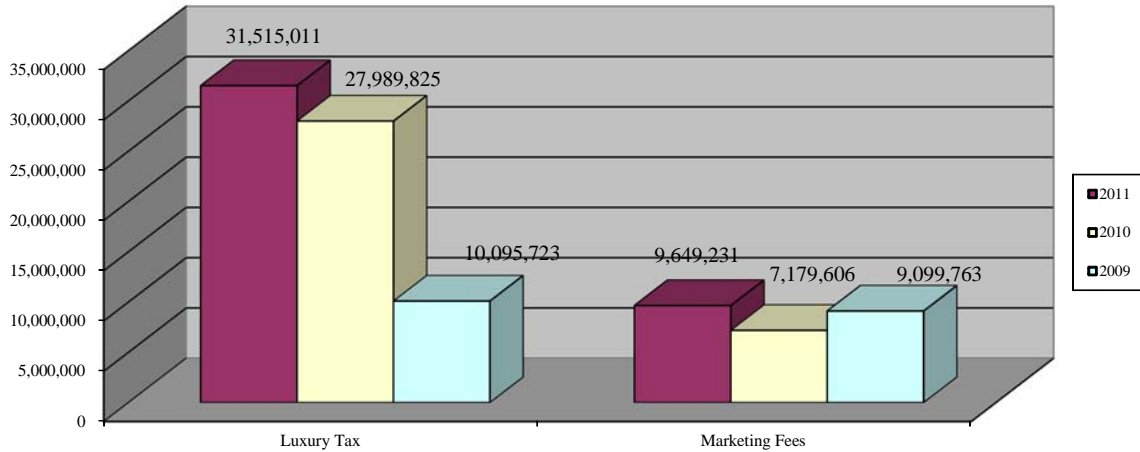
### Luxury Tax Reserve Fund

The Authority's depreciation expense increased by \$11,495,685 to \$11,751,956 in 2010. The large increase was due to the fact that all of the assets pertaining to the Atlantic City Convention Center Project that were formerly reported on the NJSEA's financial statements were moved to the Authority's financial statements. The depreciation expense on the newly added assets amounted to \$11,494,207.

### **Nonoperating Highlights (000's)**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Nonoperating Income and (Expenses)			
Luxury tax revenue	\$ 31,515	\$ 27,990	\$ 10,095
Marketing fees revenue	9,649	7,179	9,100
Interest income	37	54	23
Capital grant revenue	100	-	-
Interest expense	(5,717)	(6,058)	-
Other nonoperating income (expense)	<u>(110)</u>	<u>(109)</u>	<u>-</u>
Total nonoperating income	<u>\$ 35,474</u>	<u>\$ 29,056</u>	<u>\$ 19,218</u>

## Nonoperating Revenues



### **For the Year Ended December 31, 2011**

#### **Nonoperating Revenues**

Luxury tax revenue for the Authority increased by \$3,525,186 over 2010 to \$31,515,011. Luxury taxes are used for the Authority's debt service requirements, capital expenditures, deficit operations, and working capital and maintenance reserve requirements. The increase in the Authority's luxury taxes is primarily due to the \$3,036,474 increase in luxury tax certifications by the State in 2011.

Marketing fees are collected from casino and non-casino hotels in Atlantic City based on occupied rooms. The State of New Jersey collects the marketing fees, sets an estimated amount aside for year-end rebates to casinos and the CRDA with urban revitalization projects, and remits the balance to the Authority.

#### **Marketing Operations**

Marketing Operations' marketing fee revenue increased by \$2,469,625 over 2010 to \$9,649,231 in 2011. Marketing fees collected by the State of New Jersey amounted to \$10,572,608 in 2011 compared to the \$9,939,608 collected in 2010, an increase of \$633,002. Marketing fee rebates, which are netted out from Marketing Operations' marketing fee revenue, are lower by \$582,000 in 2011 compared to 2010, which actually increases the revenue recognized.

Marketing Operations also recovered \$1,254,623 of 2010 marketing fee revenue in 2011. The prior year revenue recovery consisted of the following two components:

- 1) A \$579,380 favorable difference between the estimated 2010 marketing fee rebates accrued at the end of 2010 and the actual rebates certified in 2011 for 2010.
- 2) A \$675,243 recovery of under-certified 2010 marketing fees.

Marketing Operations received both the favorable certification of 2010 marketing fee rebates and the recovery of the under-certified 2010 marketing fees in the second quarter of 2011.

### **Nonoperating Expenses**

#### **Luxury Tax Reserve Fund**

During the years ended December 31, 2011 and 2010, interest expense totaling \$5,717,174 and \$6,058,186, respectively, represents interest paid and accrued on the Authority's debt, net of the annual amortization of the related bond premiums and discounts.

### **For the Year Ended December 31, 2010**

#### **Nonoperating Revenues**

In 2010, luxury tax revenue for the Authority increased by \$17,894,102 to \$27,989,825. The increase was primarily due to the addition of the Luxury Tax Reserve Fund to the financial statements of the Authority. The luxury taxes in the Luxury Tax Reserve Fund accounted for \$17,772,421 of the \$17,894,102 increase. Luxury taxes are first sent to the Trustee by the State to satisfy the Authority's debt service requirements, and then the funds are sent by the Trustee to the Authority to fund the Authority's capital expenditures, deficit operations, and working capital and maintenance reserve requirements. Boardwalk Hall's operating deficit decreased by \$2,159,987 in 2010, while the Convention Center's and Marketing Operations' 2010 deficits increased by \$559,677 and \$1,721,991, respectively.

#### **Boardwalk Hall**

The decrease of \$2,159,987 in Boardwalk Hall's operating deficit was due primarily to the increase in the number of events and attendance during 2010. The increase in the amount of arena events in 2010 over 2009 was the primary reason why the Boardwalk realized increases in all of its operating revenues. Professional fees, which included the Authority's separation related expenditures, also decreased by \$887,671 in 2010.

#### **Convention Center**

The Convention Center's \$559,677 increase in 2010 operating deficit was due primarily to the decrease in the number of events and attendance at the Convention Center during 2010 compared to 2009. The Convention Center's operating revenues decreased by \$1,042,504, while its operating expenses only declined by \$484,167.

#### **Marketing Operations**

The Authority's marketing fee revenue decreased by \$1,920,157 in 2010 to \$7,179,606. Marketing fees collected by the State of New Jersey amounted to \$9,939,606 in 2010 compared to the \$10,697,317 collected in 2009, a decrease of \$757,711. Marketing fee rebates, which are netted out from Marketing Operations' marketing fee revenue, are higher by \$629,152 in 2010 compared to 2009. The higher rebates actually increased the operating deficit. Due to the increased operating deficit, Marketing Operations recognized \$1,721,991 more in luxury taxes in 2010 compared to 2009.

## Nonoperating Expenses

### Luxury Tax Reserve Fund

Until December 31, 2009, all of the luxury tax bonds and related issuance costs were recorded on the financial statements of the NJSEA. Beginning January 1, 2010, all of the luxury tax bonds and related issuance costs were transferred to the financial statements of the Authority. Under the Pledged Property Agreement, the Authority agreed that the property pledged to the bond holders, i.e. the luxury tax revenues, shall remain subject to the liens of and as security for the NJSEA bond holders and agreed to all of the terms and conditions of the NJSEA Bond Resolutions.

A note payable related to a loan from the CRDA was also transferred to the Authority's financial statements from the NJSEA in 2010. The proceeds were used to pay for the costs of a capital project, and the note constitutes subordinated debt payable from luxury tax revenues.

Interest expense totaling \$6,058,186 for the year ended December 31, 2010 represents interest paid and accrued on the Authority's debt net of the annual amortization of the related bond premiums and discounts.

