

**Deloitte &
Touche**



Cherry Hill Office Center
1040 Kings Highway North
Cherry Hill, New Jersey 08034-1908
Telephone: (609) 667-8500

Cable DEHANDS

INDEPENDENT AUDITORS' REPORT

Chairman and Members of the Board
Casino Reinvestment Development Authority
Atlantic City, New Jersey:

We have audited the accompanying balance sheets of the Casino Reinvestment Development Authority (the "Authority") as of December 31, 1989 and 1988 and the related statements of revenues, expenses and changes in fund equity and of changes in financial position 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 generally accepted auditing standards. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 at December 31, 1989 and 1988 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles.

Deloitte & Touche

January 12, 1990

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

BALANCE SHEETS, DECEMBER 31, 1989 AND 1988

<u>ASSETS</u>	<u>NOTES</u>	<u>....OPERATING FUND....</u>		<u>.....REINVESTMENT FUND.....</u>		<u>....DEVELOPMENT FUND....</u>	
		<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>
Cash and investments	3	\$6,998,162	\$4,247,622	\$132,856,633	\$110,805,603	\$ 3,309,779	\$ 169,208
Receivables:							
Obligations held by							
State of New Jersey	4				1,558,106		
Current obligations	5			5,254,669	8,479,150		
Prior obligations	5			10,781,558	28,551,955		
Notes	2					26,421,174	39,816,544
Interest		1,368,040	720,901			340,704	867,783
Other		466,187	311,772				
Escrowed funds	10	75,206	75,206				
Real estate held for resale	10	761,219	798,255				
Fixed assets (net)	2	<u>107,698</u>	<u>103,454</u>				
TOTAL ASSETS		<u>\$9,776,512</u>	<u>\$6,257,210</u>	<u>\$148,892,860</u>	<u>\$149,394,814</u>	<u>\$30,071,657</u>	<u>\$40,853,535</u>
 <u>LIABILITIES AND FUND EQUITY</u>							
Liabilities:							
Accounts payable and accrued liabilities		\$ 227,372	\$ 329,635				
Interest payable				\$ 2,914,159	\$ 2,122,276	\$ 463,237	\$ 871,402
Obligation deposits	6,7,8			129,942,474	110,241,433		
Accrued investment obligations	5			5,254,669	8,479,150		
Deferred investment obligations	5			10,781,558	28,551,955		
Bonds payable	2,6					27,022,635	39,821,650
Other	6					2,550,569	141,484
Total liabilities		<u>227,372</u>	<u>329,635</u>	<u>148,892,860</u>	<u>149,394,814</u>	<u>30,036,441</u>	<u>40,834,536</u>
Fund equity - unrestricted:							
Reserve for:							
Indemnification	9	1,000,000	750,000				
Land banking	10	2,200,205	1,201,745				
Unreserved fund equity - retained earnings		<u>6,348,935</u>	<u>3,975,830</u>			<u>35,216</u>	<u>18,999</u>
Total fund equity		<u>9,549,140</u>	<u>5,927,575</u>			<u>35,216</u>	<u>18,999</u>
TOTAL LIABILITIES AND FUND EQUITY		<u>\$9,776,512</u>	<u>\$6,257,210</u>	<u>\$148,892,860</u>	<u>\$149,394,814</u>	<u>\$30,071,657</u>	<u>\$40,853,535</u>

See notes to financial statements.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1989 AND 1988

