

*New Jersey Sports and
Exposition Authority*

Independent Auditors' Report

Financial Statements

Years Ended December 31, 2003 and 2002

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.

The Financial Statements include:

- The Balance Sheets or "Statements of Assets, Liabilities and Fund Balances" and "Statement of Net Assets" which provide information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities).
- The Income Statements "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 Statement 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.

Management's Discussion and Analysis:

- Finally, this section of the Authority's financial statements, the MD&A, presents an overview of the Authority's operations and financial performance during the years ended December 31, 2003 and 2002. 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 above.

The Authority's Business

The New Jersey Sports and Exposition 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 results of the Authority's direct activities are discussed in this annual report.

Below is a description of all 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.

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.

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 taxes 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 during 2003. 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 have been excerpted from the Authority's financial statements prepared in accordance with generally accepted accounting principles.

Highlights

- The Authority's net assets decreased by \$1,909,000 primarily due to a reduction in long-term outstanding debt offset by a full year's depreciation on capital assets. Also capital contributions, state contract payments and appropriations received decreased by \$5,000,000.
- Operating revenues net of operating expenses (before depreciation) increased approximately \$15,000,000 due primarily to more events held at the stadium and arena and lower expenses at the racetracks.
- Interest expense, at approximately \$65,000,000, was only slightly higher than 2002, as no new debt was issued, although there was refinancing of old debt.
- A significant increase in current assets and liabilities is primarily related to funds the Authority was designated by the State to administer for the Camden Aquarium Project. The activity in the fund created for this purpose has no effect on the Authority's revenues or expenses.

Financial Summaries

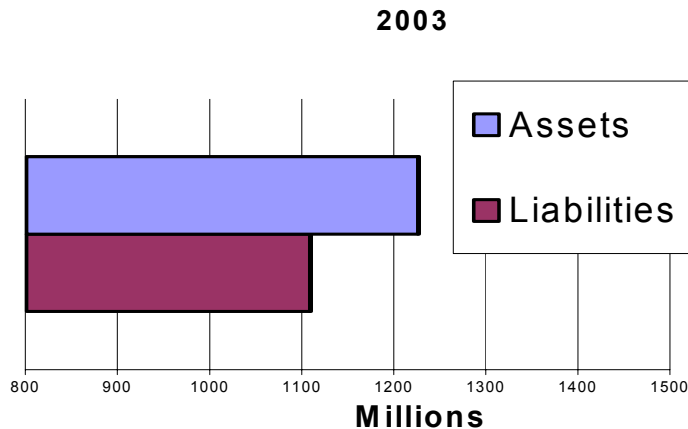
The following exhibits and tables provide a condensed summary and basic explanation of the changes in the financial statements described above, which are also presented in full detail in this annual report.

EXHIBIT 1

Condensed Statements of Net Assets (Balance Sheets)

	December 31,	
	2003	2002
Current and Other Assets	\$ 262,189,000	\$ 243,885,000
Capital Assets	<u>962,190,000</u>	<u>982,880,000</u>
Total Assets	<u>1,224,379,000</u>	<u>1,226,765,000</u>
Current and Other Liabilities	(206,374,000)	(162,927,000)
Long-Term Liabilities	<u>(900,564,000)</u>	<u>(944,488,000)</u>
Total Liabilities	<u>(1,106,938,000)</u>	<u>(1,107,415,000)</u>
Net Assets	<u>\$ 117,441,000</u>	<u>\$ 119,350,000</u>

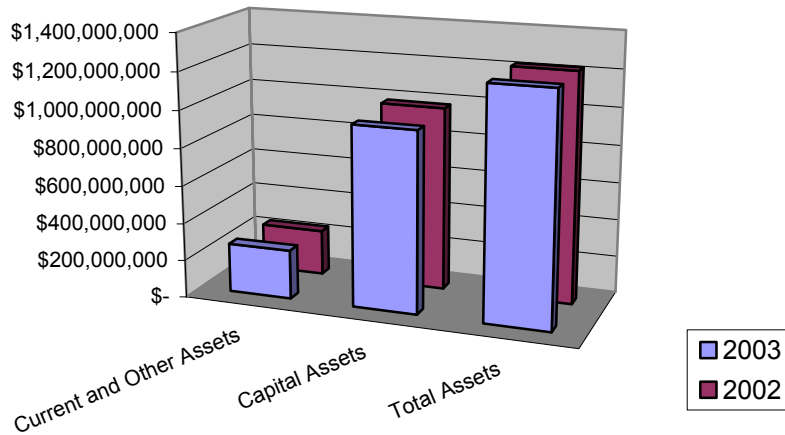
As illustrated below the Authority's assets exceeded its liabilities by \$117,441,000 in 2003:



Significant changes in Assets include:

- An increase in cash and investments of approximately \$26,283,000 primarily due to Camden Aquarium Project funds received offset by cash used to repay principal and interest on debt.
- A decrease in current receivables of approximately \$8,620,000 primarily due to improved collection efforts of Accounts receivable and lower state funding for the year.
- Net investments in facilities decreased \$20,690,000 due to GAAP basis depreciation offset by normal capital replacement and improvement projects.

Total Assets



Total Liabilities decreased by approximately \$477,000 and was due primarily to:

- The inclusion of Camden Aquarium Project Funds payable of approximately \$43,000,000 offset by approximately \$42,800,000 of Bonds and notes being paid down during the year, and a decrease in accounts payable of approximately \$500,000. Principal repaid consisted of approximately \$39,000,000 for the Authority's revenue supported, State Contract Bonds and Luxury Tax Bonds and approximately \$3,800,000 for notes payable.