## **EXHIBIT 3**

### **Capital Assets**

	<b>Balance, December 31, 2009</b>	<b>Additions</b>	<b>Transfer In From NJSEA See Note 1</b>	<b>Balance, December 31, 2010</b>	<b>Additions</b>	<b>Balance, December 31, 2011</b>
Land	\$ -	\$ -	\$ 81,311,000	\$ 81,311,000	\$ -	\$ 81,311,000
Buildings	-	174,868	408,488,433	408,663,301	314,214	408,977,515
Furniture, fixtures and equipment	1,995,510	357,162	52,646,224	54,998,896	912,686	55,911,582
Building and leasehold improvements	-	457,951	1,078,818	1,536,769	207,974	1,744,743
Total at cost	1,995,510	989,981	543,524,475	546,509,966	1,434,874	547,944,840
Less accumulated depreciation	(1,500,766)	(11,751,956)	(131,204,368)	(144,457,090)	(9,948,390)	(154,405,480)
Investment in facilities — net	<u>\$ 494,744</u>	<u>\$(10,761,975)</u>	<u>\$ 412,320,107</u>	<u>\$ 402,052,876</u>	<u>\$ (8,513,516)</u>	<u>\$ 393,539,360</u>

At the end of 2011 and 2010, the Authority had invested \$393,539,360 and \$402,052,876 in net capital assets, respectively, at costs of \$547,944,840 and \$546,509,966 net of \$154,405,480 and \$144,457,090 in accumulated depreciation, respectively.

Beginning in 2010, all of the capital assets associated with the Convention Center, Historic Boardwalk Hall, and the West Hall were transferred to the financial statements of the Authority. Prior to 2010, all of the capital assets were recorded on NJSEA's financial statements.

Capital asset additions during 2011 and 2010 consisted of normal purchases and improvements of infrastructure, mechanical systems, computer and network systems, as well as various website and safety system upgrades. The Authority considers any asset with a value over \$5,000 and an estimated useful life over three years a depreciable asset. Capital assets are depreciated using the straight-line method from three to sixty years (See Note 5).

## **Current Economic Conditions**

Atlantic City's 11 casinos recorded a revenue increase in December 2011, which snapped 39 consecutive months of revenue decline. Total gaming revenue for December was \$246.5 million, up 4.2 percent from a year ago. December 2010, however, was hurt by a snowstorm at the end of the month, leading to the lowest gaming-revenue levels since 2001. December 2011 also had one additional weekend day (a Sunday). In November 2006, the first slots parlor opened in the Philadelphia suburbs, a main customer feeder market for Atlantic City. Pennsylvania now has 10 full casinos, which also offer table games. All in all, Atlantic City's casinos took in \$3.3 billion in 2011, down from \$5.2 billion in 2006, a decline of nearly 37 percent, primarily due to the weak economy and competition from casinos in surrounding states, particularly Pennsylvania.

The current economic conditions should benefit from the opening of the highly anticipated \$2.4 billion, 1,898-room Revel Casino on the Boardwalk in April 2012 along with the legislative and regulatory changes put in place in 2011. The Revel, a mega-resort built with the aid of state tax incentives, will become the city's 12th casino and the first to open in nine years. The hotel will feature 1,898 guest rooms, 14 restaurants, seven pools, 2,400 slot machines and 150,000 square feet of casino space. The 2011 legislative and regulatory changes were made to make the destination more favorable to investors and to create a state-led casino and tourism district. A key part of the legislation redirects an annual amount of \$30 million that had previously gone to the state's racetracks for purse subsidies to the Atlantic City Alliance, the private end of the destination's public/private partnership, to market the new tourism district and the resort in general. A few of the highlights of the new state-led casino and tourism district plan include the addition of attractions on the Boardwalk, the renovation of casino parking garages so they can offer cafes and retail at the street level, and the expansion of non-gaming amenities and attractions within the destination.

Finally, the Atlantic City International Airport is continuing its efforts to meet the demand for air service to Atlantic City from key markets around the country. Daily service from Atlantic City International Airport to Boston will resume in March 2012 with the return of a seasonal Spirit Airlines route. Seasonal service to Detroit and to Chicago O'Hare International Airport will resume May 3 and a daily route to Atlanta will begin on May 17. In 2011, there were slightly less than 1.4 million passengers, including scheduled and charter service through the airport, which represents a decline of about 2 percent from 2010. The airport is also in the midst of a \$25 million expansion project scheduled to be completed in May 2012. The 75,000 square foot expansion will increase the number of gates at the airport from seven to ten. A larger baggage claim area will be added along with a federal inspection station for international flights.

## **Budgetary Controls**

The Authority adopts Operating and Capital Plans, which are approved by its Board of Directors prior to the start of each new year. Budgets are a measure of the Authority's financial performance and accountability and are reviewed and revised, although not formally, on a monthly basis throughout the year.

## **Contacting the Authority's Financial Management**

This financial report is designed to provide the Authority's board of directors, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If there are any questions about this report or additional financial information is needed, please contact the Vice President, Finance/CFO at the Atlantic City Convention and Visitors Authority, 2314 Pacific Avenue, Atlantic City, NJ 08401, or visit the Authority's website at: [www.atlanticcitynj.com](http://www.atlanticcitynj.com).

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**ATLANTIC CITY CONVENTION & VISITORS AUTHORITY**  
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**  
**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2011 AND 2010**

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Notes 2D and 4)	\$ 33,312,587	\$ 27,640,332
Restricted cash and cash equivalents (Notes 2D and 4)	721,869	881,294
Due from the State of New Jersey — marketing fees & luxury taxes	13,228,684	8,991,009
Receivables — net of allowance for doubtful accounts of \$64,181 in 2011 and \$314,861 in 2010	658,554	588,511
Prepaid expenses and other assets	<u>1,139,417</u>	<u>1,050,689</u>
Total current assets	49,061,111	39,151,835
<b>LONG-TERM ASSETS:</b>		
Restricted investments (Notes 2E and 4)	4,798,015	4,798,535
Investment in facilities (Note 2H and 5)	393,539,360	402,052,876
Other long-term assets (Note 2I)	<u>1,044,241</u>	<u>1,153,208</u>
<b>TOTAL ASSETS</b>	<u>\$ 448,442,727</u>	<u>\$ 447,156,454</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 4,142,746	\$ 3,431,891
Interest payable on bonds and notes	9,197,491	8,818,546
Deferred revenue	2,413,333	2,714,185
Current portion of bonds payable (Notes 6 and 8)	<u>7,225,000</u>	<u>6,880,000</u>
Total current liabilities	22,978,570	21,844,622
<b>LONG-TERM LIABILITIES:</b>		
Long-term portion of notes payable (Note 7)	8,600,000	8,600,000
Long-term portion of bonds payable (Notes 6 and 8)	<u>94,488,297</u>	<u>101,848,836</u>
Total liabilities	<u>126,066,867</u>	<u>132,293,458</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	284,589,360	284,724,040
Restricted for statutory requirements	5,519,884	5,679,829
Unrestricted	<u>32,266,616</u>	<u>24,459,127</u>
Total net assets	<u>322,375,860</u>	<u>314,862,996</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 448,442,727</u>	<u>\$ 447,156,454</u>

See notes to financial statements.



