

New Jersey Sports and Exposition Authority

*Financial Statements for the
Years Ended December 31, 2004 and 2003 and
Independent Auditors' Report*

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

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NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction to the Annual Report

This annual report consists of four parts; Management's Discussion and Analysis ("MD&A"), Consolidated Financial Statements, Notes to the Consolidated Financial Statements and Supplementary Information.

Management's Discussion and Analysis:

- Finally, this section of the Authority's financial statements, the MD&A, presents an overview of the Authority's financial performance during the years ended December 31, 2004 and 2003. It provides an assessment of how the Authority's 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 above.

The Financial Statements include:

- The Statement of Financial Position , or "Statements of Assets, Liabilities and Fund Balances" which provide information about the nature and amounts of investments in resources (assets) and the obligations to New Jersey Sports and Exposition Authority creditors (liabilities).
- The Statement of Operations and Changes in Net Assets, or "Statement of Revenues and Expenses," "Statements of Changes in Fund Balance" and the "Statement of Changes in Net Assets" which account for all of the current year's revenues and expenses, measure the success of the Authority's operations over the past year and can be used to determine how the Authority has funded its costs.
- The Consolidated Statements of Cash Flows which provides information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

The Notes to the Financial Statements provide:

- Information that is essential to understanding the basic financial statements, such as the Authority's accounting methods and policies.
- Details of contractual obligations, future commitments and contingencies of the Authority.
- Any other events or developing situations that could materially affect the Authority's financial position.

Supplementary Information:

- Provides special presentations of the Authority's financial information in accordance with various Bond Resolutions requirements.

The Authority's Business

The Authority is engaged in the business of owning, operating and managing sports, entertainment, wagering, and convention facilities throughout the State of New Jersey. It was created as a quasi-governmental instrument of the State not only for the purpose of generating revenues from these activities but also to generate sales tax revenues and provide economic stimulus to the regions surrounding the facilities. Of course, only the result of the Authority's direct activities are discussed in this annual report.

Below is a description of the Authority's separate projects:

The Meadowlands Sports Complex - East Rutherford, New Jersey:

Meadowlands Racetrack—consists of a five-level glass enclosed grandstand with seating for approximately 8,000, an outdoor ramp and trackside park for approximately 32,000 additional spectators and 2 restaurants, a one-mile track for both harness and thoroughbred racing, 16 barns and other support buildings for approximately 1,635 horses. Its revenues are generated from commissions on live and simulcast pari-mutuel wagering, parking, admissions, program and concessions sales.

Account Wagering—began operations in October of 2004 as a joint venture with New Jersey Account Wagering, LLC for the purpose of implementing an account wagering system in the state. The Authority operates and manages the system, which allows account holders to make wagers through an Internet connection or an automated telephone system.

Giants Stadium—provides approximately 80,200 seats on four levels and includes 20,000 parking spaces adjacent to the stadium. Its revenues are generated from leases and license agreements with the Giants and Jets football franchises and the Metrostars soccer team, rental of 72 mezzanine level suites, as well as, various college football games, concerts and other events.

South Side Suites—46 additional luxury suites (consisting of 6 super suites, 14 terrace suites and 26 tower suites) were constructed onto Giants Stadium in 1998. Under an agreement with the Giants and Jets net rental revenues from these suites, after expenses and debt service payments, are distributed equally between the Authority and the two franchises.

Continental Airlines Arena—is a 20,000 seat indoor arena with 29 private suites, containing approximately 466 seats, and 4,000 of its own parking spaces. Its revenues are generated from leases and license agreements with the Nets professional basketball team, the Devils professional hockey team and other sporting events, family shows and concerts.

Other—additionally, the Sports Complex generates revenues from selling advertising signage and naming rights at and around the three facilities, and from events such as fairs and outdoor markets held in the Complex's parking lots.

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Other—additionally, the Sports Complex generates revenues from selling advertising signage and naming rights at and around the three facilities, and from events such as fairs and outdoor markets held in the Complex's parking lots.

Monmouth Park Racetrack - Oceanport, New Jersey:

Monmouth Park Racetrack—consists of a one-mile oval track for thoroughbred racing, grandstand and clubhouse seating for 18,000 spectators, 68 luxury open-air boxes and parking for 14,000 vehicles. Support facilities include 40 barns for 1,550 horses and dormitories for approximately 900. Its revenues are generated from commissions on live and simulcast pari-mutuel wagering, parking admissions, program and concessions sales.

Other—additionally, income is generated from advertising signage located at various locations around the facility.

The Atlantic City Convention Centers - Atlantic City, New Jersey:

The Atlantic City Convention Center—consists of a 486,000 square foot contiguous exhibition space, 114,000 square feet of meeting space, and a 648,000 square foot parking garage, which generate rental, parking, concession and other services revenues, such as providing trade show and convention-related labor, electrical and telecommunication services.

The Historic Boardwalk Hall—is a recently renovated 10,000 to 14,000 seat special events center, which hosts concerts, minor league hockey, family shows and other public events such as the Miss America Pageant. It is adjoined by the West Hall which serves as a staging area for Boardwalk Hall events and provides additional parking when necessary.

Marketing Operations—the Atlantic City Visitors' Bureau actively markets the convention center and boardwalk hall to prospective customers and promotes tourism in the greater Atlantic City area. Its operations are funded by marketing fees imposed on hotels.

Other—luxury tax imposed by the State on hotel room rentals, cover charges, drinks and admissions paid within Atlantic City are paid to the Authority to first make debt payments on bonds issued to construct and renovate the facilities, and then to cover any operating shortfalls.

The Greater Wildwoods Convention Center - Wildwood, New Jersey

The Wildwoods Convention Center—consists of a recently constructed facility situated on the boardwalk in Wildwood, New Jersey, consisting of a 72,000 square foot exhibition floor and parking for 700 vehicles. Rental of the space for trade shows, concerts, conventions and meetings comprise the center's revenues.

Other—similar to Atlantic City the towns of Wildwood, North Wildwood, and Wildwood Crest impose a tourism tax on retail sales. Ninety percent of these revenues are provided to the Authority to pay debt related to the convention centers, as well as to operate, maintain and promote the facilities.

Financial Analysis

The following sections will discuss the significant changes in the Authority's financial position for 2004. 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 Generally Accepted Accounting Principles.

Highlights

Total Operating Revenues decreased from 2003 by approximately \$16,700,000, due primarily to fewer concert events held at the Stadium and fewer events at the Arena as a result of an NHL lockout.

Total Operating expenses (before depreciation) decreased approximately \$7,400,000 due to higher efficiencies in operating the racetracks, as well as, fewer stadium concerts held than in 2003.

Financial Summaries

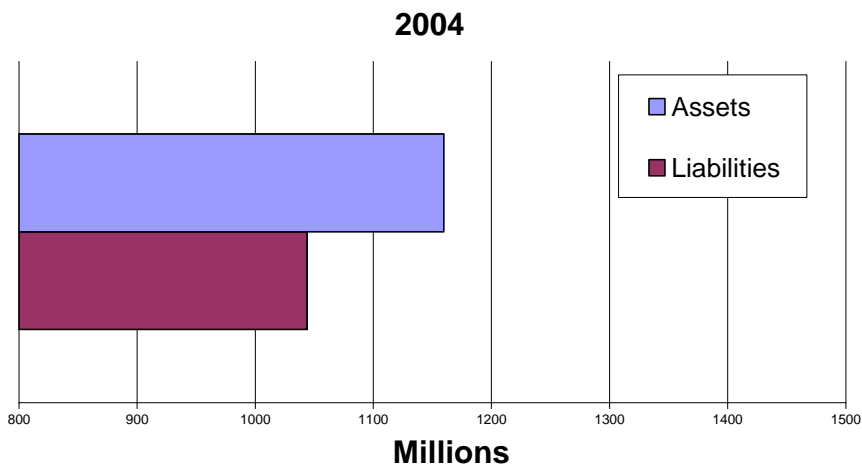
The following exhibits and tables provide a condensed summary and basic explanation of the changes in the financial statements described above, which are also presented in full detail in this annual report.

EXHIBIT 1

Condensed Statements of Financial Position (Balance Sheet)

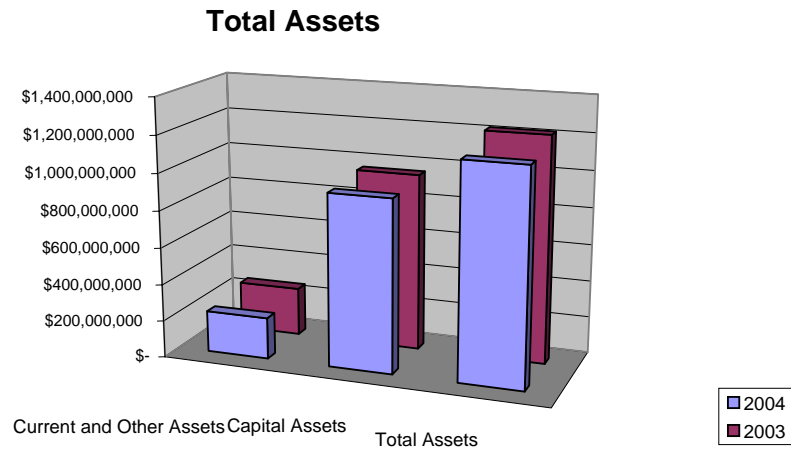
	December 31,	
	2004	2003
Current and Other Assets	\$ 224,505,000	\$ 262,189,000
Capital Assets	<u>934,656,000</u>	<u>962,190,000</u>
Total Assets	<u>1,159,161,000</u>	<u>1,224,379,000</u>
Current and Other Liabilities	(210,949,000)	(206,374,000)
Long-Term Liabilities	<u>(851,876,000)</u>	<u>(900,564,000)</u>
Total Liabilities	<u>(1,062,825,000)</u>	<u>(1,106,938,000)</u>
Net Assets	<u>\$ 96,336,000</u>	<u>\$ 117,441,000</u>

As illustrated below the Authority's assets exceeded its liabilities by \$96,336,000 in 2004:



Significant changes in Assets include:

- A decrease in cash and investments of approximately \$44,000,000 primarily due to Camden Aquarium Project funds disbursed and cash used to repay principal and interest on debt.
- Net Investment in Facilities decreased approximately \$27,500,000 due to GAAP basis depreciation offset by normal capital replacement and improvement projects.
- An increase of approximately \$4,200,000 in Accounts Receivable due primarily to the Account Wagering venture and new and renewed advertising contracts.



Total Liabilities decreased by approximately \$44,000,000 and was due primarily to:

- Debt repaid during the year of approximately \$49,000,000
- An increase in total current liabilities of approximately \$4,600,000 due to increases in the current portion of Bonds and Notes payable, Accounts payable, Deferred revenue, and Advanced ticket sales of approximately \$15,000,000, offset by Other current liabilities decreasing by approximately \$10,800,000 due primarily to the Camden Aquarium Project and an adjustment to the Luxury Tax Fund.