Total Liabilities

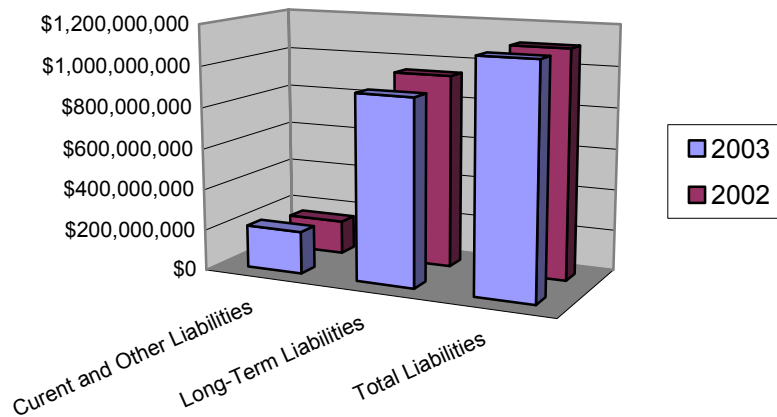


EXHIBIT 2

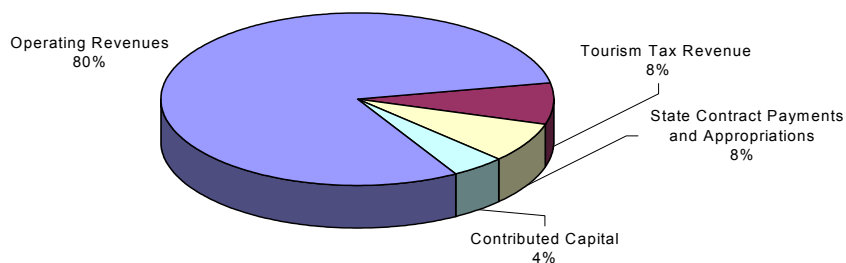
Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2003	2002
Operating Revenues	\$ 314,511,000	\$ 307,389,000
Operating Expenses Excluding Depreciation	<u>(293,119,000)</u>	<u>(300,005,000)</u>
Operating Revenues Net of Operating Expenses	21,392,000	7,384,000
Depreciation Expense	<u>(46,313,000)</u>	<u>(47,162,000)</u>
Operating Loss	<u>(24,921,000)</u>	<u>(39,778,000)</u>
NonOperating Income and Expenses:		
Luxury Tax, Marketing Fee and Tourism Tax Revenue	30,760,000	30,748,000
State Contract Payments and Appropriations	29,527,000	35,467,000
Cost of Early Retirement of Plan		(4,516,000)
Interest Expense Net of Interest and Other Income	<u>(54,840,000)</u>	<u>(40,457,000)</u>
Loss before Contributed Capital	<u>(19,474,000)</u>	<u>(18,536,000)</u>
Contributed Capital	<u>17,565,000</u>	<u>16,625,000</u>
Decrease in Net Assets	<u>\$ (1,909,000)</u>	<u>\$ (1,911,000)</u>

While the Balance Sheets show the change in financial position of 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:

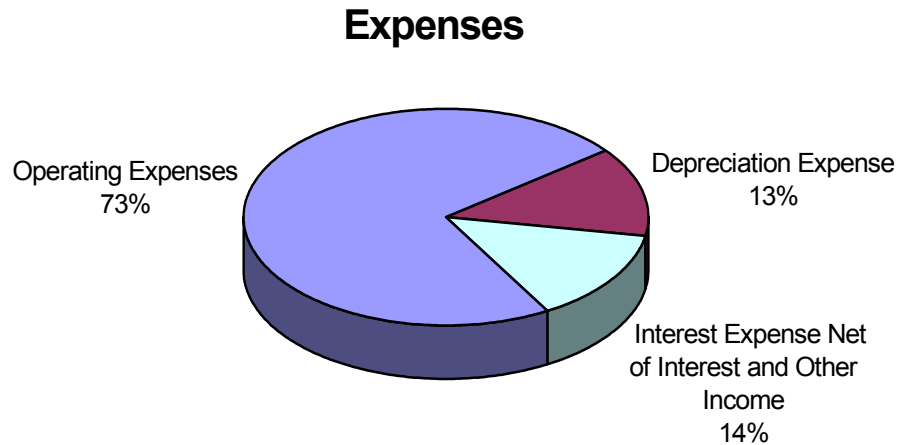
- Operating revenues, which are the total revenues generated at all the facilities.
- State Contract Payments, Contributed Capital and State Appropriations that are debt payments serviced by the State on bonds issued by the Authority for major acquisition, capital, and renovation projects.
- Luxury tax, 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.

Revenues



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 lives of the assets, 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.

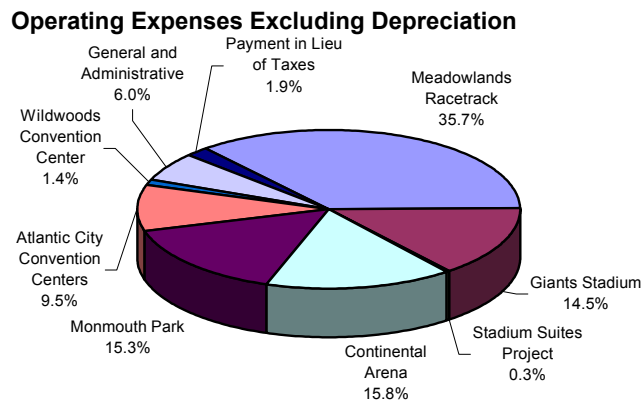
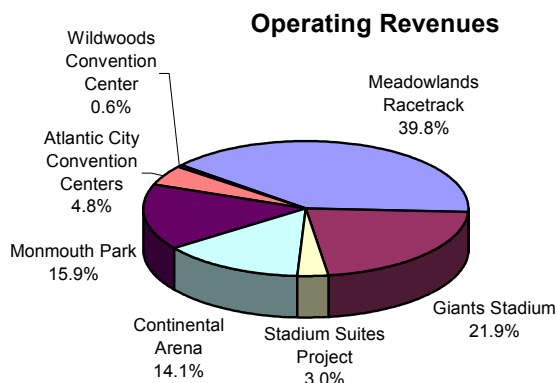