**ATLANTIC CITY CONVENTION & VISITORS AUTHORITY**  
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
OPERATING REVENUES:		
Special services	\$ 6,715,896	\$ 5,806,307
Facilities rental	4,254,465	4,664,395
Parking	1,790,029	1,698,960
Concessions	1,205,673	1,250,540
Promotion reimbursement and fees	695,140	843,431
Other	516,518	258,355
	<u>15,177,721</u>	<u>14,521,988</u>
Total operating revenues		
OPERATING EXPENSES:		
Salaries, wages, and benefits	15,566,272	15,001,755
Marketing expenditures	5,160,331	4,528,728
Utilities	4,174,140	4,074,879
Contract services	2,806,382	2,856,137
Insurance	803,670	882,947
Repairs and maintenance	1,491,905	1,504,878
Supplies	378,496	490,767
Professional fees	472,519	391,543
Management fees	426,024	423,040
Bad debt expense	56,292	34,772
Parking participation (Note 11)	190,000	190,000
Depreciation (Notes 2H and 5)	9,948,390	11,751,956
Production	1,490,084	1,175,269
Other	174,820	120,769
	<u>43,139,325</u>	<u>43,427,440</u>
Total operating expenses		
OPERATING LOSS	<u>(27,961,604)</u>	<u>(28,905,452)</u>
NONOPERATING INCOME AND (EXPENSES):		
Luxury tax revenue (Note 3)	31,515,011	27,989,825
Marketing fee revenue (Note 3)	9,649,231	7,179,606
Interest revenue	37,367	53,665
Interest expense (Notes 6 and 7)	(5,717,174)	(6,058,186)
Capital grant revenue	100,000	-
Other nonoperating expense	(109,967)	(108,967)
	<u>35,474,468</u>	<u>29,055,943</u>
Total nonoperating revenue		
TRANSFERS FROM NJSEA	<u>-</u>	<u>307,101,882</u>
CHANGE IN NET ASSETS	7,512,864	307,252,373
NET ASSETS — Beginning of year	<u>314,862,996</u>	<u>7,610,623</u>
NET ASSETS — End of year	<u>\$ 322,375,860</u>	<u>\$ 314,862,996</u>

See notes to financial statements.

**ATLANTIC CITY CONVENTION & VISITORS AUTHORITY**  
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 14,909,624	\$ 14,819,372
Payments to suppliers	(16,053,861)	(15,718,473)
Payments to employees	(15,293,918)	(14,948,339)
Net cash used in operating activities	<u>(16,438,155)</u>	<u>(15,847,440)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers from NJSEA	-	14,917,190
Luxury tax revenue	16,836,367	14,014,444
Marketing fee revenue	6,505,830	10,057,763
Net cash provided by noncapital financing activities	<u>23,342,197</u>	<u>38,989,397</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Transfers from NJSEA	-	1,154,003
Principal payments of bonds	(6,880,000)	(6,540,000)
Additions to investment in facilities	(1,528,505)	(924,091)
Interest paid on bonds and notes	(5,473,769)	(5,808,944)
Capital grant proceeds	100,000	-
Luxury tax revenues	12,353,769	12,348,944
Net cash (used in) provided by capital and related financing activities	<u>(1,428,505)</u>	<u>229,912</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends	37,293	51,829
Net cash provided by investing activities	<u>37,293</u>	<u>51,829</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	5,512,830	23,423,698
<b>CASH AND CASH EQUIVALENTS — Beginning of year</b>	<u>28,521,626</u>	<u>5,097,928</u>
<b>CASH AND CASH EQUIVALENTS — End of year</b>	<u>\$ 34,034,456</u>	<u>\$ 28,521,626</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (27,961,604)	\$ (28,905,452)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	9,948,390	11,751,956
Decrease (increase) in current assets:		
Receivables — net	3,017,986	176,346
Prepays and other assets	(89,134)	225,320
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(1,052,941)	223,450
Deferred revenues	(300,852)	680,940
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>\$ (16,438,155)</u>	<u>\$ (15,847,440)</u>

**NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

In 2010, The NJSEA transferred investment in facilities of \$543,524,475, net of \$131,204,368 in accumulated depreciation, to the Authority (See Notes 1 and 5).

At December 31, 2011 and 2010, the Authority had other long-term assets related to its investment in facilities related bonds payable of \$1,044,241 and \$1,153,208 (See Notes 2I, 6, and 8).

At December 31, 2011 and 2010, the Authority had bonds payable and notes payable of \$101,713,297 and \$8,600,000 and \$108,728,836 and \$8,600,000, respectively (See Notes 6, 7, and 8) related to the investment in facilities.

See notes to financial statements.

# ATLANTIC CITY CONVENTION & VISITORS AUTHORITY (A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

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### 1. BACKGROUND AND AUTHORIZING LEGISLATION

Chapter 459 of P.L. 1981, approved on January 12, 1982, and amended effective January 13, 1992, created the Atlantic City Convention Center Authority (the "Authority"). The Authority is responsible for the promotion, operation, and maintenance of the Historic Boardwalk Hall ("Boardwalk Hall"), the West Hall, as well as the Atlantic City Convention Center ("Convention Center"), which opened in May 1997. In addition, the Authority, through its marketing operations, promotes tourism into the greater Atlantic City area. The Authority consists of seven board members, of which six public members, at least two of whom shall be representatives of the New Jersey casino industry, are appointed by the Governor of the State of New Jersey, with the advice and consent of the Senate. The Treasurer of the State of New Jersey serves as an ex-officio member.

Effective November 12, 1992, the operations of the Authority were combined with the operations of the NJSEA. On July 10, 1995, the NJSEA and the Authority jointly entered into an operating agreement with Spectacor Management Group ("SMG"), which is subject to renewal periodically, whereby SMG will operate the facilities previously operated by the Authority. The Authority continues to operate its marketing division.

On June 26, 2000, the NJSEA formed The Historic Boardwalk Hall, L.L.C. (the "LLC"), a limited liability company in the state of New Jersey for the purpose of partially financing and operating the renovated Boardwalk Hall. The NJSEA, as managing member, has designated that the Authority continue operating, maintaining, and promoting the Boardwalk Hall for the LLC.

The West Hall was constructed in 1978 to augment the Boardwalk Hall as an expanded convention facility. The facility is currently used to stage events held in the Boardwalk Hall and provides additional parking.

On March 15, 2001, the Casino Reinvestment Development Authority ("CRDA") established the Urban Revitalization Program. The purpose of the program is to facilitate the development of entertainment-retail districts for the city of Atlantic City and promote revitalization of other urban areas in the state. In the program, marketing fees will be redirected back to hotel properties in Atlantic City with capital projects approved by the CRDA. The program was implemented in 2004.

On July 18, 2008, The Governor of the State of New Jersey signed legislation that authorized the transfer of the Atlantic City Convention Center Project, which specifically includes the Convention Center, Boardwalk Hall, and Marketing Operations, to the Atlantic City Convention & Visitors Authority, which was also renamed from the Atlantic City Convention Center Authority in the same legislation.

On December 17, 2009, the Authority's Board of Directors adopted a Board Resolution authorizing various actions to effectuate the transfer of the Atlantic City Convention Center Project from the NJSEA to the Authority. The NJSEA also passed a similar Board Resolution in December 2009. The intent of the legislature was to transfer, to the extent practicable, the control and ownership of the Convention Center Project from the NJSEA to the Authority. The Authority and NJSEA, assisted by representatives from the New Jersey Department of Treasury, created documents to provide for the statutory transfers and to govern their relationship in the future including Amended and Restated Operating Agreements for each of the Atlantic City Convention Center, the East Hall and the West Hall and a Pledged Property Agreement. Under the Pledged Property Agreement, the Authority agreed that the property pledged to

the bond holders, i.e. the luxury tax revenues, shall remain subject to the liens of and as security for the NJSEA bond holders and agreed to all of the terms and conditions of the NJSEA Bond Resolutions. These documents were approved by the Board of Directors as part of the adopted resolution. Also, as part of the adopted resolution, the Authority's Board of Directors consented to the adoption of the Third Supplemental Resolution by the NJSEA and to the terms and provisions of the Third Supplemental Resolution and acknowledged, assumed and agreed to be bound by all of the terms and provisions of the Bond Resolution.

