



To The Honorable

**Christine Todd Whitman,
Governor of the State of New Jersey,
and the Members of the State Legislature.**

Nineteen ninety-eight can best be described as a year of both transition and accomplishment for the New Jersey Sports and Exposition Authority – a year that our Board of Commissioners and staff can look back upon with pride in the collective accomplishments of meeting short-term challenges while planning for long-term opportunities.

Overall, the Authority had a banner year in 1998 marked by record-setting racing results; the best arena concert year since 1992; and the opening of the new stadium suites project (considered to be a model for public/private facility financing). As a result, operating income outperformed our budget plan by 13 percent, or some \$3.8 million.

Despite ever increasing competition in the gaming industries, racing had its best year since 1990, as we surpassed our 1998 budget by 15 percent or \$2.6 million. Notably, we achieved the first increase in average daily handle in 15 years, set a Hambletonian Day record of \$6.5 million wagered, and set a Buick Haskell attendance record of 40,405 while wagering exceeded \$10.0 million. From an industry perspective, the Meadowlands remains the leading racetrack facility in the country with total wagering exceeding \$534 million, and Monmouth has solidified itself as one of the top thoroughbred tracks in North America.

With Administration and Legislative support, the voters were given the opportunity to allow racing to more effectively compete in the years ahead by virtue of a constitutional amendment ballot question which they overwhelmingly passed in November.

Nineteen ninety-eight was an exciting year for the arena with 18 concerts – the most since 1992 – highlighted by the appearance of Celine Dion, Andrea Bocelli, The Backstreet Boys, and Hanson, among others. In addition, the Nets turned their fortunes around and made the playoffs, and the Devils finished the 1997/98 regular season as the leading point-getter in the NHL winning the President's Trophy. This combination of factors resulted in operating income of \$1.55 million as compared to a breakeven budget.

The stadium continued to be a reliable performer returning \$11.2 million on income of \$35.0 million resulting in an impressive 32 percent operating margin despite declining MetroStars attendance. 1998 was marked by the opening of the first major renovation to Giants Stadium in 20 years with the new suites project, which also included the replacement of the artificial turf, sound, and lighting systems – retaining Giants Stadium's rank as one of the finest facilities in the NFL.

The Authority continues to be active in State-wide development projects, as 1998 marked the start of the renovation of the historic Convention Hall in Atlantic City and final schematic design plans were presented for the construction of a new convention center in Wildwood. The New Atlantic City Convention Center continues to show progress as the operating deficit was reduced by \$2.0 million and event dates have grown from 156 in 1996 to a projected 278 in 1999.

While 1998 may have been "The Year of Transition", the Authority has the opportunity to make 1999 "The Year of Strategic Renewal." The Authority finds itself at a crossroads. While we continue to achieve our mission of providing the citizens of the State and region world-class racing, sports, entertainment, exposition, and facility development services, the Authority finds itself in an economic position that requires us to make a policy commitment to forge a new financial foundation. In short, the financial strategy of the 1970's, which granted the Authority a virtual monopoly license for legalized gambling in northern New Jersey, has become out-dated. It no longer provides the long-term economic engine necessary for the Authority to compete in the sports and entertainment marketplace of the 21st Century.

Thus, our primary financial goal for 1999 is to seek to implement a long-term financial strategy that will provide the foundation for the strategic renewal of the Sports Complex with the aim of remaining the finest sports, entertainment, and racing facility in the world.

Further, in collaboration with the Administration we issued a Request for Proposal to study in detail the future of the Meadowlands Sports Complex site and the Continental Airlines Arena. In 1999, the long-term resolution of the arena and stadium issues related to maintaining New Jersey as a focal point for professional sports in America will be a front-burner issue.

Governor, under your leadership, the billion-dollar sports, racing, and entertainment industry of New Jersey is poised to move forward into the next century continuing to deliver extraordinary economic, entertainment and image benefits to the State of New Jersey.

We look forward to working with you and the Legislature.

Sincerely,



Raymond H. Bateman
Chairman of the Board



Dennis R. Robinson
President and
Chief Executive Officer



GOVERNOR
CHRISTINE TODD WHITMAN



RAYMOND H. BATEMAN
CHAIRMAN OF THE BOARD



DENNIS R. ROBINSON
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

GIANTS STADIUM

Giants Stadium, home to the NFL Giants and Jets and Major League Soccer's New York/New Jersey MetroStars, celebrated 1998 in grand style with the opening of the new stadium suites in August. Forty-six new suites, along with 124 club seats were added on the south side of the stadium

The stadium hosted several concerts in 1998, including the Dave Matthews Band and Metallica. The Dave Matthews Band concert was the highest-grossing show of the band's 1998 U.S. tour.

For the first time in the 22-year history of Giants Stadium, professional football was played on natural

grass. In a joint effort, the NJSEA, Giants and Jets agreed to test the viability of two professional football teams playing their home games on natural grass. Three preseason games were played on the grass before reverting to the AstroTurf 12 field.

Giants Stadium experienced an exciting 1998 football season. The Jets won their division with a 12-4 record and surged into the playoffs, emerging as AFC East Champions. This was a turn-around year for the team and second-year coach Bill Parcells. The Giants ended the season at 8-8.

The MetroStars finished their third season at 15-17, advancing to the MLS Eastern Conference semi-finals where they fell to Columbus. They hosted three exciting international games at the stadium, including Jamaica vs. the Caribbean All-Stars.

In college football, Kickoff Classic XVI featured national powerhouses Florida State and Texas A&M. Both teams advanced to post-season bowl games. The New York Urban League Classic also returned, with Hampton defeating Grambling State.



CONTINENTAL AIRLINES ARENA



Continental Airlines Arena is home to the NBA's New Jersey Nets, NHL's New Jersey Devils, Big East Basketball's Seton Hall Pirates, and Arena Football League's New Jersey Red Dogs.

The Nets finished the 1997-98 season with a 43-39 record and a berth in the NBA Playoffs for the first time in four years. They were defeated by the Chicago Bulls in the first round, but the team played hard, showing that they will be a strong contender in the future.



The Devils finished atop the Eastern Conference of the Atlantic Division with a 48-23-11 record. They fell in six games to the Ottawa Senators in the Eastern Conference Quarterfinals.

The Red Dogs finished the 1998 season at 8-6 and advanced to the semi-finals of the playoffs. The Seton Hall Pirates began a new era under the leadership of head coach Tommy Amaker.

The arena also hosted a variety of concerts in 1998, including Celine Dion which became the highest-grossing single-date performer in arena history.



Family show entertainment returned to the arena with the Harlem Globetrotters, Sesame Street Live, Disney on Ice, WWF Wrestling and Champions on Ice. Ringling Brothers Barnum & Bailey set a house record for the highest-grossing 12-performance circus run, and the Rugrats made their Continental Airlines Arena debut in June.