Operating Highlights

- Operating revenues net of operating expenses at The Meadowlands Racetrack was \$597,200 lower in 2003 than in 2002 due primarily to lower live and simulcast attendance and handle and thirty-three fewer live race days held offset by significantly lower operating costs.
- Operating revenues net of operating expenses at Monmouth Park Racetrack was approximately \$581,000 higher than in 2002 due to higher live attendance and wagering. Considering an unusual occurrence of inclement weather, although less than 2002, and the elimination of a State purse supplement the overall increase in net income was improved with an overall decrease in operating costs at the racetrack.
- Operating revenues net of operating expenses at Giants Stadium and the Continental Airlines Arena was up approximately \$14,000,000 compared to 2002 due to a very successful series of concerts and international Soccer events held, as well as more professional basketball, hockey and football playoff events.
- Operating revenues net of operating expenses at the Atlantic City and Wildwoods Convention Centers decreased in 2003 by approximately \$900,000 compared to 2002. Operating losses were substantially higher due to extraordinary expenses related to a rigging grid collapse at the Boardwalk Center, higher operating costs, and non-recurring bad debt expenses offset by higher marketing tax revenues. Additionally, lower tourism taxes were collected for Wildwood.
- General and Administrative expenses were reduced by approximately \$400,000 in 2003 due to reduction in staff and increased administrative efficiency offset by higher legal costs compared to 2002.

EXHIBIT 3

Operating Revenues and Expenses by Facility



Meadowlands Racetrack	\$ 125,099,000
Giants Stadium	68,732,000
Stadium Suites Project	9,496,000
Continental Arena	44,363,000
Monmouth Park	50,054,000
Atlantic City Convention Centers	15,093,000
Wildwoods Convention Center	1,674,000
	<u>\$ 314,511,000</u>

Meadowlands Racetrack	\$ 104,727,000
Giants Stadium	42,646,000
Stadium Suites Project	773,000
Continental Arena	46,241,000
Monmouth Park	44,928,000
Atlantic City Convention Centers	27,780,000
Wildwoods Convention Center	3,140,000
General and Administrative	17,456,000
Payment in Lieu of Taxes	5,428,000
	<u>\$ 293,119,000</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.

EXHIBIT 4

Racing Statistics

Meadowlands and Monmouth Park Racetracks

	2003	2002	2001	2000	1999
Live Race Days	285	296	285	278	268
Attendance	2,698,500	2,871,900	2,947,300	2,902,600	2,939,300
Live Handle	\$ 189,324,061	\$ 214,022,000	\$ 230,980,000	\$ 222,359,000	\$ 225,210,000
Reception Handle	<u>549,922,595</u>	<u>575,929,000</u>	<u>579,622,000</u>	<u>573,499,000</u>	<u>561,962,000</u>
On-Track Handle	739,246,656	789,951,000	810,602,000	795,858,000	787,172,000
Transmission Handle	<u>742,476,740</u>	<u>747,586,000</u>	<u>764,487,000</u>	<u>663,844,000</u>	<u>697,790,000</u>
Total Handle	<u>\$ 1,481,723,396</u>	<u>\$ 1,537,537,000</u>	<u>\$ 1,575,089,000</u>	<u>\$ 1,459,702,000</u>	<u>\$ 1,484,962,000</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

	2003	2002	2001	2000	1999
Number of Events	289	292	260	268	293
Total Attendance	4,626,300	4,534,400	4,293,100	4,189,200	4,580,500
Net Income From Events	\$28,099,600	\$18,501,500	\$17,178,100	\$14,991,300	\$16,815,300

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.

EXHIBIT 6

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.

Convention Center Events

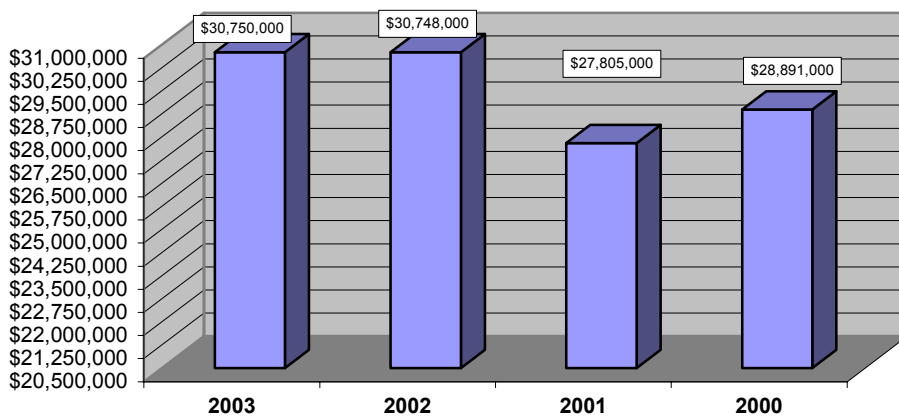
Atlantic City and Wildwoods Convention Centers

	2003	2002	2001	2000	1999
Number of Event Days	909	698	577	623	606
Total Attendance	1,063,108	1,154,735	740,302	831,331	926,100
Net Income from Events	\$ 6,250,537	\$ 6,234,900	\$ 5,209,600	\$ 6,065,600	\$ 5,916,700

There was a substantial increase in the number of Event Days due to a more scheduled events in the Historic Boardwalk Hall and the Convention Center. The Net Income from Events only slightly increased due to higher marketing fees income offset by lower tourism taxes collected and higher nonrecurring expenses (ie. bad debt, operations expenses).

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



	2003	2002	2001	2000	1999
Luxury Tax	\$18,420,000	\$18,883,000	\$ 6,456,000	\$17,679,000	\$18,083,000
Marketing Fee	9,363,000	8,577,000	8,338,000	8,303,000	8,274,000
Tourism Tax	<u>2,977,000</u>	<u>3,288,000</u>	<u>3,011,000</u>	<u>2,909,000</u>	<u>2,729,000</u>
	<u>\$30,760,000</u>	<u>\$30,748,000</u>	<u>\$27,805,000</u>	<u>\$28,891,000</u>	<u>\$29,086,000</u>

EXHIBIT 7

Capital Assets

At the end of 2003, the Authority had a net investment in capital assets of just under \$962,200,000, at a cost of \$1,437,700,000 net of accumulated depreciation of \$475,509,000 as shown in Exhibit 7.

