Atlantic City Convention & Visitors Authority

(Formerly Atlantic City Convention Center Authority)

Independent Auditors' Report

Financial Statements
Years Ended December 31, 2008 and 2007

ATLANTIC CITY CONVENTION & VISITORS AUTHORITY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Atlantic City Convention & Visitors Authority (the "Authority"), a component unit of the New Jersey Sports and Exposition Authority ("NJSEA"), as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and of 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 financial statements present fairly, in all material respects, the financial position of the Authority as of December 31, 2008 and 2007, and the changes in its net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 18 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 management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLP

March 25, 2009

ATLANTIC CITY CONVENTION & VISITORS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction to the Annual Report

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

Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") presents an overview of the Authority's operations and financial performance during the years ended December 31, 2008 and 2007. It provides an assessment of how the Authority's financial position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with, the other financial statements described below.

Financial Statements of the Authority

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

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

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

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

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

The Notes to the Financial Statements

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

The Authority's Business

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

- The Destination Marketing Organization ("Marketing Operations") serves as the destination's principal marketing arm, stimulating economic growth through convention, business and leisure tourism development. Marketing Operations is funded primarily through marketing fees, which are imposed on hotels in Atlantic City. Marketing Operations also began receiving luxury taxes in 2006 to offset the loss of marketing fee revenue as a result of the Urban Revitalization Program. In this program, the Casino Reinvestment Development Authority ("CRDA") and casinos with approved entertainment-retail projects are rebated marketing fees paid in an amount equal to the incremental luxury taxes collected in districts with approved projects, over a baseline luxury tax revenue amount.

- The New Jersey Sports and Exposition Authority ("NJSEA"), through the Authority, has engaged SMG, an outside service provider, in a management agreement to provide management services for the Convention Center, Boardwalk Hall, and West Hall.

- The Convention Center consists of 486,000 square feet of contiguous exhibition space, 45 meeting rooms with 114,000 square feet of meeting space, and a 1,500 space parking garage. The facility serves an integral role in the fabric of the hospitality community by offering an anchor facility for conventions, trade shows, corporate meetings and consumer shows. The facility produces economic impact to the community by attracting exhibitors and attendees to the region, where their spending produces revenue streams for area businesses and residents.

- The Boardwalk Hall is a modern special event center able to compete with the nation's finest arenas for major entertainment and sporting events. The Boardwalk Hall offers the opportunity to provide the local community with a venue for activities, broadening the diversity and attractiveness for residents and visitors alike.

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

- The Convention Center, Boardwalk Hall, and the West Hall operate at a deficit, seeking to attract visitors and business to this marketplace through a competitive rate structure. These facilities are also a significant generator of indirect revenue in the form of increased tax generation. Luxury taxes imposed and collected by the State on hotel room rentals, cover charges, drinks and admissions paid within Atlantic City are paid to NJSEA to first make debt payments on bonds issued to construct and renovate the facilities, and then transferred to the Convention Center, the Boardwalk Hall, and the West Hall to cover the operational deficits and capital expenditures of the facilities. Luxury taxes are now being transferred to Marketing Operations, as well, to offset the loss in marketing fees as a result of the Urban Revitalization Program.

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

Financial Analysis

The following sections will discuss the significant changes in the Authority's financial position for 2008 and 2007. Additionally, an examination of major economic factors and industry trends that have contributed to the Authority's operations are provided. It should be noted that for purposes of this MD&A, summaries of the financial statements and the various exhibits presented include information from the Authority's financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America.

Destination and Authority Highlights

The year 2008 proved to be a year of mixed results for the destination of Atlantic City and the Authority. Promo tax collections (a.k.a. Marketing fees), which represent the $2 and $1 per occupied room charges collected by the State of New Jersey from Atlantic City casino and non-casino hotels, respectively, were higher in 2008 than 2007. Luxury tax collections, which are taxes calculated on the sale of alcoholic beverages by the glass, hotel rooms, and cover charges for admissions to theaters, exhibitions, and other places of amusement, were lower in 2008 than 2007. Gas prices were higher in 2008 than 2007, for most of the year, but a record number of vehicles traveled on the Atlantic City Expressway, the main access route to southern New Jersey's gambling resort. The global economic downturn and increased competition in neighboring states contributed to the second straight year of declining Atlantic City casino revenue, but more than $1.5 billion in non-gaming new investment was completed in Atlantic City in 2008 alone. The non-gaming investment included new retail, new dining, renovations of existing hotel rooms, and the completion of over 2,500 new hotel rooms.

A big reason for all of the non-gaming construction is the establishment of the Urban Revitalization Program. This program provides a lucrative incentive to casinos and the CRDA to build these types of projects, and Atlantic City has already benefited from some of the resulting projects such as: The Quarter at the Tropicana, the entertainment-retail project along the city's entrance/exit corridor, known as Atlantic City Outlets – The Walk, The House of Blues at the Showboat, the Pier Shops at Caesars, and a large percentage of the new hotel room construction, specifically including the two new hotel towers completed in 2008 for the Borgata and Harrah's Atlantic City. The new construction has generated additional luxury taxes over the years, which are collected by the State of New Jersey and forwarded to the NJSEA to: (1) pay debt service on the bonds issued to build the Convention Center and renovate the Boardwalk Hall and West Hall, (2) fund the annual operating deficits of the Convention Center, Boardwalk Hall and West Hall, and (3) replace the marketing fees withheld by the State of New Jersey to be rebated back to the CRDA and casinos with approved Urban Revitalization Program projects. As for the latter, the legislation that created the Urban Revitalization Program specified that the amount of money to be rebated back to the CRDA and casinos was to equal the incremental amount of luxury taxes collected for an approved project over the luxury taxes collected for the property in the last full year immediately preceding the project's completion. The CRDA and casinos would continue to receive rebates until December 31, 2022, or until the date on which the combined total of rebates equals the approved cost of the district project, whichever is earlier. The annual amount of the rebate calculated, as certified by the New Jersey Department of Taxation, would be deducted from the marketing fees collected for the property and rebated directly to the CRDA for disbursement to the casino with an approved district project, or to the CRDA for a CRDA sponsored district project. The CRDA receives marketing fee rebates from marketing fees collected from the Sheraton in Atlantic City. Marketing fee rebates are netted out of marketing fee revenue in the Authority's financial statements. Largely due to the construction resulting from the Urban Revitalization Program, citywide luxury tax collections have grown from approximately $18 million in 2003, the year preceding the first year of the program, to over $27 million collected in 2008.

Development Updates

Water Club Hotel Opening

- 43-story hotel tower
- 800 guest rooms and suites
- Opened June 2008

Harrah's Atlantic City Hotel Expansion

- 47-story hotel tower
- 964 guest rooms and suites
- Opened March 2008

Courtyard by Marriott

- Combination of old Quality Inn and an Elementary School Building
- 206 guest rooms
- Opened May 2008

Holiday Inn/Howard Johnson Redevelopment

- Both hotels (adjacent to each other) closed in 2007 for renovations
- Re-opened as one hotel with 330 rooms
- Opened July 2008