Effective January 1, 2010, all of the costs and capital improvements of the Atlantic City Project, which specifically includes the Boardwalk Hall, the West Hall, and the Convention Center were transferred to the Authority, and the Atlantic City Project is no longer reflected in the Consolidated Financial Statements of the NJSEA.

On February 1, 2011, The Governor of the State of New Jersey signed legislation that provided for the establishment of the Atlantic City Tourism District and for the transfer of the Authority, together with its functions, powers, and duties, to the CRDA. The tourism district would be an area in which the CRDA would have authority to impose land use regulations, implement a tourism district master plan promoting cleanliness, commercial development, and safety within the tourism district, undertake redevelopment projects, and institute public safety infrastructure improvements. Upon transfer, the CRDA will assume the Authority's powers, duties, assets, and responsibilities, the date on which (a) the chairs of the CRDA and the Authority certify to the Governor that all of the bonds issued by the Authority cease to be outstanding within the meaning of the resolutions pursuant to which the bonds were issued, and (b) the CRDA assumes all debts and statutory responsibilities of the Authority.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **General** — In its accounting and financial reporting, the Authority follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
- b. **Reporting Entity** — The GASB establishes the criteria used in determining which organizations should be included in financial statements. Accounting principles generally accepted in the United States of America require the inclusion of the transactions of government organizations for which an organization is financially accountable. The Authority has no other organizations that should be included in its financial statements.

The extent of financial accountability is based upon several criteria including: appointment of a voting majority, imposition of will, financial benefit to or burden on a primary government, and financial accountability as a result of fiscal dependency.

Until December 31, 2009, the Authority was a component unit of the NJSEA, which was a component unit of the State of New Jersey. In 2010, the Authority became an independent authority and a component unit of the State of New Jersey.

- c. **Operating Revenues and Expenses** — The Authority's operating revenues and expenses consist of revenues earned and expenses incurred relating to promoting convention development and leisure tourism in the destination of Atlantic City and the usage of the Boardwalk Hall, West Hall, and the Convention Center. Operating revenues, such as special services, facilities rental, parking, and concessions, are recognized when a convention or an event occurs. Operating expenses, which include portions of salaries, wages and benefits, marketing expenditures, utilities, and production are allocated, as incurred, on a show-by-show basis and recorded when the event takes place. Overhead and maintenance costs, which also include portions of the aforementioned expenses along with other expenses that are not specifically identified with an event, are expensed as incurred. Marketing

expenditures that are made to promote convention development and leisure tourism in the destination of Atlantic City are expensed as incurred.

- d. **Cash and Cash Equivalents** — Cash and cash equivalents include short-term investments that are carried at cost, which approximates market. The Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Restricted cash, cash equivalents, and investments are cash and short-term investments that are required for a specific purpose related to restrictions that may be contained in bond resolutions or grant agreements.

Restricted cash, cash equivalents, and investments include \$721,869 for Organ restoration at Boardwalk Hall (Note 11) and \$4,798,015 in investments held for the Historic Boardwalk Hall.

- e. **Valuation of Investments** — State and local government securities, repurchase agreements, and certificates of deposit are investments in nonparticipating investment contracts which management concludes are not significantly affected by the impairment of the credit standing of the Authority or other factors. Credit ratings for these investments are not available. These investments are recorded at fair market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*.
- f. **Receivables** — Receivables for the Authority pertain to services rendered by the Authority prior to the end of the year for which payment has not been received. Receivables for the Authority are reflected net of allowance for doubtful accounts. The allowance account is adjusted at the end of every year for estimated bad debt expense.
- g. **Prepaid Expenses and Other Assets** — Prepaid expenses for the Authority pertain to advance payments made by the Authority for goods to be received or services to be rendered in future years. The goods and/or services are normally received within one year and the expense is recognized. Other assets include deposits given by the Authority.
- h. **Investment in Facilities** — Investment in facilities is stated at cost, which includes all costs during the construction period for acquisition of land, rights of way, acquisition cost of acquiring facilities, surveys, engineering costs, roads, construction costs and additions to facilities, administrative and financial expenses and interest during construction, net of interest income earned on the unexpended funds, including debt service reserve funds net of accumulated depreciation. Depreciation is computed by the straight-line method based on estimated useful lives of the related assets.

Until December 31, 2009, the costs and capital improvements of the Boardwalk Hall, the West Hall, and the Convention Center were recorded on the financial statements of the NJSEA. Beginning January 1, 2010, all of the costs and capital improvements of the Boardwalk Hall, the West Hall, and the Convention Center were transferred to the financial statements of the Authority.

- i. **Other Long-Term Assets** — Other assets include deferred issuance costs incurred to issue debt, including but not limited to, legal and accounting costs. These costs have been deferred and are being amortized over the life of the issuance on a straight-line basis in other nonoperating expense.
- j. **Accounts Payable and Accrued Expenses** — Accounts payable and accrued expenses for the Authority pertain to goods received or services rendered to the Authority for which payment has not been made. The payments for the goods received or services rendered are typically made in the subsequent year.

- k. **Deferred Revenues** — Deferred revenues relate to the fees collected in advance by the Authority for the usage of the Convention Center, Boardwalk Hall, and West Hall. Such revenues will be recognized once an event occurs. Deferred revenues also relate to the advance collection of marketing partnership dues for the subsequent year.
- l. **Accumulated Vacation Time** — Salaried employees of the Authority may accumulate vacation time up to a maximum of their total vacation time for one year. This accumulated vacation time must be used within one year of the year earned. Upon termination of employment, salaried employees are entitled to receive a lump-sum payment of their accumulated vacation time.
- m. **Use of Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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. Management is also required to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- n. **Commitments and Contingencies** — The Authority is the subject of, or a party to, various pending or threatened legal actions involving outside interests. The Authority believes that any ultimate liability arising from these actions should not have a material effect on its financial position or operations. The Authority also believes that there are no contingent assets to disclose as of the date of the financial statements.

**Recent Accounting Pronouncements** — The Authority has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The adoption of GASB Statement No. 54 had no impact on the Authority’s financial position, results from operations and cash flows. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this Statement were effective for financial statements for periods beginning after June 15, 2010.

The Authority has completed the process of evaluating the impact that will result from implementing GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multi-Employer Plans*. The Authority has concluded that the adoption of GASB Statement No. 57 has no impact on its financial position, results from operations and cash flows. This Statement is intended to improve consistency in the measurement and financial reporting of other postemployment retirement benefits (“OPEB”) such as retiree health insurance. This Statement amends Statement No. 43, *Financial Reporting for Postretirement Benefit Plans other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Authority has adopted GASB Statement No. 59, *Financial Instruments Omnibus*. The adoption of GASB Statement No. 59 had no impact on the Authority’s financial position, results from operations and cash flows. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The Statement was effective for reporting periods beginning after June 15, 2010.

The Authority has completed the process of evaluating the impact that will result from implementing GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The Authority has concluded that the adoption of GASB Statement No. 60 has no impact on its financial position, results from operations and cash flows. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs),

which are a type of public-private or public-public partnership. The Statement is effective for reporting periods beginning after December 15, 2011.

The Authority has completed the process of evaluating the impact that will result from implementing GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The Authority has concluded that the adoption of GASB Statement No. 61 has no impact on its financial position, results from operations and cash flows. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.