1998 ended on a high note at the arena with the sell-out of the 4th Annual Jimmy V Classic. This event, which has generated nearly \$200,000 for The V Foundation for Cancer Research, featured perennial college basketball powerhouses Duke and Kentucky along with Purdue and South Carolina.

MEADOWLANDS RACETRACK

The Meadowlands, the world's premier venue for harness racing, reached several milestones in attendance and handle during the 1998 season. The average total harness handle exceeded \$3 million for the first time, representing a 15.7 percent increase over last year. Average on-site handle was also up by more than nine percent, and every Saturday night card of the 151-day meeting posted a total harness handle in excess of \$4 million. For the first time in 15 years, the average daily attendance was up over the previous year.



On Meadowlands Pace night, the betting total of \$6,369,544 million represented the third largest in harness racing history.



The harness meet concluded August 8 with Muscles Yankee winning the Hambletonian and Hall of Famer, John Campbell, capturing his record fifth Hambo crown. Fans wagered a record \$6,503,687 million on Hambletonian Day.

The Meadowlands 63-day thoroughbred meet also posted gains in handle and attendance. On-site handle was up by 15.3 percent, and total attendance for the meet averaged 8,767 on-site, increasing 9.3 percent over 1997.

The Meadowlands remains the leading racetrack facility in the country with total wagering exceeding \$534 million, the highest of any racing venue in North America.



MONMOUTH PARK RACETRACK



One of the top thoroughbred tracks in North America, Monmouth Park had a banner year. During the 77-day meeting that included a record-setting Haskell Invitational Day, a record opening weekend, and a thrilling Iselin Handicap,



wagering at Monmouth Park showed a 12.3 percent gain over last year, averaging \$4,322,700 per day. Total attendance for the meet hit 766,868, surpassing last year's total of 734,202. Daily overnight purse money averaged \$222,600 per day, the sixth straight year of increase.

The meet opened with record attendance and wagering for the Memorial Day weekend as 50,667 guest wagered a total of \$15.4 million over the three-day holiday weekend. It was the second best opening day ever.

On August 9, Coronado's Quest won the \$1 million Haskell by a length and a quarter over Victory Gallop before a record crowd of 40,412 who wagered a record \$2,532,061 on the race. Total handle topped \$10 million, a first for New Jersey.



Likely Horse of the Year Skip Away captured the Iselin Handicap before a crowd of 19,107 fans. The successful meet concluded with Chuck C. Lopez taking his first riding title while Vladimir Diaz captured

honors as top apprentice. Juan Serey earned a record fourth straight training title and D.J. Stable won the owners' top prize.



AUTHORITY AROUND THE STATE

The Authority continues to be active in State-wide development projects as 1998 marked the start of the renovation of the historic Convention Hall in Atlantic City. Plans call for the Hall to be transformed into a 10,000 to 14,000-seat special



events center designed to host a variety of events, including the Miss America Pageant, professional minor league hockey, concerts, boxing and family shows. The renovation is expected to last two years.

The world-class New Atlantic City Convention Center continues to exceed expectations, with nearly 300 conventions

and trade shows now pre-scheduled through 2010. This future business will attract more than 2.8 million delegates and fill 1.7 million hotel room nights, generating an estimated economic impact of \$1.4 billion to Atlantic City and the surrounding region.

The New Convention Center has been honored with several awards and has been recognized by America's top convention management publications as one of the nation's premier meeting, convention and trade show destinations.



The Authority is also in the final stages of developing design plans for the new Greater Wildwoods Convention Center in Cape May County, which will enhance this region as a year-round resort and recreation destination.

ALL ABOUT THE AUTHORITY



The New Jersey Sports and Exposition Authority was created by the New Jersey Legislature in 1971. There are thirteen members appointed by the Governor to four-year terms, subject to confirmation by the New Jersey Senate, and four “ex officio” members, including the Authority President, State Attorney General, State Treasurer, and a designated representative of the Hackensack Meadowlands Development Commission.

The Sports Authority is the governing body which oversees the operations of Meadowlands Racetrack, Continental Airlines Arena, Giants Stadium, and Monmouth Park Racetrack. At the State’s request, it constructed the State Aquarium at Camden. It built and operates the Atlantic City Convention Center, as well as the Boardwalk Convention Hall, and the State Legislature has given the Authority the task of building a new convention facility for Wildwood. The Authority holds regularly scheduled meetings which are open to the public. The minutes of all Authority meetings are subject to approval by the Governor.

AUTHORITY MEMBERS

Raymond H. Bateman <i>Chairman</i>	Joetta Clark	James A. DiEleuterio, Jr. <i>Treasurer, State of New Jersey</i>
Dennis R. Robinson <i>President & CEO</i>	M. Joseph Montuoro	Peter Verniero <i>Attorney General State of New Jersey</i>
Candace L. Straight <i>Vice Chairman</i>	Joseph J. Plumeri, II	Jane Kenny <i>Representative Hackensack Meadowlands Development Commission</i>
Ronald J. Burton	Anthony J. Sartor	Barbara Sobel
	Peter D. Sudler	

SENIOR MANAGEMENT

	Dennis R. Robinson <i>President and Chief Executive Officer</i>	
Robert J. Castronovo <i>Senior Executive Vice President Arena/Stadium</i>		Bruce H. Garland <i>Senior Executive Vice President Racing</i>
Joseph Consolazio <i>Senior Vice President Finance & Chief Financial Officer</i>	Christine H. Steinberg <i>Senior Vice President & Counsel to the President</i>	Richard C. Wolffe, Jr. <i>Senior Vice President Business Operations</i>



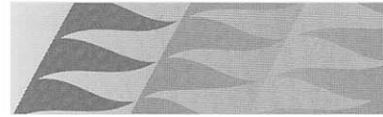
NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

*Financial Statements and Required
Supplementary Information for the Years
Ended December 31, 1998 and 1997
and Independent Auditors' Reports*

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NEW JERSEY SPORTS AND EXPOSITION AUTHORITY



**Deloitte &
Touche**



Deloitte & Touche LLP
Two Hilton Court
P.O. Box 319
Parsippany, New Jersey 07054-0319

Telephone: (973) 683-7000
Facsimile: (973) 683-7459

INDEPENDENT AUDITORS' REPORT

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, 1998 and 1997, 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 generally accepted auditing standards. 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.

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 do not present fairly the financial position, results of operations and cash flows in accordance with generally accepted accounting principles.

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, 1998 and 1997, 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.

The year 2000 supplementary information on page 32 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become year 2000 compliant.

