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Cable DEHANDS

AUDITORS' OPINION

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

We have examined the accompanying balance sheet of the Casino Reinvestment Development Authority as of December 31, 1987 and the related statements of revenues, expenses and changes in fund equity and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Casino Reinvestment Development Authority at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year, except for the change, with which we concur, in the method of accounting used within the operating fund and the reinvestment fund as described in Note 2 to the financial statements.

*Deloitte Haskins + Sells*

January 12, 1988

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

BALANCE SHEET, DECEMBER 31, 1987

<u>ASSETS</u>	<u>NOTES</u>	<u>OPERATING FUND</u>	<u>REINVESTMENT FUND</u>	<u>DEVELOPMENT FUND</u>
Cash and investments	3	\$2,887,427	\$ 93,588,735	\$ 20,788
Receivables:				
Obligations held by State of New Jersey	4,11		11,021,679	
Current obligations	5		7,507,226	
Prior obligations	5		30,195,840	
Notes				24,923,996
Interest		555,438	521,238	372,071
Other		56,871		
Fixed assets (net)	2	86,918		
<b>TOTAL ASSETS</b>		<b><u>\$3,586,654</u></b>	<b><u>\$142,834,718</u></b>	<b><u>\$25,316,855</u></b>
 <u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable and accrued liabilities		\$ 133,366		
Interest payable			\$ 1,666,815	\$ 366,117
Obligation deposits	6,7		103,464,837	
Accrued obligation deposits	5		7,507,226	
Deferred investment obligations	5		30,195,840	
Bonds payable	2			24,923,996
Other				24,608
<b>Total liabilities</b>		<b><u>133,366</u></b>	<b><u>142,834,718</u></b>	<b><u>25,314,721</u></b>
Fund equity - unrestricted:				
Reserve for indemnification	8	500,000		
Unreserved fund equity - retained earnings		<u>2,953,288</u>		<u>2,134</u>
<b>Total fund equity</b>		<b><u>3,453,288</u></b>		<b><u>2,134</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>		<b><u>\$3,586,654</u></b>	<b><u>\$142,834,718</u></b>	<b><u>\$25,316,855</u></b>

See notes to financial statements

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 1987

	<u>NOTE</u>	<u>OPERATING FUND</u>	<u>REINVESTMENT FUND</u>	<u>DEVELOPMENT FUND</u>
REVENUES:				
Interest		\$1,991,855		\$982,998
Project processing and other fees		<u>819,180</u>		<u>                    </u>
Total revenues		<u>2,811,035</u>		<u>982,998</u>
EXPENSES:				
Salaries and benefits		427,652		
Professional services		262,133		
General and administrative		118,105		
Interest				959,943
Other				<u>21,654</u>
Total expenses		<u>807,890</u>		<u>981,597</u>
EXCESS OF REVENUES OVER EXPENSES		2,003,145		1,401
FUND EQUITY, Beginning of year		1,440,817	\$95,525,162	733
ADJUSTMENT - Change in accounting method	2	<u>9,326</u>	<u>(95,525,162)</u>	<u>                    </u>
FUND EQUITY, End of year		<u>\$3,453,288</u>	<u>\$ -</u>	<u>\$ 2,134</u>

See notes to financial statements.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEAR ENDED DECEMBER 31, 1987

	<u>OPERATING</u> <u>FUND</u>	<u>REINVESTMENT</u> <u>FUND</u>	<u>DEVELOPMENT</u> <u>FUND</u>
<b>SOURCES OF CASH:</b>			
Excess of revenues over expenses	\$2,003,145		\$ 1,401
Item not requiring funds - depreciation	6,318		
Increases in accounts payable and accrued liabilities	67,465		388,244
Collection of obligations		\$50,378,576	
Bonds issued			24,855,988
Collection of interest		<u>5,049,160</u>	
Total sources of cash	<u>2,076,928</u>	<u>55,427,736</u>	<u>25,245,633</u>
<b>USES OF CASH:</b>			
Increase in interest and other receivables	284,328		372,031
Purchase of fixed assets	83,910		
Bonds issued		24,855,988	
Loans issued			24,855,988
Payment of direct investment		686,922	
Payment of interest		<u>4,874,710</u>	
Total uses of cash	<u>368,238</u>	<u>30,417,620</u>	<u>25,228,019</u>
Increases in cash and investments	1,708,690	25,010,116	17,614
CASH AND INVESTMENTS, Beginning of year	<u>1,178,737</u>	<u>68,578,619</u>	<u>3,174</u>
CASH AND INVESTMENTS, End of year	<u>\$2,887,427</u>	<u>\$93,588,735</u>	<u>\$ 20,788</u>

See notes to financial statements.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 1987

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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, licensees (casinos) are required to pay 2.5% of their gross revenues as a tax or to invest 1.25% of gross revenues in bonds of the CRDA. The bonds are used to finance projects approved by the CRDA, in Atlantic City, South Jersey and North Jersey. The CRDA can approve direct investments made by the licensees, and approved investments may be used to satisfy the licensees' investment obligations.

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 in 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 all bond resolutions, investments, and the annual operating budget.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Changes - In 1987, in order to more appropriately reflect the nature of and accounting for its operations, CRDA changed its method of accounting retroactively for the Operating Fund and the Reinvestment Fund.