The Authority has completed the process of evaluating the impact that will result from implementing GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Authority has concluded that the adoption of GASB Statement No. 62 has no impact on its financial position, results from operations and cash flows. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- i. Financial Accounting Standards Board (FASB) Statements and Interpretations
- ii. Accounting Principles Board Opinions
- iii. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

The requirements of this Statement are effective for financial statements beginning after December 15, 2011.

The Authority has completed the process of evaluating the impact that will result from implementing GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Authority has concluded that the adoption of GASB Statement No. 63 has no impact on its financial position, results from operations, and cash flows. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

The Authority has completed the process of evaluating the impact that will result from implementing GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The Authority has concluded that the adoption of GASB Statement No. 64 has no impact on its financial position, results from operations and cash flows. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establishes when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement reclassifies and recognizes certain items currently reported as assets and liabilities as one of four financial statement elements:

- Deferred outflows of resources.
- Outflows of resources.
- Deferred inflows of resources.
- Inflows of resources.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 66, *Technical Corrections—2012*. This Statement removes the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type, amending Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. This requires governments to base their decisions about governmental fund type usage for risk financing activities on the guidance in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In addition, Statement No. 66 amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement No. 66 modifies specific guidance on accounting for:

- Operating lease payments that vary from a straight-line basis.
- The difference between the initial investment, or purchase price, and the principal amount of a purchased loan or group of loans.
- Servicing fees related to mortgage loans sold when the stated service fee rate differs significantly from a current or normal servicing fee rate.

This guidance is designed to eliminate uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases With Scheduled Rent Increases*, and provide guidance consistent with requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

### **3. LUXURY TAXES AND MARKETING FEES**

**Luxury Tax** — Pursuant to NJSA. 40:48-8.15 et seq. (the "Luxury Tax Act"), the City of Atlantic City has, by Ordinance No. 18 of 1982, imposed a 3% tax on the sale of alcoholic beverages by the drink in the restaurants, bars, hotels, and other similar establishments and a 9% tax on cover charges or other similar charges made to any patron of such an establishment, the hiring of hotel rooms and the sale of tickets for admission to theaters, exhibitions and other places of amusement.

On January 13, 1992, amendments to the Luxury Tax Act were adopted which authorized the NJSEA to undertake the Authority (see Note 1) and authorized the State to transfer the proceeds of the Luxury Tax to the NJSEA. Luxury Tax proceeds were deposited into the Revenue Fund and transferred to other funds to pay debt service on the Luxury Tax Bonds and fund the operating deficits and capital expenditures for Boardwalk Hall, the West Hall, the Convention Center, and certain marketing operations as of 2006. Until December 31, 2009, the costs and capital improvements of the Boardwalk Hall, the West Hall, and the Convention Center were recorded on the financial statements of the NJSEA.



On July 18, 2008, The Governor of the State of New Jersey signed legislation that authorized the transfer of the Atlantic City Convention Center Project, which specifically includes the Convention Center, Boardwalk Hall, and Marketing Operations, to the Atlantic City Convention & Visitors Authority, which was also renamed from the Atlantic City Convention Center Authority in the same legislation. In December 2009, the Authority and the NJSEA adopted Board Resolutions authorizing various actions to effectuate the transfer of the Atlantic City Convention Center Project from the NJSEA to the Authority. Beginning January 1, 2010, all of the costs and capital improvements of the Boardwalk Hall, the West Hall, and the Convention Center were transferred to the financial statements of the Authority. Also beginning in January 2010, the State began transferring the luxury tax proceeds directly to the Trustee in order to reserve an amount sufficient to meet the debt service requirements and pay the debt service on the Luxury Tax Bonds. Once the debt service requirements are met, the Trustee forwards the balance of the luxury tax receipts to the Authority to fund its capital expenditures, operating deficits, and working capital and maintenance reserve requirements.

**Marketing Fees** — The New Jersey legislature adopted a bill that authorized the State of New Jersey to impose marketing fees of \$3.00 per occupied room on hotels in Atlantic City. The proceeds from the fees collected pursuant to this legislation are paid into a special fund established and held by the State on behalf of the Authority. In 2006, through legislation of an Urban Revitalization Program, part of this fee is redirected to hotel properties meeting the identified criteria.

#### 4. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents, restricted cash and cash equivalents, and investments as of December 31, 2011 and 2010 are as follows:

<u>Cash and cash equivalents</u>	<u>December 31,</u>			
	<u>2011</u>		<u>2010</u>	
	<u>Book Balance</u>	<u>Bank Balance</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Demand deposits	\$ 4,383,088	\$ 4,325,069	\$ 4,670,539	\$ 5,696,428
State of New Jersey Cash Management Fund	<u>28,929,499</u>	<u>28,929,499</u>	<u>22,969,793</u>	<u>22,969,793</u>
Total cash and cash equivalents	<u>\$ 33,312,587</u>	<u>\$ 33,254,568</u>	<u>\$ 27,640,332</u>	<u>\$ 28,666,221</u>

<u>Restricted Cash and cash equivalents</u>	<u>December 31,</u>			
	<u>2011</u>		<u>2010</u>	
	<u>Book Balance</u>	<u>Bank Balance</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Demand deposits	\$ 100,000	\$ 100,000	\$ -	\$ -
State of New Jersey Cash Management Fund	<u>621,869</u>	<u>621,869</u>	<u>881,294</u>	<u>881,294</u>
Total restricted cash and cash equivalents	<u>\$ 721,869</u>	<u>\$ 721,869</u>	<u>\$ 881,294</u>	<u>\$ 881,294</u>

<u>Investments (Note 2E):</u>	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
	<u>Fair Market Value</u>	
Treasury bills	<u>\$ 4,798,015</u>	<u>\$ 4,798,535</u>
Total investments	<u>\$ 4,798,015</u>	<u>\$ 4,798,535</u>

As of December 31, 2011 and 2010, \$721,869 and \$881,294 of cash and cash equivalents and \$4,798,015 and \$4,798,535 of investments were restricted for organ restoration at Boardwalk Hall (Note 11) and for the Historic Boardwalk Hall, respectively.

The Board of Directors of the Authority adopted a policy specifying the institutions and types of investments that can be made with funds available for investment. A general description of those investments is the following: (a) direct obligations of, or obligations guaranteed by, the United States of America; (b) bonds or obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state in which the obligations are rated in the top two rating categories by Moody's Investors' Service, Inc. (Moody's) and Standard and Poor's Corporation (S&P); (c) direct obligations of the state of New Jersey; (d) certificates of deposit and bankers' acceptances which are rated in the top two categories by Moody's and S&P; (e) commercial paper, except those issued by bank holding companies, rated in the top category by the Moody's and S&P; and (f) the state of New Jersey Cash Management Fund.

All demand deposits, except deposits held by the Trustee, of any depository must be fully secured by lodging collateral security of obligations secured by the United States of America with the bank, Trustee

or bank designated by the Trustee. At December 31, 2011 and 2010, the Authority's demand deposits were fully collateralized.

The Authority has no financial instruments with significant individual or group concentration of credit risk.

The State of New Jersey Cash Management Fund is a money market fund managed by the State of New Jersey Division of Investments. P.L. 1950 c. 270 and subsequent legislation permit the division to invest in a variety of securities, including, in the case of short-term investments, obligations of the U.S. Government and certain of its agencies, commercial paper, certificates of deposit, repurchase agreements, bankers' acceptances, and loan participation notes. All such investments must fall within the guidelines set forth by the regulations of the State of New Jersey Investment Council. Securities in the Cash Management Fund are insured, registered or held by the division or its agent in the Cash Management Fund's name.