Trump Taj Mahal – New Hotel Tower

- 39-story hotel tower
- 786 guest rooms and suites
- Opened September 2008

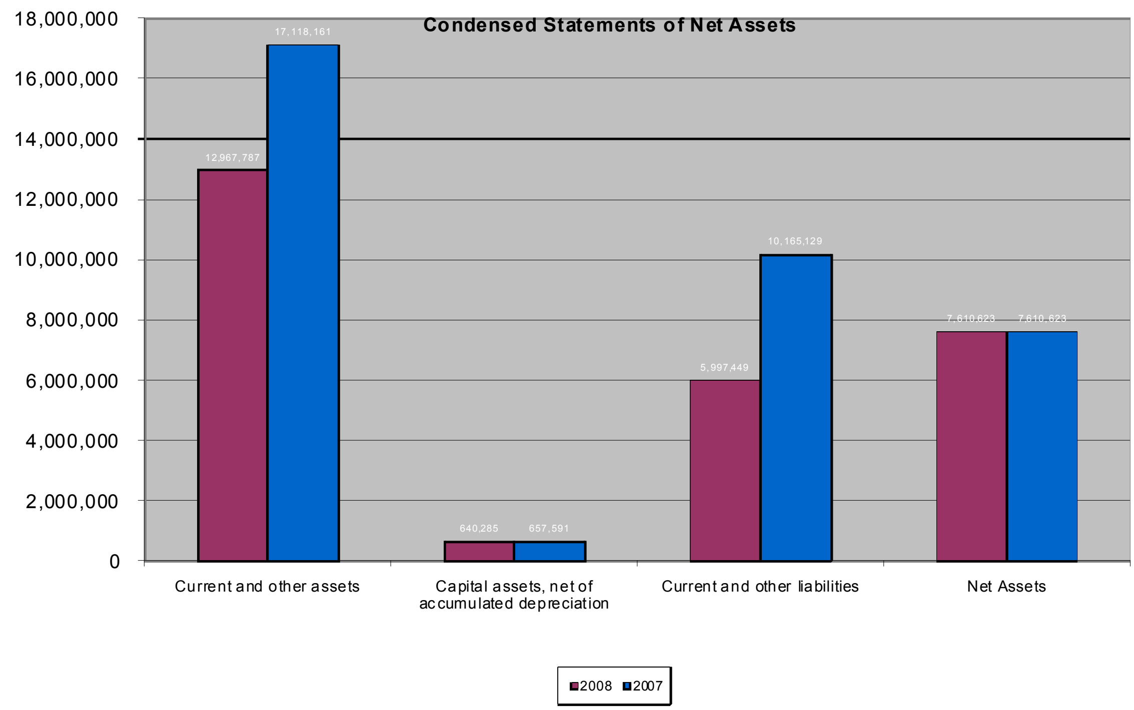
Financial Summaries

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

EXHIBIT 1

Condensed Statements of Net Assets

	December 31, 2008	December 31, 2007	December 31, 2006
Current assets	$ 12,967,787	$ 17,118,161	$ 12,522,326
Capital assets, net of accumulated depreciation	640,285	657,591	443,919
Total assets	13,608,072	17,775,752	12,966,245
Current and other liabilities	(5,997,449)	(10,165,129)	(6,664,515)
Net assets	$ 7,610,623	$ 7,610,623	$ 6,301,730



For the Year Ended December 31, 2008

Current assets decreased by $4,150,374 in 2008 to $12,967,787 primarily due to a $694,452 decrease in cash, a $856,580 decrease in the Due from the State of New Jersey, and a $2,906,728 decrease in the Due from the NJSEA. Cash at the Convention Center and Boardwalk Hall decreased by $3,581,210 in 2008 primarily due to the decrease in cash collected for advance ticket sales in 2008 versus 2007. In 2008, the only three events that generated significant advance ticket sales were Dancing with the Stars, Yanni, and Frankie Beverly and Maze, equaling $465,625 of the total of $617,945 collected. In 2007, on the other hand, advance collections totaling $4,407,750 were made for 2008 events, which included Celine Dion, Hannah Montana, Van Halen, and Keith Urban. Marketing Operations' cash, however, increased $2,886,758 in 2008 as a result of the State of New Jersey releasing the excess marketing fees being withheld at the end of 2007 during 2008. Marketing Operations received $2,757,037 more in cash from the State in 2008 compared to 2007. The Authority's receivable from the State decreased by $856,580 primarily due to the fact that five months marketing fees were being withheld at the end of 2007 while only four months of marketing fees were being withheld at the end of 2008. The extra month withheld in 2007 accounted for $599,241 of the difference in receivable balances. Another factor in the decrease was marketing fee rebates. The amount of the marketing fee rebates, which are netted out of the receivable, was $331,696 lower in 2008 compared to 2007. The Authority's receivable from the NJSEA decreased by $2,906,728 in 2008 due to the timing of the receipts of luxury taxes from the NJSEA for the operating deficits of the Convention Center and Boardwalk Hall and the replacement of marketing fees being withheld by the State of New Jersey for rebates to properties with approved Urban Revitalization Program projects. The balance of the $2,906,728 luxury tax receivable at the end of 2007 was received in 2008, while the Authority received all of the 2008 luxury taxes from the NJSEA prior to end of the year. Receivables increased for the Authority by $98,045 primarily due to the timing of the payments for services rendered towards the end of the year for the Convention Center, Boardwalk Hall, and Marketing Operations. Prepaid expenses and other assets increased by $209,341 in 2008 due to Marketing Operations' $315,685 increase in prepayments for booth fees, catering services, and marketing memberships, offset by a $152,576 decrease in prepaid pollution and property insurance expenditures for the Convention Center and Boardwalk Hall.

Current and other liabilities decreased by $4,167,680 in 2008 primarily due to the $3,667,271 decrease in deferred revenue for the Convention Center and Boardwalk Hall. As mentioned above, the decrease is due to the lower collections in 2008 of advance ticket sales for shows to be held in 2009. Marketing Operations' deferred revenue increased by $100,216 primarily due to grant proceeds received in 2008, which will be used to promote Atlantic City's Restaurant Week to be held in March 2009. Accounts payable and accrued expenses decreased by $947,572 in 2008 primarily due to the Convention Center's and Boardwalk Hall's migration from the financial system hosted by the NJSEA to the financial system hosted by the Authority. The accounts payable disbursements for both of the buildings were processed on the financial system of the NJSEA since 2005, but beginning in 2009, they will be processed on the financial system of the Authority. In order to ease the transition, the procurement for both of the buildings was decreased in the final six weeks of 2008, and disbursements were made for a large portion of the open accounts payables prior to yearend. These steps accounted for $925,947 of the decrease, while the remaining $21,625 decrease pertained to the timing of yearend payments by Marketing Operations.

For the Year Ended December 31, 2007

Current assets increased by $4,595,835 in 2007 to $17,118,161 primarily due to an $1,117,202 increase in cash, a $1,365,752 increase in the Due from the State of New Jersey, and a $2,079,973 increase in the Due from the NJSEA. Cash at the Convention Center and Boardwalk Hall increased by $3,142,591 in 2007 primarily due to the increase in cash collected for advance ticket sales in 2007 versus 2006. Collections totaling $3,615,607 were made in 2007 for 2008 events featuring Celine Dion, Hannah Montana, Van Halen, Keith Urban, and Dancing with the Stars. In 2006, the only two events that generated significant advance ticket sales were Christina Aguilera and Dancing with the Stars. Marketing Operations' cash, however, decreased $2,025,389 in 2007 as a result of an increase of $363,028 in capital expenditures during the year and a $1,517,529 increase in the amount of marketing fees being withheld by the State of New Jersey. The increase in capital expenditures consists primarily of Pacific Ave. office renovations, computer equipment and upgrades, and web-site design and production. The cash from marketing fee collections is being withheld by the State in order to fund marketing fee rebates due to the CRDA and casinos in the Urban Revitalization Program. The $1,517,529 increase in the marketing fees receivable from the State is offset by a $151,777 increase in 2007 marketing fee rebates, which is netted out from the receivable. Marketing Operations' receivable from the NJSEA for luxury taxes to replace marketing fee rebates withheld by the State of New Jersey increased by $1,907,885 in 2007, which is the primary reason for the $2,079,973 increase in the Due from NJSEA. Marketing Operations received all of the 2006 luxury taxes before the end of 2006, but $1,907,885 in 2007 luxury taxes was not received from the NJSEA until January 2008. Receivables increased for the Convention Center and Boardwalk Hall by $97,819, while receivables decreased by $22,447 for Marketing Operations, both due to timing issues. The $97,819 increase primarily pertains to the timing of payments of commissions and utilities from subcontractors, Ticketmaster, exhibitors, and show managers for services rendered towards the end of the year. The $22,447 decrease in receivables for Marketing Operations is due almost entirely to the timing of cash receipts to reimburse Marketing Operations for the salaries of registrars that work conventions towards the end of the year. In 2007, most of the reimbursements were made prior to the end of the year, while at the end of 2006, approximately $34,511 was still outstanding. Prepaid expenses and other assets decreased by $42,464 due to decreases in prepaid expenses and inventory. Prepaid expenses decreased by $27,362 in 2007 due to the timing of year-end payments, and inventory worth $14,432 was moved to public relations items in 2007 for distribution at trade shows.