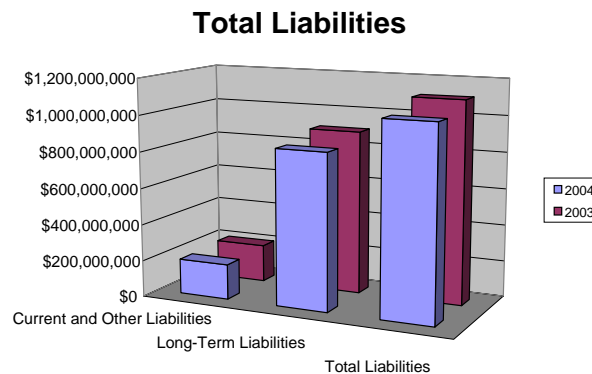


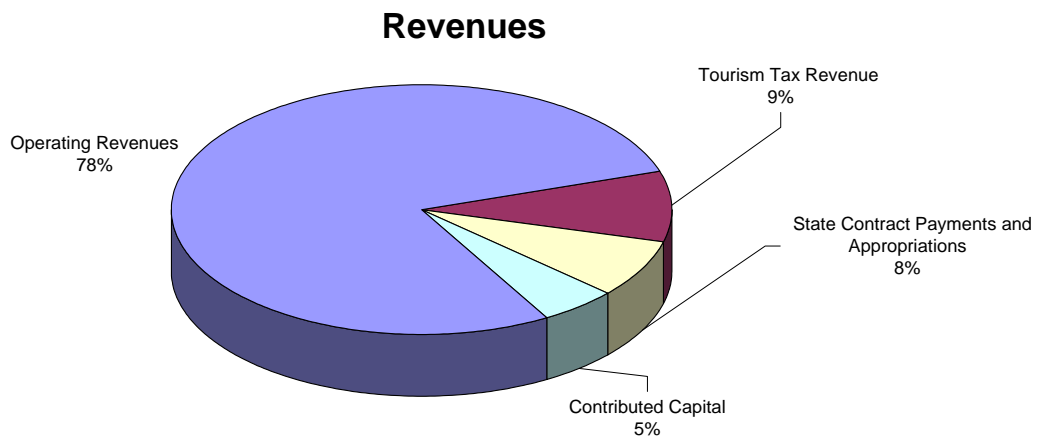
EXHIBIT 2

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

	Years Ended December 31	
	2004	2003
Operating Revenues	\$ 297,791,000	\$ 314,511,000
Operating Expenses Excluding Depreciation	<u>(285,771,000)</u>	<u>(293,119,000)</u>
Operating Revenues Net of Operating Expenses	12,020,000	21,392,000
Depreciation Expense	<u>(46,168,000)</u>	<u>(46,313,000)</u>
Operating Loss	<u>(34,148,000)</u>	<u>(24,921,000)</u>
 Non Operating Income and Expenses:		
Luxury Tax, Marketing Fee and Tourism Tax Revenue	34,130,000	30,760,000
State Contract Payments and Appropriations	29,269,000	29,527,000
Other Income and Expense	<u>(69,106,000)</u>	<u>(54,840,000)</u>
(Loss) before Contributed Capital	(39,855,000)	(19,474,000)
Contributed Capital	<u>18,750,000</u>	<u>17,565,000</u>
Decrease in Net Assets	<u>\$ (21,105,000)</u>	<u>\$ (1,909,000)</u>

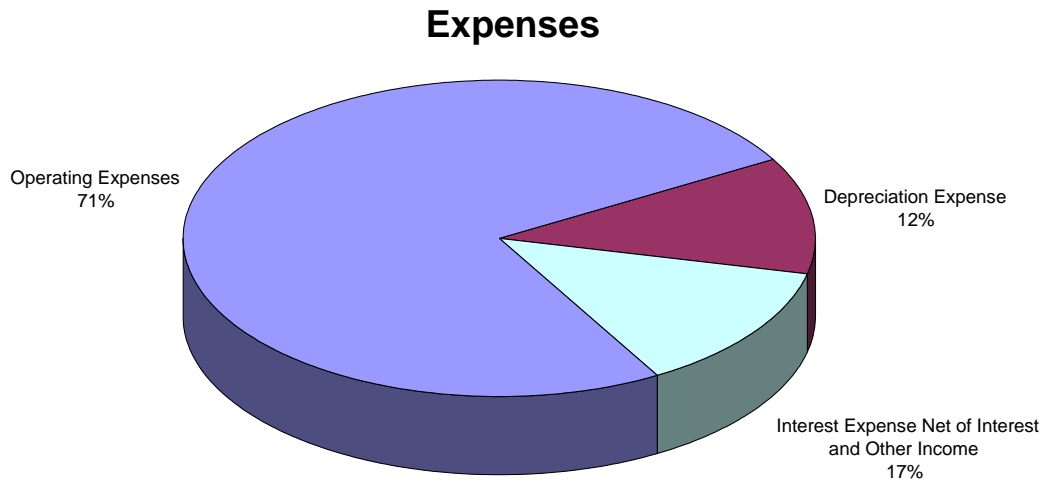
While the Balance Sheets show the financial position or net assets, the Statements of Revenues, Expenses, and Net Assets provides answers as to the nature and source of these changes. Increases in Net Assets consist of:

- Operating revenues, which are the total revenues generated at all the facilities.
- State Contract Payments, Contributed Capital and State Appropriations that are debt payments serviced by the State on bonds issued by the Authority for major acquisition, capital, and renovation projects.
- Luxury tax, marketing fee and tourism tax revenues are funds collected by the State for construction, development, operation and promotion of the Atlantic City and Wildwoods Convention Centers as well as to repay the debt incurred on these projects.



Decreases in Net Assets consist of:

- Operating expenses, which are all the costs associated with running the facilities except for costs of a capital nature that are depreciated.
- Depreciation expense which recognizes the cost of capital assets, such as buildings, equipment and improvements, over the life of the asset, usually between 2 and 60 years.
- Interest expense, which is the interest paid and accrued on the Authority's debt net of interest income generated on cash reserves held in cash and short-term investments.



Operating Highlights

- Operating revenues net of operating expenses of \$25,904,000 at The Meadowlands and Monmouth Park Racetracks was approximately \$406,000 higher than in 2003 due to a Casino industry Stakes supplement received to promote horse racing in the State as well as a continued effort to reduce overall operating costs.
- Operating revenues net of operating expenses at Giants Stadium was \$24,373,000 in 2004, approximately \$10,400,000 lower than in 2003, which year had ten more concert events and a professional playoff event.
- Operating revenues net of operating expenses at the Continental Airlines Arena was approximately \$1,375,000 lower than in 2003 due mainly to lower advertising revenues and costs arising from an NHL Lockout affecting the 2004-2005 professional hockey season.
- Operating revenues net of operating expenses at the Atlantic City and Wildwoods Convention Centers increased in 2004 by approximately \$1,496,000 due primarily to higher event revenues and continuous cost cutting efforts.
- General and Administrative expenses were reduced by approximately \$1,018,000 in 2004 due to reductions in staff and other efforts to control costs.
- Finally, revenues of approximately \$900,000 were generated from the newly launched account wagering venture.

REVENUES, EXPENSE AND OPERATING INCOME

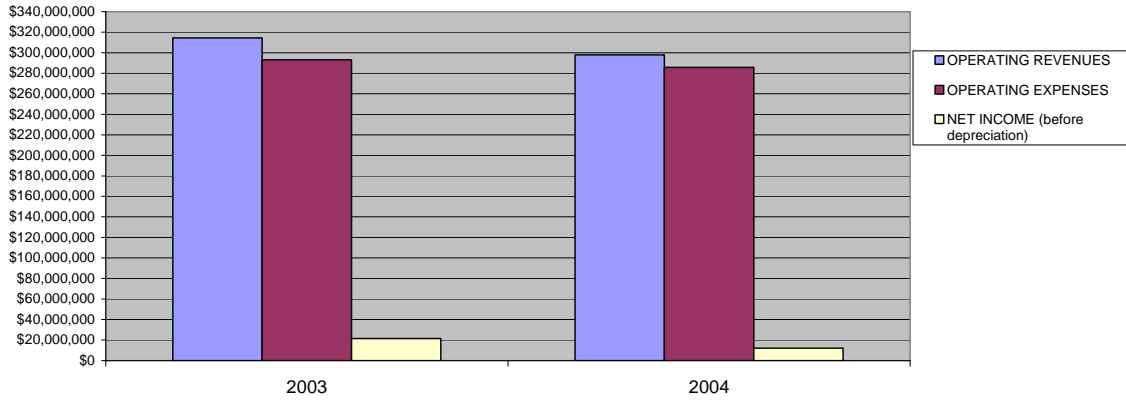
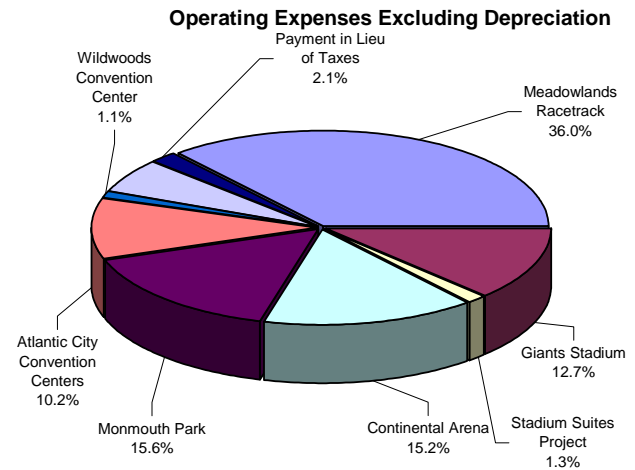
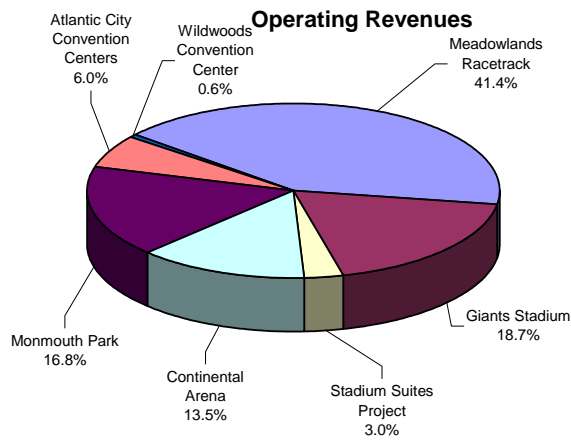


EXHIBIT 3

Operating Revenues and Expenses by Facility



Meadowlands Racetrack	\$ 123,188,000
Giants Stadium	55,592,000
Stadium Suites Project	8,791,000
Continental Arena	40,304,000
Monmouth Park	50,051,000
Atlantic City Convention Centers	17,939,000
Wildwoods Convention Center	1,926,000
Total Operating Revenue	<u>\$ 297,791,000</u>

Meadowlands Racetrack	\$ 102,799,000
Giants Stadium	36,204,000
Stadium Suites Project	3,806,000
Continental Arena	43,557,000
Monmouth Park	44,536,000
Atlantic City Convention Centers	29,285,000
Wildwoods Convention Center	3,237,000
General and Administrative	16,438,000
Payment in Lieu of Taxes	5,909,000
Total Operating Expenses Net of Depreciation	<u>\$ 285,771,000</u>

Economic Conditions

The Authority's business spans several industries that are affected by many different economic forces in different ways. In order to achieve maximum efficiency and success in its operations the Authority must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Racing

Live racing revenues depend upon the level of attendance and size of wager the Authority can attract. Both of these factors can be attributed to the quality of racehorses, which in turn is a result of the size of the purses paid to horsemen. The Authority's racetracks compete with other spectator activities and other forms of gaming such as lotteries and casinos. As can be seen in Exhibit 4, total attendance has been declining and causing a decrease in live and simulcast wagers made at the facilities (On-Track handle). Additionally, the weakening of the simulcast transmission handle, which is generated from broadcasts of races transmitted to other tracks and gaming facilities, reflects a maximization of simulcast locations capable of receiving broadcasts throughout the United States. Account Wagering, which commenced in the fall of 2004, resulted in nearly 3,000 accounts being set up with an initial daily average handle of \$70,000.