The CRDA retroactively changed its method of accounting for fixed assets in the operating fund from "Governmental Fund" accounting to "Proprietary Fund" accounting. Accordingly, under Proprietary Fund accounting, fixed assets are capitalized and depreciated via a charge as an expense against operations. The effect of this change is an increase in Operating Fund equity and an increase in fixed assets of \$9,326 at January 1, 1987, representing the net book value of the Operating Fund's fixed assets at December 31, 1986.

Previously, the Reinvestment Fund was accounted for as an expendable trust fund. Management believes that accounting for the Reinvestment Fund as an agency fund more appropriately reflects the accounting for investment obligations from licensees and the related income earned from such investments. The effect of this change is a decrease in Fund Equity and an increase in obligation deposits of \$95,525,162 at January 1, 1987.

Basis of Presentation - The accompanying financial statements have been prepared in conformance with generally accepted accounting principles for governments 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 presented 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 of the obligations received by the CRDA from the licensees prior to the issuance of bonds, and from project processing and administrative fees collected for the administration of CRDA loans.
- . Reinvestment Fund is used to account for the receipt of the investment obligations from licensees which are available to finance projects. Investment obligations are held in this fund until bonds have been issued or direct investment payments have been made for approved projects. Two thirds of all interest earned on investments held in the Reinvestment Fund is due to the licensees.
- . Development Fund is used to account for all bonds issued to finance projects with investment obligations and the corresponding loans receivable from those 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. The accounts are maintained in accordance with the principles of fund accounting, and separate accounts are maintained for each major fund. All financial transactions have been recorded and reported by fund group.

Fixed Assets - Fixed assets, consisting primarily of furniture and equipment, are carried at cost less accumulated depreciation of \$7,238 at December 31, 1987. The Authority depreciates these assets under 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.
- . The New Jersey Cash Management Fund.
- . 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, 1987, all investments held by the CRDA were in compliance with the requirements of the "Securities Purchase Contract".

### 4. OBLIGATIONS HELD BY THE STATE OF NEW JERSEY

Obligations in the amount of \$11,021,679 represent obligations collected by the State Treasurer on December 31, 1987 for the licensees' 1982 obligations (see Note 11).

### 5. INVESTMENT OBLIGATIONS

- A. Obligations under the CRDA statute represent amounts incurred by licensees based upon 1.25% of their gross revenues. Payments are due quarterly on April 15, July 15, October 15, and January 15.

- B. Obligations incurred by licensees operating prior to the establishment of the CRDA, based upon two percent of their gross revenue, are payable to the CRDA in accordance with the following schedule:

1979	due	1984
1980	due	1985
1981	due	1986
1982	due	1987
1983	due	1988

For financial reporting purposes, these amounts are recorded as deferred investment obligations. As of December 31, 1987, prior obligations receivable were \$30,195,840.

The Resorts International Hotel, Inc. (Resorts) has not made full payments for the years 1980 to 1982 for a total of \$7,103,544. Resorts has claimed direct investment credit for a project started prior to the creation of the CRDA. Management believes that either payment of the prior obligations will be made or the direct investment will be approved by the CRDA Board.

- C. All obligations are held in the Reinvestment Fund until projects are approved by the CRDA's Board. At that time they are used for the purpose of purchasing bonds issued by the CRDA for financing projects, financing licensees' direct investment projects, and purchasing bonds of the New Jersey Development Authority for Small Business, Minorities, and Women's Enterprises.
- D. The Atlantis Casino has filed for protection under Chapter 11 under the U.S. Bankruptcy Code. The CRDA, Atlantis Casino and the Bankruptcy Court are jointly working toward agreeing upon a payment schedule for Atlantis Casino's delinquent obligations. The CRDA expects to collect the full obligation over the next several years.

6. PROJECT AND DIRECT INVESTMENT COMMITMENTS AND DISBURSEMENTS

During 1987, the CRDA committed approximately \$107.8 million in current and future CRDA obligations to finance direct investment and other projects.

As of December 31, 1987, 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>
Jacobs Family Terrace	\$ 11,530,370		\$7,504,070
Northwest Inlet	6,800,000	\$ 131,716	
Vermont Plaza	21,000,000	21,000,000	
Regency and Victorian Court	36,464,579	3,792,280	686,922
Northeast Inlet	67,327,987		
<b>Total</b>	<b><u>\$143,122,936</u></b>	<b><u>\$24,923,996</u></b>	<b><u>\$8,190,992</u></b>

7. ALLOCATION OF OBLIGATION DEPOSITS

Beginning in 1984, the CRDA is required by Statute to allocate obligations received to North Jersey, South Jersey and to Atlantic City. 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, 1987, the CRDA has allocated obligation deposits as follows:

Atlantic City	\$ 96,978,883
South Jersey	1,348,763
North Jersey	337,191
SBMWE	<u>4,800,000</u>
Total	<u>\$103,464,837</u>

8. DIRECTORS AND OFFICERS LIABILITY INSURANCE

On January 10, 1986, the CRDA received an opinion from the Attorney General of the State of New Jersey, stating that the CRDA is entitled to immunity from liability for its policy decisions as provided in the Tort Claims Act; however, the Act does not immunize the CRDA against all possible damage claims. 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, 1987, \$500,000 is reserved and committed in the Operating Fund and Reinvestment Fund, respectively.

9. FIDELITY BOND

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

10. 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.

11. SUBSEQUENT EVENTS

During the period January 1, 1988 to January 12, 1988, the CRDA issued a total of \$1,430,586 in bonds and the State of New Jersey transferred obligations held at December 31, 1987 to the CRDA (see Note 4).