	December 31, 2002	Additions	Transfers and deletions	December 31, 2003
Meadowlands Sports Complex	\$ 686,693,000	\$ 15,487,000	\$ -	\$ 702,180,000
Monmouth Park Racetrack	54,717,000	1,540,000	-	56,257,000
Historic Boardwalk Hall	189,835,000	-	-	189,835,000
Atlantic City Convention Center	330,324,000	2,728,000	-	333,052,000
Wildwoods Convention Center	3,401,000	1,923,000	69,440,000	74,764,000
Giant Stadium South Side Suites	46,268,000	49,000	-	46,317,000
	<u>1,311,238,000</u>	<u>21,728,000</u>	<u>69,440,000</u>	<u>1,402,405,000</u>
Leasehold Rights	<u>25,000,000</u>	<u>-</u>	<u>-</u>	<u>25,000,000</u>
Construction-in-Progress	<u>78,023,000</u>	<u>1,711,000</u>	<u>(69,440,000)</u>	<u>10,294,000</u>
Total at Cost	1,414,261,000	23,438,000		1,437,699,000
Less Accumulated Depreciation	<u>(431,381,000)</u>	<u>(44,128,000)</u>	<u>-</u>	<u>(475,509,000)</u>
Capital Assets net of Accumulated Depreciation	<u>\$ 982,880,000</u>	<u>\$ (20,690,000)</u>	<u>\$ -</u>	<u>\$ 962,190,000</u>

Additions and transfers to capital assets during 2003 consisted primarily of the recently completed construction of a new Wildwoods Convention Center and capital improvements at the Meadowlands Sports Complex. There were no dispositions in 2003.

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

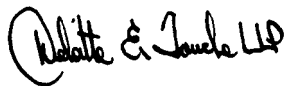
To the Chair and Members of the
New Jersey Sports and Exposition Authority
East Rutherford, New Jersey

We have audited the accompanying bond resolution statements of assets, liabilities and fund balances of the New Jersey Sports and Exposition Authority (the "Authority"), a component unit of the State of New Jersey, as of December 31, 2003 and 2002, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and schedule 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 the 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, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of the Authority as of December 31, 2003 and 2002, 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 10, 2004

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES
YEARS ENDED DECEMBER 31, 2003 AND 2002
(Pursuant to Various Bond Resolutions)
(In Thousands)

	December 31, 2003							December 31, 2002	
	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	\$ 125,099	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 125,099	\$ 133,975
Monmouth Park Racetrack			50,054					50,054	49,088
Stadium	69,189							69,189	53,366
Stadium Suites Project		9,496						9,496	8,024
Arena	44,363			15,059				44,363	45,980
Atlantic City Convention Centers								15,059	14,447
Wildwood Convention Center							1,674	1,674	1,492
	<u>238,651</u>	<u>9,496</u>	<u>50,054</u>	<u>15,059</u>			<u>1,674</u>	<u>314,934</u>	<u>306,372</u>
EXPENSES FROM OPERATIONS:									
Meadowlands Racetrack	104,727							104,727	113,005
Monmouth Racetrack			44,928					44,928	45,313
Stadium	39,735							39,735	37,301
Stadium Suites Project		773						773	703
Arena	46,241			27,780				46,241	47,219
Atlantic City Convention Centers								27,780	25,860
Wildwood Convention Center							3,140	3,140	3,345
	<u>190,703</u>	<u>773</u>	<u>44,928</u>	<u>27,780</u>			<u>3,140</u>	<u>267,324</u>	<u>272,746</u>
EXCESS (DEFICIENCY) FROM OPERATIONS	47,948	8,723	5,126	(12,721)			(1,466)	47,610	33,626
OTHER INCOME, EXPENSES AND TRANSFERS:									
General and administrative expenses	(9,965)		(600)	(5,652)			(1,641)	(17,858)	(19,850)
Interest income and other	4,447	251	81	64	289	26	95	5,253	18,969
State appropriation									5,000
Other expense	(708)							(708)	(4,516)
Luxury tax, marketing fee and tourism tax revenues				9,363	18,420		2,977	30,760	30,748
State contract payments						40,892	4,700	45,592	45,292
Stadium suites distribution	1,415							1,415	787
Distribution to Atlantic City Convention Centers				10,308	(10,308)				
EXCESS OF REVENUES OVER EXPENSES (Note B)	43,137	8,974	4,607	1,362	8,401	40,918	4,665	112,064	110,056
OPERATING FUND BALANCES, BEGINNING OF YEAR				2,672			1,500	4,172	3,943
TOTAL REVENUE AVAILABLE FOR DISTRIBUTION	<u>\$ 43,137</u>	<u>\$ 8,974</u>	<u>\$ 4,607</u>	<u>\$ 4,034</u>	<u>\$ 8,401</u>	<u>\$ 40,918</u>	<u>\$ 6,165</u>	<u>\$ 116,236</u>	<u>\$ 113,999</u>
DISTRIBUTION TO (FROM) AS FOLLOWS (Note B-7):									
Operating fund balances, end of year	\$	\$	\$	\$ 4,034	\$	\$	\$ 1,000	\$ 5,034	\$ 4,172
Debt service funds	4,082	4,481	3,948		11,733	40,918	4,700	69,862	69,122
Maintenance reserve funds	9,134	248	(779)		(3,332)		435	5,706	9,321
Payment in lieu of tax funds (Note B-5)	3,959		1,438				30	5,427	5,240
Guaranteed Bond Fund 1992 Series	20,050							20,050	18,500
Construction funds									(2,500)
Excess cash flow fund		4,245						4,245	2,361
Partner distribution	4,112							4,112	7,783
Distribution of Excess	1,800							1,800	
TOTAL REVENUES DISTRIBUTED	<u>\$ 43,137</u>	<u>\$ 8,974</u>	<u>\$ 4,607</u>	<u>\$ 4,034</u>	<u>\$ 8,401</u>	<u>\$ 40,918</u>	<u>\$ 6,165</u>	<u>\$ 116,236</u>	<u>\$ 113,999</u>