EXHIBIT 4

Racing Statistics

	Meadowlands and Monmouth Park Racetracks				
	2004	2003	2002	2001	2000
Live Race Days	286	285	296	285	278
Attendance	2,679,700	2,698,500	2,871,900	2,947,300	2,902,600
Live Handle	\$ 187,750,660	\$ 189,324,061	\$ 214,022,000	\$ 230,980,000	\$ 222,359,000
Reception Handle	<u>512,878,188</u>	<u>549,922,595</u>	<u>575,929,000</u>	<u>579,622,000</u>	<u>573,499,000</u>
On-Track Handle	700,628,848	739,246,656	789,951,000	810,602,000	795,858,000
Transmission Handle	719,628,200	742,476,740	747,586,000	764,487,000	663,844,000
Account Wagering Handle	<u>4,710,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Handle	<u>\$1,424,967,248</u>	<u>\$ 1,481,723,396</u>	<u>\$1,537,537,000</u>	<u>\$ 1,575,089,000</u>	<u>\$ 1,459,702,000</u>

Stadium and Arena

Stadium and Arena events also partly depend on the level of attendance that can be generated in terms of the amount of parking, concessions and admission revenues that can be collected, but, as can be seen below, years with higher attendance and number of events were not necessarily more profitable. This is largely due to the variable nature of rental fees, participation agreements, and guaranteed payments that event-promoters and tenants negotiate for a given utilization of the facilities. These factors are often dictated by market factors such as comparable competing facilities, interest in the event, and regional economic conditions.

EXHIBIT 5

Stadium and Arena Events

	Giants Stadium and Continental Airlines Arena				
	2004	2003	2002	2001	2000
Number of Events	243	289	292	260	268
Total Attendance	3,676,900	4,626,300	4,534,400	4,293,100	4,189,200
Net Revenue From Events	\$20,142,300	\$28,099,600	\$18,501,500	\$ 17,178,100	\$ 14,991,300

South Side Stadium Suite revenues after operating expenses and debt service and contributions to capital improvements are shared equally under an operating agreement with the NFL franchises that play their games at the stadium. These revenues are relatively stable and have not fluctuated greatly.

Atlantic City and Wildwood—The Atlantic City and Wildwoods Convention Centers also depend heavily on the number and size of events they can attract but also rely on the performance of the tourism and gaming industries with which they co-exist. Details of event statistics are presented below.

EXHIBIT 6

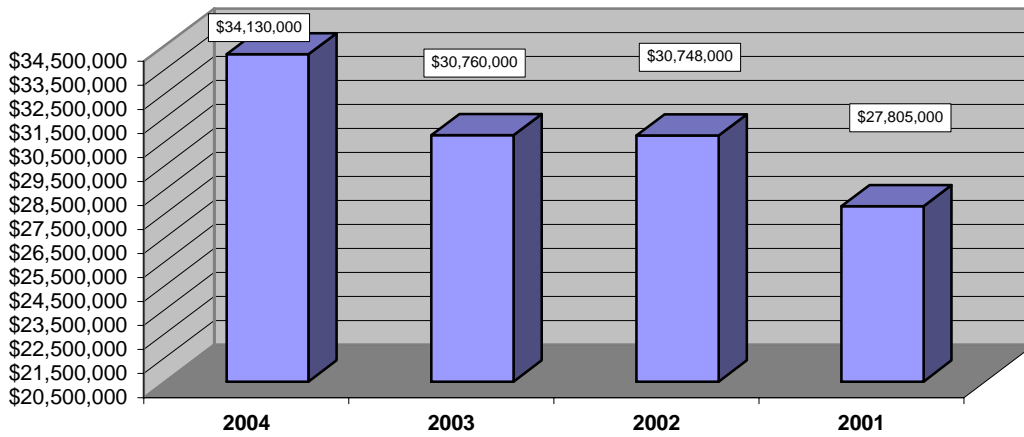
Convention Center Events

	Atlantic City and Wildwoods Convention Centers				
	2004	2003	2002	2001	2000
Number of Event Days	768	909	698	577	623
Total Attendance	1,043,788	1,063,108	1,154,735	740,302	831,331
Net Revenue from Events	\$ 6,611,000	\$ 6,250,537	\$ 6,234,900	\$ 5,209,600	\$ 6,065,600

There was a substantial decrease in the number of Event Days due to less scheduled events in the Convention Center. Although, there was a decrease in event days, profitability increased due to fewer smaller events held and more major events, as well as expenses lowered due to continuous efforts to control costs.

Similarly, luxury tax, marketing fee and tourism tax revenues rely heavily upon the tourism, hospitality and gaming industries in the region. For that reason, marketing and promotion of the centers is important to continued growth.

Luxury Tax, Marketing Fee, Tourism Tax



	2004	2003	2002	2001	2000
Luxury Tax	\$ 21,322,000	\$ 18,420,000	\$ 18,883,000	\$ 16,456,000	\$ 17,679,000
Marketing Fee	9,900,000	9,363,000	8,577,000	8,338,000	8,303,000
Tourism Tax	<u>2,908,000</u>	<u>2,977,000</u>	<u>3,288,000</u>	<u>3,011,000</u>	<u>2,909,000</u>
Totals	<u>\$34,130,000</u>	<u>\$30,760,000</u>	<u>\$ 30,748,000</u>	<u>\$ 27,805,000</u>	<u>\$ 28,891,000</u>

Capital Assets

At the end of 2004, the Authority had a net investment in capital assets of \$934,656,000 at a total capital cost of \$1,456,186,000 net of accumulated depreciation of \$521,530, 000 as shown in Exhibit 7.

EXHIBIT 7

Capital Assets

	December 31, 2003	Additions	Transfers and deletions	December 31, 2004
Meadowlands Sports Complex	\$ 702,180,000	\$ 12,427,000	\$ -	\$ 714,607,000
Monmouth Park Racetrack	56,257,000	12,232,000	-	68,489,000
Historic Boardwalk Hall	189,835,000	2,381,000	-	192,216,000
Atlantic City Convention Center	333,052,000	517,000	-	333,569,000
Wildwoods Convention Center	74,765,000	1,164,000	-	75,929,000
Giant Stadium South Side Suites	<u>46,316,000</u>	<u>60,000</u>	<u>-</u>	<u>46,376,000</u>
	<u>1,402,406,000</u>	<u>28,781,000</u>	<u>-</u>	<u>1,431,187,000</u>
Leasehold Rights	<u>25,000,000</u>	<u>-</u>	<u>-</u>	<u>25,000,000</u>
Construction-in-Progress	<u>10,294,000</u>	<u>-</u>	<u>(10,294,000)</u>	<u>-</u>
Total Capital Assets	1,437,699,000	28,781,000	(10,294,000)	1,456,186,000
Less Accumulated Depreciation	<u>(475,509,000)</u>	<u>(46,021,000)</u>	<u>-</u>	<u>(521,530,000)</u>
Capital Assets net of Accumulated Depreciation	<u>\$ 962,190,000</u>	<u>\$ (17,240,000)</u>	<u>\$ (10,294,000)</u>	<u>\$ 934,656,000</u>

Additions and transfers to capital during 2004 consisted of the completion of the Energy Project at Monmouth Park Racetrack. There were no dispositions in 2004.

The Leasehold Rights refer to the Authority's right to rent the Club Box level suites during events at Giants Stadium.

Budgetary Controls

The Authority adopts Operating and Capital Plans that 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.

Conclusion

This section of the Annual Report has been provided to assist readers in getting a general overview of the Authority's business, financial position and fiscal accountability for the funds it generates and receives. If you should still have questions about any information in this report you are requested to contact the Finance Department of the New Jersey Sports and Exposition Authority.

INDEPENDENT AUDITORS' REPORT

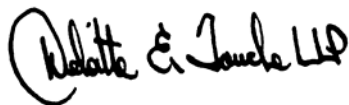
To the Chair and Members of
New Jersey Sports and Exposition Authority
East Rutherford, New Jersey

We have audited the accompanying consolidated statements of financial position of New Jersey Sports and Exposition Authority (the "Authority"), a component unit of the State of New Jersey, as of December 31, 2004 and 2003, and the related statements of operations 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Authority as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Management's Discussion and Analysis is not a required part of the basic 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 the information and express no opinion on it.



March 17, 2005

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2004 and 2003

(In thousands)

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents (Notes B-9 and D)	\$ 93,827	\$ 139,335
Restricted cash and cash equivalents (Notes B-9 and D)	33,582	29,525
Restricted investments (Note D)	817	3,160
Accrued interest receivable	741	713
Due from State of New Jersey (Notes A and B-7)	12,397	12,887
Receivables (net of allowance for doubtful accounts of \$1,466 in 2004 and \$1,195 in 2003)	<u>9,925</u>	<u>5,710</u>
Total current assets	151,289	191,330
LONG-TERM ASSETS:		
Restricted long-term investments (Note D)	25,011	24,839
Investment in facilities (Notes B-5 and E)	934,656	962,190
Other assets (Note B-10)	<u>48,205</u>	<u>46,020</u>
TOTAL ASSETS	<u>\$ 1,159,161</u>	<u>\$ 1,224,379</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 49,010	\$ 47,734
Interest payable on bonds and notes	21,127	20,512
Deferred revenue	20,402	18,949
Advance ticket sales	8,396	4,843
Other current liabilities	57,973	68,721
Current portion of Notes payable (Note G)	4,425	4,192
Current portion of Bonds payable (Note F)	<u>49,616</u>	<u>41,423</u>
Total current liabilities	210,949	206,374
LONG-TERM LIABILITIES:		
Long-term portion of Notes payable (Note G)	16,545	20,762
Long-term portion of Bonds payable (Note F)	<u>835,331</u>	<u>879,802</u>
Total long-term liabilities	<u>1,062,825</u>	<u>1,106,938</u>
NET ASSETS:		
Invested in capital assets—net of related debt	66,439	44,581
Restricted for debt service	26,119	38,112
Unrestricted	<u>3,778</u>	<u>34,748</u>
Total net assets	<u>96,336</u>	<u>117,441</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,159,161</u>	<u>\$ 1,224,379</u>

See notes to financial statements.

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2004 AND 2003

(In thousands)

	2004	2003
OPERATING REVENUES:		
Racetracks	\$ 173,239	\$ 175,153
Stadium	64,383	78,228
Arena	40,304	44,363
Convention Centers	<u>19,865</u>	<u>16,767</u>
Total operating revenues	<u>297,791</u>	<u>314,511</u>
OPERATING EXPENSES:		
Racetracks	147,335	149,655
Stadium	40,010	43,419
Arena	43,557	46,241
Convention Centers	32,522	30,920
General and administrative	16,438	17,456
Depreciation and amortization (Notes B-5 and E)	46,168	46,313
Payment in lieu of taxes (Note B-6)	<u>5,909</u>	<u>5,428</u>
Total operating expenses	<u>331,939</u>	<u>339,432</u>
OPERATING LOSS	(34,148)	(24,921)
NONOPERATING INCOME AND (EXPENSES):		
Interest income and other	12,050	9,889
Luxury tax, marketing fund and tourism tax revenues (Notes A and C)	34,130	30,760
State contract payments and appropriations (Note A)	29,269	29,527
Interest expense (Note F-8) and other	<u>(81,156)</u>	<u>(64,729)</u>
Total nonoperating income and expenses	<u>(5,707)</u>	<u>5,447</u>
LOSS BEFORE CONTRIBUTIONS	(39,855)	(19,474)
CAPITAL CONTRIBUTIONS (Note B-7)	<u>18,750</u>	<u>17,565</u>
CHANGE IN NET ASSETS	(21,105)	(1,909)
NET ASSETS—Beginning of year	<u>117,441</u>	<u>119,350</u>
NET ASSETS—End of year	<u>\$ 96,336</u>	<u>\$ 117,441</u>

See notes to financial statements.