## 5. INVESTMENT IN FACILITIES

Investment in facilities at December 31, 2011, 2010, and 2009 consist of the following:

	Balance, December 31, 2009	Additions	Transfer In From NJSEA See Note 1	Balance, December 31, 2010	Additions	Balance, December 31, 2011
Land	\$ -	\$ -	\$ 81,311,000	\$ 81,311,000	\$ -	\$ 81,311,000
Buildings	-	174,868	408,488,433	408,663,301	314,214	408,977,515
Furniture, fixtures and equipment	1,995,510	357,162	52,646,224	54,998,896	912,686	55,911,582
Building and leasehold improvements	-	457,951	1,078,818	1,536,769	207,974	1,744,743
Total at cost	1,995,510	989,981	543,524,475	546,509,966	1,434,874	547,944,840
Less accumulated depreciation	(1,500,766)	(11,751,956)	(131,204,368)	(144,457,090)	(9,948,390)	(154,405,480)
Investment in facilities — net	<u>\$ 494,744</u>	<u>\$(10,761,975)</u>	<u>\$412,320,107</u>	<u>\$402,052,876</u>	<u>\$(8,513,516)</u>	<u>\$ 393,539,360</u>

Until December 31, 2009, the costs and capital improvements of the Boardwalk Hall, the West Hall, and the Convention Center were recorded on the financial statements of the NJSEA. Beginning January 1, 2010, all of the costs and capital improvements of the Boardwalk Hall, the West Hall, and the Convention Center were transferred to the financial statements of the Authority (See Note 1). In December 2009, the Authority's Board of Directors adopted a Board Resolution authorizing various actions to effectuate the transfer of the Atlantic City Convention Center Project from the NJSEA to the Authority. The NJSEA also passed a similar Board Resolution in December 2009. The Authority and NJSEA, assisted by representatives from the Department of Treasury, created documents to provide for the statutory transfers and to govern their relationship in the future including Amended and Restated Operating Agreements for each of the Atlantic City Convention Center, the East Hall and the West Hall and a Pledged Property Agreement.

Asset lives used in the calculation of depreciation are generally as follows:

Buildings	35 – 60 years
Furniture, fixtures and equipment	3 – 20 years
Building and leasehold improvements	10 – 20 years

The Authority considers any asset acquired or improvement made to any building or facility, with a value over \$5,000 and an estimated useful life of at least three years, a depreciable capital asset.

## 6. BONDS PAYABLE

Bonds payable consist of the following (in thousands):

	Date Issued	Original Amount	Balance	
			December 31, 2011	2010
Luxury tax bonds:				
Convention Center Luxury Tax				
Bonds 2004, Series A,				
\$23,085,000 Serial Bonds				
5.5%, due 2008 through 2022	4/12/2004	\$ 23,085	\$ 23,085	\$ 23,085
Convention Center Luxury Tax				
Refunding Bonds 1999, Series A,				
\$128,270,000 Serial Bonds				
4.25% - 5.125%, due 2008 through 2020	2/15/1999	128,270	<u>77,265</u>	<u>84,145</u>
Total bond principal payable			100,350	107,230
Plus: Unamortized bond premium			<u>1,363</u>	<u>1,499</u>
Total bonds payable			101,713	108,729
Less: Current portion of bonds payable			<u>7,225</u>	<u>6,880</u>
Long-term portion of bonds payable			<u>\$ 94,488</u>	<u>\$ 101,849</u>

Until December 31, 2009, all of the Luxury Tax Bonds and related issuance costs were recorded on the financial statements of the NJSEA. Beginning January 1, 2010, all of the Luxury Tax Bonds and related issuance costs were transferred to the financial statements of the Authority (See Note 1). Under the Pledged Property Agreement, the Authority agreed that the property pledged to the bond holders, i.e. the luxury tax revenues, shall remain subject to the liens of and as security for the NJSEA bond holders and agreed to all of the terms and conditions of the NJSEA Bond Resolutions. These documents were approved by the Board of Directors as part of the adopted resolution. Also, as part of the adopted resolution, the Authority's Board of Directors consented to the adoption of the Third Supplemental Resolution by the NJSEA and to the terms and provisions of the Third Supplemental Resolution and acknowledged, assumed and agreed to be bound by all of the terms and provisions of the Bond Resolution. Beginning in January 2010, the State began transferring the luxury tax proceeds directly to the Trustee in order to reserve an amount sufficient to meet the debt service requirements and pay the debt service on the Luxury Tax Bonds. Once the debt service requirements are met, the Trustee forwards the balance of the luxury tax receipts to the Authority to fund its capital expenditures, its operating deficits, and its working capital and maintenance reserve requirements.

On February 1, 2011, The Governor of the State of New Jersey signed legislation that provided for the establishment of the Atlantic City Tourism District and for the transfer of the Authority, together with its functions, powers, and duties, to the CRDA. Pursuant to this legislation effective February 1, 2011, all of the powers, rights, assets, and duties of the Authority will be transferred to and vested in the CRDA upon a "transfer date." The transfer date will take place when the Chairs of the Authority and CRDA certify to the Governor of New Jersey that all of the bonds issued by the NJSEA cease to be outstanding. It is the intent of the Authority and CRDA to effect the transfer date by receiving certain consents from the equity investors in Convention Hall and Boardwalk Hall to assign financial transactions affecting them from the NJSEA to the Authority or the CRDA and causing the Authority or CRDA to redeem the outstanding bonds prior to their maturity date.

**Convention Center Luxury Tax Bonds — 1999 Series** – On February 15, 1999, the NJSEA issued \$128,270,000 of Convention Center Luxury Tax Refunding Bonds, Series 1999, to provide funds to the NJSEA to: (1) fund an escrow, the proceeds of which were to be used for the purpose of advance refunding a portion of 1992 Luxury Tax Bonds, Series A; and (2) to pay certain costs incurred in connection with the issuance of the 1999 Luxury Tax Bonds.

The repayment of these bonds are payable solely from the proceeds of a luxury tax levied and collected in the city of Atlantic City, New Jersey, and other pledged property pursuant to the Convention Center Luxury Tax Bond Resolution.

**2004 Series** — On April 12, 2004, the NJSEA issued \$23,085,000 of Convention Center Luxury Tax Refunding Bonds, Series 2004, to (1) refund on a current basis the NJSEA’s presently outstanding Convention Center Luxury Tax Bonds, 1992 Series A; and (2) to pay certain costs incurred in connection with the issuance of the 2004 Luxury Tax Bonds.

The 2004 Luxury Tax Bonds are special obligations of the NJSEA and are payable solely from the proceeds of a luxury tax levied and collected in the city of Atlantic City, New Jersey, and paid to the Trustee and from other pledged property under the resolution.

The payment, when due (other than by reason of acceleration or optional redemption) of principal and interest on these bonds is secured by a guaranty policy issued by MBIA.

**Interest Costs** — Interest costs for the years 2011 and 2010 were \$5,717,174 and \$6,058,186, respectively.

## 7. NOTES PAYABLE

Notes payable consist of the following (in thousands):

	Date Issued	Original Amount	Balance	
			December 31, 2011	2010
Loan from the Casino Reinvestment Development Authority, 4.06% interest through June 2, 1997 then 5.773% thereafter, due February 10, 2007	2/10/1997	\$ 8,600	<u>\$ 8,600</u>	<u>\$ 8,600</u>
			<u>\$ 8,600</u>	<u>\$ 8,600</u>

On February 10, 1997, the Authority received the proceeds of an \$8,600,000 loan from the Casino Reinvestment Development Authority (“CRDA”). These funds constitute subordinated debt payable from the Luxury Tax Revenues. The proceeds were used to pay for the costs of the Convention Center Project as provided for in the project budget. The interest was calculated at 4.06% per annum through June 2, 1997. The rate was adjusted to 5.773% per annum on June 3, 1997 due to replacement bonds being issued by CRDA to pay its Bond Anticipation Notes. The term of the loan is 10 years or such longer term as shall be required for repayment of the loan and the interest thereon from Available Cash Flow as defined in the agreement.