OPERATING FUND....		...DEVELOPMENT FUND...	
	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>
REVENUES:				
Interest	\$4,519,554	\$2,846,117	\$2,385,611	\$2,308,524
Project processing and other fees	239,277	644,508		
Other income	<u>124,628</u>	<u>81,219</u>	<u>7,269</u>	<u>16,086</u>
Total revenues	<u>4,883,459</u>	<u>3,571,844</u>	<u>2,392,880</u>	<u>2,324,610</u>
EXPENSES:				
Salaries and benefits	686,913	546,499		
Professional services	374,602	412,640		
General and administrative	159,895	138,418		
Interest			2,282,356	2,215,847
Other	<u>40,484</u>	<u> </u>	<u>94,307</u>	<u>91,898</u>
Total expenses	<u>1,261,894</u>	<u>1,097,557</u>	<u>2,376,663</u>	<u>2,307,745</u>
EXCESS OF REVENUES OVER EXPENSES	3,621,565	2,474,287	16,217	16,865
FUND EQUITY, Beginning of year	<u>5,927,575</u>	<u>3,453,288</u>	<u>18,999</u>	<u>2,134</u>
FUND EQUITY, End of year	<u>\$9,549,140</u>	<u>\$5,927,575</u>	<u>\$ 35,216</u>	<u>\$ 18,999</u>

See notes to financial statements.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1989 AND 1988

 OPERATING FUND REINVESTMENT FUND DEVELOPMENT FUND	
	1989	1988	1989	1988	1989	1988
SOURCES OF CASH:						
Excess of revenues over expenses	\$3,621,565	\$2,474,287			\$ 16,217	\$ 16,865
Add items not requiring cash:						
Depreciation	22,441	14,806				
Other	40,484					
Decrease in receivables					17,547,894	
Increases in payables		196,269				622,161
Collection of obligations			\$ 50,080,555	\$ 43,376,008		
Bonds issued					4,182,605	14,897,654
Collection of interest			10,828,421	8,214,762		
Total sources of cash	<u>3,684,490</u>	<u>2,685,362</u>	<u>60,908,976</u>	<u>51,590,770</u>	<u>21,746,716</u>	<u>15,536,680</u>
USES OF CASH:						
Increase in:						
Interest and other receivables	801,554	420,364				490,606
Escrowed funds		75,206				
Decrease in payables	102,263				14,980,701	
Purchase of:						
Fixed assets	26,685	31,342				
Real estate	3,448	798,255				
Bonds issued			4,182,605	14,897,654		
Loans issued					3,625,444	14,897,654
Direct investment disbursements			18,383,424	12,238,184		
Payment of interest			10,036,538	7,238,064		
Obligation returns			6,255,379			
Total uses of cash	<u>933,950</u>	<u>1,325,167</u>	<u>38,857,946</u>	<u>34,373,902</u>	<u>18,606,145</u>	<u>15,388,260</u>
Increases in cash and investments	2,750,540	1,360,195	22,051,030	17,216,868	3,140,571	148,420
CASH AND INVESTMENTS, Beginning of year	<u>4,247,622</u>	<u>2,887,427</u>	<u>110,805,603</u>	<u>93,588,735</u>	<u>169,208</u>	<u>20,788</u>
CASH AND INVESTMENTS, End of year	<u>\$6,998,162</u>	<u>\$4,247,622</u>	<u>\$132,856,633</u>	<u>\$110,805,603</u>	<u>\$ 3,309,779</u>	<u>\$ 169,208</u>

See notes to financial statements.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1989 AND 1988

1. ORGANIZATION

The New Jersey Casino Reinvestment Development Authority (CRDA) was created pursuant to Chapter 218 of P.L. 1984, effective December 19, 1984. Under the law (N.J.S.A. 5:12-144 et seq.), licensees (casinos) are required to either pay 2.5% of their gross revenues as a tax or to invest 1.25% of their gross revenues in bonds of the CRDA. The bond proceeds are used to finance projects, approved by the CRDA, in Atlantic City, South Jersey and North Jersey. The CRDA can also approve direct investments in projects made by the licensees, and approved direct investments may be used by the licensees to satisfy their investment obligation.

The CRDA is governed by a board of twelve members appointed as follows:

Voting Members:

Five members appointed by the Governor of the State of New Jersey with the consent of the New Jersey State Senate.

One member appointed by the Governor of the State of New Jersey upon the recommendation of the President of the New Jersey State Senate.

One member appointed by the Governor of the State of New Jersey upon the recommendation of the Speaker of the General Assembly of the State of New Jersey.