Current and other liabilities increased by $3,500,614 in 2007 to $10,165,129 primarily due to the $3,588,382 increase in deferred revenue for Boardwalk Hall and the Convention Center. As mentioned above, the increase is due primarily to the collection of advance ticket sales for some popular shows to be held in 2008. Accounts payable and accrued expenses for Boardwalk Hall and the Convention Center decreased by $238,880 in 2007, primarily due to higher payables in 2006 associated with event-related accruals and property & maintenance retroactive payroll accruals. The property & maintenance union contract was still being negotiated at the end of 2006, therefore retroactive pay raises totaling $79,671 had to be accrued for 2006. There were also more events at the end of 2006, which led to approximately $247,909 more in event-related accruals at the end of the year. In 2007, however, there was approximately $85,591 more in accrued vacation and sales taxes for Boardwalk Hall and the Convention Center then in 2006. The aforementioned activity, when netted, accounts for approximately $241,989 of the decrease. The decrease was offset, somewhat, by an $84,342 increase in Marketing Operations' accrued pension due to a 20% increase in its employer match for 2007 as compared to 2006. Marketing Operations is in the fourth year of a five-year phase-in program with the State, whereby the employer portion of the pension match is increasing 20% each year until it reaches a 100% match in 2008.

Generally, the Authority's assets consist of cash, receivables from the State of New Jersey, the NJSEA and customers, and capital assets. Capital assets consist of computers, equipment, and furniture and fixtures. The Authority's liabilities consist of accounts payable, payable to the State of New Jersey, accrued expenses, and deferred revenue.

EXHIBIT 2

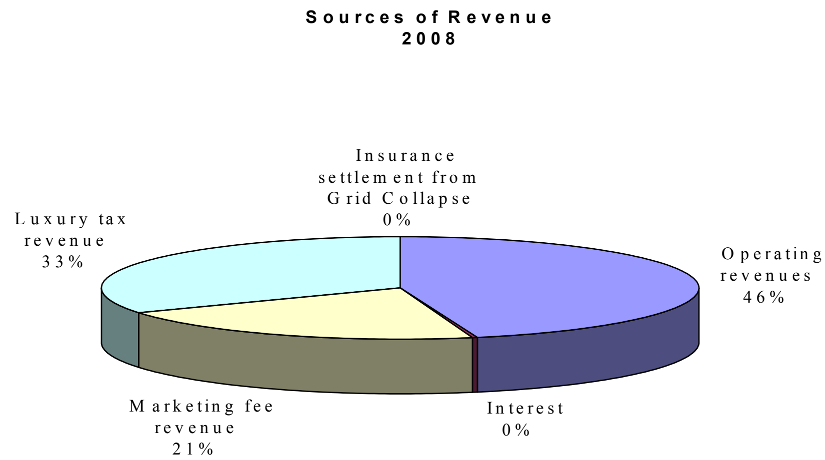
Condensed Statements of Revenues, Expenses and Changes in Net Assets

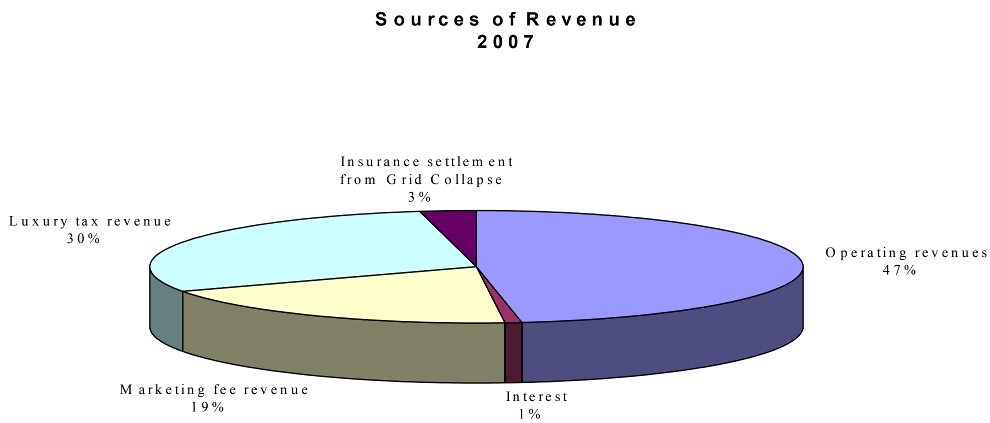
	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Operating revenues	$ 16,382,134	$ 17,316,981	$ 18,508,267
Operating expenses	(35,449,228)	(35,033,642)	(34,820,037)
Operating loss	(19,067,094)	(17,716,661)	(16,311,770)
Nonoperating income:			
Luxury tax revenue	11,460,284	10,784,510	8,537,702
Marketing fee revenue	7,451,869	6,917,164	6,740,993
Insurance settlement from grid collapse	0	972,000	275,000
Interest	154,941	351,880	472,430
Total nonoperating revenue	19,067,094	19,025,554	16,026,125
Increase (decrease) in net assets	$	$ 1,308,893	$ (285,645)

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

Sources of revenue consisted of:

- Operating revenues - the revenues generated at the Convention Center, Boardwalk Hall, West Hall, and Marketing Operations.
- Luxury tax revenue - received from NJSEA for capital expenditures for the Convention Center, Boardwalk Hall, and West Hall and the operating deficits of the Convention Center, Boardwalk Hall, West Hall, and Marketing Operations.
- Marketing fee revenue - collected from Atlantic City hotels, via the State, to promote the destination of Atlantic City.



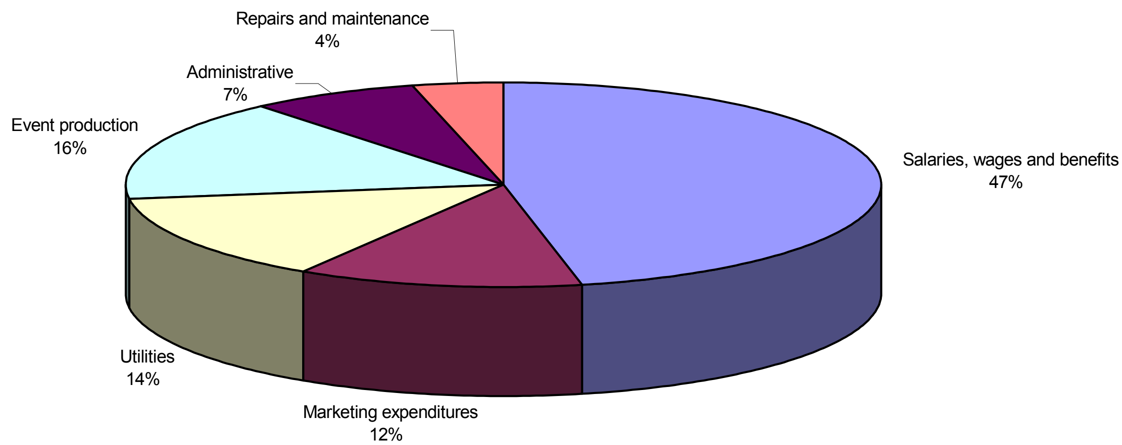


Sources of expenses consisted of:

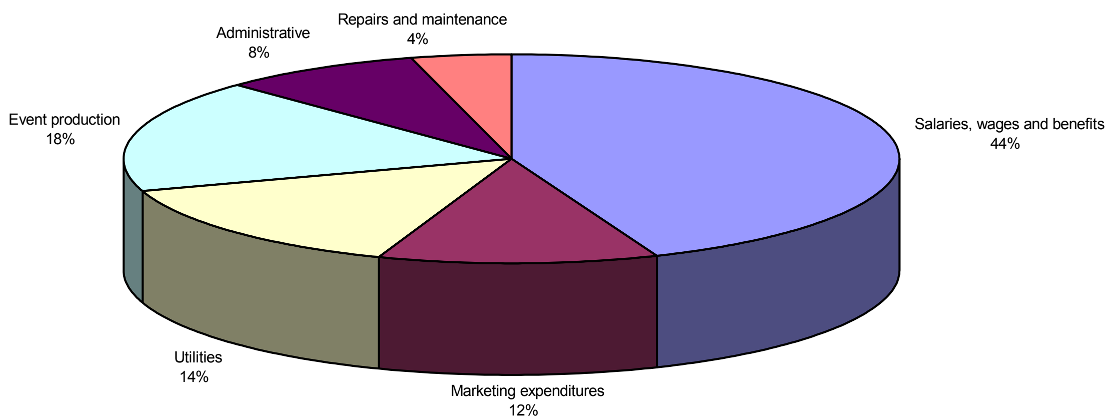
- Operating expenses - all of the costs associated with promoting the destination of Atlantic City and operating the facilities, except for costs of a capital nature that are depreciated.