Deloitte & Touche LLP

March 29, 1999
(April 19, 1999 as to Note L-3)

**Deloitte Touche
Tohmatsu**

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES YEARS ENDED DECEMBER 31, 1998 AND 1997

(Pursuant to various Bond Resolutions)
(In thousands)

	Sports Complex Funds	Stadium Suites Project
REVENUES FROM OPERATIONS:		
Meadowlands Racetrack	\$ 81,653	\$ -
Monmouth Park Racetrack	-	-
Stadium	35,756	-
Stadium Suites Project	-	7,321
Arena	39,403	-
Atlantic City Convention Centers	-	-
Wildwood Convention Center	-	-
	<u>156,812</u>	<u>7,321</u>
EXPENSES FROM OPERATIONS:		
Meadowlands Racetrack	61,832	-
Monmouth Racetrack	-	-
Stadium	24,380	-
Stadium Suites Project	-	635
Arena	37,298	-
Atlantic City Convention Centers	-	-
Wildwood Convention Center	-	-
	<u>123,510</u>	<u>635</u>
EXCESS FROM OPERATIONS	33,302	6,686
OTHER INCOME, EXPENSES AND TRANSFERS:		
General and administrative expenses	(9,496)	-
Interest income and other	5,674	208
State appropriation	15,000	-
Other expense	(3,766)	-
Luxury tax, marketing fee and tourism tax revenues	-	-
State contract payments	-	-
Distribution to Atlantic City Convention Centers	-	-
	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENSES (Exhibit A-3 and Note B)	40,714	6,894
OPERATING FUND BALANCES, BEGINNING OF YEAR	-	-
Total Revenue Available For Distribution	<u>\$ 40,714</u>	<u>\$ 6,894</u>
DISTRIBUTION TO (FROM) AS FOLLOWS (Note B-7):		
Operating fund balances, end of year	\$ -	\$ -
Debt service funds	3,520	2,572
Construction funds	-	3,903
Maintenance reserve funds	15,210	212
Payment in lieu of tax funds (Note B-5)	3,534	-
Guaranteed Bond Fund 1992 Series	18,450	-
Excess cash flow fund	-	207
	<u>-</u>	<u>207</u>
Total Revenues Distributed	<u>\$ 40,714</u>	<u>\$ 6,894</u>

See notes to financial statements.



December 31, 1998						December 31, 1997
Monmouth Park Funds	Atlantic City Convention Center Funds	Luxury Tax Funds	State Contract Funds	Wildwood Convention Center Funds	Total Funds	Total Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,653	\$ 80,413
31,307	-	-	-	-	31,307	29,319
-	-	-	-	-	35,756	38,677
-	-	-	-	-	7,321	3,731
-	10,471	-	-	-	39,403	35,779
-	-	-	-	698	10,471	8,867
-	-	-	-	698	698	-
<u>31,307</u>	<u>10,471</u>	<u>-</u>	<u>-</u>	<u>698</u>	<u>206,609</u>	<u>196,786</u>
-	-	-	-	-	61,832	61,443
25,260	-	-	-	-	25,260	23,587
-	-	-	-	-	24,380	26,427
-	-	-	-	-	635	-
-	22,384	-	-	-	37,298	35,801
-	-	-	-	908	22,384	22,650
-	-	-	-	908	908	-
<u>25,260</u>	<u>22,384</u>	<u>-</u>	<u>-</u>	<u>908</u>	<u>172,697</u>	<u>169,908</u>
6,047	(11,913)	-	-	(210)	33,912	26,878
(400)	(4,393)	-	-	(590)	(14,879)	(14,770)
844	132	1,968	921	157	9,904	19,185
-	-	-	-	-	15,000	-
-	-	-	-	-	(3,766)	(3,762)
-	8,036	16,827	-	2,620	27,483	22,883
-	-	-	29,804	-	29,804	29,566
-	8,680	(8,680)	-	-	-	-
6,491	542	10,115	30,725	1,977	97,458	79,980
400	1,516	-	-	-	1,916	2,891
<u>\$ 6,891</u>	<u>\$ 2,058</u>	<u>\$ 10,115</u>	<u>\$ 30,725</u>	<u>\$ 1,977</u>	<u>\$ 99,374</u>	<u>\$ 82,871</u>
\$ 400	\$ 2,058	\$ -	\$ -	\$ 531	\$ 2,989	\$ 1,916
4,138	-	12,428	30,725	175	53,558	52,076
-	-	-	-	1,200	5,103	2,231
1,054	-	(2,313)	-	41	14,204	3,328
1,299	-	-	-	30	4,863	4,918
-	-	-	-	-	18,450	18,402
-	-	-	-	-	207	-
<u>\$ 6,891</u>	<u>\$ 2,058</u>	<u>\$ 10,115</u>	<u>\$ 30,725</u>	<u>\$ 1,977</u>	<u>\$ 99,374</u>	<u>\$ 82,871</u>

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES

(Pursuant to various Bond Resolutions)
(In thousands)

	Sports Complex Funds	Stadium Suites Project
ASSETS		
Cash and cash equivalents (Notes B-8 and D)	\$ 65,643	\$ -
Investments (Note D)	-	-
Restricted cash and cash equivalents (Notes B-8 and D)	18,179	3,966
Restricted investments (Note D)	17,218	-
Accrued interest receivable	886	-
Luxury tax, marketing fee and tourism tax receivable (Notes A and C)	-	-
Receivables	5,468	8
Interfund receivables	65	-
Investment in facilities	470,492	44,018
Other assets (Note B-9)	4,262	767
	<u>\$ 582,213</u>	<u>\$ 48,759</u>
LIABILITIES AND FUND BALANCES		
Accounts payable and accrued expenses	\$ 20,318	\$ 2,224
Interfund payables	-	47
Interest payable on bonds and notes	7,367	223
Deferred revenue	6,357	-
Other liabilities	9,123	-
Notes payable (Note G)	3,850	32,360
Bonds payable (Note F)	208,550	-
Unamortized original issue discount	(1,883)	-
Fund balance (deficit)	<u>328,531</u>	<u>13,905</u>
	<u>\$ 582,213</u>	<u>\$ 48,759</u>

See notes to financial statements.