One member of the New Jersey Casino Control Commission appointed by the Governor of the State of New Jersey.

The Mayor of Atlantic City.

Nonvoting Members:

The State Treasurer.

Two members appointed by the Governor of the State of New Jersey representing the casino industry.

The CRDA as created pursuant to law is to:

- . Maintain public confidence in the New Jersey casino gaming industry as a unique tool of urban redevelopment for the City of Atlantic City, New Jersey and to directly facilitate the redevelopment of blighted areas throughout New Jersey by providing eligible projects in which licensees (casinos) can invest.
- . Provide loans and other financial assistance for the planning, construction, rehabilitation and repair of housing, recreation, transportation, education and community service facilities to provide decent, safe and sanitary living conditions for persons of low, moderate, median and middle incomes.
- . Assist in financing buildings, infrastructure and other property to increase opportunities in manufacturing, industrial, commercial, entertainment, and service enterprises to induce and accelerate opportunity for employment in those enterprises.
- . Promote the tourist industry in New Jersey, especially in Atlantic County.
- . Encourage investment in, or financing of, projects which are made as part of a comprehensive plan to improve blighted areas in New Jersey or areas that are targeted to benefit low through middle income New Jersey residents.

The CRDA is established in, but not of, the Department of the Treasury of the State of New Jersey and is a component unit of the State of New Jersey for financial reporting purposes.

The State Treasurer is required to approve CRDA bond resolutions, investments, and the annual operating budget.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the Financial Accounting Standards Board. The accounts of the CRDA are organized on the basis of funds, each of which is defined as a separate accounting entity. The funds utilized are as follows:

- . Operating Fund is used to account for all administrative and general transactions relating to the general operations of the CRDA. Revenues are derived from one-third of the interest earned on the investment obligations received by the CRDA from the licensees prior to the issuance of bonds, from project processing and administrative fees collected for the administration of CRDA loans, and from all of the interest earned on donations received by the CRDA for the implementation of the Northeast Inlet Redevelopment Plan.

- . Reinvestment Fund is used to account for the receipt of the investment obligations and donations from licensees which are available to finance projects. Investment obligations and donations are held in this fund until bonds have been issued, direct investment payments have been made for approved projects or donated funds have been expended. A portion of the interest earned on investment obligations held in the Reinvestment Fund is due to the licensees.
- . Development Fund is used to account for all bonds issued to finance projects and the corresponding loans receivable from those projects. It is also used to account for project grants that have not yet been disbursed for projects. All bonds included in the Development Fund are nonrecourse obligations of the CRDA.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis. Separate accounts are maintained for each major fund, with all financial transactions recorded and reported by fund group.

Fixed Assets - Fixed assets, consisting primarily of furniture and equipment, are carried at cost less accumulated depreciation of \$44,485 and \$22,044 at December 31, 1989 and 1988, respectively. The Authority depreciates its assets using the straight-line method over their estimated useful lives.

3. CASH AND INVESTMENTS

The "Securities Purchase Contract" between the CRDA and the licensees prescribes the type of investments allowed in the Reinvestment Fund. The "Securities Purchase Contract" requires that all investments be as follows:

- . Direct obligations of or obligations unconditionally guaranteed by the United States or direct obligations of or obligations unconditionally guaranteed by any state of the United States. If the latter is chosen, the securities must be rated in any of the two highest rating categories by a nationally recognized rating service.
- . Repurchase agreements that are collateralized by direct obligations of or obligations unconditionally guaranteed by the United States. The collateral must have a market value at all times equal to the repurchase price, and they must be perfected for the benefit of the CRDA.
- . Units of the New Jersey Cash Management Fund, invested by the State Division of Investments, consisting of short-term obligations of the U.S. Government and certain of its agencies, commercial paper, certificates of deposit, repurchase agreements and bankers' acceptances.

Certificates of deposit issued by a bank, trust company, national banking association, savings and loan association or other financial institution that is fully and continuously secured by direct obligations of, or obligations unconditionally guaranteed by the United States. The securities underlying the certificates of deposit must have a market value at all times equal to the principal amount of such certificates of deposit, and must be held in such a manner as may be required to provide a perfected security interest for the benefit of the CRDA.