- Depreciation expenses - recognizes the cost of capital assets, such as equipment and furniture and fixtures over their estimated useful lives, which is usually between three and five years.

Operating Expenses
2008



Operating Expenses
2007



Operating Highlights

Number of Attendees

	2008	2007	2006
Boardwalk Hall	316,387	275,690	278,832
Convention Center	361,878	397,226	466,790
	678,265	672,916	745,622

Number of Events

	2008	2007	2006
Boardwalk Hall	45	42	49
Convention Center	145	165	189
	190	207	238

Operating Revenues & Expenses by Facility (000's)

	2008	2007	2006
Operating Revenues:			
Boardwalk Hall	$ 6,279	$ 6,166	$ 6,410
Convention Center	9,337	10,484	11,566
Marketing Operations	766	667	532
	$ 16,382	$ 17,317	$ 18,508
Operating Expenses:			
Boardwalk Hall	$ 10,805	$ 10,300	$ 10,833
Convention Center	13,986	14,598	15,138
Marketing Operations	10,658	10,136	8,849
	$ 35,449	$ 35,034	$ 34,820

For the Year Ended December 31, 2008

Operating revenues for the Authority decreased by $934,847 to $16,382,134 for the year ended December 31, 2008. The Convention Center's operating revenues decreased by $1,146,660, while Boardwalk Hall's and Marketing Operations' operating revenues increased by $117,471 and $99,723, respectively.

The Convention Center's special services, facilities rental, parking, and food & beverage revenues were down a collective $1,068,806 in 2008 due to the fact that there were 20 fewer events and 35,348 fewer attendees in the Convention Center during the year. Some of the bigger events that took place in 2007, but not in 2008, were PET Industry, Stanley, SYSCO, Furniture, and Chopper Fest. Aside from the obvious declines in parking and facilities rental, the decreased number of events produced declines in client utilities, labor reimbursements, and telephone and internet billings, which are all included in special services. Food & beverage revenue decreased by $326,401 in 2008 due to the fewer events and attendees as well as the fact that a new food & beverage contractor was hired during the year with a new fee structure. The former food & beverage contractor operated on a commission basis, while the new food & beverage contractor operates on a net revenue basis. The 2008 revenues were particularly hindered by the start-up costs for the contractor in its first year. Other revenues for the Convention Center were $72,635 higher in 2007 due to the high recoveries of receivables during that year that were recorded as bad debt expense in previous years.

Boardwalk Hall's facilities rental revenue increased by $1,066,209 and its special services revenues decreased by $659,918 in 2008, but the net increase of $406,291 must be examined collectively, because more services were included in the facilities rent for Boardwalk Hall in 2008. Although there were only three more events in 2008 compared to 2007, there were a number of larger events in 2008 that generated higher rental revenues than the event with the highest rental revenue in 2007. A few of the higher rent grossing events in 2008 were Madonna, Celine Dion, Unforgettable, and Mary J. Blige & JAY Z. Parking revenues decreased by $203,500 in 2008 primarily due to the termination of the West Hall parking agreement with Trump Properties in August 2007. Boardwalk Hall collected $170,900 in parking revenues in 2007 as a result of this agreement. Food & beverage and other revenues were slightly lower in 2008 for the same reasons as the Convention Center.

Marketing Operations' operating revenues increased by $99,723 in 2008 as a result of two new marketing programs. During 2008, Marketing Operations began a cooperative advertising program with several Atlantic City casinos. The casinos contributed $58,700 to the program collectively. Marketing Operations also received a destination marketing organization grant from the State of New Jersey in 2008. The total amount of the grant was $150,000, and it is being used to promote Atlantic City's Restaurant Week to be held in March 2009. In 2008, expenditures of grant funds totaling $59,539 were made promoting the event, and the corresponding grant revenue for the same amount was recognized.

Operating expenses for the Authority increased by $415,586 to $35,449,228 for the year ended December 31, 2008. The operating expenses for the Convention Center decreased by $611,809 in 2008, but the decrease was offset by increases in operating expenses for Boardwalk Hall and Marketing Operations of $505,242 and $527,534, respectively.

The $611,809 decrease in operating expenses for the Convention Center was due, in large part, to the decrease in 2008 events and attendees. Contract services, supplies, and production expenses decreased by $533,242, collectively, as a result of the decrease in events. More specifically, expenditures for union electricians, event security, and trade and cleaning supplies were lower in 2008 versus 2007. The Convention Center also spent $109,581 less in general liability and property insurance in 2008. Legal and professional fees decreased by $134,921 in 2008 primarily due to lower labor management consulting fees during the year. In 2007, a feasibility study of in-house trade show labor was conducted, which increased the associated legal and professional fees paid during that year. The decreases were offset, somewhat, by an $184,621 increase in salaries, wages and benefits and a $23,980 increase in utilities.

The $505,242 increase in operating expenses for Boardwalk Hall was due primarily to the higher-end production events held in the Hall in 2008 as compared to 2007. Salaries, wages and benefits, contract services, and production expenses increased by $764,644, collectively, as a result of the higher-end production events. These expenses included expenditures for stagehand salaries and benefits, union electricians, event security, rigging costs, and rentals. Despite the additional higher-end production events in 2008, expenditures on trade and cleaning supplies were reduced by $94,298 through various cost-cutting measures. Boardwalk Hall also spent $111,492 less in utilities in 2008 due to lower rates and usage and energy saving controls.

The $527,534 increase in operating expenses for Marketing Operations was due primarily to a $332,178 increase in salaries, wages and benefits, a $318,125 increase in marketing expenses, offset by a $149,137 decrease in contract services. The $332,178 increase in salaries, wages and benefits consisted of a $233,174 increase in salaries and wages, which included a new salesperson in the Washington D.C. office. This position was vacant for most of 2007. Marketing Operations' pension and benefits expense also increased by $84,998 in 2008 primarily due to the 100% employer pension match in 2008 versus an 80% match in 2007. The increase in marketing expenses pertained primarily to the following: (1) a $72,000 increase in booth fees associated with a new and larger booth used in 2008, (2) a $146,100 increase in international advertising in 2008, (3) an $82,600 increase in photo services associated with a new photo library for the destination, and finally (4) a $69,950 increase in print and internet advertising primarily for the Restaurant Week event to be held in 2009. The $149,137 decrease in contract services was a result of decreases in email and internet marketing expenditures for the golf marketing and E-Marketing programs. Many of the expenditures for these programs were shifted to advertising in 2008. Marketing Operations also paid $20,000 less on the Visitors Profile Study in 2008. The Study began in 2007 and was completed early in 2008.

For the Year Ended December 31, 2007

Operating revenues for the Authority decreased by $1,191,286 to $17,316,981 for the year ended December 31, 2007. The Convention Center's and Boardwalk Hall's operating revenues decreased by $1,082,422 and $243,026, respectively, primarily due to decreases in special services, facilities, and parking revenues during 2007. There were twenty-four (24) fewer events held in the Convention Center in 2007 as compared to 2006. The decrease in events, including large cyclical events like Penn Atlantic Nursery Trade Show and Atlantic Bakery Expo, contributed to the decrease in attendance and the $1,050,314 decrease in these operating revenues. Concession revenue also decreased $96,925 as result of the decrease in the number of events and attendance as well as the increase in competition from the growing number of restaurants in close proximity of the Convention Center. Other revenue at the Convention Center, however, increased by $74,615 primarily due to a $73,779 reduction in the 2007 allowance for doubtful accounts associated with 2006 bad debt expense. Collections in 2007 from Atlantic Bakery Expo, Atlantic Expo, and DJ Expo accounted for $22,820, $9,169, and $7,124 of the decrease, respectively. Boardwalk Hall also had fewer major events in 2007, which contributed to a $150,182 decrease in facilities rental revenues. A decrease in the amounts billed back to customers of the Boardwalk Hall, based on event requirements, was the main factor in the $75,268 decrease in special services revenue. The termination of two agreements, parking and advertising, with the Trump properties in 2007 also resulted in decreases of $72,678 and $38,443 in parking and promotion reimbursement and fee revenues, respectively. The operating revenues for Marketing Operations increased by $134,164 in 2007 primarily due to increased promotion reimbursement and fee revenue. Marketing Operations entered into an agreement with the Greater Atlantic City Golf Association ("GACGA") for the first time in 2007, whereby seven golf courses in the greater Atlantic City area gave Marketing Operations $25,000 each, or $175,000 collectively, to market golf in the Atlantic City area. Advertising revenue associated with the 2007 Destination Planning Guide and marketing partner dues collections also increased in 2007 by $20,696 and $18,441, respectively. The above-mentioned revenue increases were offset, however, by a $91,109 decrease in other revenues. This decrease was due primarily to an $85,605 write-off of a long-standing accrued expense in 2006 after documentation was received from the State of New Jersey that cleared Marketing Operations' potential obligation.