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003 (In thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 841,155	\$ 898,712
Payments to horsemen, bettors and franchises	(638,429)	(680,690)
Payments to suppliers	(124,914)	(124,798)
Payments to employees	<u>(63,684)</u>	<u>(66,731)</u>
Net cash provided by operating activities	<u>14,128</u>	<u>26,493</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Luxury tax, marketing fee and tourism tax revenues	22,042	20,540
Net (Payments) Receipt of Funds for construction of the Camden Aquarium	<u>(30,484)</u>	<u>41,343</u>
Net cash (used in) provided by noncapital financing activities	<u>(8,442)</u>	<u>61,883</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments of bonds and notes	(72,814)	(70,898)
Issuance of bonds and notes	25,151	26,685
Additions to investment in facilities	(18,487)	(23,439)
Interest paid on bonds and notes	(51,996)	(59,540)
State Contract receipts for payment of principal and interest on bonds	54,844	51,507
Luxury tax revenues	<u>12,145</u>	<u>11,733</u>
Net cash used in capital and related financing activities	<u>(51,157)</u>	<u>(63,952)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(172)	(171)
Maturities of investments	2,343	3,003
Interest on investments	<u>1,849</u>	<u>1,859</u>
Net cash provided by investing activities	<u>4,020</u>	<u>4,691</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(41,451)	29,115
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>168,860</u>	<u>139,745</u>
End of year	<u>\$ 127,409</u>	<u>\$ 168,860</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (34,148)	\$ (24,921)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	46,168	46,313
Change in allowance for doubtful accounts	(271)	(200)
(Increase) decrease in assets:		
Receivables	(4,215)	2,244
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,275	(520)
Advance ticket sales and other liabilities	3,866	1,090
Deferred revenues	<u>1,453</u>	<u>2,487</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>\$ 14,128</u>	<u>\$ 26,493</u>

See notes to consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

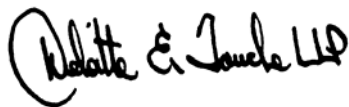
To the Chair and Members of
New Jersey Sports and Exposition Authority
East Rutherford, New Jersey

We have audited the accompanying bond resolution statements of assets, liabilities and fund balances of New Jersey Sports and Exposition Authority (the "Authority"), a component unit of the State of New Jersey, as of December 31, 2004 and 2003, and the related statements of revenues and expenses and changes in fund balances 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.

As described in Note B-1, the Authority has prepared these financial statements in accordance with the requirements of State law and the various bond resolutions. Accordingly, the bond resolution basis financial statements are not intended to and do not present fairly the financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America.

However, in our opinion, such financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of the Authority as of December 31, 2004 and 2003, and the revenues and expenses and changes in fund balances for the years then ended, in conformity with the basis of accounting as set forth in Note B-1 of the notes to the financial statements.



March 17, 2005

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

**STATEMENTS OF REVENUES AND EXPENSES
YEARS ENDED DECEMBER 31, 2004 AND 2003
(Pursuant to Various Bond Resolutions)
(In thousands)**

	December 31, 2004							December 31, 2003	
	Sports Complex Funds	Stadium Suites Project	Monmouth Park Funds	Atlantic City Convention Center Funds	Luxury Tax Funds	State Contract Funds	Wildwood Convention Center Funds	Total Funds	Total Funds
REVENUES FROM OPERATIONS:									
Meadowlands Racetrack	\$ 123,188	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 123,188	\$ 125,099
Monmouth Park Racetrack			50,051					50,051	50,054
Stadium	55,592							55,592	69,189
Stadium Suites Project		8,916						8,916	9,496
Arena	40,304							40,304	44,363
Atlantic City Convention Centers				17,939				17,939	15,059
Wildwood Convention Center							1,926	1,926	1,674
	<u>219,084</u>	<u>8,916</u>	<u>50,051</u>	<u>17,939</u>			<u>1,926</u>	<u>297,916</u>	<u>314,934</u>
EXPENSES FROM OPERATIONS:									
Meadowlands Racetrack	102,799							102,799	104,727
Monmouth Racetrack			44,536					44,536	44,928
Stadium	36,204							36,204	39,735
Stadium Suites Project		713						713	773
Arena	43,557							43,557	46,241
Atlantic City Convention Centers				29,285				29,285	27,780
Wildwood Convention Center							3,237	3,237	3,140
	<u>182,560</u>	<u>713</u>	<u>44,536</u>	<u>29,285</u>			<u>3,237</u>	<u>260,331</u>	<u>267,324</u>
EXCESS (DEFICIENCY) FROM OPERATIONS	36,524	8,203	5,515	(11,346)			(1,311)	37,585	47,610
OTHER INCOME, EXPENSES AND TRANSFERS:									
General and administrative expenses	(10,942)		(300)	(4,516)			(1,630)	(17,388)	(17,858)
Interest income and other	5,490	238	1,774	77	66	119	96	7,860	5,253
Other expense	(435)				(19,397)			(19,832)	(708)
Luxury tax, marketing fee and tourism tax revenues				9,900	21,322		2,908	34,130	30,760
State contract payments						41,092	2,695	43,787	45,592
Stadium Suites Distribution	1,242							1,242	1,415
Account Wagering Distribution	887							887	
Transfers to Atlantic City Convention Centers				7,538	(7,538)				
EXCESS OF REVENUES OVER EXPENSES (Note B)	32,766	8,441	6,989	1,653	(5,547)	41,211	2,758	88,271	112,064
OPERATING FUND BALANCES—Beginning of year				4,034			1,000	5,034	4,172
TOTAL REVENUE AVAILABLE FOR DISTRIBUTION	<u>\$ 32,766</u>	<u>\$ 8,441</u>	<u>\$ 6,989</u>	<u>\$ 5,687</u>	<u>\$ (5,547)</u>	<u>\$ 41,211</u>	<u>\$ 3,758</u>	<u>\$ 93,305</u>	<u>\$ 116,236</u>
DISTRIBUTION TO (FROM) AS FOLLOWS (Note B-7)									
Operating fund balances—end of year	\$ -	\$ -	\$ -	\$ 5,687	\$ -	\$ -	\$ 1,000	\$ 6,687	\$ 5,034
Debt service funds	7,572	4,458			12,021	41,211	4,695	69,957	65,914
Maintenance reserve funds	16,632	258	1,673		(17,036)		33	1,560	5,706
Payment in lieu of tax funds (Note B-5)	4,346		1,533				30	5,909	5,427
Guaranteed Bond Fund 1992 Series									20,050
Construction Funds			(165)		(532)		(2,000)	(2,697)	
Excess cash flow fund									4,245
Partner distribution		3,725						3,725	8,060
State Contract Bonds Debt Service	4,216		3,948					8,164	1,800
TOTAL REVENUES DISTRIBUTED	<u>\$ 32,766</u>	<u>\$ 8,441</u>	<u>\$ 6,989</u>	<u>\$ 5,687</u>	<u>\$ (5,547)</u>	<u>\$ 41,211</u>	<u>\$ 3,758</u>	<u>\$ 93,305</u>	<u>\$ 116,236</u>

See notes to consolidated financial statements

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

**STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES
DECEMBER 31, 2004 AND 2003
(Pursuant to the various Bond Resolutions)
(In thousands)**

	December 31, 2004							December 31, 2003	
	Sports Complex Funds	Stadium Suites Project	Monmouth Park Funds	Atlantic City Convention Center Funds	Luxury Tax Funds	State Contract Funds	Wildwood Convention Center Funds	Total Funds	Total Funds
ASSETS									
CASH AND CASH EQUIVALENTS (NOTES B-8 AND D)	\$ 60,045	\$ 5,562	\$ 7,157	\$ 8,326	\$ 4,031	\$ 802	\$ 7,904	\$ 93,827	\$ 139,335
RESTRICTED CASH AND CASH EQUIVALENTS (NOTES B-8 AND D)	26,368				6,642		572	33,582	29,525
RESTRICTED INVESTMENTS (NOTE D)	817				4,012	20,999		25,828	27,999
ACCRUED INTEREST RECEIVABLE	220					521		741	713
LUXURY TAX, MARKETING FEE AND TOURISM TAX RECEIVABLE (NOTES A AND C)				1,468	2,828		552	4,848	4,781
RECEIVABLES	7,529		2,211	1,330			97	11,167	7,125
INTERFUND RECEIVABLES	4,323			1,699				6,022	12,741
INVESTMENT IN FACILITIES	516,371	44,018	46,267	828	259,215	294,324	66,254	1,227,277	1,225,166
OTHER ASSETS (NOTE B-9)	8,841	755	1,278	957	2,287	3,204	159	17,481	16,542
TOTAL	<u>\$ 624,514</u>	<u>\$ 50,335</u>	<u>\$ 56,913</u>	<u>\$ 14,608</u>	<u>\$ 279,015</u>	<u>\$ 319,850</u>	<u>\$ 75,538</u>	<u>\$ 1,420,773</u>	<u>\$ 1,463,927</u>
LIABILITIES AND FUND BALANCES									
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 24,988	\$ 3,814	\$ 6,121	\$ 4,437	\$ 6,303	\$ -	\$ 254	\$ 45,917	\$ 44,823
INTERFUND PAYABLES		224	4,099		1,699			6,022	12,741
INTEREST PAYABLE ON BONDS AND NOTES	4,523		1,032		7,307	541	80	13,483	12,958
DEFERRED REVENUE	14,591			3,382			22	17,995	12,335
OTHER LIABILITIES	14,198		1,221		20,584			36,003	44,742
NOTES PAYABLE (NOTE G)	3,550	8,820			8,600			20,970	24,954
BONDS PAYABLE (NOTE F)	159,605		65,135		182,695	456,479	51,334	915,248	960,995
UNAMORTIZED ORIGINAL ISSUE DISCOUNT	(2,145)		(176)		1,826	(3,033)	(128)	(3,656)	(11,187)
FUND BALANCE (DEFICIT)	405,204	37,477	(20,519)	6,789	50,001	(134,137)	23,976	368,791	361,566
TOTAL	<u>\$ 624,514</u>	<u>\$ 50,335</u>	<u>\$ 56,913</u>	<u>\$ 14,608</u>	<u>\$ 279,015</u>	<u>\$ 319,850</u>	<u>\$ 75,538</u>	<u>\$ 1,420,773</u>	<u>\$ 1,463,927</u>

See notes to financial statements.