As of December 31, 1989, all investments held in the Reinvestment Fund by the CRDA were in compliance with the requirements of the "Securities Purchase Contract".

Substantially all cash and investments held in the Operating Fund and Development Fund at December 31, 1989 are invested in the New Jersey Cash Management Fund.

4. OBLIGATIONS HELD BY THE STATE OF NEW JERSEY

At December 31, 1988, obligations in the amount of \$1,558,106 represent obligations collected by the State Treasurer and not remitted to the CRDA. This amount was remitted to the CRDA in January 1989.

5. INVESTMENT OBLIGATIONS

- A. Obligations collected from licensees are held in the Reinvestment Fund until projects are approved by the CRDA's Board of Directors. At that time, they are used for the purpose of purchasing bonds issued by the CRDA for financing approved projects and licensees' direct investment projects or purchasing bonds of the New Jersey Development Authority for Small Businesses, Minorities, and Women's Enterprises.
- B. Current obligations represent amounts incurred by licensees under the CRDA statute and are based upon 1.25% of their gross revenues. Payments are due quarterly on April 15, July 15, October 15, and January 15, for the preceding quarter.
- C. Prior obligations represent amounts incurred by licensees operating prior to the 1984 establishment of the CRDA and are based upon 2% of their gross revenues. As of December 31, 1989, all licensees have made payments of obligations accrued prior to January 1, 1984 with the exception of Resorts International Hotel, Inc. (Resorts). For financial reporting purposes, amounts outstanding are recorded as deferred investment obligations.
- D. Resorts has not made full payments for the years 1980 to 1983 for a total of \$10,781,558. Resorts has claimed direct investment credit for housing projects started prior to the creation of the CRDA. In the event that direct investment credit for such amount is not approved, CRDA believes that Resorts will be obligated to make payments for such amounts according to law. This matter has been referred to the New Jersey State Treasurer for enforcement.

6. PROJECT AND DIRECT INVESTMENT COMMITMENTS AND DISBURSEMENTS

A. During 1989, the CRDA committed approximately \$57.8 million in current and future CRDA obligations to finance direct investment and other projects. During 1988, the CRDA committed approximately \$10.2 million.

As of December 31, 1989, the CRDA had made cumulative commitments and disbursements as follows:

<u>Project</u>	<u>Commitments</u>	<u>.....Disbursements.....</u>	
		<u>Bonds</u>	<u>Direct Investment</u>
Atlantic City:			
Northwest Inlet	\$ 3,307,100	\$ 2,177,908	
Vermont Plaza	21,000,000	21,000,000	
Regency and Victorian Court	36,464,579	16,981,620	\$17,158,312
Victorian Court II	2,620,242		
Northeast Inlet Phase I	73,875,055		14,579,769
Jacobs Family Terrace	12,483,686	2,375,993	8,269,443
Landmark Group	880,000	880,000	
Northeast Inlet Redevelopment Plan	41,420,589		
Northeast Inlet Land Banking	5,195,708		
South Jersey:			
Edison Plaza/Camden	3,000,000		
BCCAP/Pemberton	350,000	31,573	
ARC/Lakewood	518,000		
Serendipity/Willingboro	625,000		
MLP Bond Reserve	557,161	557,161	
North Jersey - NEDC/Newark	900,000		
Total	<u>\$203,197,120</u>	<u>\$44,004,255</u>	<u>\$40,007,524</u>

B. At December 31, 1989, approximately \$2 million of grants received for the construction of the Northeast Inlet Phase I Project are included in other liabilities of the Development Fund.