Operating expenses for the Authority increased by $213,605 to $35,033,642 for the year ended December 31, 2007 as a result of a $1,277,472 increase in operating expenses for Marketing Operations, offset by a collective $1,073,738 decrease in operating expenses for the Convention Center and Boardwalk Hall.

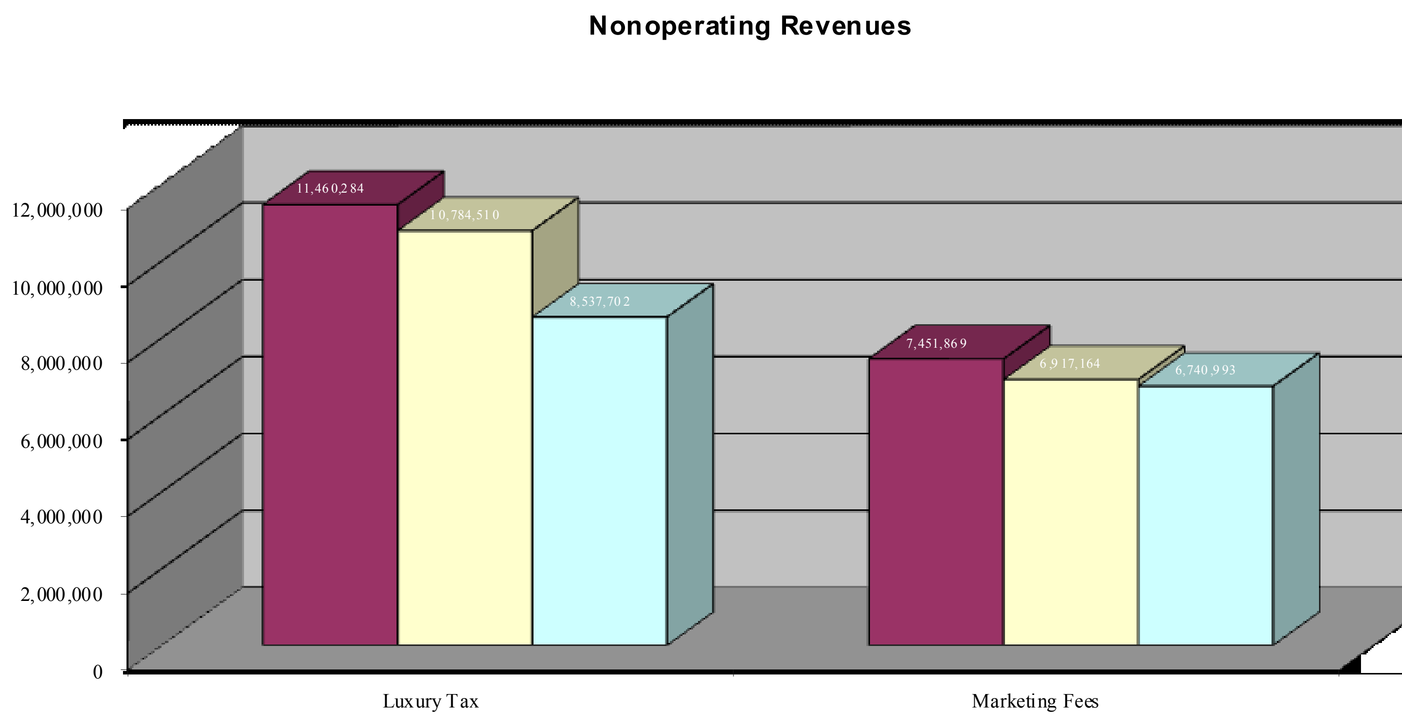
Operating expenses for Marketing Operations increased by $1,277,472 primarily due to an increase of $1,119,619 in marketing expenses and an increase of $117,906 in contract services in 2007. Approximately $291,685 of the $1,119,619 increase in marketing expenses pertained to the A-10 Basketball Tournament, of which $700,000 pertained to a payment guarantee to the A-10 Basketball Conference, offset by $408,315 in excess ticket sales over event-related marketing expenses. There was a $375,301 increase in advertising in 2007, of which $299,733 was associated with an aggressive media blitz campaign, primarily in Pennsylvania, to offset the impact of the opening of the new slot parlors in that state. There was an $175,485 increase in Marketing Operations' printing expenses associated with a modification of graphic standards, which should decrease related printing expenses in the future. Marketing Operations moved from a multi-colored graphics scheme to a two-color scheme, which should decrease the cost of future print collateral. Catering & entertainment increased by $179,119 in 2007 primarily due to Marketing Operations' first-year attendance at new trade shows as well as increased 2007 catering expenditures as a result of acquiring new customers. Additional trade show and catering expenditures for Experient, the Society of Government Meeting Professionals, the New Jersey and Washington DC Showcases, and the Society of Independent Show

Organizers accounted for approximately $118,042 of the increase in 2007. A collective increase of $56,211 in catering and entertainment-related expenses pertained to media receptions and familiarization tours in 2007 along with additional AAA marketing. These increases were due primarily to incremental 2007 entertainment expenses associated with the Jimmy Buffet and Police concerts as well as the media department's concerted efforts to highlight the new entertainment venues in the city. Sponsorships also increased by $49,240 due to new sponsorships associated with an Atlantic City surfing tournament, the New Jersey Governor's Conference, and Fashion on Ice. Finally, contract services for Marketing Operations increased by $117,906 in 2007 primarily due to increases in professional fees, training, and seminars. A bi-annual visitors profile study was done in 2007 for approximately $71,500 and $48,000 was paid for email campaigns in the new golf marketing program. The increases in professional fees were offset, somewhat, by a $40,571 shift in professional fees associated with the E-marketing program to on-line advertising. The balance of the increase in contract services pertains to increases in training and seminars associated with upgrades to the convention development database system and the financial host system.

In parallel with the decrease in operating revenues at the Convention Center due to the decrease in the number of events and attendance in 2007, there was also a decrease in event-related operating expenses such as payroll, contract services, supplies, and production. The collective decrease in these operating expenses represented $506,354 of the total decrease of $540,858 in operating expenses at the Convention Center in 2007. Also discussed above, the Boardwalk Hall hosted fewer high-end production events in 2007 versus 2006, which led to a collective decrease of $657,549 in utilities, contract services, supplies and production expenses. Professional fees at Boardwalk Hall also decreased $242,212 in 2007 primarily due to the continued reduction in professional and legal fees associated with the grid collapse litigation. Payroll expense for Boardwalk Hall, however, increased $320,286 due to a reallocation of labor from the Convention Center to Boardwalk Hall for events and building maintenance. Marketing expenditures also increased $126,412 for Boardwalk Hall in 2007 due to an increase in event advertising expense based on clients' needs.

Nonoperating Highlights (000's)

	2008	2007	2006
Nonoperating Revenues			
Interest	$ 155	$ 351	$ 472
Insurance settlement from grid collapse	0	972	275
Luxury tax revenue	11,807	10,785	8,538
Marketing fees revenue	7,452	6,917	6,741
	$ 19,414	$ 19,025	$ 16,026



Summary

Prior to 2006, the NJSEA only sent the Authority luxury tax revenue from the available luxury tax receipts to cover the capital requirements and the operating deficits of the Convention Center, the Boardwalk Hall, and the West Hall. Beginning in 2006, however, Marketing Operations also began receiving luxury tax revenue to replace marketing fees lost as a result of the Urban Revitalization Program. In that year, The New Jersey Department of Taxation began calculating and certifying the incremental luxury taxes collected and sent to the NJSEA as a result of the approved Urban Revitalization Program projects. This amount was then withheld by the State from the marketing fees collected on behalf of Marketing Operations and rebated directly back to the CRDA and casinos with the approved projects. The Urban Revitalization Program actually began in the fourth quarter of 2004, but the Department of Taxation did not certify the amounts to be rebated back to the CRDA and the casinos for 2004 and 2005 until 2006.