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

**STATEMENTS OF CHANGES IN FUND BALANCES
YEARS ENDED DECEMBER 31, 2004 AND 2003
(Pursuant to Various Bond Resolutions)
(In thousands)**

	December 31, 2004							December 31, 2003	
	Sports Complex Funds	Stadium Suites Project	Monmouth Park Funds	Atlantic City Convention Center Funds	Luxury Tax Funds	State Contract Funds	Wildwood Convention Center Funds	Total Funds	Total Funds
FUND BALANCE (DEFICIT)—Beginning of year	\$ 397,826	\$ 33,499	\$ (20,894)	\$ 5,188	\$ 67,755	\$ (146,242)	\$ 24,434	\$ 361,566	\$ 331,326
Excess of revenues over expenses	32,766	8,441	6,989	1,653	(5,547)	41,211	2,758	88,271	112,064
Interest income (loss) on restricted debt service funds	46		5		286	1,512		1,849	1,688
Interest on bonds and notes	(8,492)	(679)	(3,103)		(7,322)	(26,053)	(2,870)	(48,519)	(51,335)
Maintenance charges	(12,425)	(60)	(1,938)	(52)	(2,846)		(301)	(17,622)	(15,538)
Payment in lieu of taxes (Note B-5)	(4,346)		(1,533)				(30)	(5,909)	(5,428)
Write-off and amortization of bond discount and issuance costs	(171)		(45)		(2,325)	(4,418)	(15)	(6,974)	(6,189)
Amortization of costs on the Rutgers and Higher Education Projects						(147)		(147)	(777)
Partners distribution		(3,724)						(3,724)	(4,245)
FUND BALANCE (DEFICIT)—End of year	<u>\$ 405,204</u>	<u>\$ 37,477</u>	<u>\$ (20,519)</u>	<u>\$ 6,789</u>	<u>\$ 50,001</u>	<u>\$ (134,137)</u>	<u>\$ 23,976</u>	<u>\$ 368,791</u>	<u>\$ 361,566</u>

See notes to financial statements.

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 AND 2003

A. AUTHORIZING LEGISLATION

The New Jersey Sports and Exposition Authority (the "Authority") was created by the laws of the State of New Jersey of 1971, Chapter 137, enacted May 10, 1971, as supplemented and amended (the "Act"). It is constituted as an instrumentality of the State, exercising public and essential governmental functions. The Act empowers the Authority to own and operate various projects, located in the State of New Jersey, including stadiums and other buildings and facilities for athletic contests, horse racing, and other spectator sporting events, trade shows and other expositions.

The Authority has no stockholders or equity holders, and all bond proceeds, revenues or other cash received must be applied for specific purposes in accordance with the provisions of the Act, and related bond resolutions, for the security of the bondholders. The Authority's Board consists of the President of the Authority, the State Treasurer, and a member of the New Jersey Meadowlands Commission, appointed by the Governor, who are members ex officio, and eleven members appointed by the Governor with the advice and consent of the State Senate.

On January 13, 1992, the New Jersey legislature adopted Chapter 375 of P.L. 1991, which approved the issuance of bonds, State Contract Bonds, by the Authority, pursuant to a contract between the Authority and the State Treasurer. The contract requires the Treasurer to provide funds from the General Fund of the State necessary to pay the debt service on the bonds, subject to and dependent upon annual appropriations by the State Legislature (see Note F-6). On November 24, 1998, the contract was restated and amended to expand the scope of projects eligible for the issuance of bonds to include the Wildwoods Convention Center project.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **General**—In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB"). In addition, the Authority follows the pronouncements of all applicable Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The financial statements include the accounts of the Authority including Monmouth Park Racetrack, the Atlantic City Convention Center Authority (the "Convention Center Authority") and the Wildwoods Convention Center.

The Authority also prepares financial statements, included in Section A, in accordance with the provisions of the Sports Complex, State Contract, and Luxury Tax Bond Resolutions which differ from the financial statements prepared in accordance with generally accepted accounting principles included in Section B, as follows: (1) depreciation and amortization is not provided; (2) capital expenditures funded from the Operating Fund or Maintenance Reserve Fund are not capitalized; (3) certain expenses are accounted for as a distribution of revenue; (4) certain receipts deposited in or transferred to the Revenue Fund are recognized as revenue in the year received rather than when earned; (5) contributions from the State for principal payments on State Contract Bonds are recognized as revenue when received; and (6) interest expense on bonds is recognized when transferred to the debt service funds in accordance with the Bond Resolutions.

Reconciliation of Bond Resolution Excess of Revenues Over Expenses to the Change in Net Assets on the Consolidated Statements of Operations, and Changes in Net Assets:

	Year Ended December 31,	
	2004	2003
	(In Thousands)	
Excess of revenues over expenses	\$ 88,271	\$ 112,064
Interest expense	(61,759)	(64,729)
Depreciation and amortization	(46,168)	(46,313)
Payment in lieu of tax	(5,909)	(5,428)
State Contract payments	4,232	1,500
Stadium Suites license revenue	(4,460)	(4,783)
Interest income and other	<u>4,688</u>	<u>5,780</u>
 Change in net assets	 <u>\$ (21,105)</u>	 <u>\$ (1,909)</u>

Amounts recorded in accordance with the Bond Resolution financial statements vary from financial statements prepared in accordance with accounting principles generally accepted in the United States of America as disclosed in the reconciliation above.

2. **Change in Accounting**—The Authority has not yet adopted or evaluated the impact that will result from adopting Statement of Governmental Accounting Standards No. 45, Accounting and Financial Reporting by Employers for Post Retirement Benefits Other Than Pensions, which takes effect in 2006.
3. **Revenues**—The revenues of the Authority are deposited into the Revenue Funds and transferred to the Operating Funds, Debt Service Funds and other funds on a monthly basis as required by the Bond Resolutions. All interfund accounts have been eliminated.

The Authority promotes certain events held at the Arena and Stadium. The gross revenues and expenses of these events are reflected in the financial statements.

Revenues from restricted-purpose State and/or other State agency grants are recognized when awarded and recorded in a purpose-specific fund.

4. **Reporting Entity**—The GASB establishes the criteria used in determining which organizations should be included in the Authority's financial statements. Accounting principles generally accepted in the United States of America require the inclusion of the transactions of government organizations for which the Authority is financially accountable.

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. As a result of the Authority's operating agreement with the Convention Center Authority and the above criteria, the Convention Center Authority's financial statements are included in the Authority's annual report.

On February 23, 1998, the Authority assumed the assets and liabilities and undertook the existing operations of the Wildwoods Convention Center. As a result, the Authority includes the financial statements of the Wildwoods Convention Center in its annual report. The assets and liabilities were recorded at fair value and the difference was recorded to net assets, invested in capital facilities.

The Authority is a component unit included in the State of New Jersey's comprehensive annual financial report.

5. ***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. Depreciation is computed by the straight-line method based on estimated useful lives of the related assets.
6. ***Payment in Lieu of Taxes***—In accordance with a provision of the enabling Act, properties and income of the Authority are exempt from taxation. However, payments in lieu of taxes are made to municipalities to compensate for loss of tax revenues by reason of acquisition of real property by the Authority.
7. ***Capital Contributions***—Capital contributions represent funds received from the State to pay principal on the State Contract Bonds and funds received from other authorities. Amounts received to pay interest on State Contract Bonds and direct appropriations are treated as nonoperating revenue.
8. ***Distributions***—Each month, after appropriate transfers to the designated funds as specified by the Bond Resolutions, any excess balance remains in the Revenue Fund. At year-end the excess, if any, will be transferred to the Maintenance Reserve Fund to be used for other projects of the Authority.

In accordance with the Act, to the extent not required for any such projects, and not required to repay any obligations incurred by the Authority to the State, any balance remaining is to be deposited in the General Fund of the State of New Jersey.

9. ***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 maturity of three months or less when purchased to be cash equivalents.
10. ***Other 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. Costs incurred for the Rutgers Project are also included in other assets and will be amortized as principal payments are made on the related State Contract Bonds.
11. ***Accumulated Vacation Time***—Salaried employees of the Authority, the Convention Center Authority and the Wildwoods Convention Center 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 maximum lump-sum payment of their accumulated vacation time.
12. ***Interest Rate Swap Agreements***—The Authority entered into interest rate swap agreements to modify interest rates on certain outstanding debt. Premiums received from options to exercise an interest rate swap in the future and net interest expenditures resulting from these agreements are recorded in the financial statements. The interest differential to be received or paid under these interest rate swap agreements is accrued annually over the life of the agreement as an adjustment to the interest expense of the related bonds.
13. ***Valuation of Investments***—Guaranteed investment contracts, state and local government securities, repurchase agreements and certificates of deposit are investments in non-participating investment contracts which management concludes are not significantly affected by the impairment of the credit standing of the Authority or other factors. These investments are recorded at amortized cost in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*.

14. **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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. LUXURY TAX, MARKETING FEES AND TOURISM TAX

1. **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 Act were adopted which authorized the Authority to undertake the Convention Center Project (see Note A) and authorized the State to transfer the proceeds of the Luxury Tax to the Authority. Luxury Tax proceeds are deposited into the Revenue Fund and transferred to other funds to pay debt service on the Luxury Tax Bonds and fund the operating deficit and capital expenditures for the Convention Center Project.

2. **Marketing Fees**—The New Jersey legislature adopted a bill that authorized the Convention Center Authority 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 Convention Center Authority.
3. **Tourism Tax**—Upon transfer of the Wildwoods Convention Center from the Greater Wildwood Tourism Improvement and Development Authority (“GWTIDA”) on February 23, 1998 (see Note A), the Authority assumed the right to receive 90% of the proceeds of a 2% tourism related retail receipts tax pursuant to NJSA 40:54D-1 et. Seq. (the “Tourism Improvement and Development District Law”) for the construction and promotion of a new convention center facility and the operation, maintenance and promotion of the existing center. The remaining 10% of the funds generated by the tax is allocated to GWTIDA for its continuing promotion of tourism in the area. The tax is imposed and collected by ordinance and with the cooperation of the municipalities in the Greater Wildwoods (i.e., North Wildwood, Wildwood and Wildwood Crest).

D. CASH - CASH EQUIVALENTS AND INVESTMENTS

The components of cash, cash equivalents and investments are:

	December 31,			
	2004		2003	
	(In Thousands)		(In Thousands)	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Cash and cash equivalents:				
Cash on hand	\$ 4,119	\$ -	\$ 5,486	\$ -
Demand deposits	527	7,726	(5,810)	2,639
N.J. Cash Management Fund	92,300	92,500	144,313	144,313
Repurchase Agreement	10,413	10,413	6,371	6,371
Certificates of deposits	<u>20,050</u>	<u>20,050</u>	<u>18,500</u>	<u>18,500</u>
Total cash and cash equivalents	<u>\$ 127,409</u>	<u>\$ 130,689</u>	<u>\$ 168,860</u>	<u>\$ 171,823</u>

	December 31,	
	2004	2003
	(In Thousands)	
	Cost	
Investments: (Note B-13)		
Guaranteed investment contracts	\$ 25,011	\$ 24,839
State and Local Unit Government Securities (SLUGS)	<u>816</u>	<u>3,160</u>
Total investments	<u>\$ 25,827</u>	<u>\$ 27,999</u>

1. At December 31, 2004 and 2003, approximately \$58,241,000 and \$56,615,000 respectively, were held by Trustees in Debt Service and Debt Service Reserve Funds and are restricted only for payment of principal and interest on bonds.
2. The various Bond Resolutions of the Authority specify the institutions and types of investments that can be made with the money available for investment. A general description of those investments is the following: (a) direct obligations of or obligations guaranteed by the United States; (b) bonds or obligations of any state of the United States or of any agency, instrumentality or local governmental unit of any such state; (c) bonds, debentures or other evidence of indebtedness issued or guaranteed by any agency or corporation created pursuant to an Act of Congress; (d) new housing authority bonds; (e) certificates of deposit; (f) commercial paper; (g) repurchase agreements; (h) State of New Jersey Cash Management Fund; and (i) guaranteed investment contracts.

All demand deposits and certificates of deposit, except deposits held by the Trustee, of any depository must be fully secured by lodging collateral security of obligations secured by the United States with the Trustee or bank designated by the Trustee. At December 31, 2004, all demand deposits were collateralized.