The Authority’s Working Capital and Maintenance Reserve Requirement was not met for the years ended December 31, 2011 or 2010, therefore there was no Available Cash Flow for repayment of the loan or interest thereon in either year.

Until December 31, 2009, the Note Payable was recorded on the financial statements of the NJSEA. On January 1, 2010, the Note Payable and related accrued interest were transferred to the financial statements of the Authority (See Note 1).

The Note Payable and related accrued interest, if still outstanding when the Authority is transferred to the CRDA, will be eliminated in the consolidated financial statements.

## 8. MATURITIES ON BONDS AND NOTES

Principal and interest payments to be funded to the trustees on outstanding bonds and notes (in thousands) during the next five years and thereafter are as follows:

	<b>Principal Luxury Tax</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 7,225	\$ 5,121	\$ 12,346
2013	7,600	4,751	12,351
2014	7,990	4,361	12,351
2015	8,395	3,952	12,347
2016	8,815	3,532	12,347
2017-2021	48,475	10,455	58,930
2022-2023	<u>11,850</u>	<u>326</u>	<u>12,176</u>
	<u>\$ 100,350</u>	<u>\$ 32,498</u>	<u>\$ 132,848</u>

## 9. RELATED PARTY

The Authority recognized an opportunity to support appropriate benevolent causes, with specific attention given to attracting a greater diversity of visitors to and investment in the destination, fostering quality partnerships in and around the region, and identifying and assisting worthy individuals and organizations in the greater Atlantic City area. To forward these initiatives, the Authority created the Atlantic City Convention & Visitors Authority Foundation, Inc. ("Foundation") in 2004. The Foundation is exempt from Federal income tax under section 501 (c) (3) of the Internal Revenue Code. Contributions to it are deductible under section 170 of the Code. It is further classified as a public charity under the Code section 509 (a) (3).

Although the Foundation has been in existence since 2004, most of the expenditures were made on its behalf by the Authority through 2007 in the form of loans to be repaid. Most of the expenditures pertained to reporting and filing fees, legal services, consulting services, and general start-up costs. As of December 31, 2011 and 2010, the Authority had been reimbursed by the Foundation for all of the expenditures made on its behalf.

## 10. PENSION PLANS

The Public Employees' Retirement System of the State of New Jersey ("PERS"), a multiple-employer public retirement system, covers salaried employees of Marketing Operations. The Division of Pensions and Benefits within the Treasury Department of the State of New Jersey is the administrator of the funds and charges the employee and employer annually for their respective contributions. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The payroll for employees covered by PERS for the years ended December 31, 2011 and 2010 was \$3,155,072 and \$3,274,800, respectively. Marketing Operations' total payroll for the years ended December 31, 2011 and 2010 was \$3,553,270 and \$3,531,181, respectively.

The Division of Pensions and Benefits issues publicly available financial reports that include the financial report of the Plan that includes financial statements and required supplementary information. The financial reports may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions, P.O. Box 295, Trenton, New Jersey, 08625-0295.

All of Marketing Operations' salaried employees are required as a condition of employment to be members of PERS. A member may retire on a service retirement allowance as early as age 60; no minimum service requirement must be established. The formula for benefits is an annual allowance in the amount equal to years of service, divided by 55, times the final average salary. Final average salary means the average of the salaries received by the member for the last three years of creditable membership service preceding retirement or the highest three fiscal years of membership service, whichever provides the larger benefit. Benefits fully vest on reaching 10 years of service. Vested employees may retire at or after age 55 and receive reduced retirement benefits. The system also provides death and disability benefits. Benefits are established by State statute.

Covered Marketing Operations' employees are required by PERS to pay a certain percentage of defined salary. In 2010, the percentage was 5.5%. In 2011, the percentage was 5.5% through nine months and beginning October 1, the percentage increased to 6.5%. Marketing Operations is required by State statute to contribute the remaining amounts necessary to pay benefits when due. PERS certifies the amount of Marketing Operations' contribution each year on the recommendation of an actuary who makes an annual actuarial valuation. The valuation is a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary, and interest. The most recent valuation was issued in July 2011 for the year ended December 31, 2011.

The contribution requirements of Plan members and the Authority are established and may be amended by the Board of Trustees of the Plan. The covered employee contributions required for the years ended December 31, 2011, 2010, and 2009 were \$181,030 (5.7%), \$180,115 (5.5%), and \$184,294 (5.5%), respectively. The employees made the contributions for 2011, 2010, and 2009. The employer contributions for 2011, 2010, and 2009 were \$367,009, \$377,934, and \$302,239, respectively.

All eligible employees of SMG may participate in a section 401(k) deferred compensation plan. SMG's employer contributions were \$32,698 in 2011, but made no contributions in 2010 and 2009. SMG's total payroll for the years ended December 31, 2011, 2010, and 2009 was \$7,077,092, \$6,679,393, and \$6,324,430, respectively.

Additionally, some of the Authority's employees are participants in certain pension plans administered by local unions and contributions are made in accordance with terms of union agreements of those employees. There are four active unions participating in their own pension plans in accordance with each specific union agreement and based on each of the applicable union job trades. The total combined contributions for all participating unions were \$233,012, \$229,330, \$234,763 in 2011, 2010, and 2009, respectively. The total combined payroll for all participating unions was \$1,859,296, \$1,792,150, and \$1,827,395 in 2011, 2010, and 2009, respectively.

## **11. COMMITMENTS AND CONTINGENCIES**

- The Authority is the subject of, or a party to, various pending or threatened legal actions involving outside interests. The Authority believes that any ultimate liability arising from these actions should not have a material effect on its financial position or operations.
- The Authority is a party to an ongoing agreement with New Jersey Transit. As long as rail service is operated to the Atlantic City Convention Center, New Jersey Transit is entitled to a share of the

revenue of the garage at the convention center. An annual lump-sum amount of \$190,000 would satisfy this agreement. The payments were \$190,000 and \$190,000 for 2011 and 2010, respectively.

- On June 26, 2000, the NJSEA formed The Historic Boardwalk Hall, L.L.C. (the LLC), a limited liability company in the State of New Jersey for the purpose of financing and operating the Historic East Hall of the Atlantic City Boardwalk Convention Center (the "East Hall"). The LLC, which assumes the leasehold interest and contractual obligations of the Authority, admitted an investing member on September 14, 2000, through capital contributions. Of the contributed capital already received, \$621,869 is being held in escrow and can only be used to restore or repair the organ at the Historic Boardwalk Hall. Subject to a notice issued by a governmental agency, an expense has been recorded in the 2004 financial statements. Until December 31, 2009, the restricted cash being held in escrow was recorded on the financial statements of the NJSEA. On January 1, 2010, the restricted cash was transferred to the financial statements of the Authority (See Note 1).

On October 11, 2011, the Authority was awarded a *Save America's Treasures Grant* in the amount of \$100,000 from the National Endowment for the Arts to reimburse for capital improvement costs incurred in making the Swell Chamber of the organ functionally and mechanically reliable. Matching funds in the amount of \$100,000 for grant supported work were secured from the aforementioned escrow account, with oversight from the Historic Organ Restoration Committee. The grant period covered from December 30, 2007 to December 31, 2010 and the total project outlays were \$201,318.