The incremental luxury taxes collected and sent to the NJSEA, which also represents the amount of marketing fee rebates withheld from Marketing Operations, were $3,008,621, $3,340,317, and $6,438,586 in 2008, 2007 and 2006, respectively. Marketing Operations has received $2,873,829, $3,842,283, and $1,257,875 in luxury taxes from the NJSEA to offset the loss of marketing fees due to the rebates withheld in 2008, 2007, and 2006, respectively. The total rebate of $6,438,586 in 2006 consisted of certified rebates for 2004, 2005, and 2006 of $412,588, $2,837,458, and $3,188,540, respectively.

For the Year Ended December 31, 2008

In 2008, luxury tax revenue for the Authority increased by $675,774 to $11,460,284. The increase was due primarily to the increased operating deficits at the Convention Center and Boardwalk Hall in 2008. The deficits for the two buildings totaled $8,933,402 in 2008 compared to deficits totaling $6,942,227 in 2007, a difference of $1,991,175. Although the operating losses for the buildings were only $922,622 greater in 2008 than 2007, interest income was $96,553 higher in 2007 and Boardwalk Hall received a $972,000 insurance settlement payment from the grid collapse in 2007. The increase was partially offset by Marketing Operations' $1,315,401 decrease in luxury tax revenue received from the NJSEA in 2008.

Marketing fee revenue increased by $534,705 to $7,451,869 in 2008. The increase was due to the $203,009 increase in marketing fees collected in 2008 versus 2007 and the $331,696 decrease in marketing fee rebates certified by the Department of Taxation in 2008 compared to 2007. In 2008, $10,460,490 in marketing fees was collected by the State of New Jersey compared to $10,257,481 in 2007. The amount of marketing fee rebates, which are netted out of marketing fee revenue, decreased by $331,696 to $3,008,621 in 2008.

For the Year Ended December 31, 2007

In 2007, luxury tax revenue for the Authority increased by $2,246,808 to $10,784,510. The increase was due primarily to the $2,584,408 increase in luxury taxes received by Marketing Operations in 2007 over 2006. The reason for the increase is that, in 2007, Marketing Operations received a dollar-for-dollar reimbursement of luxury taxes for the $3,842,283 in estimated marketing fee rebates, while, in 2006, Marketing Operations only received $1,257,875 in luxury taxes even though marketing fee rebates amounted to $3,188,540. The Division of Taxation certified the $3,340,317 in 2007 marketing fee rebates on April 1, 2008. There was a $547,980 increase in luxury tax revenue for the Convention Center in 2007 due to the increase in the Center's deficit in 2007 over 2006. There was an $885,581 decrease in luxury tax revenue for Boardwalk Hall primarily due to the fact that $697,000 more in insurance proceeds from the settlement for the grid collapse were received in 2007 compared to 2006.

Marketing fee revenue increased by $176,171 in 2007 and decreased by $1,015,233 in 2006 largely due to the changes in marketing fee rebates as a result of the Urban Revitalization Program. The increase in marketing fee revenue in 2007 was due primarily to a $286,799 decrease in marketing fee rebates in 2007 from 2006. In 2006, the total marketing fee rebate was $3,627,116, which consisted of $3,188,540 in 2006 rebates and a $438,576 adjustment for the under-accrual of marketing fee rebates for 2004 and 2005. The 2004 and 2005 certifications were not finalized until 2006. The decrease in marketing fee revenue in 2006 was due primarily to a $388,540 increase in marketing fee rebates in 2006 over 2005 and the aforementioned $438,576 adjustment for 2004 and 2005.

EXHIBIT 3

Capital Assets

	Balance, December 31, 2006	Additions	Balance, December 31, 2007	Additions	Balance, December 31, 2008
Computer equipment	$ 672,322	$ 291,573	$ 963,895	$ 151,615	$ 1,115,510
Furniture, fixtures and equipment	675,073	71,455	746,528	22,742	769,270
Total at cost	1,347,395	363,028	1,710,423	174,357	1,884,780
Less accumulated depreciation	(903,476)	(149,356)	(1,052,832)	(191,663)	(1,244,495)
Capital assets, net	$ 443,919	$ 213,672	$ 657,591	$ (17,306)	$ 640,285

At the end of 2008 and 2007, the Authority had invested $640,285 and $657,591 in net capital assets, respectively, at costs of $1,884,780 and $1,710,423 net of $1,244,495 and $1,052,832 in accumulated depreciation, respectively.

Capital asset additions during 2008 and 2007 consisted substantially of the Pacific Avenue office renovations, outside banners for the Convention Center, and computer, network, and website upgrades. The Authority considers any asset with a value over $5,000 and an estimated useful life over three years a depreciable asset. Capital assets are depreciated using the straight-line method over three or five years.

Current Economic Conditions

The fractured economy and global credit crisis has and will continue to impact the entire travel industry worldwide. Although Atlantic City is well positioned comparatively to meet this challenge, the recession's effect on the city over the past year and a half is very obvious. Nearly 3,000 casino jobs have been lost in the past twelve months, and more layoffs are expected as the recession deepens. Only one new casino is being built, and the timing of its completion is uncertain. The owners of the $2 billion Revel Entertainment Group casino have slowed construction until they can secure long-term financing to complete the project. Revel's planned grand opening in the summer of 2010 now appears to be in jeopardy. The recession and global credit crisis have also halted plans for two other gigantic casinos that were supposed to revive the local economy and draw wealthier customers to the country's second-largest casino market. The ownership group of one of the proposed casinos, Pinnacle Entertainment Inc., recently announced that it will probably look to sell the oceanfront land, where the Sands Casino Hotel formerly stood. Pinnacle had imploded the old Sands Casino Hotel in the fall of 2006 to create space for what was supposed to be a $1.5 billion, Las Vegas-style casino that would be among a new generation of Atlantic City mega resorts. MGM Mirage Inc. is the other casino developer that has indefinitely delayed plans for a massive $5 billion gaming complex that would rise next to Borgata Hotel Casino & Spa. The company has publicly indicated that it would not rule out selling the 72 acre parcel due to the current economic conditions. The slow down in anticipated growth, coupled with declining casino revenues and increased competition in neighboring states, will put even more pressure on the Authority to promote the Convention Center, Boardwalk Hall, and all of the recently added attractions that have helped to revitalize the destination of Atlantic City.

Budgetary Controls

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

Contacting the Authority's Financial Management

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

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ATLANTIC CITY CONVENTION & VISITORS AUTHORITY

STATEMENTS OF NET ASSETS
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash (Note 4)	$ 8,178,493	$ 8,872,945
Due from the State of New Jersey — marketing fees	2,579,173	3,435,753
Due from New Jersey Sports and Exposition Authority	0	2,906,728
Receivables, net of allowance for doubtful accounts of $58,062 in 2008 and $69,948 in 2007	888,409	790,364
Prepaid expenses and other assets	1,321,712	1,112,371
Total current assets	12,967,787	17,118,161
CAPITAL ASSETS — Net of accumulated depreciation (Note 5)	640,285	657,591
TOTAL	$ 13,608,072	$ 17,775,752
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 3,141,891	$ 4,089,463
Due to Luxury Tax Reserve Fund	346,947	
Total current liabilities	3,488,838	4,089,463
DEFERRED REVENUE	2,508,611	6,075,666
Total liabilities	5,997,449	10,165,129
NET ASSETS:		
Invested in capital assets	640,285	657,591
Unrestricted	6,970,338	6,953,032
Total net assets	7,610,623	7,610,623
TOTAL	$ 13,608,072	$ 17,775,752

See notes to financial statements.