The guaranteed investment contract is an investment agreement with a bank that provides the Authority with a fixed rate of return credited to a specific Debt Service Reserve Account. At December 31, 2004, \$25,011,000 is collateralized with U.S. government obligations that have, as a minimum, an aggregate value of 105% of the investment contract that is held in escrow by a third party bank in the name of the Authority.

Repurchase agreements represent investments whereby the Authority transfers cash to a financial institution in exchange for securities. The financial institution agrees to repurchase the same securities at an agreed upon price at a future date. These investments are collateralized at a premium and held by the financial institution in the name of the Authority.

The State and Local Unit Government Securities (“SLUGS”) are special non-marketable securities issued by the U.S. Treasury, held by the Trustee and have an interest rate of 3.75%, and mature January 1, 2005.

The N.J. 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, State Investment Council. Securities in the N. J. Cash Management Fund are insured or registered, or securities held by the Division or its agent in the N. J. Cash Management Fund’s name.

E. INVESTMENT IN FACILITIES

	Balance December 31, 2003	Additions	Transfers	Balance December 31, 2004
	(In Thousands)			
Land	\$ 171,897	\$ -	\$ -	\$ 171,897
Buildings	1,037,516	8,714	-	1,046,230
Machinery and equipment	155,140	18,385	-	173,525
Land improvements	37,852	1,682	-	39,534
Leasehold rights	25,000	-	-	25,000
Construction in progress	<u>10,294</u>	<u>-</u>	<u>(10,294)</u>	<u>-</u>
	1,437,699	28,781	(10,294)	1,456,186
Less accumulated depreciation	<u>(475,509)</u>	<u>(46,021)</u>	<u>(46,021)</u>	<u>(567,551)</u>
	<u>\$ 962,190</u>	<u>\$ (17,240)</u>	<u>\$ (56,315)</u>	<u>\$ 888,635</u>

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

Buildings	35 to 60 years
Machinery and equipment	2 to 20 years
Land improvements	10 to 20 years
Leasehold rights	24 years

The Authority considers any asset acquired or improvement made to any building or facility, with a value over \$1,000 and an estimated useful life over one year, a depreciable capital asset.

F. BONDS PAYABLE

1. Bonds payable consists of the following:

Revenue Bonds	Date Issued	Original Amount	Balance December 31,	
			2004	2003
			(In Thousands)	
Sports Complex Refunding Bonds 1985/1992 Series (guaranteed by the State of New Jersey) 7.30%-8.30%, due serially through 2005	11/01/85	\$ 175,450	\$ 20,050	\$ 38,550
Sports Complex Refunding Revenue Bonds, 1993 Series A \$30,350,000 Serial Bonds 5.00%-5.125% due 2005 through 2016; \$14,990,000 Term Bonds , 5.20%, due 2017-2020; \$18,425,000 Term Bonds, 5.2%, due 2021-2024	12/01/93	63,765	63,765	63,765
Sports Complex Subordinated Refunding Revenue Bonds,1993 Series A (Federally Taxable) Term Bonds 6.875%, due 2005-2017	12/01/93	32,875	32,875	32,875
Wildwood Revenue Bonds, series 1996A 2.5% due serially through 2016	09/06/96	3,400	2,449	2,449
State Contract Bonds				
State Contract Bonds, 1992 Series A, \$46,955,000 Serial Bonds, 5.50%-6.50% due through 2007; \$177,045,000 Term Bonds, 6.00% - 6.50%, due 2013 to 2021	03/02/92	224,000	53,795	53,796
State Contract Bonds, 1992 Series C, \$209,990,000 Variable rates due through 2024	11/19/92	209,990	180,700	184,620
State Contract Bonds, 1998 Series A \$57,810,000, Serial Bonds 4.00% - 5.50% due 2004 through 2019; \$28,855,000 Term Bonds 4.50% due 2024	12/15/98	86,665	85,990	86,665
State Contract Bonds, 1998 Series B \$13,665,000 Serial Bonds 4.96% - 5.77% due through 2008	12/15/98	13,665	5,540	7,075
State Contract Bonds, 1999 Series A \$49,915,000 Serial Bonds 6.00% - 7.00% due 2000 through 2014 (Federally Taxable)	06/15/99	49,915	40,180	41,545
State Contract Bonds, 2000 Series A \$82,520,000 Serial Bonds 4.75% - 6.00% due 2001 through 2020	02/01/00	82,520	75,575	77,460
State Contract Bonds, 2000 Series B \$39,380,000 Serial Bonds 7.00% - 7.375% due 2001 through 2014 (Federally Taxable)	02/01/00	39,380	29,260	32,360

(Continued)

	Date Issued	Original Amount	Balance December 31, 2004 2003 (In Thousands)	
State Contract Bonds (continued)				
State Contract Bonds, 2000 Series C \$12,325,000 Serial Bonds 4.25% - 5.00% due 2002 through 2011	12/01/00	\$ 12,325	\$ 9,895	\$ 10,740
State Contract Bonds, 2000 Series D \$12,295,000 Serial Bonds 6.5% due 2001 through 2010 (Federally Taxable)	12/01/00	12,295	7,775	8,950
State Contract Bonds, 2002 Series A \$15,800,000 Serial Bonds 4.00% - 4.60% due 2003 through 2012	01/01/02	15,800	13,260	14,610
State Contract Bonds, 2002 Series B \$120,590,000 Variable Rate Bonds due 2021	04/23/02	120,590	120,590	120,590
State Contract Bonds, 2002 Series C \$16,235,000 Variable Rate Bonds due 2005 (Federally Taxable)	04/23/02	16,235	4,465	10,805
State Contract Bonds, 2003 Series A \$26,570,000 Term Bonds 2.0% -5.0% due 2006 through 2024	11/20/03	26,570	26,570	26,570
Convention Center Luxury Tax Bonds 2004, Series A, \$23,085,000 Serial Bonds 5.50%, due 2004 through 2022	04/12/04	23,085	23,085	-
Convention Center Luxury Tax Bonds 1992, Series A, \$53,795,000 Serial Bonds 2.90%-6.00%, due through 2007 and final payment 2013; \$114,230,000 Term Bonds, 6.58%-6.60%, due 2012 through 2022	11/12/92	168,025	-	23,085
Convention Center Luxury Tax Refunding Bonds 1999, Series A, \$128,270,000 Serial Bonds 4.25% - 5.125%, due 2003 through 2020	2/15/99	128,270	<u>119,430</u>	<u>124,485</u>
Total Bonds Payable			915,249	960,995
Less original issue discount and deferred loss on refunding			<u>(30,302)</u>	<u>(39,770)</u>
			<u>\$ 884,947</u>	<u>\$ 921,225</u>
				(Concluded)

2. ***State Guaranteed Bonds***—The State Guaranteed Bond Resolution pledges the excess revenues of the Sports Complex as security for the 1992 Guaranteed Refunding Bonds after payment for the Senior and Junior Lien Bonds, funding of the Maintenance Reserve Fund and payments in lieu of taxes. Pursuant to authorization contained in the State Guaranty Act, the punctual payment of principal and interest on the Guaranteed Refunding Bonds is unconditionally guaranteed by the State of New Jersey.

Simultaneously with the issuance of the State Contract Bonds, 1992 Series A (see Note F-6), the Authority issued the 1992 Guaranteed Refunding Bonds to the Trustee as escrow for the 1985 State Guaranteed Bonds. The 1992 Guaranteed Refunding Bonds were issued in the same amount, maturity and interest rate as the 1985 Guaranteed Refunding Bonds. The Authority will make debt service payments on the 1992 Guaranteed Refunding Bonds to the Trustee from the excess revenues of the Sports Complex available at the end of the year after meeting the requirements of the Sports Complex Bond Resolutions. The Trustee then will make debt service payments on the 1985 State Guaranteed Refunding Bonds from amounts received from the 1992 Guaranteed Refunding Bonds.

3. ***Sports Complex Refunding Revenue Bonds 1993 Series A—Senior Lien***—The Authority issued \$63,765,000 of Sports Complex Refunding Revenue Bonds, 1993 Series A (the “Senior Lien Bonds”). The Senior Lien bonds were issued by the Authority for the purposes of: (1) refunding \$63,790,000 aggregate principal amount of the Authority’s Sports Complex Bonds, 1978 Series (the “Refunded Bonds”); and (2) paying the costs of the authorization, issuance, sale, execution and delivery of the 1993 Senior Lien Bonds.

These Senior Lien Bonds are direct and general obligations of the Authority. The Sports Complex Revenue Bond Resolution pledges the net revenues of the Sports Complex as security for the Senior Lien Bonds. In addition, a debt service reserve requirement in the amount of \$5,228,440 at December 31, 2004 is insured with a Surety Bond issued by the MBIA Insurance Corporation as additional security for the bondholders. In accordance with the Bond Resolution, principal and interest on outstanding Senior Lien Bonds are transferred from the Revenue Fund to the Debt Service Fund. The Senior Lien Bonds are not a debt or a liability of the State of New Jersey or any political subdivision of the State other than the Authority.

4. ***Sports Complex Subordinated Refunding Revenue Bonds 1993 Series A—Junior Lien***—Concurrently with the issuance of the Senior Lien Bonds, the Authority issued \$32,875,000 of Sports Complex Subordinated Refunding Revenue Bonds, 1993 Series A (the “Junior Lien Bonds”). The Junior Lien bonds were issued by the Authority for the purposes of: (1) paying a promissory note of the Authority with an outstanding principal amount of \$29,345,000 at the time of payment which was originally issued to finance the acquisition of the club box suites at the football stadium, which is part of the Sports Complex; (2) financing certain improvements to the club box suites; and (3) paying the costs of the authorization, issuance, sale, execution and delivery of the 1993 Junior Lien Bonds.

These Junior Lien Bonds are direct and general obligations of the Authority. The Sports Complex Subordinated Bond Resolution pledges the net revenues of the Sports Complex as security for the Junior Lien bonds. However, such pledge of the net revenues is subject to, and junior in all respects to, the pledge of the Sports Complex Revenue Bond Resolution of such amounts as security for the payment of the 1993 Senior Lien Bonds.

The payment, when due (other than for reason of acceleration or optional redemption) of principal and interest on these bonds is insured with a policy issued by the Municipal Bond Investors Assurance Corporation. In addition, a debt service reserve requirement in the amount of \$3,965,063 at December 31, 2004 is insured with a Surety Bond issued by the MBIA Insurance Corporation as additional security for the bondholders. In accordance with the Bond Resolutions, principal and interest on outstanding Junior Lien Bonds are transferred from the Revenue Fund to the Debt Service Fund. The Junior Lien Bonds are not a debt or a liability of the State of New Jersey or any political subdivision of the State other than the Authority.

5. ***Wildwoods Revenue Bonds 1996 Series A***—The Authority assumed these bonds on February 23, 1998 as an obligation and liability of the Wildwoods Convention Center. The bonds were authorized by the Greater Wildwoods Tourism Improvement and Development Authority and issued to the City of Wildwood in the amount of \$3,400,000 for the acquisition of the Wildwoods Convention Center in 1996.