See notes to financial statements

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCES

YEARS ENDED DECEMBER 31, 2003 AND 2002

(Pursuant to Various Bond Resolutions)

(In Thousands)

	December 31, 2003							December 31, 2002	
	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)	\$ 103,506	\$ 3,361	\$ 10,952	\$ 5,475	\$ 2,662	\$ 1,624	\$ 11,755	\$ 139,335	\$ 105,540
Restricted cash and cash equivalents (Notes B-8 and D)	21,092		756		6,810	867		29,525	34,205
Restricted investments (Note D)	3,160				3,840	20,999		27,999	30,831
Accrued interest receivable	192					521		713	760
Luxury tax, marketing fee and tourism tax receivable (Notes A and C)				1,520	2,825		436	4,781	6,294
Receivables	5,482		253	1,304			86	7,125	8,787
Interfund receivables	6,905	2,393		1,643	1,800			12,741	5,324
Investment in facilities	516,371	44,018	46,267	828	259,215	293,078	65,389	1,225,166	1,217,256
Other assets (Note B-9)	<u>7,325</u>	<u>755</u>	<u>1,791</u>	<u>1,116</u>	<u>1,933</u>	<u>3,450</u>	<u>172</u>	<u>16,542</u>	<u>15,885</u>
TOTAL ASSETS	<u>\$ 664,033</u>	<u>\$ 50,527</u>	<u>\$ 60,019</u>	<u>\$ 11,886</u>	<u>\$ 279,085</u>	<u>\$ 320,539</u>	<u>\$ 77,838</u>	<u>\$ 1,463,927</u>	<u>\$ 1,424,882</u>
LIABILITIES AND FUND BALANCES:									
Accounts payable and accrued expenses	\$ 22,530	\$ 4,274	\$ 6,211	\$ 5,043	\$ 6,261	\$ 231	\$ 273	\$ 44,823	\$ 44,085
Interfund payables	4,193		6,905		1,643			12,741	5,324
Interest payable on bonds and notes	4,197		1,044		7,096	601	20	12,958	13,193
Deferred revenue	10,651			1,655			29	12,335	13,359
Other liabilities	43,781		961					44,742	3,366
Notes payable (Note G)	3,600	12,754			8,600			24,954	28,676
Bonds payable (Note F)	179,525		65,980		189,115	473,156	53,219	960,995	1,001,627
Unamortized original issue discount	(2,270)		(188)		(1,385)	(7,207)	(137)	(11,187)	(16,074)
Fund balance (deficit)	<u>397,826</u>	<u>33,499</u>	<u>(20,894)</u>	<u>5,188</u>	<u>67,755</u>	<u>(146,242)</u>	<u>24,434</u>	<u>361,566</u>	<u>331,326</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 664,033</u>	<u>\$ 50,527</u>	<u>\$ 60,019</u>	<u>\$ 11,886</u>	<u>\$ 279,085</u>	<u>\$ 320,539</u>	<u>\$ 77,838</u>	<u>\$ 1,463,927</u>	<u>\$ 1,424,882</u>

See notes to financial statements.

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

**STATEMENTS OF CHANGES IN FUND BALANCES
YEARS ENDED DECEMBER 31, 2003 AND 2002
(Pursuant to Various Bond Resolutions)
(In Thousands)**

	December 31, 2003							December 31, 2002	
	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	\$ 382,071	\$ 29,747	\$ (19,935)	\$ 3,934	\$ 66,673	\$ (154,368)	\$ 23,204	\$ 331,326	\$ 308,882
Excess of revenues over expenses	43,137	8,974	4,607	1,362	8,401	40,918	4,665	112,064	110,056
Interest income on restricted debt service funds	144				32	1,512		1,688	1,843
Interest on bonds and notes	(10,159)	(977)	(3,138)		(6,318)	(27,779)	(2,964)	(51,335)	(55,525)
Maintenance charges	(11,437)		(946)	(108)	(2,620)		(427)	(15,538)	(13,745)
Payment in lieu of taxes (Note B-5)	(3,960)		(1,438)				(30)	(5,428)	(5,240)
Write-off and amortization of bond discount and issuance costs	(170)		(44)		(213)	(5,748)	(14)	(6,189)	(8,223)
Amortization of costs on the Rutgers and Higher Education Projects						(777)		(777)	(4,361)
Partners Distribution		(4,245)						(4,245)	(2,361)
Excess Distribution	(1,800)				1,800				
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 397,826</u>	<u>\$ 33,499</u>	<u>\$ (20,894)</u>	<u>\$ 5,188</u>	<u>\$ 67,755</u>	<u>\$ (146,242)</u>	<u>\$ 24,434</u>	<u>\$ 361,566</u>	<u>\$ 331,326</u>

See notes to financial statements.

INDEPENDENT AUDITORS' REPORT

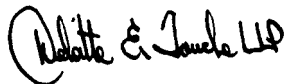
To the Chair and Members of
New Jersey Sports and Exposition Authority
East Rutherford, New Jersey

We have audited the accompanying 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, 2003 and 2002, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2003 and 2002, and the change in its net assets 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 respective 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 measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



March 10, 2004

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2003 AND 2002 (In Thousands)