ATLANTIC CITY CONVENTION & VISITORS AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Special services	$ 6,659,879	$ 7,780,595
Facilities rental	5,716,115	4,902,361
Parking	1,642,937	1,880,970
Concessions	1,120,828	1,471,628
Promotion reimbursement and fees	1,041,888	957,582
Other	200,487	323,845
Total operating revenues	16,382,134	17,316,981
OPERATING EXPENSES:		
Salaries, wages, and benefits	16,442,045	15,340,892
Marketing expenditures	4,286,350	4,012,414
Utilities	4,954,979	5,021,813
Contract services	3,984,107	4,258,016
Insurance	818,093	947,339
Repairs and maintenance	1,379,882	1,416,933
Supplies	511,556	726,892
Professional fees	445,243	489,056
Management fees	732,144	794,481
Bad debt expense	48,952	68,958
Parking participation	190,000	190,000
Depreciation	191,663	149,356
Production	1,255,049	1,375,241
Other	209,165	242,251
Total operating expenses	35,449,228	35,033,642
OPERATING LOSS	(19,067,094)	(17,716,661)
NONOPERATING REVENUE:		
Luxury tax revenue	11,460,284	10,784,510
Marketing fee revenue	7,451,869	6,917,164
Interest	154,941	351,880
Insurance settlement from grid collapse	0	972,000
Total nonoperating revenue	19,067,094	19,025,554
INCREASE IN NET ASSETS		1,308,893
NET ASSETS — Beginning of year	7,610,623	6,301,730
NET ASSETS — End of year	$ 7,610,623	$ 7,610,623

See notes to financial statements.

ATLANTIC CITY CONVENTION & VISITORS AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 12,469,199	$ 20,877,461
Payments to suppliers	(20,009,956)	(19,645,793)
Payments to employees	(16,404,522)	(15,331,267)
Net cash used in operating activities	(23,945,279)	(14,099,599)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Insurance settlement from grid collapse	0	972,000
Luxury tax revenue	14,961,794	8,704,537
Marketing fee revenue	8,308,449	5,551,412
Net cash provided by noncapital financing activities	23,270,243	15,227,949
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Additions to capital assets	(174,357)	(363,028)
CASH FLOWS FROM INVESTING ACTIVITIES — Interest collected	154,941	351,880
(DECREASE) INCREASE IN CASH	(694,452)	1,117,202
CASH — Beginning of year	8,872,945	7,755,743
CASH — End of year	$ 8,178,493	$ 8,872,945
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (19,067,094)	$ (17,716,661)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	191,663	149,356
(Increase) decrease in current assets:		
Receivables — net	(98,045)	(75,372)
Prepaids and other assets	(209,341)	42,464
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(947,572)	(135,238)
Deferred revenues	(3,814,890)	3,635,852
NET CASH USED IN OPERATING ACTIVITIES	$ (23,945,279)	$ (14,099,599)

See notes to financial statements.

1. BACKGROUND AND AUTHORIZING LEGISLATION

Chapter 459 of P.L. 198l, approved on January 12, l982, and amended effective January 13, 1992, created the Atlantic City Convention Center Authority (the "Authority"). The Authority is responsible for the promotion, operation, and maintenance of the Historic Boardwalk Hall ("Boardwalk Hall"), the West Hall, as well as the Atlantic City Convention Center ("Convention Center"), which opened in May 1997. In addition, the Authority, through its marketing operations, promotes tourism into the greater Atlantic City area. The Authority consists of seven board members, of which six public members are appointed by the governor of the State of New Jersey, with the advice and consent of the Senate, and the president of the New Jersey Sports and Exposition Authority (the "NJSEA"), who shall be an ex-officio member.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Reporting Entity — The Authority is a component unit of the NJSEA, which is a component unit of the state of New Jersey. The GASB establishes the criteria used in determining which organizations should be included in financial statements. Generally accepted accounting principles require the inclusion of the transactions of government organizations for which an organization 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.

The Authority's financial statements are included in the NJSEA's December 31, 2008 and 2007 consolidated financial statements.

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

Cash and Cash Equivalents — Cash equivalents include short-term investments. The Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Authority only has cash recorded in its financial statements.

Receivables – Receivables for the Authority pertain to services rendered by the Authority prior to the end of the year for which payment has not been received. Receivables for the Authority are reflected net of allowance for doubtful accounts. The allowance account is adjusted at the end of every year for estimated bad debt expense.

Prepaid Expenses and Other Assets – Prepaid expenses for the Authority pertain to advance payments made by the Authority for goods to be received or services to be rendered in future years. The goods and/or services are normally received within one year and the expense is recognized. Other assets include deposits given by the Authority.

Capital Assets — Depreciation is based on the estimated useful lives of the capital assets using the straight-line method. Computer equipment, furniture and fixtures, and improvements are depreciated over three to five years. Improvements, repairs, and maintenance that significantly extend the life of an asset are capitalized and depreciated over their estimated useful lives using the straight-line method. Fixed assets are stated at historical cost, net of accumulated depreciation. Other repairs and maintenance are charged to expense when incurred. The cost and capital improvements of the Boardwalk Hall and the Convention Center are recorded in the financial statements of the NJSEA (See Note 3).

Accounts Payable and Accrued Expenses – Accounts payable and accrued expenses for the Authority pertain to goods received or services rendered to the Authority for which payment has not been made. The payments for the goods received or services rendered are typically made in the subsequent year.

Deferred Revenues — Deferred revenues relate to the fees collected in advance by the Authority for the usage of the Convention Center, Boardwalk Hall, and West Hall. Such revenues will be recognized once an event occurs. Deferred revenues also relate to the advance collection of marketing partnership dues for the subsequent year.

Accumulated Vacation Time — Salaried employees of the Authority may accumulate vacation time up to a maximum of their total vacation time for one year. This accumulated vacation time must be used within one year of the year earned. Upon termination of employment, salaried employees are entitled to receive a lump-sum payment of their accumulated vacation time.

Net Assets – Unrestricted net assets of the Authority represents the total amount that the Authority's total assets, net of its capital assets, net of accumulated depreciation, exceeds its total liabilities.

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

The Authority is the subject of, or a party to, various pending or threatened legal actions involving outside interests. The Authority believes that any ultimate liability arising from these actions should not have a material effect on its financial position or operations. The Authority also believes that there are no contingent assets to disclose of as of the date of the financial statements.

Recent Accounting Pronouncements — The Authority has completed the process of evaluating the impact that will result from adopting GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. The Authority has concluded that the impact of adopting GASB Statement No. 48 has no material impact on its financial position and results from operations. The statement was effective for fiscal periods beginning after December 15, 2006.

The Authority has completed the process of evaluating the impact that will result from adopting GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* The Authority has concluded that the impact of adopting GASB Statement No. 49 has no material impact on its financial position and results from operations. The statement is effective for fiscal periods beginning after December 15, 2007.

The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Authority is therefore unable to disclose the impact GASB Statement No. 51 will have on its financial position and results of operations when such statement is adopted. The statement is effective for financial statements for periods beginning after June 15, 2009.

The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The Authority is therefore unable to disclose the impact GASB Statement No. 52 will have on its financial position and results of operations when such statement is adopted. The statement is effective for financial statements for periods beginning after June 15, 2008.

The Authority has completed the process of evaluating the impact that will result from adopting GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instrument,* which addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The Authority has concluded that the impact of adopting GASB Statement No. 53 has no impact on its financial position and results from operations. The statement is effective for fiscal periods beginning after June 15, 2009 and early adoption is encouraged.

The Authority has completed the process of evaluating the impact that will result from implementing GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Authority has concluded that the impact of adopting GASB Statement No. 54 has no impact on its financial position and results from operations. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

3. LUXURY TAXES AND MARKETING FEES

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

On January 13, 1992, amendments to the Luxury Tax Act were adopted which authorized the NJSEA undertake the Authority (see Note 1) and authorized the State to transfer the proceeds of the Luxury Tax to the NJSEA. 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 Boardwalk Hall, the West Hall, and the Convention Center. Therefore, the costs and capital improvements of the Boardwalk Hall, the West Hall, and the Convention Center are recorded on the financial statements of the NJSEA. As of 2006, Luxury Tax proceeds also fund the operating deficits of Marketing Operations as a result of the Urban Revitalization Program.

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

4. CASH

The components of cash as of December 31, 2008 and 2007 are as follows:

	2008		2007	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Demand deposits	$ 3,813,101	$ 3,989,183	$ 7,078,991	$ 6,466,668
State of New Jersey Cash Management Fund	4,365,392	4,365,392	1,793,954	1,793,954
Total cash	$ 8,178,493	$ 8,354,575	$ 8,872,945	$ 8,260,622

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

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

All demand deposits of any depository must be fully secured by lodging collateral security of obligations secured by the United States of America with the bank. At December 31, 2008 and 2007, the Authority's demand deposits were collateralized.

The Authority has no financial instruments with significant individual or group concentration of credit risk. All investments are in cash.