December 31, 1998						December 31, 1997
Monmouth Park Funds	Atlantic City Convention Center Funds	Luxury Tax Funds	State Contract Funds	Wildwood Convention Center Funds	Total Funds	Total Funds
\$ 12,584	\$ 3,953	\$ 18,557	\$ -	\$ 4,251	\$ 104,988	\$ 82,714
-	-	-	-	-	-	2,500
392	-	37,349	15,102	-	74,988	39,746
-	-	8,352	25,708	-	51,278	59,408
-	-	22	561	-	1,469	1,709
-	1,218	2,255	-	91	3,564	3,299
577	1,273	-	-	5	7,331	10,991
-	2,724	-	-	-	2,789	2,362
37,006	828	165,332	248,065	3,776	969,517	930,578
919	423	2,698	3,016	-	12,085	11,755
<u>\$ 51,478</u>	<u>\$ 10,419</u>	<u>\$ 234,565</u>	<u>\$ 292,452</u>	<u>\$ 8,123</u>	<u>\$1,228,009</u>	<u>\$1,145,062</u>
\$ 5,065	\$ 4,760	\$ 3,447	\$ 278	\$ 70	\$ 36,162	\$ 34,138
-	-	2,742	-	-	2,789	2,362
116	-	5,676	-	15	13,397	15,059
-	1,963	-	-	6	8,326	8,930
1,505	-	32,574	-	-	43,202	9,511
-	-	8,600	-	3,150	47,960	32,053
58,105	-	156,315	469,766	-	892,736	884,216
(176)	-	(8,607)	(8,654)	-	(19,320)	(20,877)
<u>(13,137)</u>	<u>3,696</u>	<u>33,818</u>	<u>(168,938)</u>	<u>4,882</u>	<u>202,757</u>	<u>179,670</u>
<u>\$ 51,478</u>	<u>\$ 10,419</u>	<u>\$ 234,565</u>	<u>\$ 292,452</u>	<u>\$ 8,123</u>	<u>\$1,228,009</u>	<u>\$1,145,062</u>



NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

STATEMENTS OF CHANGES IN FUND BALANCES

(Pursuant to various Bond Resolutions)
(In thousands)

	Sports Complex Funds	Stadium Suites Project
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	\$ 305,024	\$ 8,960
Excess of revenues over expenses	40,714	6,894
Interest income on restricted debt service funds	610	-
Interest on bonds and notes	(12,622)	(1,949)
Maintenance charges	(1,561)	-
Payment in Lieu of taxes (Note B-5)	(3,534)	-
Write-off and amortization of bond discount and issuance costs	(100)	-
Amortization of costs on the Rutgers and Higher Education Projects	-	-
Contributed capital	-	-
Loss on bond refunding	-	-
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 328,531</u>	<u>\$ 13,905</u>

See notes to financial statements.



December 31, 1998					December 31, 1997	
Monmouth Park Funds	Atlantic City Convention Center Funds	Luxury Tax Funds	State Contract Funds	Wildwood Convention Center Funds	Total Funds	Total Funds
\$ (148)	\$ 3,325	\$ 33,335	\$ (170,826)	\$ -	\$ 179,670	\$ 176,131
6,491	542	10,115	30,725	1,977	97,458	79,980
129	-	-	1,512	-	2,251	(4,768)
(4,138)	-	(10,034)	(28,370)	(48)	(57,161)	(56,919)
(2,236)	(171)	(642)	-	(41)	(4,651)	(9,325)
(1,299)	-	-	-	(30)	(4,863)	(4,921)
(55)	-	(388)	(379)	-	(922)	(922)
-	-	-	(206)	-	(206)	(190)
-	-	1,432	-	3,024	4,456	604
(11,881)	-	-	(1,394)	-	(13,275)	-
<u>\$ (13,137)</u>	<u>\$ 3,696</u>	<u>\$ 33,818</u>	<u>\$ (168,938)</u>	<u>\$ 4,882</u>	<u>\$ 202,757</u>	<u>\$ 179,670</u>



NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

**Deloitte &
Touche**



Deloitte & Touche LLP

Two Hilton Court

P.O. Box 319

Parsippany, New Jersey 07054-0319

Telephone: (973) 683-7000

Facsimile: (973) 683-7459

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of the New Jersey Sports and Exposition Authority (the "Authority"), a component unit of the State of New Jersey, as of December 31, 1998 and 1997, and the related statements of operations and changes in fund equity, 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 generally accepted auditing standards. 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, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Authority as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 29 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become year 2000 compliant.

Deloitte & Touche LLP

March 29, 1999
(April 19, 1999 as to Note L-3)

**Deloitte Touche
Tohmatsu**



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 1998 AND 1997

(In thousands)

ASSETS	1998	1997
Current Assets:		
Cash and cash equivalents (Notes B-8 and D)	\$ 104,988	\$ 82,714
Investments (Note D)	-	2,500
Restricted cash and cash equivalents (Notes B-8 and D)	74,988	39,746
Restricted investments (Note D)	4,732	4,496
Accrued interest receivable	1,469	1,709
Due from State of New Jersey (Notes A and B-6)	3,564	3,299
Receivables (net of allowance for doubtful accounts of \$1,302 in 1998 and \$1,414 in 1997)	7,112	10,779
Total Current Assets	196,853	145,243
Long - term assets:		
Restricted long - term investments (Note D)	46,546	54,912
Long - term accounts receivable	219	212
Investment in facilities (Notes B-4 and E)	791,273	775,946
Other assets (Note B-9)	43,742	43,617
TOTAL ASSETS	\$ 1,078,633	\$ 1,019,930
 LIABILITIES AND FUND EQUITY		
LIABILITIES:		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 41,925	\$ 34,138
Interest payable on bonds and notes	22,551	24,280
Deferred revenue	25,127	21,635
Advanced ticket sales	3,733	3,517
Other current liabilities	39,469	5,994
Current portion of Notes payable (Note G)	2,781	50
Current portion of Bonds payable (Note F)	20,142	18,120
Total Current Liabilities	155,728	107,734
Long - term Liabilities:		
Stadium suites advances	-	4,650
Long - term portion of Notes payable (Note G)	44,271	30,891
Long - term portion of Bonds payable (Note F)	839,999	845,219
TOTAL LIABILITIES	1,039,998	988,494
FUND EQUITY:		
Net investment in facilities	3,250	4,112
Contributed Capital (Note B-6)	35,385	27,324
Total fund equity	38,635	31,436
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,078,633	\$ 1,019,930

See notes to financial statements.

NEW JERSEY SPORTS AND EXPOSITION AUTHORITY

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN FUND EQUITY YEARS ENDED DECEMBER 31, 1998 AND 1997

(In thousands)

	1998	1997
OPERATING REVENUES:		
Racetracks	\$ 112,035	\$ 109,732
Stadium	44,829	38,677
Arena	39,403	35,779
Convention Centers	11,169	8,867
	<u>207,436</u>	<u>193,055</u>
OPERATING EXPENSES:		
Racetracks	86,167	83,959
Stadium	30,779	26,427
Arena	37,298	35,801
Convention Centers	23,292	22,650
General and administrative	14,039	15,014
Depreciation and amortization (Notes B-4 and E)	30,027	23,631
Payment in lieu of taxes (Note B-5)	4,863	4,921
	<u>226,465</u>	<u>212,403</u>
OPERATING LOSS	(19,029)	(19,348)
NON-OPERATING INCOME AND EXPENSES:		
Interest income and other	10,143	12,224
Luxury tax, marketing fund and tourism tax revenues (Notes A and C)	27,483	22,883
State contract payments and appropriations (Note A)	39,469	26,409
Interest expense (Note F-8)	(58,928)	(51,993)
NET LOSS	(862)	(9,825)
FUND EQUITY, BEGINNING OF YEAR		
Contributed Capital (Note B-6)	31,436	35,977
	<u>8,061</u>	<u>5,284</u>
FUND EQUITY, END OF YEAR	<u>\$ 38,635</u>	<u>\$ 31,436</u>

See notes to financial statements.



CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 1998 AND 1997

(In thousands)

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Loss	\$ (19,029)	\$ (19,348)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	30,027	23,631
Decrease in assets:		
Receivables	3,660	1,512
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	7,787	6,906
Advanced ticket sales, Stadium suites advances and other liabilities	29,041	(742)
Deferred revenues	3,492	(632)
Net cash provided by operating activities	<u>54,978</u>	<u>11,327</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(77,738)	(165,246)
Sales of investments	88,368	173,134
Interest on investments	12,127	14,173
Net cash provided by investing activities	<u>22,757</u>	<u>22,061</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments of bonds and notes	(91,859)	(15,155)
Issuance of bonds and notes	117,716	29,760
Additions to investment in facilities	(45,210)	(69,466)
Disposals of investment in facilities	43	3,560
Interest paid on bonds and notes	(60,657)	(51,918)
State Contract payments for principal and interest on bonds	32,530	31,089
Luxury tax revenues	12,376	12,334
Net cash used in capital and related financing activities	<u>(35,061)</u>	<u>(59,796)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Luxury tax, marketing fee and tourism tax revenues	14,842	10,501
Net cash provided by non-capital financing activities	<u>14,842</u>	<u>10,501</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	57,516	(15,907)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>122,460</u>	<u>138,367</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 179,976</u>	<u>\$ 122,460</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

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, the Attorney General and a member of the Hackensack Meadowlands Development Commission, appointed by the Governor, who are members ex officio, and nine 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 (the “Bill”), which approved the issuance of 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 Wildwood Convention Center project.

On December 24, 1997, amendments to the Act authorized the Authority to undertake and finance a project in the City of Wildwood consisting of the acquisition of property, operation of an existing convention center facility and the development of a new convention center facility. The Authority assumed title to the assets, funds, properties and obligations of the existing facility from the Greater Wildwood Tourism Improvement and Development Authority and began operating the facility on February 23, 1998.

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 Wildwood Convention Center.

The Authority also prepares financial statements, included in Section A, in accordance with the provisions of the Sports Complex, State Contract, Luxury Tax and Monmouth Park 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 from Operations to Statement of Operations Net Income :

	Years Ended December 31,	
	1998	1997
	(in thousands)	
Excess of revenues over expenses	\$ 97,458	\$ 79,980
Interest expense	(58,928)	(51,993)
Depreciation and amortization	(30,027)	(23,631)
Payment in lieu of tax	(4,863)	(4,921)
State Contract payments	(5,335)	(1,523)
Advance deposits on Stadium Suites Project	(4,012)	(3,731)
Interest income and other	4,888	5,362
Debt service restructuring	-	(5,854)
Cost of land sold	(43)	(3,560)
Other, net	-	46
Net (loss) income	<u>\$ (862)</u>	<u>\$ (9,825)</u>

Amounts recorded in accordance with the Bond Resolution financial statements vary from the financial statements prepared in accordance with generally accepted accounting principles as disclosed in the reconciliation above. In 1998, the Authority deferred debt refinancing costs in connection with the advance refunding of certain bonds (Note F-6). In 1997, the Authority replaced two of its debt service reserve investments with surety bonds. A sale of some excess land at the Monmouth Park Racetrack resulted in a gain of \$27,000 and \$1,674,000 in 1998 and 1997, respectively.

2. **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.

3. **Reporting Entity** - The GASB establishes the criteria used in determining which organizations should be included in the Authority's financial statements. Generally accepted accounting principles 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 contract with the Convention Center Authority and the above criteria, the Convention Center Authority's financial statements are included in the Authority's annual report.

At the request of the State of New Jersey, the Authority assumed the assets and liabilities and undertook the existing operations of the Wildwood Convention Center on February 23, 1998. As a result, the Authority includes the financial statements of the Wildwood



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Convention Center in its annual report. The assets and liabilities were recorded at fair value and the difference was recorded to fund balance as contributed capital.

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

4. **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.
5. **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. Through 1997 a payment in lieu of taxes was also made to the Hackensack Meadowlands Development Commission for certain operating and capital expenditures.
6. **Contributed Capital** - Contributed capital represents 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 non-operating revenue.
7. **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.

8. **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.
9. **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 and Higher Education Projects are also included in other assets and will be amortized as principal payments are made on the related State Contract Bonds.
10. **Accumulated Vacation Time** - Salaried employees of the Authority, the Convention Center Authority and the Wildwood Convention Center may accumulate vacation time up to a maximum of one half of their vacation time. 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 ten days of accumulated vacation time.



11. **Interest Rate Swap Agreement** - The Authority entered into an interest rate swap agreement to modify interest rates on certain outstanding debt. Other than the net interest expenditures resulting from this agreement, no amounts are recorded in the financial statements. The interest differential to be received or paid under the interest rate swap agreement is accrued for annually over the life of the agreement as an adjustment to the interest expense of the related bonds.
12. **Valuation of Investments** - Guaranteed investment contracts, state and local government securities 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."
13. **Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles 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.
14. **Reclassifications** - The 1997 financial statements contain certain reclassifications which have been made to conform to the classifications used in 1998.

C. LUXURY TAX AND MARKETING FEES

1. **Luxury Tax** - Pursuant to NJSA. 40:48-8.15 et seq. (the "Luxury Tax Act"), the City of Atlantic City has, by Ordinance No. 18 of 1982, imposed a 3 percent tax on the sale of alcoholic beverages by the drink in the restaurants, bars, hotels and other similar establishments and a 9 percent 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 which authorized the Convention Center Authority to impose marketing fees 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 Wildwood 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 percent of the proceeds of a 2 percent tourism related retail receipts tax pursuant to NJSA 40:54D-1 et. seq. (the "Tourism Improvement and Development District Law") for the construction and promotion of a new convention center facility and the operation maintenance and promotion of the existing center within Wildwood. The remaining 10 percent 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).