7. ALLOCATION OF OBLIGATION DEPOSITS

The CRDA is required by Statute to allocate obligations received to Atlantic City, South Jersey and North Jersey. The CRDA is also required to set aside \$1,200,000 annually for the purpose of investing in obligations of the New Jersey Development Authority for Small Businesses, Minorities and Women's Enterprises (SBMWE). As of December 31, 1989 and 1988, the CRDA has allocated obligation deposits as follows:

	<u>1989</u>	<u>1988</u>
Atlantic City	\$114,717,206	\$100,092,903
South Jersey	5,746,615	3,318,824
North Jersey	2,487,211	829,706
SBMWE	<u>6,991,442</u>	<u>6,000,000</u>
Total	<u>\$129,942,474</u>	<u>\$110,241,433</u>

8. DONATED OBLIGATIONS

Certain licensees have submitted petitions to donate obligations to the CRDA and SBMWE in lieu of purchasing bonds. The CRDA and SBMWE accepted the donations in accordance with N.J.S.A. 5:12-177. In return, CRDA and SBMWE granted credit against the present or future obligation to purchase bonds. CRDA committed its donations received to the implementation of the Northeast Inlet Redevelopment Plan and the Northeast Inlet Land Banking Program. Donation amounts and the amount of credit to be applied against future obligations as of December 31, 1989 and the amount of previous collections returned to the licensees during 1989 are as follows:

	<u>Donation Amounts</u>	<u>Future Credit</u>	<u>Previous Collections Returned</u>
CRDA:			
Bally's Grand and Park Place	\$22,713,156	\$11,583,710	
Claridge Resorts	6,658,968	3,396,073	
Atlantis	12,048,465		\$6,144,717
	5,195,708		
SBMWE:			
Atlantis	216,985		110,662
Caesar's	755,800	582,325	
Total	<u>\$47,589,082</u>	<u>\$15,562,108</u>	<u>\$6,255,379</u>

9. DIRECTORS AND OFFICERS LIABILITY INSURANCE

On August 8, 1986, the CRDA approved the establishment of a \$1,000,000 Indemnification Fund by committing obligation deposits of the Reinvestment Fund. Each year, the CRDA is required to reduce the commitment of the Reinvestment Fund by \$250,000 and establish a reserve in the Operating Fund in an equal amount. In the event any amount of the Indemnification Fund is used for purposes for which it has been established, the CRDA will replenish that amount from operating revenue but not more than \$250,000 per year.

At December 31, 1989 and 1988, \$1,000,000 and \$750,000, respectively, has been reserved in the Operating Fund. At December 31, 1988, \$250,000 had been committed in the Reinvestment Fund. No monies were committed in the Reinvestment Fund at December 31, 1989 as the \$1,000,000 indemnification requirement has been fulfilled in the Operating Fund.

10. LAND BANKING

- A. The CRDA has authorized the acquisition of land parcels within the Northeast Inlet section of Atlantic City to facilitate the implementation of the Northeast Inlet Redevelopment Plan. CRDA has a balance of \$761,219 and \$798,255 as of December 31, 1989 and 1988, respectively, of real estate held for resale to developers of future CRDA approved projects. The CRDA had reserved \$3 million and \$2 million in 1989 and 1988, respectively, of its operating fund's unrestricted fund equity for such purpose. At December 31, 1989 and 1988, \$2,200,205 and \$1,201,745, respectively, remained available for land acquisition upon authorization by CRDA.
- B. At December 31, 1989 and 1988, the CRDA has escrowed funds totaling \$75,206 for the purchase of land parcels in the Northeast Inlet section of Atlantic City. CRDA expects to complete the transactions and receive title to the land parcels.

11. FIDELITY BOND

The CRDA has a \$100,000 Honesty Blanket Bond supplied by Pennsylvania National Mutual Casualty Insurance Company covering all of its employees.

12. BUDGETARY REQUIREMENTS

The CRDA operates under a budget approved by its Board. The annual operating budget is submitted by the last day of October of each year to the State Treasurer for approval.

13. SUBSEQUENT EVENTS

During the period January 1, 1990 to January 12, 1990, the CRDA issued bonds, and disbursed loans and direct investment for a total of \$1,237,187. Donations from licensees totaling \$9,705,471 were received by the CRDA during the period January 1, 1990 to January 12, 1990.