5. CAPITAL ASSETS

Capital assets at December 31, 2008, 2007, and 2006 consist of the following:

	Balance, December 31, 2006	Additions	Balance, December 31, 2007	Additions	Balance, December 31, 2008
Computer equipment	$ 672,322	$ 291,573	$ 963,895	$ 151,615	$ 1,115,510
Furniture, fixtures and equipment	675,073	71,455	746,528	22,742	769,270
Total at cost	1,347,395	363,028	1,710,423	174,357	1,884,780
Less accumulated depreciation	(903,476)	(149,356)	(1,052,832)	(191,663)	(1,244,495)
Capital assets, net	$ 443,919	$ 213,672	$ 657,591	$ (17,306)	$ 640,285

These amounts represent capital costs incurred by the Authority. The costs and capital improvements of the Boardwalk Hall, the West Hall, and the Convention Center are recorded on the financial statements of the NJSEA (See Note 3). The Authority considers any asset with a value over $5,000 and an estimated useful life over three years a capital asset. All assets are depreciated using the straight-line method over three or five years. Computer equipment and furniture, fixtures and equipment each have assets with both three-year and five-year estimated lives.

6. RELATED PARTY

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

Although the Foundation has been in existence since 2004, most of the expenditures were made on its behalf by the Authority through 2007 in the form of loans to be repaid. Most of the expenditures pertained to reporting and filing fees, legal services, consulting services, and general start-up costs. As of December 31, 2008, the Authority had been reimbursed by the Foundation for all of the expenditures made on its behalf.

7. PENSION PLANS

The Public Employees' Retirement System of the State of New Jersey (PERS), a multiple-employer public retirement system, covers salaried employees of Marketing Operations. The Division of Pensions and Benefits within the Treasury Department of the State of New Jersey is the administrator of the funds and charges the employee and employer annually for their respective contributions. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The payroll for employees covered by PERS for the years ended December 31, 2008 and 2007 was $3,333,168 and $3,161,682, respectively. Marketing Operations' total payroll for the years ended December 31, 2008 and 2007 was $3,830,971 and $3,597,797, respectively.

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

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

Covered Marketing Operations' employees are required by PERS to contribute a percentage of their salary based on their age at the time of their enrollment. Marketing Operations is required by State statute to contribute the remaining amounts necessary to pay benefits when due. PERS certifies the amount of Marketing Operations' contribution each year on the recommendation of an actuary who makes an annual actuarial valuation. The valuation is a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary, and interest. The most recent valuation was issued in March 2009 for the year ended December 31, 2008.

The contribution requirements of Plan members and the Authority are established and may be amended by the Board of Trustees of the Plan. The covered employee contributions required for the years ended December 31, 2008, 2007 and 2006 were $175,092 (5.25%), $158,084 (5%), and $158,621 (5%), respectively. The employees made the contributions for 2008, 2007 and 2006. The employer contributions for 2008, 2007, and 2006 were $255,801, $186,513, and $100,639, respectively.

All eligible employees of SMG may participate in a section 401(k) deferred compensation plan. SMG contributes a maximum of 66-2/3 of the first 5% of the employee's salary for 2008 and 2007. Annual expense for this plan was $92,125, $92,558, and $94,324 for 2008, 2007, and 2006, respectively. SMG's total payroll for the years ended December 31, 2008, 2007, and 2006 was $7,299,227, $6,784,717, and $6,790,096, respectively.

Additionally, some of the Authority's employees are participants in certain pension plans administered by local unions and contributions are made in accordance with terms of union agreements of those employees. There are four active unions participating in their own pension plans in accordance with each specific union agreement and based on each of the applicable union job trades. The total combined contributions for all participating unions were $249,197, $256,237 and $220,280 in 2008, 2007, and 2006, respectively. The total combined payroll for all participating unions were $2,141,420, $2,179,770, and $2,156,470 in 2008, 2007, and 2006, respectively.

8. COMMITMENTS AND CONTINGENCIES

A. The Authority is the subject of, or a party to, various pending or threatened legal actions involving outside interests. The Authority believes that any ultimate liability arising from these actions should not have a material effect on its financial position or operations.

B. The Authority is a party to an ongoing agreement with New Jersey Transit. As long as rail service is operated to the Atlantic City Convention Center, New Jersey Transit is entitled to a share of the revenue of the garage at the convention center. An annual lump-sum amount of $190,000 would satisfy this agreement. The payments were $190,000 for 2008 and 2007, respectively.

9. INFORMATION ON AUTHORITY OPERATIONS BY OPERATING SEGMENT

The Authority has three responsibilities: operation of the Broadwalk Hall, operation of the Convention Center, and promoting tourism through its marketing operations. The following table illustrates how these three operations contribute to the operating results of the Authority.

	Year Ended December 31, 2008					Year Ended December 31, 2007				
	Boardwalk Center Operations	New Center	Marketing Operations	Elimination Entries	Combined December 31, 2008	Boardwalk Center Operations	New Center	Marketing Operations	Elimination Entries	Combined December 31, 2007
OPERATING REVENUES:										
Special services	$ 2,833,815	$ 3,839,047		$ (12,983)	$ 6,659,879	$ 3,493,733	$ 4,294,464		$ (7,602)	$ 7,780,595
Facilities rental	2,610,954	3,105,161			5,716,115	1,544,745	3,357,616			4,902,361
Parking	196,011	1,446,926			1,642,937	399,511	1,481,459			1,880,970
Concessions	456,715	664,113			1,120,828	481,114	990,514			1,471,628
Promotion reimbursement and fees	171,352	111,220	$ 759,316		1,041,888	178,923	116,439	$ 662,220		957,582
Other	172,953	170,732	6,802	(150,000)	200,487	226,303	243,367	4,175	(150,000)	323,845
Total operating reveues	6,441,800	9,337,199	766,118	(162,983)	16,382,134	6,324,329	10,483,859	666,395	(157,602)	17,316,981
OPERATING EXPENSES:										
Salaries, wages and benefits	5,141,236	6,129,320	5,171,489		16,442,045	4,556,882	5,944,699	4,839,311		15,340,892
Marketing expenditures	237,392	6,703	4,051,226	(8,971)	4,286,350	271,450	9,732	3,733,101	(1,869)	4,012,414
Utilities	1,592,904	3,196,956	169,131	(4,012)	4,954,979	1,704,396	3,172,976	150,174	(5,733)	5,021,813
Contract services	1,275,120	2,122,569	586,418		3,984,107	1,123,966	2,398,495	735,555		4,258,016
Insurance	390,281	405,458	22,354		818,093	402,645	515,039	29,655		947,339
Repairs and maintenance	439,756	749,002	191,124		1,379,882	458,602	745,458	212,873		1,416,933
Supplies	125,855	301,438	84,263		511,556	220,153	409,426	97,313		726,892
Professional fees	254,822	94,074	96,347		445,243	173,039	228,995	87,022		489,056
Management fees	366,437	365,707			732,144	397,534	396,947			794,481
Bad debts expense	9,201	33,160	6,591		48,952	34,199	34,759			68,958
Parking participation		190,000			190,000		190,000			190,000
Depreciation			191,663		191,663			149,356		149,356
Production	922,852	332,197			1,255,049	893,716	481,525			1,375,241
Other	49,173	59,208	250,784	(150,000)	209,165	63,205	69,550	259,496	(150,000)	242,251
Total operating expenses	10,805,029	13,985,792	10,821,390	(162,983)	35,449,228	10,299,787	14,597,601	10,293,856	(157,602)	35,033,642
OPERATING LOSS	(4,363,229)	(4,648,593)	(10,055,272)		(19,067,094)	(3,975,458)	(4,113,742)	(9,627,461)	-	(17,716,661)
NONOPERATING INCOME:										
Luxury tax revenue	4,295,613	4,637,789	2,526,882		11,460,284	2,868,614	4,073,613	3,842,283		10,784,510
Marketing fee revenue			7,451,869		7,451,869			6,917,164		6,917,164
Interest	67,616	10,804	76,521		154,941	134,844	40,129	176,907		351,880
Insurance settlement from grid collapse						972,000				972,000
	4,363,229	4,648,593	10,055,272		19,067,094	3,975,458	4,113,742	10,936,354	-	19,025,554
INCREASE IN NET ASSETS								1,308,893		1,308,893
NET ASSETS—Beginning of year			7,610,623		7,610,623			6,301,730		6,301,730
NET ASSETS— End of year	$	$	$ 7,610,623	$	$ 7,610,623	$ -	$ -	$ 7,610,623	$ -	$ 7,610,623

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