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D. CASH, CASH EQUIVALENTS AND INVESTMENTS

1. The components of cash, cash equivalents and investments are:

	Balance		Balance	
	December 31, 1998		December 31, 1997	
	Book	Bank	Book	Bank
	(in thousands)		(in thousands)	
Cash and Cash Equivalents:				
Cash on hand	\$ 3,606	\$ -	\$ 2,704	\$ -
Demand deposits	(3,318)	3,141	(1,137)	1,622
N.J. Cash Management Fund	161,033	161,033	64,085	64,085
Repurchase Agreements	3,254	3,254	3,880	3,880
Commercial Paper	15,401	15,401	52,928	52,928
Total cash and cash equivalents	<u>\$ 179,976</u>	<u>\$ 182,829</u>	<u>\$ 122,460</u>	<u>\$ 122,515</u>

	December 31, 1998		December 31, 1997	
	Cost		Cost	
	(in thousands)		(in thousands)	
Investments (see Note B-12):				
Guaranteed investment contracts	\$ 27,251		\$ 31,700	
Certificates of Deposit	2,100		5,730	
	<u>29,351</u>		<u>37,430</u>	
State and local unit government securities (SLUGS)	21,927		24,478	
Total investments	<u>\$ 51,278</u>		<u>\$ 61,908</u>	

2. At December 31, 1998 and 1997, approximately \$88,429,000 and \$92,163,000, 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.
3. 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, 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, 1998, all demand deposits were collateralized.

Commercial paper is held by the Trustee in the name of the Authority.

The guaranteed investment contracts are investment agreements with a bank that provide the Authority with a fixed rate of return credited to specific Debt Service Reserve Accounts. At December 31, 1998, \$27,251,500 is collateralized with U.S. government obligations that have, as a minimum, an aggregate value of 105 percent of the investment contract which is held by a third-party bank in the name of the Authority.



Repurchase agreements represent overnight 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 3.10 percent and 3.75 percent which mature semi-annually commencing on January 1, 1999 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.

E. INVESTMENT IN FACILITIES

	Balance, December 31, 1997	Additions	Transfers <i>(in thousands)</i>	Disposals	Balance, December 31, 1998
Land	\$ 169,190	\$ 3,135	\$ (43)	\$ -	\$172,282
Buildings	735,103	5,069	-	45,886	786,058
Machinery and equipment	95,876	14,352	(18)	-	110,210
Land improvements	16,493	4,222	-	-	20,715
Leasehold rights	25,000	-	-	-	25,000
Construction in progress	30,527	18,432	-	(45,886)	3,073
	<u>1,072,189</u>	<u>45,210</u>	<u>(61)</u>	<u>-</u>	<u>1,117,338</u>
Less accumulated depreciation	(296,244)	(29,839)	18	-	(326,065)
	<u>\$ 775,945</u>	<u>\$ 15,371</u>	<u>\$ (43)</u>	<u>\$ -</u>	<u>\$791,273</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

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F. BONDS PAYABLE

1. Bonds payable consists of the following:

	Date Issued	Original Amount	December 31,	
		(in thousands)	1998	1997
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	\$ 111,910	\$ 120,195
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, 5.20%, due 2021-2024	12/01/93	63,765	63,765	63,765
Sports Complex Subordinated Refunding Revenue Bonds, 1993 Series A \$32,875,000 Term Bonds 6.875%, due 2005-2017	12/01/93	32,875	32,875	32,875
Monmouth Park Refunding Revenue Bonds, 1994 Series A, 8.00% due 2006-2025	01/04/95	51,720	-	51,720
STATE CONTRACT BONDS				
State Contract Bonds, 1992 Series A, \$46,955,000 Serial Bonds 5.50%-6.50% due 1998 through 2007; \$177,045,000 Term Bonds, 6.00% - 6.50%, due 2013 to 2021	03/02/92	224,000	198,071	224,000
State Contract Bonds, 1992 Series C, \$209,990,000 Term Bonds 5.86%, due through 2024	11/19/92	209,990	200,735	203,095
State Contract Bonds, 1993 Series A, \$5,755,000 Serial Bonds, 4.70%-5.40%, due 2003 to 2009; \$6,930,000 Term Bonds, 5.37%, due 2015 \$13,600,000 Term Bonds 5.50%, due 2023	03/01/93	26,285	26,285	26,285
State Contract Bonds, 1993 Series B, \$5,000,000 Serial Bonds 2.50%-4.70%, due through 2002	03/01/93	5,000	2,450	3,000
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	-
State Contract Bonds, 1998 Series B, \$13,665,000 Serial Bonds 4.96%-5.77% due 1999 through 2008	12/15/98	13,665	13,665	-



	Date Issued	Original Amount <small>(in thousands)</small>	December 31,	
			1998	1997
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 2012-2022				
	11/12/92	\$ 168,025	\$ 156,315	\$ 159,280
Total bonds payable			892,736	884,215
Less original issue discount and deferred loss on refunding			(32,595)	(20,876)
			<u>\$ 860,141</u>	<u>\$ 863,339</u>

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** -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 (i) refunding \$63,790,000 aggregate principal amount of the Authority's Sports Complex Bonds, 1978 Series (the "Refunded Bonds") and (ii) 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, 1998 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** - 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 (i) paying a promissory note of



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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 a portion of the Sports Complex, (ii) financing certain improvements to the club box suites at the football stadium, which is part of the Sports Complex and (iii) 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, 1998 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. **Monmouth Park Refunding Revenue Bonds** - The Authority issued \$51,720,000 of Monmouth Park Refunding Revenue Bonds, 1994 Series A. These Bonds were issued by the Authority for the purposes of (i) refunding the aggregate principal amount of the Authority's outstanding Monmouth Park Revenue Bonds, 1985 Series, (ii) refunding the aggregate principal amount of the Authority's outstanding Monmouth Park Junior Lien Restricted Revenue Notes, (iii) financing certain capital improvements to Monmouth Park, (iv) paying the costs of authorization, issuance, sale, execution and delivery of the Bonds. The Bonds bear interest at the rate of 8 percent and are due from 2006 through 2025.

In 1998, the Authority transferred debt service reserve funds and proceeds from State Contract Bonds, 1998 Series A (see Note F-6) to an escrow agent (see Note I) to secure the advance refunding of these Bonds in full.

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 are pledged or assigned to the payment of or interest on the State Contract Bonds.

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.

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 interest calculated at a fixed rate of 5.86 percent to the counterparty to the swap along with other fees for liquidating facility and remarketing. In return, the counterparty owes the Authority interest based on a variable rate that matches the rate required by the Bonds. Only the difference in the interest payments is actually exchanged with the counterparty to the swap. The bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

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 have concluded that they are remote. A termination of the swap agreement may also result in the Authority's making or receiving a termination payment.

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

1993 Series A and B

The Authority issued \$26,285,000 of State Contract Bonds, 1993 Series A and \$5,000,000 of State Contract, 1993 Series B, to provide funds to pay a portion of the cost of the Authority's Rutgers Project and to finance the cost of the Authority's Higher Education Sports Facilities Project, respectively.

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.

The effect of the refunding portion of these bonds resulted in a deferred loss on refunding of approximately \$13,275,000 which is presented net of the bond payable and will be amortized over the life of the defeased bond issue. The cash flows required to service the old debt was \$184,468,875. The cash flows required to service the new debt issued to complete the refunding is \$156,639,898 which results in a present value savings of \$9,163,755. Issuance costs of approximately \$1,365,000 has been reflected in other assets.