On November 8, 1999, the Authority entered into The Omnibus Intergovernmental Agreement with the City of Wildwood, the Borough of Wildwood Crest, the City of North Wildwood, the Greater Wildwoods Tourism Improvement and Development Authority and the Treasurer of the State of New Jersey. This agreement restated the original terms and conditions of the Authority's assigned obligation under the bonds and replaced the previous Bond Resolution. Under the terms of the new agreement, repayment of principal and interest is to be funded by the Available Revenues of the Wildwoods Convention Center after payment of operating expenses, funding of the maintenance reserve fund and payments in lieu of taxes. Should available revenues be insufficient to provide the required debt service amount any unpaid portion accrues to the following year to be funded by that year's available revenues. If it should be deemed necessary, the Authority may request an express separate appropriation from the State Treasurer to cover any shortfall. The Authority does not pledge the revenues, rents fees, rates, charges or other income derived from operations or ownership of any of its other projects, to the repayment of these bonds.

6. ***State Contract Bonds***—The State Contract Bonds are special obligations of the Authority, payable solely from the State Contract (see Note A) and other pledged property. Notwithstanding the pledge effected by the Resolution, all amounts payable under the State Contract by the Treasurer of the State shall be subject to and dependent upon annual appropriations by the New Jersey State Legislature. The State Legislature has no legal obligation to make any such appropriations.

None of the Authority's revenues, rents, fees, rates, charges, or other income and receipts derived from the operations or ownership of any of its projects is pledged or assigned to the payment of or interest on the State Contract Bonds unless specifically stipulated in the bond agreements.

1992 Series A

The Authority issued \$224,000,000 of State Contract Bonds, 1992 Series A, in connection with a restructuring of the Authority's outstanding debt. The bond proceeds were applied to: (1) advance refund in full the Authority's Sports Complex Subordinated Bonds - 1985 Series; (2) purchase zero interest rate SLUGS to fund certain principal and interest on the Authority's State Guaranteed Bonds, 1992 Series; (3) pay certain costs of the Capital Improvement Program for the Meadowlands Sports Complex and Monmouth Park; (4) pay a portion of the costs of the Rutgers Project; and (5) pay costs of specific feasibility studies.

In December 1998, the Authority transferred funds, from proceeds of 1998 Series A and B State Contract Bonds (see Note F-6. 1998 Series A and B), to an escrow agent (see Note I) to secure the advance refunding of \$25,235,000 of these bonds.

In April 2002, the Authority transferred funds, from proceeds of 2002 Series B and C State Contract Bonds (see Note F-56. 2002 Series B and C), to an escrow agent (see Note I) to secure the advance refunding of \$120,590,000 of these bonds.

1992 Series C

The Authority issued \$209,990,000 of State Contract Bonds, 1992 Series C to provide funds to pay a portion of the cost of the Authority's Convention Center Project.

The State Contract Bonds 1992, Series C were issued at a variable rate of interest. Effective November 12, 1992, the Authority entered into an interest rate swap agreement for \$209,990,000 of the State Contract Bonds 1992, Series C for the term of the Bonds. Based on the swap agreement, the Authority owes a fixed overall effective rate of interest of 5.86% to the counter party to the swap inclusive of fees for liquidity facility and remarketing. In return, the counter party owes the Authority a variable rate. The objective of the swap agreement was to effectively fix the Authority's borrowing costs and maximize proceeds to fund construction costs. (See Note F.8 Interest Rates and Disclosure Requirements for Derivatives)

The payment, when due (other than by reason of acceleration or optional redemption), of principal and interest on these bonds is secured by a debt service reserve of \$20,999,000 set aside from the proceeds of the bond sale. In addition, a guaranty policy issued by the Municipal Bond Investors Assurance Corporation provides additional security for the bondholders.

1998 Series A and B

On December 30, 1998, the Authority issued \$86,665,000 of State Contract Bonds, 1998 Series A and \$13,665,000 of State Contract Bonds, 1998 Series B to provide funds to (1) advance refund a portion of the Authority's outstanding State Contract Bonds, 1992 Series A; (2) advance refund all of the Authority's outstanding Monmouth Park Refunding Revenue Bonds, 1994 Series A; (3) pay or reimburse the Authority for certain capital expenditures incurred in connection with 1998 and 1999 Sports Complex capital projects costs; and (4) pay the costs of issuance of the Bonds.

Pursuant to the State Contract the debt service related to the refunding of the Monmouth Park Bonds will be funded by Monmouth Park Revenue (as defined). To the extent that sufficient amounts in the Monmouth Park Revenue Fund are available after payment of operating expenses but prior to funding the Maintenance Reserve and payments in lieu of taxes, the Authority must make a monthly transfer to the State Contract Debt Service Fund. Consequently the Authority will account for these Monmouth Park Related State Contract Bonds separately within the Monmouth Park Fund.

1999 Series A

On June 1, 1999, the Authority issued \$49,915,000 of State Contract Bonds, 1999 Series A to provide funds to: (1) pay or reimburse the Authority for amounts expended by the Authority to pay a portion of the cost of the East Hall Project; and (2) pay the costs of issuance of the 1999 Series A Bonds.

In accordance with a funding agreement between the Authority, the Casino Reinvestment & Development Authority ("CRDA") and the Treasurer of the State of New Jersey future receipts of the CRDA will be used to pay, or reimburse the Treasurer for debt service on these bonds if and when any receipts (as defined) are received and available. Such CRDA funds, however, are not guaranteed, pledged, assigned or secured by the Authority.

2000 Series A and B

On February 1, 2000, the Authority issued \$82,520,000 of Series A and \$39,380,000 of Series B State Contract Bonds to pay: (1) costs of the Wildwoods Convention Center Project; (2) pay or reimburse the Authority for certain capital expenditures incurred in connection with 1999 Sports Complex Capital Projects; (3) fund the Lease Buyout Project to exercise an equipment purchase option of HVAC and Energy Equipment installed at the Sports Complex and initially leased by the Authority in 1996; and (4) pay costs of issuance of the 2000 Series A and B Bonds.

2000 Series C and D

On December 1, 2000, the Authority issued \$12,325,000 of Series C and \$12,295,000 of Series D State Contract Bonds to pay: (1) costs of the 2000 Sports Complex Project related to capital improvement and maintenance; (2) costs of the Monmouth Racetrack Project related to installing a new heating and cooling system; and (3) costs of issuance of the 2000 Series C and D Bonds.

Pursuant to the State Contract, debt service related to the Monmouth Racetrack Project will be funded by Monmouth Park Revenue (as defined). To the extent that sufficient amounts in the Monmouth Park Revenue Fund are available after payment of operating expenses but prior to funding the Maintenance Reserve and payments in lieu of taxes, the Authority must make a monthly transfer to the State Contract Debt Service Fund. Consequently, the Authority will account for these Monmouth Park Related State Contract Bonds separately within the Monmouth Park Fund.

2002 Series A

On January 1, 2002, the Authority issued \$15,800,000 of Series A State Contract Bonds to pay: (1) for certain capital expenditures incurred in connection with 2001 Sports Complex Capital Projects; (2) for certain expenditures incurred in connection with the Rutgers Projects and (3) issuance of the 2002 Series A Bonds.

2002 Series B and C

On April 23, 2002, the Authority issued \$120,590,000 of Series B and \$16,235,000 of Series C (federally taxable) State Contract Bonds. The net proceeds from the refunding will be used to pay: (1) the current refunding of \$120,590,000 of 1992 Series A State Contract Bonds; (2) a required Hedge Payment, (3) and issuance costs of the 2002 Series B and C Bonds.

The Bonds were issued under an Interest Rate Exchange (or swap) Agreement, in compliance with an agreement the Authority entered into on April 5, 1999 under the International Swap and Derivatives Association ("ISDA") Master Agreement where the Authority pays predetermined fixed rates in exchange for variable rates of interest with the counter party. (See Note F.8 Interest Rates and Disclosure Requirements for Derivatives)

In an effort to lower the Authority's borrowing costs and protect against rising interest rates, effective January 29th 2002, the Authority entered into two Swap Agreements with respect to the 2002 Refunding Series Bonds.

2003 Series A

On November 20, 2003, the Authority issued \$26,570,000 of Series A State Contract Bonds to (1) refund the Authority's 1993 Series A State Contract Bonds, and (2) pay certain costs of issuance of the 2003 Series A Bonds. Although the Authority recognizes an economic loss on debt refinancing of approximately \$1,232,000, which will be amortized over the life of the bond issue, a present value savings of future debt service payments of approximately \$2,112,000 was realized.

The 1993 Series A Bonds were redeemed on January 2, 2004.

7. *Convention Center Luxury Tax Bonds*—

1992 Series A

The Authority issued \$168,025,000 of Luxury Tax Bonds. The proceeds of these bonds were used to: (1) acquire, by lease, the site of the new convention center and the old convention hall from the Atlantic County Improvements Authority; and (2) pay a portion of the cost associated with the construction of a new convention center in Atlantic City.

The 1992 Luxury Tax Bonds are special obligations of the Authority and are payable solely from the proceeds of a luxury tax levied and collected in the City of Atlantic City and paid to the Authority (see Note C) and from the other pledged property under the resolution. All luxury revenues levied and collected in Atlantic City are directed to the Authority.

None of the Authority's revenues, rents, fees, rates, charges, or other income and receipts or assets with respect to any of its projects other than the Convention Center Project is pledged or assigned to the payment of the principal of, redemption price, if any, or interest on the 1992 Luxury Tax Bonds.

On April 12, 2004, 2004 Luxury Tax Bonds refunded the remaining balance of these bonds. (See Note F.7 – 2004 Series)

1999 Series

On March 16, 1999, the Authority issued \$128,270,000 of Convention Center Luxury Tax Refunding Bonds, Series 1999, to provide funds to the Authority to: (1) fund an escrow, the proceeds of which are 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 will be 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 Authority issued \$23,085,000 of Convention Center Luxury Tax Refunding Bonds, Series 2004, to (1) refund on a current basis the Authority's presently outstanding Convention Center Luxury Tax Bonds, 1992 Series A, and (2) 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 Authority 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 Authority 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 Surety Bond, issued by the Municipal Bond Investors Assurance (“MBIA”) Corporation, on the required debt service reserve amount of \$6,252,500 at December 31, 2004. Payments are additionally insured by a guaranty policy also issued by MBIA.

8. **Interest Rates and Disclosure Requirements for Derivatives**—Since 1992, the Authority has entered into three Interest Rate Exchange (or Swap) Agreements in 1992 and 2002, with the issuance of the 1992 Series C, and the 2002 Series B & Series C, respectively.

Under these swap agreements, the Authority pays a fixed payment for each individual bond series. Those rates, depending on the individual bond series, range from 4.50 percent to 6.01 percent. Depending on the associated swap agreement, the Authority receives a variable payment computed as either the floating rate on bonds, the lesser of the BMA index, or 70 percent of one month USD-LIBOR, or 100 percent of one month USD-LIBOR. The swap provider calculates the rate as well as, the dollar amount that is owed by the swap counter party. The remarketing agent determines the variable rate that is applied to the bonds. The following risk is generally associated with swap agreements:

- **Credit Risk**—The counter party becomes insolvent or is otherwise not able to perform its financial obligations. In the event of deterioration in the credit ratings of the counter party or the Authority, the swap agreement may require the collateral be posted to secure the party’s obligations under the swap agreement. The Authority deemed no collateral posting was required.
- **Basis Risk**—The variable interest rate paid by the counter party under the swap agreement and the interest rate paid by the Authority on the associated bonds are not the same. If the counter party’s payment is lower than the bond interest rate, then the counter party’s payment under the swap agreement does not fully reimburse the Authority for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counter party’s rate on the swap, there is a net benefit to the Authority. During 2004, this risk was immaterial.
- **Termination Risk**—The swap agreement will be terminated and the Authority will be required to make a large termination payment to the counter party. It is estimated that costs of approximately \$15,000,000 and \$47,000,000 for 2002 Series B-1, B-2, C and 1992 Series C, respectively, should the Authority seek to voluntarily terminate these agreement as of December 31, 2004.