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents (Notes B-9 and D)	\$ 139,335	\$ 105,540
Restricted cash and cash equivalents (Notes B-9 and D)	29,525	34,205
Restricted investments (Note D)	3,160	6,163
Accrued interest receivable	713	760
Due from State of New Jersey (Notes A and B-7)	12,887	19,416
Receivables (net of allowance for doubtful accounts of \$1,195 in 2003 and \$1,395 in 2002)	<u>5,710</u>	<u>7,754</u>
Total current assets	191,330	173,838
LONG-TERM ASSETS:		
Restricted long-term investments (Note D)	24,839	24,668
Investment in facilities (Notes B-5 and E)	962,190	982,880
Other assets (Note B-10)	<u>46,020</u>	<u>45,379</u>
TOTAL ASSETS	<u>\$ 1,224,379</u>	<u>\$ 1,226,765</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 47,734	\$ 48,254
Interest payable on bonds and notes	20,512	22,438
Deferred revenue	18,949	21,436
Advanced ticket sales	4,843	5,183
Other current liabilities	68,721	25,948
Current portion of notes payable (Note G)	4,192	3,691
Current portion of bonds payable (net) (Note F)	<u>41,423</u>	<u>35,977</u>
Total current liabilities	206,374	162,927
LONG-TERM LIABILITIES:		
Long-term portion of notes payable (Note G)	20,762	24,958
Long-term portion of bonds payable (net) (Note F)	<u>879,802</u>	<u>919,530</u>
Total liabilities	<u>1,106,938</u>	<u>1,107,415</u>
NET ASSETS:		
Invested in capital assets, net of related debt	44,581	37,592
Restricted for debt service	38,112	27,162
Unrestricted	<u>34,748</u>	<u>54,596</u>
Total net assets	<u>117,441</u>	<u>119,350</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,224,379</u>	<u>\$ 1,226,765</u>

See notes to consolidated financial statements.

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2003 AND 2002 (In Thousands)

	2003	2002
OPERATING REVENUES:		
Racetracks	\$ 175,153	\$ 183,063
Stadium	78,228	62,407
Arena	44,363	45,980
Convention Centers	<u>16,767</u>	<u>15,939</u>
Total revenues	<u>314,511</u>	<u>307,389</u>
OPERATING EXPENSES:		
Racetracks	149,655	158,318
Stadium	43,419	42,173
Arena	46,241	47,219
Convention Centers	30,920	29,205
General and administrative	17,456	17,850
Depreciation and amortization (Notes B-5 and E)	46,313	47,162
Payment in lieu of taxes (Note B-6)	<u>5,428</u>	<u>5,240</u>
Total operating expenses	<u>339,432</u>	<u>347,167</u>
Operating loss	<u>(24,921)</u>	<u>(39,778)</u>
NONOPERATING INCOME AND (EXPENSES):		
Interest income and other	9,889	20,826
Luxury tax, marketing fund and tourism tax revenues (Notes A and C)	30,760	30,748
State contract payments and (Note A)	29,527	35,467
Cost of the early retirement plan		(4,516)
Interest expense (Note F-8)	<u>(64,729)</u>	<u>(61,283)</u>
Total nonoperating income	<u>5,447</u>	<u>21,242</u>
LOSS INCOME BEFORE CONTRIBUTIONS	(19,474)	(18,536)
CAPITAL CONTRIBUTIONS (Note B-7)	<u>17,565</u>	<u>16,625</u>
CHANGE IN NET ASSETS	<u>(1,909)</u>	<u>(1,911)</u>
NET ASSETS, BEGINNING OF YEAR	<u>119,350</u>	<u>121,261</u>
NET ASSETS, END OF YEAR	<u>\$ 117,441</u>	<u>\$ 119,350</u>

See notes to consolidated financial statements.

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003 AND 2002 (In Thousands)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 898,712	\$ 920,272
Payments to horsemen, bettors, and franchises	(680,690)	(728,399)
Payments to suppliers	(124,798)	(130,066)
Payments to employees	<u>(66,731)</u>	<u>(67,086)</u>
Net cash provided by (used in) operating activities	<u>26,493</u>	<u>(5,279)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Luxury tax, marketing fee, and tourism tax revenues	20,540	16,588
Historical tax credits		11,500
Receipt of Funds to pay for construction of the Camden Aquarium	41,343	
State appropriations		<u>5,000</u>
Net cash provided by noncapital financing activities	<u>61,883</u>	<u>33,088</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments of bonds and notes	(70,898)	(173,985)
Issuance of bonds and notes	26,685	145,696
Additions to investment in facilities	(23,439)	(24,126)
Disposals of investment in facilities		1,980
Interest paid on bonds and notes	(59,540)	(62,705)
State contract receipts for payment of principal and interest on bonds	51,507	38,832
Luxury tax revenues	<u>11,733</u>	<u>11,800</u>
Net cash used in capital and related financing activities	<u>(63,952)</u>	<u>(62,508)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(171)	(17,085)
Maturities of investments	3,003	29,123
Interest on investments	<u>1,859</u>	<u>1,933</u>
Net cash provided by investing activities	<u>4,691</u>	<u>13,971</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	29,115	(19,325)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>139,745</u>	<u>159,070</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 168,860</u>	<u>\$ 139,745</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED) IN OPERATING ACTIVITIES:		
Operating loss	\$ (24,921)	\$ (39,778)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	46,313	47,162
Change in allowance for doubtful accounts	(200)	4
(Increase) decrease in assets:		
Receivables	2,244	12,751
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(520)	(21,810)
Advanced ticket sales and other liabilities	1,090	(3,955)
Deferred revenues	<u>2,487</u>	<u>347</u>
Net cash provided by (used in) operating activities	<u>\$ 26,493</u>	<u>\$ (5,279)</u>

See notes to consolidated financial statements.

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2003 and 2002

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 Revenues, Expenses, and Changes in Net Assets:

	Year Ended December 31,	
	2003	2002
	(In Thousands)	
Excess of revenues over expenses	\$ 112,064	\$ 110,056
Interest expense	(64,729)	(61,283)
Depreciation and amortization	(46,313)	(47,162)
Payment in lieu of tax	(5,428)	(5,240)
State Contract payments	1,500	1,800
Stadium Suites license revenue	(4,783)	(3,152)
Interest income and other	<u>5,780</u>	<u>3,070</u>
Change in net assets	<u>\$ (1,909)</u>	<u>\$ (1,911)</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**— During the year ended December 31, 2003, the Authority adopted GASB issued Technical Bulletin No. 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets. This Technical Bulletin took immediate effect as of June 2003, and requires disclosure of the objectives for entering into a derivative, its terms, current fair value, and any risk exposures.