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Pursuant to the State Contract the debt service related to the refunding of the Monmouth Park Bonds will be funded by excess Monmouth Park revenue. To the extent of sufficient amounts in the Monmouth Park Revenue Fund 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.

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 insured with a guaranty policy issued by the Municipal Bond Investors Assurance Corporation. In addition, a debt service reserve of \$6,252,500 has been set aside from the proceeds of the bond sales as additional security for the bondholders. Subsequent to year-end the Authority initiated advance refunding of these Bonds (see Note L).

8. **Interest Costs** - Interest costs for the years 1998 and 1997 were as follows:

	Years Ended December 31,	
	1998	1997
	<i>(in thousands)</i>	
Interest expense	\$ 58,928	\$ 51,993
Capitalized interest	1,396	6,880
Total interest cost	<u>\$ 60,324</u>	<u>\$ 58,873</u>



G. NOTES PAYABLE

1. Notes payable consist of the following:

	Date Issued	Original Amount (in thousands)	December 31,	
			1998	1997
Loan from New Jersey Department of Environmental Protection, 0% interest, semi-annual installments of \$25,000 through July 1, 2005	05/12/95	\$ 500	\$ 350	\$ 400
Loan from the State of New Jersey Board of Public Utilities, 0% interest, due December 31, 2002	12/23/96	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	02/10/97	8,600	8,600	8,600
Construction loan, 7.6% interest, converted to term loan on August 31, 1998	Various	-	-	19,553
Term loan from bank, 7.6% interest due August 31, 2006	08/31/98	32,360	32,360	-
Loan from the City of Wildwood, 1.5% interest, installments due annually	06/30/96	3,150	3,150	-
Total notes payable			47,960	32,053
Less unamortized discount			(908)	(1,112)
			<u>\$ 47,052</u>	<u>\$ 30,941</u>

2. On May 12, 1995, the Authority received an energy conservation loan from the New Jersey Department of Environmental Protection. The loan bears no interest and is repayable in semi-annual installments of \$25,000 commencing January 1, 1996. For financial reporting purposes the Authority has assumed an imputed interest rate of 7 percent on this loan, the Authority's borrowing rate at the time of the loan.
3. On December 31, 1996, the Authority received an energy conservation loan from the New Jersey Board of Public Utilities. The loan bears no interest and is due on December 31, 2002 with an option to extend this date until December 31, 2006. For financial reporting purposes the Authority has assumed an imputed interest rate of 7 percent on this loan, the Authority's borrowing rate at the time of the loan.
4. On February 10, 1997, the Authority received the proceeds of a \$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 percent per annum through June 2, 1997. The rate was adjusted to 5.773 percent 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 ten 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

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tenants of the Stadium to share the costs and revenues attributed to luxury suites and club seats. 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 rental income on these suites in eight annual principal installments. Interest, at the rate of 7.6 percent is payable quarterly.

6. As a result of acquiring the assets and obligations of the Wildwood Convention Center, the Authority assumed a term mortgage payable to the City of Wildwood in the amount of \$3,150,000, at 1.5 percent interest through December 31, 2000, 2.5 percent interest thereafter due December 31, 2015.

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			
1999	\$ 13,490	\$ 5,230	\$ 3,115	\$ 128	\$ 2,603	\$ 24,566	\$ 55,145	\$ 79,711
2000	14,650	8,445	3,275	130	3,348	29,848	54,516	84,364
2001	15,850	10,130	3,450	131	3,612	33,173	52,327	85,500
2002	20,670	10,770	3,645	182	6,396	41,663	49,751	91,414
2003	18,550	10,525	3,855	184	3,647	36,761	47,209	83,970
Thereafter	116,765	482,770	147,575	2,395	12,754	762,259	500,558	1,262,817
Total	\$ 199,975	\$ 527,870	\$ 164,915	\$ 3,150	\$ 32,360	\$ 928,270	\$ 759,506	\$ 1,687,776

I. REFUNDED BONDS

The Authority has approximately \$193,870,000 of bonds outstanding which are secured by investments held by various escrow agents. The escrow accounts meet the criteria under generally accepted accounting principles 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

Salaried employees of the Authority, the Convention Center and Wildwood 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, 1998 and 1997 was \$15,973,445 and \$14,079,120 respectively. The Authority's total payroll for the years ended 1998 and 1997 was \$57,092,929 and \$56,520,445 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 60, 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 re-



duced 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, 1998 and 1997 were \$775,941 (4.86 percent), and \$717,486 (5.10 percent), respectively. No employer contribution was required.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the PERS funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers. PERS does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligations were determined as part of the most recent annual actuarial valuation dated March 31, 1997. For the years ended June 30, 1998 and 1997, the State portion of employer contributions exceeded the annual required contributions as a result of the legislation that was enacted (Chapter 114 and 115, P.L. 1997) This legislation authorized the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement system, and, provided that the State may reduce its normal contributions to the System based on the revaluation of assets and fund such contributions from excess assets not needed to cover the cost of accrued benefits.

In accordance with the legislation enacted (Chapter 115 P.L. 1997) the full-market valuation method was used for the actuarial valuation report dated March 31, 1996, and the market-related valuation method was used for the valuation report dated March 31, 1997. Due to the recognition of the bond proceeds and the change in asset valuation method as a result of the enactment of Chapters 114 and 115, all unfunded accrued liabilities of PERS were eliminated except for the unfunded liability for local early retirement incentive benefits. As of March 31, 1997, PERS has a net accrued liability surplus of \$1,303,753,905. At the State of New Jersey level, accrued benefits for the basic allowances and cost-of-living adjustments are in a surplus position as of March 31, 1997 to the extent of \$380,509,248. At the local level, the accrued liability surplus is \$923,244,657 as of March 31, 1997. The market value of the assets at March 31, 1997 was equal to \$17,510,278,671.

A variety of significant actuarial assumptions are used to determine the valuation of the pension benefits obligation, including (a) an assumed discount rate of 8.75 percent, which is in excess of the current prevailing market rate, (b) projected salary increases, including inflation, merit and productivity of 6.75 percent at age 25 to 3.61 percent at age 69. Mortality, vestings, retirement age and withdrawal estimates are based upon tables supplied by the Plan actuary.

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In accordance with Chapter 62, P.L. 1994 and Chapter 115, P.L. 1997, the required PERS members contribution rates for the years ended December 31, 1998 and 1997 were a uniform 4.5 percent and 5 percent of base salary, respectively.

GASB Statement No. 27 requires employers participating in a cost sharing multiple employer public employees' retirement system to disclose certain information which the standard requires the system itself to disclose.

At March 31, 1997, the actuarial value of assets was \$10,523,061,499; the actuarial accrued liability was \$9,599,816,842; the unfunded actuarial accrued liability was \$923,244,657; the fund ratio was 109.6 percent; the covered payroll was \$4,407,751,955 and the unfunded actuarial accrued liability as a percentage of covered payroll was 20.9 percent.