The following table summaries these transactions.

Issuer / Series	Notional Amounts	Effective Date	Synthetic Fixed Rate	Counter Party	Credit Rating	Variable Rate Received
1992 Series C	\$180,700	11/12/92	5.86%	AIG	AAA	Floating Rate on bonds
2002 Series B-1, B-2	120,590	1/29/02	4.50%	Merrill Lynch	AAA	The lesser of the weighted average of the BMA Index or 70% of the 1-Month USD-LIBOR
2002 Series C	4,465	1/29/02	6.01%	Merrill Lynch	AAA	100% of the 1-Month USD-LIBOR

9. **Interest Costs**—Interest costs for the years 2004 and 2003 were \$61,759,000 and \$64,729,000, respectively.

G. NOTES PAYABLE

1. Notes payable consist of the following:

	Date Issued	Original Amount	Balance December 31,	
			2004	2003
(In Thousands)				
Loan from the New Jersey Department of Environmental Protection, 0% interest, semi-annual installments of \$25,000 through July 1, 2005	5/12/1995	\$ 500	\$ 50	\$ 100
Loan from the State of New Jersey Board of Public Utilities, 0% interest, due December 31, 2006	12/23/1996	3,500	3,500	3,500
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	8,600	8,600
Term loan from bank, 7.6% interest due August 31, 2006	8/31/1998	32,360	<u>8,820</u>	<u>12,754</u>
Total notes payable			<u>\$ 20,970</u>	<u>\$ 24,954</u>

2. On May 12, 1995, the Authority received an energy conservation loan from the New Jersey Department of Environmental Protection. The loan bears no interest and is repayable in semi-annual installments of \$25,000 commencing January 1, 1996. For financial reporting purposes the Authority has assumed an imputed interest rate of 7% on this loan, the Authority's borrowing rate at the time of the loan.
3. On December 31, 1996, the Authority received an energy conservation loan from the New Jersey Board of Public Utilities. The loan bears no interest and has an extended due date of December 31, 2006. For financial reporting purposes the Authority has assumed an imputed interest rate of 7% on this loan, the Authority's borrowing rate at the time of the loan.
4. 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 (see Note F-7). 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.

5. The Authority in September 1996, entered into an agreement with the major football tenants of the Stadium to share the costs and revenues attributed to luxury suites and club seats (Stadium Suites Project). In October 1996, the Authority entered into a Loan and Security Agreement with a bank whereby, the bank would provide up to \$35,000,000 in construction cost financing related to the construction of new luxury suites at Giant Stadium. The loan was converted to a term loan upon the completion of the Project on August 31, 1998 and is repayable from revenues generated by the suites in eight annual principal installments. Interest, at the rate of 7.6% is payable quarterly.

H. 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:

	Principal					Total	Interest	Total
	Sports Complex	State Contract	Luxury Tax	Wildwood	Stadium Suites			
2005	\$ 3,795	\$ 22,935	\$ 5,270	\$ 331	\$ 4,243	\$ 36,574	\$ 48,803	\$ 85,377
2006	7,455	24,480	14,095	166	4,577	50,773	46,820	97,593
2007	4,190	27,830	5,730	174		37,924	44,392	82,316
2008	4,435	29,340	5,990	179		39,944	42,568	82,512
2009-2013	26,560	186,230	34,505	962		248,257	171,331	419,588
2014-2018	27,750	181,830	44,180	637		254,397	102,518	356,915
2019-2023	22,455	142,605	41,345			206,405	37,348	243,753
2024-2028		38,345				38,345	2,079	40,424
Total	<u>\$ 96,640</u>	<u>\$ 653,595</u>	<u>\$ 151,115</u>	<u>\$ 2,449</u>	<u>\$ 8,820</u>	<u>\$ 912,619</u>	<u>\$ 495,859</u>	<u>\$ 1,408,478</u>

I. REFUNDED BONDS

The Authority has approximately \$74,250,000 of bonds outstanding which are secured by investments held by various escrow agents. The escrow accounts meet the criteria under accounting principles generally accepted in the United States of America for an in-substance defeasance and, accordingly, the assets and obligations are not reflected on the financial statements of the Authority.

J. PENSION, RETIREMENT AND DEFERRED COMPENSATION PLANS

Plan Description and Employer and Employee Contributions—Salaried the Public Employees’ Retirement System of the State of New Jersey (“PERS”), a multiple-employer public employee retirement system, covers employees of the Authority, the Convention Center Authority and Wildwoods Convention Center. The payroll for employees covered by PERS for the years ended December 31, 2004 and 2003 was \$ 17,044,713 and \$15,420,000 respectively. The Authority’s total payroll for the years ended 2004 and 2003 was \$63,684,000 and \$66,731,000, respectively.

All Authority 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 Authority employees are required by PERS to contribute a percentage of their salary based on their age at the time of their enrollment. The Authority is required by State Statute to contribute the remaining amounts necessary to pay benefits when due. The PERS on the recommendation of an actuary who makes an annual actuarial valuation certify the amount of the Authority's contribution each year. 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 employee contributions required for the years ended December 31, 2004 and 2003 were \$537,340 (3.15%) and \$518,991 (3.37%), respectively. No employer contribution was required.

Other Benefits—The Authority has established a separate defined benefit pension plan for selected seasonal racing personnel. Annual pension expense was \$83,485 and \$46,491 for 2004 and 2003, respectively. In addition, salaried employees of the Authority are eligible for participation in a section 401(k) deferred compensation plan. The Authority contributed a maximum of 4% of the employee's salary for 2004 and 2003. Annual expense for this plan was \$483,946 and \$383,707 for 2004 and 2003, respectively.

Additionally, some Sports Authority employees are participants in certain pension plans administered by local unions and contributions are made in accordance with terms of the union agreements of those employees.

Sports Authority salaried employees hired before January 1, 1993, who retire on or after age 60, with a minimum of 10 years of full-time salaried service or have a combined number of full time service and age totaling 75, with the Authority, are eligible to continue certain specified benefits subject to any required contributions. Medical benefits available to active employees will be available to eligible retirees who are not yet eligible for Medicare. The Authority will also, at its discretion, make available medical benefits to supplement Medicare coverage. The Authority accounts for these benefits on a pay as you go basis and paid approximately \$ 450,072 (for 69 retirees) and \$484,667 (for 69 retirees) in 2004 and 2003, respectively.

K. COMMITMENTS AND CONTINGENCIES

1. A portion of the Authority's operating revenues is attributable to leasing of the Sports Complex facilities for various sporting events, trade shows and other expositions. Rental income is a flat fee per event or a percentage of ticket sales. Rental income, under these leases, was approximately \$18,989,000 and \$24,275,000 for the years ended December 31, 2004 and 2003, respectively.
2. The Authority has license agreements with the major sport franchises that play in the Arena and the Stadium which expire at various dates between 2007 and 2026. There are options in the agreements that allow for earlier termination. One of the amendments to a license agreement includes guaranteed new revenue to the tenant (as defined in the agreement) of not less than \$5,311,000 for each season during the term of the agreement. To the extent that new revenue is not generated from new sources it will be supplemented by the Authority. One tenant has filed a suit claiming that is entitled to a reduction in its rent payments as a result of certain provisions of their lease agreement.

3. The Authority is exposed to risks of losses related to injuries to employees. The Authority has established a risk management program to account for and finance its uninsured risks of loss related to workmen's compensation. The Authority provides coverage up to a maximum of \$500,000 for each worker's compensation claim and purchases commercial insurance for claims in excess of \$500,000. No claim has exceeded or reached the \$500,000 excess coverage limit during 2004 and 2003. The Authority paid claims in the amount of \$1,297,138 and \$1,530,235 in 2004 and 2003, respectively.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At December 31, 2004 and 2003, the reserve for these liabilities was approximately \$4,081,000 and \$2,602,663 respectively.

4. On June 26, 2000, the Authority 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 \$1,173,000 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.
5. On March 1, 2001, the New Jersey Sports and Exposition Authority 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 Sports Authority'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 Sports Authority'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 Sports Authority received a cash payment of approximately \$7,945,000.
6. In December 2003, the Authority entered into a redevelopment agreement with the joint venture Mills Corporation and Mack-Cali Realty Corporation (Mack-Cali) to develop the proposed Xanadu project on the Continental Airlines Arena Site. Xanadu will provide a multi-use attraction with diverse entertainment, ancillary retail, select restaurants, hotel with conference facilities, and Class-A offices that complement and enhance the Authority's existing Meadowlands attractions. The project components total approximately 5 million square feet of gross space and an estimated cost, to the developer, of over \$1.3 billion. According to the terms of the agreement, it does not materially impact the operations of the current Arena facility through the existing franchises' lease terms. The Authority could be a conduit issuer of bonds to facilitate the project. All obligations under these bonds would be from the developers. There have also been a number of lawsuits pending pursuant to this project, the outcome of which cannot currently be determined. Through 2004, the Authority has expended \$2,900,000 related to the project, which has been deferred in the financial statements.
7. In 2003 the Authority authorized the President and CEO to re-negotiate the lease agreement with the New York Giants to allow them to renovate the existing Giants Stadium, or construct a new stadium. The agreement, in principle, is not expected to materially impact the current administrative obligations and day-to-day operations of the Authority.

8. At year-end approximately \$10,859,000 in current assets and liabilities was related to funds received from the State to administer the Camden Aquarium Project. The activity in the fund created for this purpose has no effect on the Authority's revenues or expenses.
9. In May 2004, the Authority entered into a Grant and Donation Agreement (the agreement) with the Casino Reinvestment Development Authority (CRDA) and the 12 casinos operating in Atlantic City whereby the casinos will pay the Authority \$34,000,000 over 4 years for purse enhancement at the Meadowlands, Monmouth Park and Freehold racetracks. In addition the casinos authorized CRDA to approve donations in the amount of \$62,000,000 from the casinos' North Jersey obligations fund to further support this purse enhancement. In turn, the Authority has guaranteed certain purse payments over the next four years to the various horsemen associations. To the extent that revenue and these purse supplements do not meet the guarantee, the Authority will pay the amounts.
10. In 2004 the Authority organized the NJSEA Insurance Company, LLC (the LLC) as a captive insurance company in Vermont for the purpose of insuring and reinsuring various types of risk, including but not limited to those required by the Federal Terrorism Insurance Act. The LLC is a wholly owned subsidiary of the Authority and insures the Authority for a maximum of \$30,000,000.
11. The Authority is in the process of entering in a Management and Funding Agreement for the design and construction of a railroad and roadway improvement project to the Sports Complex between the Authority, New Jersey Transit (NJT) and New Jersey Department of Transportation (NJDOT). The Port Authority of NY/NJ has reserved \$150,000,000 to support this project. Contracts awarded to date amount to \$9,000,000 and construction contracts are expected to be awarded by the fall of 2005. As of December 31, 2004, expenses incurred and deferred amount to \$621,000.
12. On June 14, 2004 the Authority entered into a Participation agreement to license and operate an account wagering system in New Jersey pursuant to the Off-Track and Account Wagering Act (P.L. 201, c.199) and the regulations promulgated by the New Jersey Racing Commission. Under the agreement the Authority will contribute 70% of start-up costs for the project, appoint an Operating Board and conduct and account for all day-to-day operations in return for 70% of available net project revenues or losses as defined by the agreement.

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