The Authority has not yet adopted or evaluated the impact that will result from adopting Statement of Governmental Accounting Standards No. 40 and 42, Deposit and Investment Risk Disclosures, and Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which will take effect in 2004.

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 held up to May 1 of the succeeding year, at which time transfers are made to meet debt service requirements for the Authority's 1992 Guaranteed Refunding Bonds, guaranteed by the State of New Jersey. Any remaining excess would 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 a 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.
15. ***Reclassifications***—The 2002 financial statements have been reclassified to conform to classifications used in 2003.

C. LUXURY TAX, MARKETING FEES AND TOURISM TAX

1. ***Luxury Tax***—Pursuant to NJS.A. 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 NJS.A. 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,			
	2003		2002	
	(In Thousands)		(In Thousands)	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Cash and cash equivalents:				
Cash on hand	\$ 5,486	\$ -	\$ 5,449	\$ -
Demand deposits	(5,810)	2,639	(13,225)	5,817
N.J. Cash Management Fund	144,313	144,313	123,270	123,270
Repurchase Agreement	6,371	6,371	6,421	6,421
Certificates of deposits	<u>18,500</u>	<u>18,500</u>	<u>17,830</u>	<u>17,830</u>
Total cash and cash equivalents	<u>\$ 168,860</u>	<u>\$ 171,823</u>	<u>\$ 139,745</u>	<u>\$ 153,338</u>

	December 31,	
	2003	2002
	(In Thousands) Cost	
Investments: (Note B-13)		
Guaranteed investment contracts	\$ 24,839	\$ 24,668
State and local unit government securities (SLUGS)	<u>3,160</u>	<u>6,163</u>
Total investments	<u>\$ 27,999</u>	<u>\$ 30,831</u>

- At December 31, 2003 and 2002, approximately \$56,615,000 and \$59,316,000, 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.
- 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, 2002, 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, 2003, \$24,839,000 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 interest rates between 3.6% and 3.75% which mature semi-annually commencing on January 1, 2004 through 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.

D. INVESTMENT IN FACILITIES

	Balance December 31, 2002	Additions	Transfers	Balance December 31, 2003
		(In Thousands)		
Land	\$ 171,897	\$	\$	\$ 171,897
Buildings	971,749	13,267	52,501	1,037,517
Machinery and equipment	130,106	8,095	16,939	155,140
Land improvements	37,486	366		37,852
Leasehold rights	25,000			25,000
Construction in progress	<u>78,023</u>	<u>1,711</u>	<u>(69,440)</u>	<u>10,294</u>
	1,414,261	23,438		1,437,699
Less accumulated depreciation	<u>(431,381)</u>	<u>(44,128)</u>		<u>(475,509)</u>
	<u>\$ 982,880</u>	<u>\$ (20,690)</u>	<u>\$</u>	<u>\$ 962,190</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:

	Date Issued	Original Amount	Balance December 31, 2003 2002 (In Thousands)	
Revenue Bonds				
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	\$ 38,550	\$ 55,670
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	2,614
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	53,796	53,796
State Contract Bonds, 1992 Series C, \$209,990,000 Variable rates due through 2024	11/19/92	209,990	184,620	188,300
State Contract Bonds, 1993 Series A, \$5,755,000 Serial Bonds 4.7%-5.4%, due 2003 through 2009 \$6,930,000 Term Bonds 5.37%, due 2015, \$13,600,000 Term Bonds due 2023	03/01/93	26,285		26,285

	Date Issued	Original Amount	Balance December 31, 2003 2002 (In Thousands)	
State Contract Bonds (continued)				
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	\$ 86,665	\$ 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	7,075	8,535
State Contract Bonds, 1999 Series A \$49,915,000 Serial Bonds 6.00% - 7.00% due 2000 through 2014	06/15/99	49,915	41,545	43,170
State Contract Bonds, 2000 Series A \$82,520,000 Serial Bonds 4.75% - 6.00% due 2001 through 2020	02/01/00	82,520	77,460	79,260
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	32,360	35,115
State Contract Bonds, 2000 Series C \$12,325,000 Serial Bonds 4.25% - 5.00% due 2002 through 2011	12/01/00	12,325	10,740	11,550
State Contract Bonds, 2000 Series D \$12,295,000 Serial Bonds 6.5% due 2001 through 2010 (Federally Taxable)	12/01/00	12,295	8,950	10,055
State Contract Bonds, 2002 Series A \$15,800,000 Serial Bonds 4.00% - 4.60% due 2003 through 2012	01/01/02	15,800	14,610	15,800
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	10,805	16,235
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	

	Date Issued	Original Amount	Balance December 31, 2003 2002 (In Thousands)	
Luxury Tax Bonds				
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	\$ 23,085
Convention Center Luxury Tax Refunding				
Bonds 1999, Series A, \$128,270,000 Serial				
Bonds 4.25% - 5.125%, due 2003 through				
2020				
	02/15/99	128,270	<u>124,485</u>	<u>128,270</u>
Total Bonds Payable			960,995	1,001,635
Less original issue discount and deferred loss on refunding			<u>(39,770)</u>	<u>(46,128)</u>
			<u>\$ 921,225</u>	<u>\$ 955,507</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, 2003 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, 2003 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**—These bonds were assumed by the Authority 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-6. 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 counterparty to the swap inclusive of fees for liquidity facility and remarketing. In return, the counterparty owes the Authority a variable rate. This rate for 2003 was approximately 1.4%. These interest rates are applied to a notional amount, of approximately \$184,620,000 for 2003, and the difference in the interest payments is actually exchanged with the counterparty to the swap. The objective of the swap agreement was to effectively fix the Authority's borrowing costs and maximize proceeds to fund construction costs.

The Authority will be exposed to variable rates if the counterparty to the swap defaults, if the swap is terminated or if certain other conditions occur, such as a bond or issuer downgrading. Management has reviewed each of these occurrences and has concluded that they are remote. It is estimated that costs of approximately \$50,000,000 would be incurred should the Authority voluntarily terminating this agreement.