- On March 1, 2001, the NJSEA entered into an agreement leasing the Convention Center for a term of 99 years for a single payment equal to the appraised value of the Convention Center, at that date, and concurrently leasing-back the property for a term of 35 years. The major portion of the proceeds received have been invested to sufficiently fund the NJSEA's future lease payments and exercise its option to repurchase the initial lease in 26 years without having to provide any additional funds. Repurchase options are also available after 10 and 20 years. The NJSEA's payment obligations are additionally secured by contingent State Contract Bonds (\$100,000,000) and legally available luxury tax and convention center revenues, as defined. Upon entering this transaction, the NJSEA received a cash payment of approximately \$7,945,000.



## 12. INFORMATION ON AUTHORITY OPERATIONS BY OPERATING SEGMENT

The Authority has three responsibilities: operation of the Boardwalk Hall, operation of the Convention Center, and promoting tourism through its Marketing Operations. The following table illustrates how these three operations contribute to the operating results of the Authority. All payments made and received between segments that are recorded as revenues and expenses are eliminated in the combined financial statements. These payments typically include the office rent and telephone and marketing expenses that Marketing Operations pays to Boardwalk Hall and the Convention Center.

	Year Ended December 31, 2011					
	Boardwalk Center Operations	New Center	Marketing Operations	Luxury Tax Reserve Fund	Elimination Entries	Combined December 31, 2011
Operating revenues:						
Special services	\$ 3,502,860	\$ 3,229,562	\$ -	\$ -	\$(16,526)	\$ 6,715,896
Facilities rental	2,058,043	2,196,422	-	-	-	4,254,465
Parking	229,110	1,560,919	-	-	-	1,790,029
Concessions	602,895	602,778	-	-	-	1,205,673
Promotion reimbursement and fees	104,707	28,217	562,216	-	-	695,140
Other	413,260	248,468	4,790	-	(150,000)	516,518
Total operating revenues	<u>6,910,875</u>	<u>7,866,366</u>	<u>567,006</u>	<u>-</u>	<u>(166,526)</u>	<u>15,177,721</u>
Operating expenses:						
Salaries, wages and benefits	5,019,810	5,321,045	5,225,417	-	-	15,566,272
Marketing expenditures	448,749	3,566	4,723,444	-	(15,428)	5,160,331
Utilities	1,211,374	2,823,906	139,958	-	(1,098)	4,174,140
Contract services	1,120,643	1,656,147	29,592	-	-	2,806,382
Insurance	367,953	415,057	20,660	-	-	803,670
Repairs and maintenance	456,271	894,729	140,905	-	-	1,491,905
Supplies	124,302	182,881	71,313	-	-	378,496
Professional fees	257,328	129,273	81,608	4,310	-	472,519
Management fees	213,012	213,012	-	-	-	426,024
Bad debts expense	23,107	33,185	-	-	-	56,292
Parking participation	-	190,000	-	-	-	190,000
Depreciation	-	-	201,926	9,746,464	-	9,948,390
Production	1,305,309	184,775	-	-	-	1,490,084
Other	48,388	40,990	235,442	-	(150,000)	174,820
Total operating expenses	<u>10,596,246</u>	<u>12,088,566</u>	<u>10,870,265</u>	<u>9,750,774</u>	<u>(166,526)</u>	<u>43,139,325</u>
Operating loss	<u>(3,685,371)</u>	<u>(4,222,200)</u>	<u>(10,303,259)</u>	<u>(9,750,774)</u>	<u>-</u>	<u>(27,961,604)</u>
Nonoperating income and (expense):						
Luxury tax revenue	3,680,375	4,220,048	647,768	22,966,820	-	31,515,011
Marketing fee revenue	-	-	9,649,231	-	-	9,649,231
Interest income	4,996	2,152	6,260	23,959	-	37,367
Interest expense	-	-	-	(5,717,174)	-	(5,717,174)
Capital grant revenue	-	-	-	100,000	-	100,000
Other nonoperating income(expense)	-	-	-	(109,967)	-	(109,967)
	<u>3,685,371</u>	<u>4,222,200</u>	<u>10,303,259</u>	<u>17,263,638</u>	<u>-</u>	<u>35,474,468</u>
Change in net assets				7,512,864		7,512,864
Net assets — Beginning of year	-	-	7,610,623	307,252,373	-	314,862,996
Net assets — End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,610,623</u>	<u>\$314,765,237</u>	<u>\$ -</u>	<u>\$322,375,860</u>

**INFORMATION ON AUTHORITY OPERATIONS BY OPERATING SEGMENT  
(CONTINUED)**

	Year Ended December 31, 2010					
	Boardwalk Center Operations	New Center	Marketing Operations	Luxury Tax Reserve Fund	Elimination Entries	Combined December 31, 2010
Operating revenues:						
Special services	\$ 2,750,365	\$ 3,070,136	\$ -	\$ -	\$(14,194)	\$ 5,806,307
Facilities rental	2,339,064	2,325,331	-	-	-	4,664,395
Parking	217,044	1,481,916	-	-	-	1,698,960
Concessions	808,931	441,609	-	-	-	1,250,540
Promotion reimbursement and fees	176,780	100,165	566,486	-	-	843,431
Other	240,029	157,443	10,883	-	(150,000)	258,355
Total operating revenues	<u>6,532,213</u>	<u>7,576,600</u>	<u>577,369</u>	<u>-</u>	<u>(164,194)</u>	<u>14,521,988</u>
Operating expenses:						
Salaries, wages and benefits	4,663,099	5,197,271	5,141,385	-	-	15,001,755
Marketing expenditures	270,300	3,703	4,268,399	-	(13,674)	4,528,728
Utilities	1,167,011	2,748,306	160,082	-	(520)	4,074,879
Contract services	1,170,443	1,645,032	40,662	-	-	2,856,137
Insurance	420,798	443,226	18,923	-	-	882,947
Repairs and maintenance	479,715	886,562	138,601	-	-	1,504,878
Supplies	191,105	228,181	71,481	-	-	490,767
Professional fees	206,085	104,769	78,534	2,155	-	391,543
Management fees	211,520	211,520	-	-	-	423,040
Bad debts expense	3,625	28,867	2,280	-	-	34,772
Parking participation	-	190,000	-	-	-	190,000
Depreciation	-	-	257,749	11,494,207	-	11,751,956
Production	998,967	176,302	-	-	-	1,175,269
Other	19,207	37,509	214,053	-	(150,000)	120,769
Total operating expenses	<u>9,801,875</u>	<u>11,901,248</u>	<u>10,392,149</u>	<u>11,496,362</u>	<u>(164,194)</u>	<u>43,427,440</u>
Operating loss	<u>(3,269,662)</u>	<u>(4,324,648)</u>	<u>(9,814,780)</u>	<u>(11,496,362)</u>	<u>-</u>	<u>(28,905,452)</u>
Nonoperating income and (expense):						
Luxury tax revenue	3,264,465	4,322,797	2,630,142	17,772,421	-	27,989,825
Marketing fee revenue	-	-	7,179,606	-	-	7,179,606
Interest income	5,197	1,851	5,032	41,585	-	53,665
Interest expense	-	-	-	(6,058,186)	-	(6,058,186)
Other nonoperating income(expense)	-	-	-	(108,967)	-	(108,967)
	<u>3,269,662</u>	<u>4,324,648</u>	<u>9,814,780</u>	<u>11,646,853</u>	<u>-</u>	<u>29,055,943</u>
Transfers from NJSEA	-	-	-	307,101,882	-	307,101,882
Change in net assets	-	-	-	307,252,373	-	307,252,373
Net assets — Beginning of year	-	-	7,610,623	-	-	7,610,623
Net assets — End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,610,623</u>	<u>\$307,252,373</u>	<u>\$ -</u>	<u>\$314,862,996</u>