The Authority has established a separate defined benefit pension plan for selected seasonal racing personnel. Annual pension expense was approximately \$54,216 and \$49,620 for 1998 and 1997, respectively. In addition, salaried employees of the Authority are eligible for participation in a section 401(k) deferred compensation plan. The Authority contributes a maximum of 3 percent of the employee's salary. Annual expense for this plan was approximately \$340,364 and \$300,219 for 1998 and 1997, respectively.

Sports Authority salaried employees who retire on or after age 60, with a minimum of ten 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 \$182,000 (for 53 retirees) and \$176,000 (for 52 retirees) in 1998 and 1997, respectively for such benefits for retirees.

K. COMMITMENTS AND CONTINGENCIES

1. The total equipment rental expense was approximately \$5,635,000 and \$5,040,000 for the years ended December 31, 1998 and 1997, respectively. Aggregate minimum annual lease commitments in effect at December 31, 1998, for equipment rental under noncancelable lease agreements having a remaining term of more than one year are detailed below. Included in the commitments is the annual cost of a 15 year operating lease for new energy equipment and devices which were installed in 1996. A substantial portion if not all of these payments is expected to be offset by energy savings and rebates from the local utility.

Year Ended December 31,	Total
1999	\$ 5,500,000
2000	5,600,000
2001	6,100,000
2002	6,100,000
2003	6,100,000
Thereafter	42,700,000
	<u>\$ 72,100,000</u>



2. 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 \$17,424,600 and \$16,355,800 for the years ended December 31, 1998 and 1997, respectively.
3. 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.
4. 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 \$3,311,000 for each season during the term of the agreement until the fifth year of the lease at which time the guaranteed revenue will be \$5,311,000 thereafter. To the extent that new revenue is not generated from new sources it will be supplemented by the Authority.
5. The Authority is exposed to risks of losses related to injuries to employees. Beginning in November 1993, the Authority established a risk management program to account for and finance its uninsured risks of loss related to workmens 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 1997 and 1998. The Authority paid claims in the amount of \$1,042,650 and \$907,600 in 1998 and 1997, 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, 1998 and 1997 the approximate amount of these liabilities was \$2,400,000 and \$2,000,000 respectively.

6. The Authority has entered into agreements with the Casino Reinvestment Development Authority (CRDA) whereby CRDA has agreed to reimburse the Authority up to \$4,146,745 for certain pre-design services and up to \$32,574,000 for renovation costs in connection with the conversion of the East Hall of the Boardwalk Convention Center into a special events center. At December 31, 1998 the Authority incurred and has been reimbursed for \$2,036,483 of pre-design services and is holding \$32,574,000 in escrow to fund the renovation costs under the agreement.

At December 31, 1998 the Authority has entered into construction contracts related to this project for approximately \$4,375,000. No amounts were expended under these contracts as of December 31, 1998.

L. SUBSEQUENT EVENT

1. In January 1999, design plans for a new facility to replace the recently acquired Wildwood Convention Center were publicly presented by the Authority projecting a cost of construction between \$65,000,000 and \$70,000,000 and an estimated construction period of 2 years. Within the next twelve months, the Authority will proceed with final development, design and pre-construction planning and funding arrangements, which may include the issuance of State Contract Bonds.



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2. On March 16, 1999 the Authority issued \$128,270,000 of Convention Center Luxury Tax Refunding Bonds, Series 1999, to advance refund a portion of 1992 Convention Center Luxury Tax Bonds – Series A. 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 and other pledged property pursuant to the Convention Center Luxury Tax Bond Resolution. The Authority has transferred the proceeds of these bonds to an escrow agent to secure the advance refunding. A debt service reserve requirement of approximately \$6,252,500 at March 16, 1999 is insured with a Surety Bond issued by the MBIA Insurance Corporation as additional security for the bondholders.
3. Effective April 5, 1999, the Authority entered into an agreement utilizing the International Swap and Derivatives Association (ISDA) Master agreement. This agreement grants an option to the counter-party which if exercised on January 29, 2002 will cause the Authority to issue approximately \$135,700,000 in variable rate bonds for the purpose of refunding the callable State Contract Bonds 1992 Series A (“1992 Series A Bonds”). This agreement also grants the counter-party the right to direct the Authority at the delivery date of January 29, 2002, to enter into interest rate swaps that will become effective at the call date of the 1992 Series A Bonds (March 2002). Under these interest rate swaps the Authority will pay fixed rates of interest on the notional amounts totaling \$135,700,000. In return the Authority will receive variable rates on the same notional amounts from the counter-party. The Authority received an up-front payment upon entering the agreement of \$9,135,000 which consists of primarily the present value savings, net of expenses, from the original interest on the 1992 Series A Bonds.



YEAR 2000 (UNAUDITED)

Beginning in the year 2000 many date-sensitive computer systems and software that were originally designed to store and manipulate two-digit dates may not function properly unless appropriate remedial processes are pursued. As a result, equipment or products, including embedded control logic, may fail completely, malfunction or cause data to be corrupted. The Authority is aware of this situation and has undertaken a plan to make its systems Year 2000 compliant. The Authority defines compliance in accordance with The British Standards Institute definition as amended in PD2000-1:1998.

The Authority's critical and embedded logic systems are under review for year 2000 compliance utilizing both internal and external resources to identify, test, reprogram, replace or fund replacement of non-compliant systems. The cost for addressing the year 2000 issue has not been and is not expected to be material to the Authority's financial condition or results of operations.

The Authority has identified ten mission critical systems. Mission critical systems include those related to finance, life safety, security, and building management. Of the ten mission critical systems, nine are compliant or have been completely remediated and tested, and one is in the remediation stage. Remediation is the process of making changes to or replacing the systems. The system in the remediation stage is the Arena fire detection system that has been ordered from Honeywell with an installation date of June 1999. Completion of the year 2000 compliance activities for critical systems and embedded logic systems is scheduled for the third and fourth quarter of 1999, respectively.

As the Authority is also dependent upon vendors for certain information technology services, assurance has been sought regarding the year 2000 compliance of vendors' systems. Confirmations that have been received from out-sourced vendors represent that critical system and services either are or will be year 2000 compliant by the fourth quarter of 1999. However there can be no assurance that the computer systems of other entities on which the Authority is dependent will be compliant, or that failure of such systems will not have an impact on the Authority.

Business continuity and contingency plans are being developed for certain business processes with the aim of ensuring that they continue at acceptable levels of operation in the event of any Year 2000 related disruption. Although the Authority is making every effort to identify and eliminate any adverse effects of this event, the uncertain and complex nature of the problem may cause unanticipated issues as efforts progress. At this time, the Authority is not aware of any additional obligations or omissions that exist or may arise related to year 2000 issues.