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.

1993 Series A

The Authority issued \$26,285,000 of State Contract Bonds, 1993 Series A to provide funds to pay a portion of the cost of various Rutgers Construction Projects.

On November 20, 2003, these bonds were refunded by 2003 Series A State Contract Bonds (see Note F-6 2003 Series A).

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 counterparty.

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. The Series B bonds were refunded for \$120,590,000 and the Series C for 16,235,000. In accordance with the provisions of the agreement, the Authority pays the counterparty a synthetic fixed rate of 4.5 percent on the 2002 Series B-1& 2 Bonds and 6.10 percent on the Series C Bonds and receives a variable interest rate, of approximately 1.1% on a notional amount of \$120,059,000 for the Series B and 1.4% on a notional amount of \$10,085,000 for the Series C for 2003, then pays a variable interest rate to bondholders.

All possible risk exposures (i.e. bond downgrade, taxability, or inability of NJSEA to make payment, or counter-party default) were considered prior to entering into this agreement and management concluded that the probabilities were remote. It is estimated that costs of approximately \$13,000,000 would be incurred should the Authority seek to voluntarily terminate these agreements.

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.

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, 2003. Payments are additionally insured by a guaranty policy also issued by MBIA.

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.

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. In June 2003, GASB issued Technical Bulletin NO. 2003-1, the *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Financial Statements*. This Technical Bulletin took immediate effect in 2003 and required a disclosure of the objectives for entering into interest rate derivatives, their terms, fair value and risk exposures. In compliance with these requirements, the Authority's requirements under the Swap Agreements for each issuance are described in notes F, 6. 1992 Series C, and F, 6. 2002 Series B and C.

9. **Interest Costs**—Interest costs for the years 2003 and 2002 were as follows:

	Year Ended December 31,	
	2003	2002
	(In Thousands)	
Interest expense	\$ 64,729	\$ 61,283
Capitalized interest	<u> </u>	<u>2,983</u>
Total interest cost	<u>\$ 64,729</u>	<u>\$ 64,266</u>

G. NOTES PAYABLE

- Notes payable consist of the following:

	Date Issued	Original Amount	Balance December 31,	
			2003	2002
(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	\$ 100	\$ 150
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>12,754</u>	<u>16,401</u>
Total notes payable			24,954	28,651
Less unamortized discount			_____	_____ (2)
			<u>\$24,954</u>	<u>\$28,649</u>

- 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.
- 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.
- 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			
2004	\$ 23,640	\$ 22,930	5,055	162	3,934	\$ 55,721	\$ 51,937	\$ 107,658
2005	3,770	23,710	5,270	166	4,243	37,159	50,145	87,304
2006	7,455	25,295	14,095	170	4,577	51,592	48,123	99,715
2007	4,190	28,690	5,730	174		38,784	45,654	84,438
2008	4,435	30,245	5,990	179		40,849	43,539	84,388
2009-2013	26,560	191,550	34,505	962		253,577	175,147	428,724
2014-2018	27,750	188,810	44,180	637		261,377	106,233	367,610
2019-2023	22,465	151,790	41,345			215,600	38,919	254,519
2024-2028		38,345				38,345	2,078	40,423
Total	<u>\$ 120,265</u>	<u>\$ 701,365</u>	<u>\$ 156,170</u>	<u>\$ 2,449</u>	<u>\$ 12,754</u>	<u>\$ 993,003</u>	<u>\$ 561,774</u>	<u>\$ 1,554,778</u>

I. REFUNDED BONDS

The Authority has approximately \$115,420,000 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 employees of the Authority, the Convention Center Authority and Wildwoods Convention Center are covered by the Public Employees' Retirement System of the State of New Jersey (PERS), a multiple-employer public employee retirement system. The payroll for employees covered by PERS for the years ended December 31, 2003 and 2002 was \$15,420,000 and \$17,094,226, respectively. The Authority's total payroll for the years ended 2003 and 2002 was \$66,731,330 and \$67,085,982, 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 amount of the Authority's contribution is certified each year by the PERS 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 employee contributions required for the years ended December 31, 2003 and 2002 were \$518,991 (3.37%) and \$561,481 (3.65%), 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 \$29,731 and \$44,423 for 2003 and 2002, 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% and 3% of the employee's salary for 2003 and 2002, respectively. Annual expense for this plan was \$383,707 and \$391,071 for 2003 and 2002, respectively.

Sports Authority salaried employees who retire on or after age 60, with a minimum of 10 years of full-time salaried service (for employees hired after December 31, 1992, 62 years of age and 25 years of service) 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 \$ 484,667 (for 69 retirees) and \$365,000 (for 73 retirees) in 2003 and 2002, respectively.

K. COMMITMENTS AND CONTINGENCIES

1. A portion of the Authority's operating revenues are 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 \$ 24,275,000 and \$20,008,8000 for the years ended December 31, 2003 and 2002, respectively.
2. 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.
3. The Authority has license agreements with the major sport franchises who 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.
4. 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 \$350,000 for each worker's compensation claim and purchases commercial insurance for claims in excess of \$350,000. No claim has exceeded or reached the \$350,000 excess coverage limit during 2003 and 2002. The Authority paid claims in the amount of \$1,530,235 and \$1,449,600 in 2003 and 2002, 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, 2003 and 2002, the reserve for these liabilities was approximately \$2,602,663 and \$3,366,000, respectively.

5. On June 26, 2000, the Authority formed The Historic Boardwalk Hall, L.L.C. (the "LCC"), 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 a capital contribution to be made over four installments. To date the Authority has received all but the final installments expected to be approximately \$2,200,000.
6. 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.
7. 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 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.
8. 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, pay for its operations and keep all revenues from NFL Events. The agreement, in principle, is not expected to materially impact the current administrative obligations and day-to-day operations of the Authority, however all managerial decisions, events, concert booking and games will be shared with the Giants.
9. At year end approximately \$42,000,000 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.